# 2013 FINANCIAL REPORT

RiversidePublicUtilities.com

WATER | ENERGY | LIFE

CITY OF RIVERSIDE

PUBLIC UTILITIES

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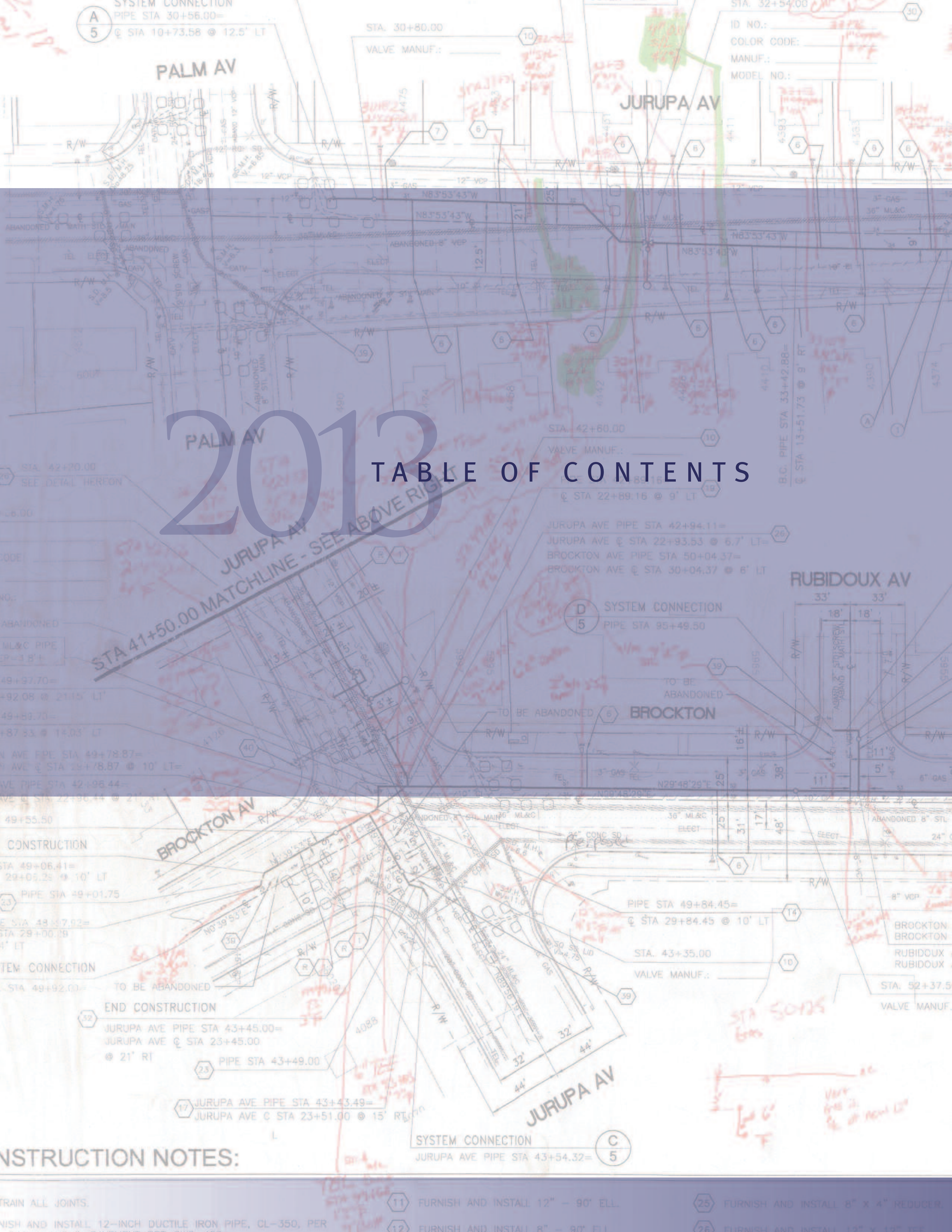

# 2013 COMMUNITY COMMITME


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

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

N T


**CORE VALUES** ~ Riverside Public Utilities 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 a recycled water program • Secure a second connection to the state electric transmission grid.



# BOARD OF PUBLIC UTILITIES & ADMINISTRATION

The Board of Public Utilities is composed of nine citizen-volunteers appointed by the City Council to four-year terms without compensation. Board members oversee the utility's policies, operations, revenues, expenditures, planning, and regulatory compliance. In addition to bi-weekly Board meetings, members also serve on subcommittees to provide input on the development of new facilities and equipment; performance measures; programs to conserve energy and water resources; and appropriate technology to protect our water supply and secure our energy resources.

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

The Board of Public Utilities meets at 8:30 a.m. on the first and third Fridays of each month in the Public Utilities Board Room at 3750 University Avenue, 3rd floor, Riverside, CA 92501. Board meetings are open to the public.

Public Utilities Administration

**Stephen H. Badgett**
Interim General Manager

**Kevin S. Milligan**
Interim Deputy General Manager
Energy Delivery

**Michael J. Bacich**
Assistant General Manager
Customer Relations/Marketing

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

**Todd Jorgenson**
Interim Assistant General Manager
Water

**Reiko Kerr**
Assistant General Manager
Resources

Board of Public Utilities

**Justin Scott-Coe**
Board Chair

**Ian J. Davidson**
Board Vice-Chair

Darrell Ament

David Austin

Susan Cash

Ronald Cole

Robert Elliott

David E. Roberts

Andrew Walcker


STOP

In 1895, Riverside residents approved the creation of a local electric utility and in 1913, voted again to create a municipal water utility. Today, Riverside Public Utilities (RPU) remains owned by the customers it serves, dedicated to providing high quality, reliable services at the lowest possible rates.

To maintain our service commitments to our more than 107,000 metered electric, and 64,000 metered water customers over the past year, we worked to build on the successes of our past to ensure reliability for the future.

In its 100th year, our water utility continued its dedication to water independence, remaining free from purchasing higher cost water supplies.

Energy projects completed over the past decade provided increased system reliability, while an energy rate freeze and continued funding of conservation rebate programs provided customers with fiscal relief during tough economic times, and created a more sustainable community.

Careful resource planning ensured energy supplies remained abundant even in the face of losing generation capacity from the shut down, and eventual closure, of the San Onofre Nuclear Generation station. Our commitments to use alternative energy resources continued as we signed a historic agreement with CalEnergy, LLC that will supply RPU with as much as 86 megawatts of geothermal power from Salton Sea projects through 2039.

In June, the citizens of Riverside approved Measure A, the Riverside Local Services and Clean Water Measure, which continues a unique benefit that a municipally-owned utility can provide – assistance to the community. In addition to supporting water quality, source, and supply projects, Measure A allows for a fixed portion of water utility revenues to be transferred to the city's general fund to support essential city services such as police and fire protection, parks and recreation, after school, and senior and disabled services.

Of course, our operational milestones would not be possible without the strong fiscal foundation that we have worked so hard to create. With the support of our City Council, Board of Public Utilities, and the dedication of staff, RPU has been able to maintain its high AAA ratings for the water utility and AA ratings for the electric utility. This gives us the stability needed to maintain our service commitments for our customer-owners well into the future.

Laura M Chavez-Nomura

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

**Riverside Public Utilities** • Administration
3750 University Avenue, 3rd Floor • Riverside, CA 92501 • 951.826.2135 • RiversidePublicUtilities.com

# 2013 FISCAL MESSAGE

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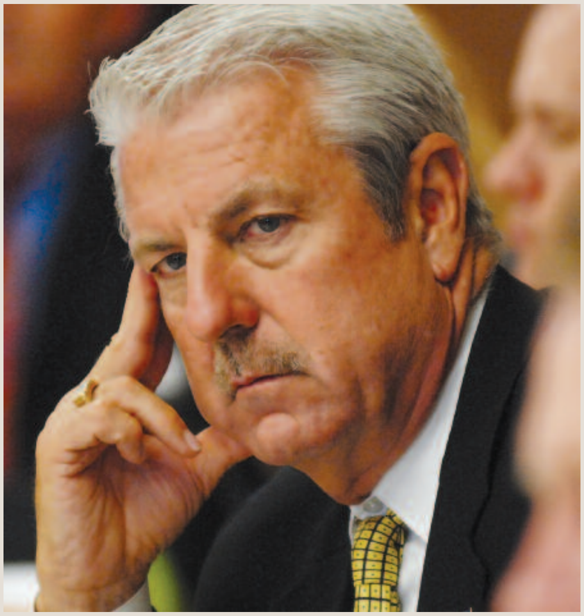
# 2013 ELECTRIC





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**REPORT OF INDEPENDENT AUDITORS**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the City of Riverside, California, Electric Utility (Electric Utility), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Electric Utility's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Electric Utility'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.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Riverside, California, Electric Utility as of June 30, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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***Emphasis of Matter***

As discussed in Note1, the financial statements present only the Electric Utility and do not purport to, and do not, present fairly the financial position of the City of Riverside, California, as of June 30, 2013, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United Stated of America. Our opinion is not modified with respect to this matter.

As discussed in Notes 7 and 10 to the financial statements, for the year ended June 30, 2013, the Electric Utility recognized extraordinary losses due to the accelerated decommissioning of the San Onofre Nuclear Generator Station, of which the Electric Utility owns a partial interest. Our opinion is not modified with respect to this matter.

***Other Matters***

*Prior-Year Comparative Information*

We have previously audited the Electric Utility's 2012 financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated October 24, 2012. In our opinion, the summarized comparative information presented herin as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 opinions on the financial statements that collectively comprise the Electric Utility's basic financial statements. The accompanying information, such as the mission statement, fiscal message, and supplementary Electric information are presented for purposes of additional analysis and are not a required part of the basic financial statements and have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express on opinion or provide any assurance on them.

Moss Adams LLP

Los Angeles, California
October 25, 2013



# MANAGEMENT'S DISCUSSION AND ANALYSIS: ELECTRIC

As management of Riverside Public Utilities, a department of the City of Riverside (City), we offer the readers this narrative overview and analysis of the 2012-13 financial report for the period ended June 30, 2013 and 2012 for Riverside's Electric Utility (the Utility), an enterprise fund of the City. We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, which begin on page 25 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

## FINANCIAL HIGHLIGHTS

- The Utility implemented new financial accounting standards which renamed and added classifications to the Utility's financial statements. The Balance Sheets were renamed Statements of Net Position and now include deferred inflows and outflows of resources and changed the equity section to net position. The income statements were renamed the Statements of Revenues, Expenses and Changes in Net Position. In addition, these standards required reclassifying certain assets and liabilities to deferred inflows and outflows of resources. For more information refer to the Overview below and Note 11 in the accompanying financial statements.
- Retail sales, net of reserve/recovery were $300,238 and $288,616 for years ended June 30, 2013 and 2012, respectively. The increase in sales was primarily due to higher than normal temperature patterns, an increase in load requirements, and a slight increase in customers.
- The net position for fiscal years 2013 and 2012 was $469,272 and $479,815, respectively. Of this amount, $241,696 and $219,198 represents unrestricted net position which if necessary would cover 92% and 85% of annual operating expenses, respectively.
- On June 7, 2013, Southern California Edison (SCE) announced its decision to permanently retire San Onofre Nuclear Generating Station (SONGS) Units 2 and 3. As a result, SONGS is no longer a source of supply for the Utility. The plant assets of Units 2 and 3 and the associated nuclear fuel and materials inventories are considered impaired and written off from the Statements of Net Position. The Utility recognized an extraordinary item (loss) of $41,259 as of June 30, 2013. See Notes 7 and 10 in the accompanying financial statements for additional information.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

The ***Notes to the Financial Statements*** provide additional information that is essential to a full understanding of the data provided in the financial statements. The Notes to the Financial Statements can be found on pages 29 to 52 of this report.



# UTILITY FINANCIAL ANALYSIS

## CONDENSED STATEMENTS OF NET POSITION

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Current and other assets | $ 537,570 | $ 536,109 | $ 546,768 |
| Capital assets | 679,047 | 703,435 | 681,934 |
| Deferred outflows of resources | 29,288 | 43,757 | 24,145 |
| Total assets and deferred outflows of resources | 1,245,905 | 1,283,301 | 1,252,847 |
| Long-term debt outstanding | 563,203 | 585,263 | 608,532 |
| Other liabilities | 213,430 | 218,223 | 194,195 |
| Total liabilities | 776,633 | 803,486 | 802,727 |
| Net investment in capital assets | 201,765 | 236,789 | 224,953 |
| Restricted | 25,811 | 23,828 | 26,008 |
| Unrestricted | 241,696 | 219,198 | 199,159 |
| Total net position | $ 469,272 | $ 479,815 | $ 450,120 |

## ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

**2013 compared to 2012** The Utility's total assets and deferred outflows of resources were $1,245,905 reflecting a decrease of $37,396 (2.9%), primarily due to the following:

- Current and other assets, comprised of restricted and unrestricted assets, had a net increase of $1,461.
  - Unrestricted assets increased by $26,993 primarily due to increases of $10,282 in cash and cash equivalents due to positive operating results, $11,779 in regulatory assets primarily due to replacement power costs related to the SONGS outage, and $7,414 in accounts receivable and prepaid expenses related to power supply transactions, offset by a decrease of $1,992 in nuclear materials inventory due to the retirement of SONGS. See Notes 7 and 10 in the accompanying financial statements for additional information on SONGS.
  - Restricted assets decreased by $25,532 primarily due to the use of bond proceeds to fund capital projects.
- Capital assets decreased by $24,388, primarily due to the retirement of SONGS, offset by technology upgrades used to improve customer service to the Utility's customers, additions and improvements to Electric facilities to serve existing and connect new customers, and continued improvements to the Utility's distribution system. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section. See Notes 7 and 10 in the accompanying financial statements for additional information on SONGS.
- Deferred outflows of resources decreased by $14,469 primarily due to the change in the negative fair value of the Utility's derivative instruments. See Notes 1 and 4 in the accompanying financial statements for additional information.

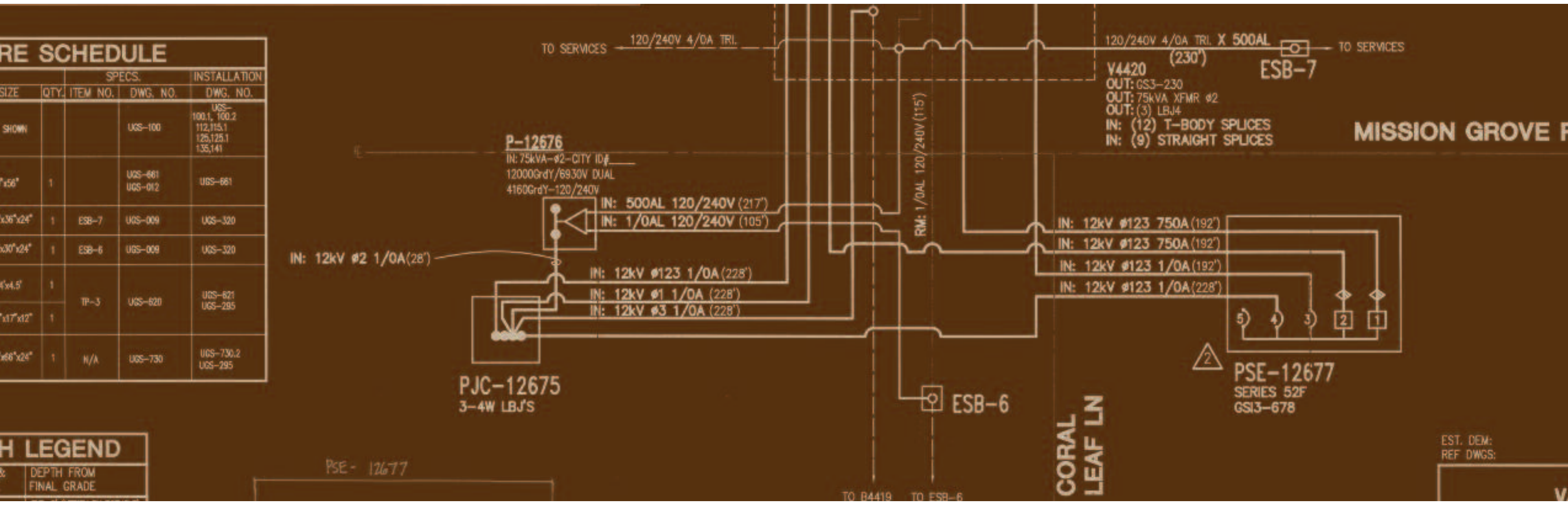
**2012 compared to 2011** Total assets and deferred outflows of resources were $1,283,301, an increase of $30,454 (2.4%). This increase was primarily due to $21,501 of additions and improvements to the Utility's facilities and distribution system, technology upgrades, increased nuclear fuel inventory, and other capital additions; a $20,547 increase in the negative fair value of the Utility's derivative instruments, an $18,636 increase in cash and cash equivalents due to positive operating results, and a $7,358 increase in prepaid expenses. These increases were offset by a $32,019 decrease in cash and investments at fiscal agent due to the use of bonds proceeds to fund capital projects.

## LIABILITIES

**2013 compared to 2012** The Utility's total liabilities were $776,633, a decrease of $26,853 (3.3%), due to the following:

- Long-term debt outstanding decreased by $22,060, primarily due to revenue bond principal payments and the amortization of bond premiums.
- Other liabilities decreased by $4,793, primarily due to a reduction of $14,394 in negative fair value of the Utility's derivative instruments and principal payments of $1,480 on the loan payable for the acquisition of Clearwater power plant, offset by an increase of $11,584 in nuclear decommissioning liability, current portion of long-term obligations, accounts payable and other accruals, postemployment benefits payable, and capital leases payable.

**2012 compared to 2011** Total liabilities of $803,486, an increase of $759 (less than 1.0%), was consistent with prior year.




## NET POSITION

**2013 compared to 2012** The Utility's net position, which represents the difference between the Utility's total assets and deferred outflows of resources less total liabilities and deferred inflows of resources, totaled $469,272, a decrease of $10,543 (2.2%) primarily due to the following:

- A portion of the Utility's total net position, $201,765 (43.0%), reflects its investment in capital assets less any related outstanding debt used to acquire those assets. This portion decreased by $35,024 primarily due to the retirement of SONGS, offset by an increase in capital assets constructed or purchased during the fiscal year, net of the 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 $25,811 (5.5%), an increase of $1,983 , and represents resources that are subject to internal and external restrictions on how they may be used. These are reserved for items such as debt payments, Public Benefit Programs, and other legally restricted assets.
- The unrestricted portion of net position equals $241,696 (51.5%), an increase of $22,498, and is primarily attributable to positive operating results. This portion may be used to meet the Utility's ongoing operational needs and obligations to creditors and customers.

**2012 compared to 2011** The Utility's net position increased by $29,695 (6.6%), to a total of $479,815. Net investment in capital assets increased by $11,836 primarily due to an increase in capital assets constructed or purchased during the fiscal year, net of the debt used to acquire those assets. Restricted net position decreased by $2,180 and the unrestricted portion increased by $20,039 primarily attributable to positive operating results.



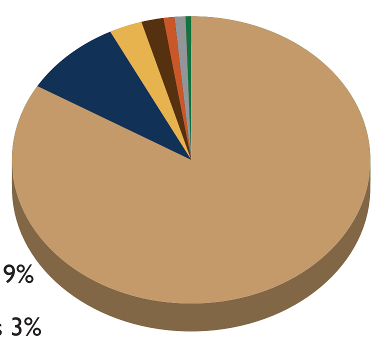
# UTILITY FINANCIAL ANALYSIS (CONTINUED)

## CONDENSED STATEMENTS OF CHANGES IN NET POSITIONS

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Revenues: | | | |
| Retail sales, net | $ 300,238 | $ 288,616 | $ 278,406 |
| Wholesale sales | 638 | 50 | 124 |
| Transmission revenues | 32,688 | 30,735 | 22,091 |
| Investment income | 3,060 | 6,196 | 10,368 |
| Other revenues | 8,590 | 7,563 | 12,063 |
| Public Benefit Programs | 8,924 | 8,639 | 8,046 |
| Capital contributions | 4,980 | 9,257 | 4,056 |
| Total revenues | 359,118 | 351,056 | 335,154 |
| Expenses: | | | |
| Production and purchased power | 131,461 | 129,215 | 128,962 |
| Transmission | 45,957 | 45,447 | 40,434 |
| Distribution | 49,579 | 48,167 | 44,931 |
| Public Benefit Programs | 7,868 | 8,390 | 11,664 |
| Depreciation | 28,728 | 27,482 | 27,690 |
| Interest expenses and fiscal charges | 27,623 | 29,127 | 21,220 |
| Total expenses | 291,216 | 287,828 | 274,901 |
| Transfers to the City's general fund | (37,186) | (33,533) | (33,070) |
| Extraordinary and special Items | (41,259) | - | (17,114) |
| Changes in net position | (10,543) | 29,695 | 10,069 |
| Net position, July 1 | 479,815 | 450,120 | 440,051 |
| Net position, June 30 | $ 469,272 | $ 479,815 | $ 450,120 |

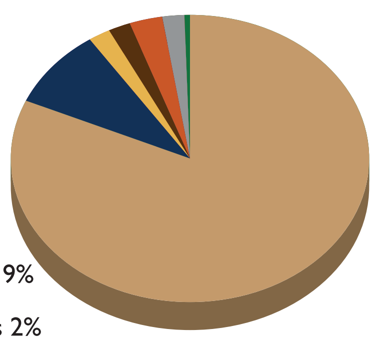
## REVENUES BY SOURCES

June 30, 2013



Retail Sales 84%
Transmission Revenues 9%
Public Benefit Programs 3%
Other 2%
Capital Contributions 1%
Investment Income 1%
Wholesale Sales <1%

June 30, 2012



Retail Sales 82%
Transmission Revenues 9%
Public Benefit Programs 2%
Other 2%
Capital Contributions 3%
Investment Income 2%
Wholesale Sales <1%


**2013 compared to 2012** Total revenues were $359,118, increased by $8,062 (2.3%), with changes in the following:

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

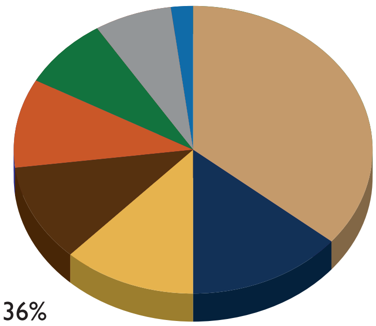
**2012 compared to 2011** Total revenues were $351,056, an increase of $15,902 (4.7%), with changes in the following:

- Retail sales (residential, commercial, industrial, and other sales), net of reserve/recovery, totaled $288,616, a $10,210 (3.7%) increase. Retail sales is the primary revenue source for the Utility, accounting for 82.2% of total revenues. The increase was due to a 4.7% increase in retail consumption and an expanded customer base.
- Transmission revenues of $30,735 increased by $8,644 (39.1%), primarily due to higher transmission revenues authorized by the FERC as of August 1, 2011.
- Other revenues were $7,563, a decrease of $4,500 (37.3%), due to the prior year reflecting a $5,531 gain on sale of land.
- Capital contributions were $9,257, an increase of $5,201 (128.2%), primarily due to capital projects funded by other agencies such as RCTC for the construction of HOV lanes.
- Investment income of $6,196 reflects a decrease of $4,172 (40.2%), due to lower cash balances from the use of bond proceeds for capital projects and lower overall interest rates in the fiscal year.

# UTILITY FINANCIAL ANALYSIS (CONTINUED)

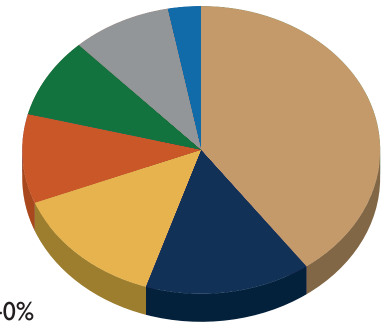
## EXPENSES BY SOURCES

**June 30, 2013**



- Production 36%
- Distribution 14%
- Transmission 12%
- Extraordinary Item 11%
- Contributions to the City's General Fund 10%
- Depreciation 8%
- Interest Expense 7%
- Public Benefit Programs 2%

**June 30, 2012**



- Production 40%
- Distribution 15%
- Transmission 14%
- Extraordinary Item 0%
- Contributions to the City's General Fund 10%
- Depreciation 9%
- Interest Expense 9%
- Public Benefit Programs 3%

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

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

**2012 compared to 2011** Total expenses were $287,828, an increase of $12,927 (4.7%), primarily due to the following items:

- Transmission costs of $45,447 increased by $5,013 (12.4%), primarily due to increased charges for the California Independent System Operator (CAISO) Transmission Access Charges (TAC), SCE rate charges, and system upgrades to the Southern Transmission System and Mead-Adelanto Transmission Project for additional import capability.
- Distribution expenses of $48,167 increased by $3,236 (7.2%), primarily due to increases in personnel-related expenses and facility related operating costs.
- Public Benefit Programs expenses of $8,390 decreased by $3,274 (28.1%), primarily due to decreased program participation. The majority of the Utility's customers utilized last fiscal year's incentives when new energy saving rebates were introduced.
- Interest expense and fiscal charges of $29,127 increased by $7,907 (37.3%), primarily due to a full year of interest payments for the 2010 bonds and a decrease in the amount of capitalized interest used to offset interest expense primarily due to the completion of major construction projects.

## TRANSFERS

Pursuant to the City of Riverside Charter, the Utility may transfer up to 11.5 percent of prior year's gross operating revenues including adjustments to the City's general fund. The City uses these funds to help provide needed public services to the residents of the City, including police, fire, parks, libraries and other benefits. The Utility transferred $37,186 and $33,533 for 2013 and 2012, respectively based on the gross operating revenue provisions in the City's Charter.

# CAPITAL ASSETS AND DEBT ADMINISTRATION

## CAPITAL ASSETS

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

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

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Production | $ 222,757 | $ 260,954 | $ 267,108 |
| Transmission | 20,950 | 18,562 | 16,331 |
| Distribution | 329,634 | 322,635 | 303,071 |
| General | 33,641 | 31,485 | 33,293 |
| Intangibles | 229 | 287 | - |
| Land | 7,683 | 7,654 | 7,645 |
| Intangibles, non-amortizable | 10,651 | 9,821 | 9,821 |
| Construction in progress | 53,502 | 43,205 | 39,787 |
| Nuclear fuel, at amortized costs | - | 8,832 | 4,878 |
| Total Capital Assets | $ 679,047 | $ 703,435 | $ 681,934 |

**2013 compared to 2012** The Utility's investment in capital assets, net of accumulated depreciation, was $679,047, a decrease of $24,388 (3.5%). The change resulted primarily from the following significant capital items plus current year depreciation:

- A reduction of $39,224 in production plant and nuclear fuel inventory resulting from the retirement of SONGS.
- $21,512 in additions and improvements to Electric facilities to serve existing and connect new customers.
- $6,933 in technology upgrades to improve customer service to the Utility's customers.
- $5,444 for the Riverside Transmission Reliability Project (RTRP) and related reliability improvements to the Utility's Sub-Transmission System (STS) for additional generation import capability for a second point of interconnection with the state's high voltage transmission grid to serve future retail needs.

**2012 compared to 2011** The Utility's investment in capital assets, net of accumulated depreciation, was $703,435, an increase of $21,501 (3.2%). The increase resulted primarily from $28,034 in additions and improvements to Electric facilities, $6,741 for RTRP and STS, $4,925 for the Utility's portion of capital additions at SONGS, $3,954 in nuclear fuel inventory, and $1,490 in technology upgrades.

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



# CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

## DEBT ADMINISTRATION

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

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Revenue bonds | $ 576,430 | $ 594,480 | $ 619,275 |
| Unamortized premium | 7,189 | 8,643 | 10,095 |
| Arbitrage liability | 269 | 190 | 102 |
| Less: Current portion | (20,685) | (18,050) | (20,940) |
| Total | $ 563,203 | $ 585,263 | $ 608,532 |

The Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants, of 1.10. The Utility's debt service coverage ratio was 2.73, 2.24, and 2.21 at June 30, 2013, 2012 and 2011, respectively. This debt is backed by the revenues of the Utility.

The Utility's long-term debt decreased by $22,060 (3.8%) and $23,269 (3.8%) for 2013 and 2012, respectively primarily due to principal payments and amortization of bond premiums.

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

## CREDIT RATINGS

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

# REGULATORY AND LEGISLATIVE FACTORS

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

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

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

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

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

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

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

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

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

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 not limited to procurement of renewable resources, energy efficiency and conservation programs and measures that provide clear GHG reduction benefits. The Utility is segregating the proceeds from the sales of allowances in the auctions as a restricted asset and will soon establish a policy for the use of the proceeds for the intended purposes.

## SENATE BILL (SB) 1 – CALIFORNIA SOLAR INITIATIVE

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

The City has demonstrated leadership through its commitment to solar generations, with the construction of its first PV project in 2002, having a capacity of 150 kilowatts. To date, the City has increased its efforts and now has more than 620 systems generating 6 MW of PV within the City.

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

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

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

Overall, the impact of the Act to the Utility is on reporting of transactions and it is expected to be manageable due to the fact that the Utility is an end-user and most of the reporting obligations falls under the Utility's transaction counterparties. The Act is still evolving and there could be future impacts to the Utility.

Other proposals in the state and federal legislatures and external factors could impact the revenues or costs of, and/or rates charged by the Utility depending on whether they are ultimately enacted and how they are implemented.



*Because RPU is a customer-owned utility, the entire community benefits from money transferred to the City's General Fund.*

## ECONOMIC DEVELOPMENT AND GREEN INITIATIVES

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

The Utility has played a key role in revitalizing the local economy. The Utility has bolstered Riverside's economic development by stabilizing utility rates through the City Council adopted rate freeze. Originally adopted in 2010 and extended through January 2014, this rate freeze has provided business customers with stable and predictable rates during this economic recovery. The Utility also offers attractive economic development and business retention electric rates to qualified new and existing customers. These rate programs have resulted in the creation and retention of over 2000 jobs within the City since 2010.

The Utility encourages energy efficient load growth by expanding the use of renewable energy technologies through its solar rebate programs, and continuing to offer aggressive business incentives through a wide variety of cost effective energy efficiency rebate programs. Since 2012, the Utility has increased its focus on stimulating small businesses, which comprise over 95% of Riverside's commercial electric customers. Programs providing the direct installation of energy and water efficiency measures have benefitted over 2,000 small businesses in Riverside. These energy and water efficiency measures have helped small businesses save over half a million dollars in utility costs.

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

## REQUESTS FOR INFORMATION

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



# FINANCIAL STATEMENTS: ELECTRIC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# STATEMENTS OF NET POSITION

| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | June 30, 2013 | June 30, 2012 |
|---|---|---|
| | (in thousands) | |
| UTILITY PLANT: | | |
| Utility plant, net of accumulated depreciation (Notes 3 and 10) | $ 679,047 | $ 703,435 |
| RESTRICTED ASSETS: | | |
| Cash and investments at fiscal agent (Note 2) | 211,072 | 238,254 |
| OTHER NON-CURRENT ASSETS: | | |
| Advances to City | 5,742 | 5,558 |
| Net pension asset | 11,954 | 12,380 |
| Regulatory assets | 18,281 | 6,502 |
| Total other non-current assets | 35,977 | 24,440 |
| Total non-current assets | 926,096 | 966,129 |
| CURRENT ASSETS: | | |
| Unrestricted assets: | | |
| Cash and cash equivalents (Note 2) | 197,823 | 187,541 |
| Accounts receivable, less allowance for doubtful accounts 2013 $774; 2012 $1,154 | 40,955 | 35,899 |
| Advances to City | 1,765 | 2,277 |
| Accrued interest receivable | 1,089 | 825 |
| Prepaid expenses | 22,376 | 20,018 |
| Nuclear materials inventory (Note 10) | - | 1,992 |
| Total unrestricted current assets | 264,008 | 248,552 |
| Restricted assets: | | |
| Cash and cash equivalents (Note 2) | 16,735 | 19,808 |
| Public Benefit Programs - cash and cash equivalents (Note 2) | 8,856 | 4,221 |
| Public Benefit Programs receivable | 922 | 834 |
| Total restricted current assets | 26,513 | 24,863 |
| Total current assets | 290,521 | 273,415 |
| Total assets | 1,216,617 | 1,239,544 |
| DEFERRED OUTFLOWS OF RESOURCES: | | |
| Deferred changes in derivative values (Note 4) | 17,371 | 30,876 |
| Deferred loss on refunding | 11,917 | 12,881 |
| Total deferred outflows of resources | 29,288 | 43,757 |
| Total assets and deferred outflows of resources | $ 1,245,905 | $ 1,283,301 |

*See accompanying notes to the financial statements*

# STATEMENTS OF NET POSITION

| NET POSITION AND LIABILITIES | June 30, 2013 | June 30, 2012 |
|---|---|---|
| | (in thousands) | |
| NET POSITION: | | |
| Net investment in capital assets | $ 201,765 | $ 236,789 |
| Restricted for: | | |
| Regulatory requirements | 381 | - |
| Debt service (Note 5) | 16,354 | 19,808 |
| Public Benefit Programs | 9,076 | 4,020 |
| Unrestricted | 241,696 | 219,198 |
| Total net position | 469,272 | 479,815 |
| LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4) | 563,203 | 585,263 |
| OTHER NON-CURRENT LIABILITIES: | | |
| Compensated absences (Note 4) | 762 | 803 |
| Advance from City - pension obligation (Note 4) | 11,781 | 12,003 |
| Nuclear decommissioning liability (Note 4) | 76,167 | 71,709 |
| Postemployment benefits payable (Note 4) | 4,869 | 3,809 |
| Derivative instruments (Note 4) | 23,729 | 38,123 |
| Loan payable (Note 4) | 7,413 | 42,660 |
| Capital leases payable (Note 4) | 1,913 | 901 |
| Total non-current liabilities | 126,634 | 170,008 |
| CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS: | | |
| Accrued interest payable | 5,970 | 6,100 |
| Public Benefit Programs payable | 702 | 1,035 |
| Current portion of long-term obligations (Note 4) | 20,685 | 18,050 |
| Total current liabilities payable from restricted assets | 27,357 | 25,185 |
| CURRENT LIABILITIES: | | |
| Accounts payable and other accruals | 20,820 | 18,401 |
| Customer deposits | 3,371 | 3,148 |
| Loan payable (Note 4) | 35,248 | 1,481 |
| Total current liabilities | 59,439 | 23,030 |
| Total liabilities | 776,633 | 803,486 |
| COMMITMENTS AND CONTINGENCIES (Notes 8 and 9) | - | - |
| Total net position and liabilities | $ 1,245,905 | $ 1,283,301 |

*See accompanying notes to the financial statements*

# STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

| | For the Fiscal Years Ended June 30, 2013 | 2012 |
|---|---|---|
| | (in thousands) | |
| OPERATING REVENUES: | | |
| Residential sales | $ 118,173 | $ 110,471 |
| Commercial sales | 66,632 | 66,047 |
| Industrial sales | 110,680 | 107,455 |
| Other sales | 5,712 | 5,614 |
| Wholesale sales | 638 | 50 |
| Transmission revenue | 32,688 | 30,735 |
| Other operating revenue | 4,486 | 4,018 |
| Public Benefit Programs | 8,924 | 8,639 |
| Total operating revenues before reserve | 347,933 | 333,029 |
| Reserve for uncollectible, net of bad debt recovery | (959) | (971) |
| Total operating revenues, net of reserve | 346,974 | 332,058 |
| OPERATING EXPENSES: | | |
| Production and purchased power | 131,461 | 129,215 |
| Transmission | 45,957 | 45,447 |
| Distribution | 49,579 | 48,167 |
| Public Benefit Programs | 7,868 | 8,390 |
| Depreciation | 28,728 | 27,482 |
| Total operating expenses | 263,593 | 258,701 |
| Operating income | 83,381 | 73,357 |
| NON-OPERATING REVENUES (EXPENSES): | | |
| Investment income | 3,060 | 6,196 |
| Interest expense and fiscal charges | (27,623) | (29,127) |
| Gain on sale of assets | 584 | 487 |
| Other | 3,520 | 3,058 |
| Total non-operating revenues (expenses) | (20,459) | (19,386) |
| Income before capital contributions and transfers out | 62,922 | 53,971 |
| Capital contributions | 4,980 | 9,257 |
| Transfers out - contributions to the City's general fund | (37,186) | (33,533) |
| Total capital contributions and transfers out | (32,206) | (24,276) |
| Income before extraordinary item | 30,716 | 29,695 |
| EXTRAORDINARY ITEM: | | |
| Power plant closure | (41,259) | - |
| (Decrease) increase in net position | (10,543) | 29,695 |
| NET POSITION, BEGINNING OF YEAR | 479,815 | 450,120 |
| NET POSITION, END OF YEAR | $ 469,272 | $ 479,815 |

*See accompanying notes to the financial statements*

# STATEMENTS OF CASH FLOWS

| | For the Fiscal Years Ended June 30, 2013 (in thousands) | 2012 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from customers and users | $ 341,417 | $ 329,608 |
| Cash paid to suppliers and employees | (242,735) | (226,323) |
| Other receipts | 3,520 | 3,058 |
| Payments related to extraordinary item | (3,707) | - |
| Net cash provided by operating activities | 98,495 | 106,343 |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES: | | |
| Transfers out - contributions to the City's general fund | (37,186) | (33,533) |
| Payment on advance from City - pension obligation | (437) | (378) |
| Advances to City | 512 | 1,918 |
| Net cash used by non-capital financing activities | (37,111) | (31,993) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Purchase of utility plant | (35,498) | (41,752) |
| Purchase of nuclear fuel | - | (4,908) |
| Proceeds from the sale of utility plant | 646 | 554 |
| Principal paid on long-term obligations | (19,942) | (26,611) |
| Interest paid on long-term obligations | (28,772) | (30,764) |
| Capital contributions | 4,193 | 6,818 |
| Bond issuance costs | (40) | - |
| Net cash used by capital and related financing activities | (79,413) | (96,663) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of investment securities | (1,549) | (60) |
| Income from investments | 2,691 | 6,840 |
| Net cash provided by investing activities | 1,142 | 6,780 |
| Net decrease in cash and cash equivalents | (16,887) | (15,533) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR **(including $164,431 and $198,600 at June 30, 2012 and June 30, 2011, respectively, reported in restricted accounts)** | 351,972 | 367,505 |
| CASH AND CASH EQUIVALENTS, END OF YEAR **(including $137,262 and $164,431 at June 30, 2013 and June 30, 2012, respectively, reported in restricted accounts)** | $ 335,085 | $ 351,972 |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Operating income | $ 83,381 | $ 73,357 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 28,728 | 27,482 |
| Amortization of net pension asset | 426 | 356 |
| Amortization of nuclear fuel | - | 954 |
| Other regulatory assets | (1,487) | - |
| Decrease in allowance for uncollectible accounts | (380) | (7) |
| Increase in accounts receivable | (5,400) | (2,558) |
| Increase in prepaid expenses | (2,358) | (4,698) |
| Increase in nuclear materials inventory | - | (87) |
| Increase in regulatory assets | (11,779) | - |
| Increase in accounts payable and other accruals | 2,184 | 3,582 |
| Decrease in compensated absences | (41) | (212) |
| Increase in postemployment benefits payable | 1,060 | 1,034 |
| (Decrease) increase in Public Benefit Programs | (333) | 227 |
| Increase in customer deposits | 223 | 115 |
| Increase in decommissioning liability | 4,458 | 3,740 |
| Other receipts | 3,520 | 3,058 |
| Payments related to extraordinary item | (3,707) | - |
| Net cash provided by operating activities | $ 98,495 | $ 106,343 |
| SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES: | | |
| Capital contributions - capital assets | 1,423 | 1,832 |
| Borrowing under capital lease | 1,659 | - |
| (Decrease) increase in fair value of investments | (2,947) | 136 |
| Loss on power plant closure | (37,552) | - |

*See accompanying notes to the financial statements*



# NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

# NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

## BASIS OF ACCOUNTING

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

## USE OF ESTIMATES

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

## REVENUE RECOGNITION

The Utility customers are billed monthly. Unbilled electric service charges, including Public Benefit Programs, are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable, totaled $15,324 at June 30, 2013, and $13,496 at June 30, 2012.

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

## UTILITY PLANT AND DEPRECIATION

The Utility defines capital assets as assets with an initial, individual cost of more than five thousand dollars and an estimated useful life in excess of one year. Utility plant assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Costs include labor; materials; interest during construction; allocated indirect charges such as engineering, supervision, construction and transportation equipment; retirement plan contributions and other fringe benefits. Contributed plant assets are valued at estimated fair value on the date contributed. The cost of relatively minor replacements is included in maintenance expense. Intangible assets that cost more than one hundred thousand dollars with useful lives of at least three years are capitalized and are recorded at cost.

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 |

# NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## NUCLEAR FUEL

The Utility amortizes and charges to expense, the cost of nuclear fuel, on the basis of actual thermal energy produced relative to total thermal energy expected to be produced over the life of the fuel. In accordance with the Nuclear Waste Disposal Act of 1982, the Utility is charged one dollar per megawatt-hour (MWh) of energy generated by the Utility's share of San Onofre Nuclear Generating Station's (SONGS) Units 2 and 3 to provide for estimated future storage and disposal of spent nuclear fuel. The Utility pays this fee to its operating agent, Southern California Edison (SCE), on a quarterly basis. Due to the closure of SONGS Units 2 and 3, nuclear fuel inventory was considered impaired and written off as an extraordinary item on the Statement of Revenues, Expenses and Changes in Net Position at June 30, 2013 (see Notes 7 and 10).

## RESTRICTED ASSETS

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

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

## CASH AND INVESTMENTS

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

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

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

City-wide information concerning cash and investments for the year ended June 30, 2013, including authorized investments, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and investments may be found in the notes to the City's "Comprehensive Annual Financial Report."

## CASH AND INVESTMENTS AT FISCAL AGENTS

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

## INTERNALLY RESTRICTED CASH RESERVES

The Utility has several cash reserves established for strategic purposes, all of which are considered internally restricted assets. The balance as of June 30, 2013 and 2012 respectively are as follows: Regulatory Risk Reserve $15,000 and $15,000, Energy Risk Management Reserve $30,000 and $30,000, Operating Reserve $116,031 and $108,031, and Decommissioning Reserve $132 and $0, for a combined total of $161,163 and $153,031 and are included as a component of unrestricted cash and cash equivalents in the accompanying Statements of Net Position.

## ADVANCES

Advances have been recorded as a result of agreements between the Utility and the City. The balance as of June 30, 2013 and 2012 are $7,507 and $7,835, respectively.

## DERIVATIVES

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

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

Various transactions permitted in the Utility's power resources risk management policies may be considered derivatives, including energy and/or gas transactions for swaps, options, forward arrangements and congestion revenue rights (CRR). GASB 53 allows an exception for the Statements of Net Position deferral hedges that meet the normal purchases and normal sales exception. The Utility has determined that all of its contracts including CRRs fall under the scope of normal purchases/sales and are exempt from GASB 53.

## BOND PREMIUMS AND GAINS/LOSSES ON REFUNDING

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

## NUCLEAR DECOMMISSIONING LIABILITY

Federal regulations require the Utility to provide for the future decommissioning of its ownership share of the nuclear units at SONGS. The Utility has established trust accounts to accumulate resources for the decommissioning of the nuclear power plant and restoration of the beachfront at SONGS. Based on the most recent site specific cost estimate as of July 2013, prepared by ABZ Incorporated, the Utility has fully funded the SONGS nuclear decommissioning liability. With the recent retirement of SONGS units 2 and 3, there is much uncertainty as to future unknown costs to decommission SONGS. Although management believes the current cost estimate is the upper bound of decommissioning obligations, the Utility has conservatively decided to continue to set aside $1,600 per year in an internally restricted cash reserve for unexpected costs not contemplated in the current estimates.

Increases to the funds held for decommissioning liability are from amounts set aside and investment earnings. The investment earnings are included in investment income in the Utility's financial statements. These earnings, as well as amounts set aside, are reflected as decommissioning expense which is considered part of power supply costs. To date, the Utility has set aside $76,035 in cash investments with the trustee and $132 in an internally restricted decommissioning reserve as the Utility's estimated share of the decommissioning cost of SONGS, and these amounts are reflected as restricted assets and unrestricted cash and cash equivalents, respectively, on the Statements of Net Position. The Utility's decommissioning liability is equivalent to the total funds accumulated and is reflected as an other non-current liability. The plant site easement at SONGS terminates May 2024. The plant must be decommissioned and the site restored by the time the easement terminates.



# NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## CAPITAL LEASES

The Utility has entered into eight capital lease agreements as a lessee for financing eight compressed natural gas heavy duty service trucks. In fiscal year ended June 30, 2013, the Utility entered into six additional capital lease agreements for financing service trucks. All leases have seven year terms with monthly payments with interest rates ranging from 2.50% to 5.87%. The total gross value of all leases is $4,403 with depreciation over the seven year terms of the leases using the straight-line method.

As of June 30, 2013 and 2012, the total liability was $2,550 and $1,303, respectively, with the current portion included in accounts payable and other accruals. The remaining annual lease payments for the life of the leases are $700 in fiscal year ended June 30, 2014, $687 in fiscal year ended June 30, 2015, $324 in the fiscal year ended June 30, 2016, $259 annually through fiscal year ended June 30, 2019, and $246 in the fiscal year ended June 30, 2020. Total outstanding lease payments are $2,734, with $2,550 representing the present value of the net minimum lease payments and $184 representing interest.

## CUSTOMER DEPOSITS

The City holds customer deposits as security for the payment of utility bills and design fee deposits for future construction of electrical facilities. The Utility's portion of these deposits as of June 30, 2013 and 2012 was $3,371 and $3,148, respectively.

## COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due to employees at June 30, 2013 and 2012. The Utility treats compensated absences due to employees as an expense and a liability of which a current portion is included in accounts payable and other accruals in the accompanying Statements of Net Position. The amount accrued for compensated absences was $4,359 at June 30, 2013 and $4,294 at June 30, 2012.

Employees receive 10 to 25 vacation days per year based upon length of service. A maximum of two years vacation accrual may be accumulated and unused vacation is paid in cash upon separation.

Employees primarily receive one day of sick leave for each month of employment with unlimited accumulation. Upon retirement or death, certain employees or their estates receive a percentage of unused sick-leave paid in a lump sum based on longevity.

## INSURANCE PROGRAMS

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

City-wide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risk for the year ended June 30, 2013, may be found in the notes to the City's "Comprehensive Annual Financial Report."

Although the ultimate amount of losses incurred through June 30, 2013 is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. Premiums paid to the City by the Utility including the Public Benefit Programs, were $818 and $737 for the years ended June 30, 2013 and 2012, respectively. Any losses above the City's reserves would be covered through increased rates charged to the Utility in future years.

## EMPLOYEE RETIREMENT PLAN

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

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

1st Tier – The retirement formula is 2.7% at age 55. The Utility pays the employee share (8%) of contributions on their behalf and for their account.

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

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

The Utility is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The Utility's total contribution to PERS, including the Public Benefit Programs, as of June 30, 2013 and 2012 was $8,633 and $8,754 respectively. The employer portion of the PERS funding as of June 30, 2013 and 2012 was 18.28 percent and 18.44 percent, respectively, of annual covered payroll.

City-wide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the year ended June 30, 2013 and recent trend information may be found in the notes to the City's "Comprehensive Annual Financial Report."

# NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## PENSION OBLIGATION BONDS AND NET PENSION ASSET

The Utility is obligated to pay its share of the City's pension obligation bonds, which the City issued in 2005. The Utility's proportional share of the outstanding principal amount of the bonds was $11,781 and $12,003 as of June 30, 2013 and 2012, respectively, and is shown on the Statements of Net Position as an Advance from City – pension obligation. The bond proceeds were deposited with PERS to fund the unfunded actuarial accrued liability for non-safety employees. The net pension asset will be amortized over 19 years in accordance with the method used by PERS for calculating actuarial gains and losses. The balance in the net pension asset as of June 30, 2013 and 2012 was $11,954 and $12,380, respectively. For more discussion relating to the City's issue, see the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2013.

## OTHER POSTEMPLOYMENT BENEFITS

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

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

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

The Utility's annual OPEB cost (expense) is reported based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability (or funding excess) (UAAL) over a period not to exceed thirty years. The Utility's OPEB liability including Public Benefit Programs as of June 30, 2013 and 2012 was $4,928 and $3,869, 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, 2013 can be found in the notes to the City's "Comprehensive Annual Financial Report."

## DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

When applicable, the Statements of Net Position will report a separate section for deferred outflows of resources. Deferred outflows of resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense or expenditure until that time.

When applicable, the Statements of Net Position will report a separate section for deferred inflows of resources. Deferred inflows of resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as an inflow of resources (revenue) until that time.

## REGULATORY ASSETS

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

## NET POSITION

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

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

***Restricted*** – this component consists of net position on which constraints are placed as to their use. Constraints include those imposed by creditors (such as through debt covenants), contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or through enabling legislation.

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

## CONTRIBUTIONS TO THE CITY'S GENERAL FUND

Pursuant to the City of Riverside Charter, the Utility may transfer up to 11.5 percent of its prior year's gross operating revenues including adjustments to the City's general fund. In fiscal years ended June 30, 2013 and 2012, $37,186 and $33,533, respectively was transferred representing 11.5 percent.

## CASH AND CASH EQUIVALENTS

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

## BUDGET AND BUDGETARY ACCOUNTING

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

## RECLASSIFICATIONS

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

## PRIOR YEAR DATA

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Utility's prior year financial statements, from which this selected financial data was derived.


RERC
RIVERSIDE #1
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NOx WATER RETURN

# NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2013 and 2012, consist of the following (in thousands):

| | June 30, 2013 | June 30, 2012 |
|---|---|---|
| | Fair Value | |
| Equity interest in City Treasurer's investment pool | $ 223,414 | $ 211,570 |
| Cash and investments at fiscal agent | 211,072 | 238,254 |
| Total cash and investments | $ 434,486 | $ 449,824 |

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

| | June 30, 2013 | June 30, 2012 |
|---|---|---|
| Unrestricted cash and cash equivalents | $ 197,823 | $ 187,541 |
| Restricted cash and cash equivalents | 25,591 | 24,029 |
| Restricted cash and investments at fiscal agent | 211,072 | 238,254 |
| Total cash and investments | $ 434,486 | $ 449,824 |

Cash and investments distribution by maturities as of year end are as follows:

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

Presented below is the actual rating as of year end for each investment type:

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

1 Amounts related to bond construction proceeds are invested in specific maturities but are available for construction of capital assets as funding is needed.
2 Additional information on investment types and credit risk may be found in the City's "Comprehensive Annual Financial Report."



## NOTE 3. UTILITY PLANT

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2013 and 2012 (in thousands):

| | Balance As of 6/30/2011 | Additions | Retirements/ Transfers | Balance As of 6/30/2012 | Additions | Retirements/ Transfers | Balance As of 6/30/2013 |
|---|---|---|---|---|---|---|---|
| Production [1, 2] | $ 426,575 | $ 5,162 | $ (82,473) | $ 349,264 | $ - | $ (82,473) | $ 266,791 |
| Transmission | 29,152 | 2,902 | - | 32,054 | 3,122 | - | 35,176 |
| Distribution | 463,437 | 32,142 | (661) | 494,918 | 20,496 | (1,078) | 514,336 |
| General | 52,982 | 1,172 | (361) | 53,793 | 5,188 | (154) | 58,827 |
| Intangibles | - | 292 | - | 292 | - | - | 292 |
| Depreciable utility plant | 972,146 | 41,670 | (83,495) | 930,321 | 28,806 | (83,705) | 875,422 |
| Less accumulated depreciation: | | | | | | | |
| Production [1, 2] | (159,467) | (11,316) | 67,832 | (102,951) | (10,191) | 69,108 | (44,034) |
| Transmission | (12,821) | (671) | - | (13,492) | (734) | - | (14,226) |
| Distribution | (160,366) | (12,577) | 660 | (172,283) | (13,480) | 1,061 | (184,702) |
| General | (19,689) | (2,913) | 294 | (22,308) | (2,987) | 109 | (25,186) |
| Intangibles | | (5) | | (5) | (58) | - | (63) |
| Accumulated depreciation | (352,343) | (27,482) | 68,786 | (311,039) | (27,450) | 70,278 | (268,211) |
| Net depreciable utility plant | 619,803 | 14,188 | (14,709) | 619,282 | 1,356 | (13,427) | 607,211 |
| Nuclear fuel, at amortized cost | 4,878 | 4,907 | (953) | 8,832 | 1,317 | (10,149) | - |
| Production [1, 2] | - | - | 14,641 | 14,641 | - | (14,641) | - |
| Land | 7,645 | 9 | - | 7,654 | 29 | - | 7,683 |
| Intangibles, non-amortizable | 9,821 | - | - | 9,821 | 830 | - | 10,651 |
| Construction in progress | 39,787 | 45,771 | (42,353) | 43,205 | 37,970 | (27,673) | 53,502 |
| Nondepreciable utility plant | 57,253 | 45,780 | (27,712) | 75,321 | 38,829 | (42,314) | 71,836 |
| Total utility plant | $ 681,934 | $ 64,875 | $ (43,374) | $ 703,435 | $ 41,502 | $ (65,890) | $ 679,047 |

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

2 On June 7, 2013 SCE announced its decision to permanently shut down both SONGS Units 2 and 3. As a result, both Units 2 and 3 have been written off from utility plant assets as an extraordinary item (Notes 7 and 10).

## NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2013 and 2012 (in thousands):

| | Balance As of 6/30/2011 | Additions | Reductions | Balance As of 6/30/2012 | Additions | Reductions | Balance As of 6/30/2013 | Due Within One Year |
|---|---|---|---|---|---|---|---|---|
| Revenue bonds | $ 629,370 | $ - | $ (26,247) | $ 603,123 | $ - | $ (19,504) | $ 583,619 | $ 20,685 |
| Arbitrage liability | 102 | 88 | - | 190 | 79 | - | 269 | - |
| Advance from City - pension obligation | 12,381 | - | (378) | 12,003 | 214 | (436) | 11,781 | - |
| Postemployment benefits payable | 2,775 | 1,034 | - | 3,809 | 1,060 | - | 4,869 | - |
| Nuclear decommissioning liability | 67,969 | 3,740 | - | 71,709 | 4,458 | - | 76,167 | - |
| Capital leases | 1,692 | - | (389) | 1,303 | 1,659 | (412) | 2,550 | 637 |
| Loan payable | 45,569 | - | (1,428) | 44,141 | - | (1,480) | 42,661 | 35,248 |
| Compensated absences | 4,271 | 3,496 | (3,473) | 4,294 | 3,609 | (3,544) | 4,359 | 3,597 |
| Total long-term obligations | $ 764,129 | $ 8,358 | $ (31,915) | $ 740,572 | $ 11,079 | $ (25,376) | $ 726,275 | $ 60,167 |

## LOAN PAYABLE

The Utility entered into the Clearwater Power Plant Purchase and Sale Agreement dated March 3, 2010 with the City of Corona for the acquisition of Clearwater Cogeneration Facility (Clearwater) located in Corona. Clearwater is a combined-cycle, natural gas generating facility with a gross plant output of 29.5 megawatts (MW). Following a "transition period" during which the Utility engaged in pre-closing activities and due diligence inspection, the transaction closed on September 1, 2010 and the Utility took ownership of the plant. The purchase also included construction of a substation and the 69,000 volt facilities necessary to transfer power from Clearwater Power Plant to the SCE's 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 will be funded through a series of remaining payments ranging from $181 to $413 from March 2014 through March 2015. In addition, two payments of $36,406 and $7,367 are due in September 2013 and 2015, respectively, and will be funded primarily from bond proceeds. See Note 12 for information on the subsequent event involving the prepayment of the Clearwater obligation.



# NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

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

## REVENUE BONDS PAYABLE

| | June 30, 2013 | June 30, 2012 |
|---|---|---|
| **$75,405 2003 Electric Refunding/Revenue Bonds:** serial bonds due in a final installment of $6,880 on October 1, 2013, interest of 4.6 percent | $ 6,880 | $ 15,415 |
| **$27,500 2004 Electric Revenue Series A Bonds:** serial bonds due in annual installments from $2,645 to $3,695 through October 1, 2014, interest from 5.0 to 5.5 percent | 6,340 | 9,845 |
| **$141,840 2008 Electric Refunding/Revenue Bonds:** | | |
| **A - $84,515 2008 Series A Bonds** - variable rate bonds due in annual installments from $1,250 to $7,835 from October 1, 2014 through October 1, 2029. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 30, 2013 was 3.1 percent) | 84,515 | 84,515 |
| **C - $57,325 2008 Series C Bonds** - variable rate bonds due in annual 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, 2013 was 3.1 percent) | 53,750 | 55,125 |
| **$209,740 2008 Electric Revenue Series D Bonds:** fixed rate bonds due in annual 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 installments from $1,150 to $7,260 through October 1, 2018, interest from 3.0 to 5.0 percent | 21,075 | 24,335 |
| **$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 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 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 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, 2013 was 3.1 percent) | 53,750 | 55,125 |
| Total electric revenue bonds payable | 576,430 | 594,480 |
| Unamortized bond premium | 7,189 | 8,643 |
| Total electric revenue bonds payable, including bond premium | 583,619 | 603,123 |
| Less current portion of revenue bonds payable | (20,685) | (18,050) |
| Total long-term electric revenue bonds payable | $ 562,934 | $ 585,073 |

Revenue bonds annual debt service requirements to maturity as of June 30, 2013 are as follows (in thousands):

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019-2023 | 2024-2028 | 2029-2033 | 2034-2038 | 2039-2041 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Principal | $ 20,685 | $ 14,480 | $ 15,415 | $ 12,745 | $ 13,170 | $ 73,335 | $ 88,305 | $ 108,250 | $ 133,575 | $ 96,470 | $ 576,430 |
| Interest | $ 24,619 | $ 23,745 | $ 23,113 | $ 22,620 | $ 22,201 | $ 103,178 | $ 87,530 | $ 66,841 | $ 40,213 | $ 7,314 | 421,374 |
| Total | $ 45,304 | $ 38,225 | $ 38,528 | $ 35,365 | $ 35,371 | $ 176,513 | $ 175,835 | $ 175,091 | $ 173,788 | $ 103,784 | $ 997,804 |

The Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants of 1.10. The Utility's debt service coverage ratio was 2.73 and 2.24 at June 30, 2013 and 2012, respectively. The Utility's revenue bonds are backed by the revenues of the Utility.

## INTEREST RATE SWAPS ON REVENUE BONDS

The Utility has three cash flow hedging derivative instruments, which are pay-fixed swaps. These swaps were employed as a hedge against debt that was refunded in 2008 and 2011. At the time of the refunding, hedge accounting ceased to be applied. The balance of the deferral account for each swap is included as part of the deferred loss on refunding associated with the new 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, 2013 is as follows:

| | Notional Amount | Fair Value as of 6/30/2013 | Change in Fair Value for Fiscal Year |
|---|---|---|---|
| 2008 Electric Refunding/Revenue Bonds Series A | $ 84,515 | $ (9,645) | $ 5,340 |
| 2008 Electric Refunding/Revenue Bonds Series C | $ 57,325 | $ (7,056) | $ 4,528 |
| 2011 Electric Refunding/Revenue Bonds Series A | $ 56,450 | $ (7,028) | $ 4,526 |

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

***Terms:*** Per the existing swap agreements, the Utility pays the counterparty a fixed payment and receives a variable payment computed as 62.68% of the London Interbank Offering Rate ("LIBOR") one month index plus 12 basis points. The swaps have notional amounts equal to the principal amounts stated above. The notional value of the swaps and the principal amounts of the associated debt decline by $1,250 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, 2013, rates were as follows:

| | | 2008 Electric Refunding/Revenue Series A Bonds | 2008 Electric Refunding/Revenue Series C Bonds | 2011 Electric Refunding/Revenue Series A Bonds |
|---|---|---|---|---|
| Interest rate swap: | Terms | Rates | Rates | Rates |
| Fixed payment to counterparty | Fixed | 3.11100% | 3.20400% | 3.20100% |
| Variable payment from counterparty | 62.68 LIBOR + 12bps | (0.46286%) | (0.46435%) | (0.26036%) |
| Net interest rate swap payments | | 2.64814% | 2.73965% | 2.94064% |
| Variable-rate bond coupon payments | | 0.40854% | 0.40613% | 0.15723% |
| Synthetic interest on bonds | | 3.05668% | 3.14578% | 3.09787% |

***Fair value:*** As of June 30, 2013, in connection with all swap agreements, the transactions had a total negative fair value of ($23,729). Because the coupons on the Utility's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was developed by a pricing service using the zero-coupon method. This method calculates the future net settlement payments required by the swaps, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

***Credit risk:*** As of June 30, 2013, the Utility was not exposed to credit risk because the swaps had a negative fair value. The swaps counterparties, J.P. Morgan Chase & Co and Merrill Lynch were rated A and A-, respectively by Standard & Poor's. 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, 2013, there is no requirement for collateral posting for any of the outstanding swaps.



## NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

***Basis risk:*** As noted above, the swaps expose the Utility to basis risk should the relationship between LIBOR and the variable interest rates converge, changing the synthetic rate on the bonds. If a change occurs that results in the rates moving to convergence, the expected cost savings may not be realized.

***Termination risk:*** The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination event." That is, a swap may be terminated by the Utility if either counterparty's credit quality falls below "BBB-" as issued by Standard & Poor's. The Utility or the counterparty may terminate a swap if the other party fails to perform under the terms of the contract. If a swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination a swap has a negative fair value, the Utility would be liable to the counterparty for a payment equal to the swap's fair value.

***Swap payments and associated debt:*** As of June 30, 2013, 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 |
| 2014 | $ 2,850 | $ 640 | $ 5,210 | $ 8,700 |
| 2015 | 4,800 | 625 | 5,076 | 10,501 |
| 2016 | 12,275 | 585 | 4,736 | 17,596 |
| 2017 | 11,500 | 547 | 4,417 | 16,464 |
| 2018 | 6,150 | 525 | 4,251 | 10,926 |
| 2019-2023 | 41,425 | 2,199 | 18,043 | 61,667 |
| 2024-2028 | 37,875 | 1,459 | 12,643 | 51,977 |
| 2029-2033 | 45,115 | 689 | 6,835 | 52,639 |
| 2034-2036 | 30,025 | 87 | 873 | 30,985 |
| Total | $ 192,015 | $ 7,356 | $ 62,084 | $ 261,455 |

## NOTE 5. RESTRICTED NET POSITION

Pursuant to applicable bond indentures, a reserve for debt service has been established by restricting assets and reserving a portion of net position. Bond indentures for the Utility's 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 2003, 2004A, and 2008A & C. Certain revenue/refunding bond issues are covered by a Surety Bond (2008D) and certain issues have no debt service reserve requirements (2009A, 2010A & B and 2011A).

# 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 the SCPPA. The primary purpose of SCPPA is to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. SCPPA is governed by a Board of Directors, which consists of one representative from each of the members. During the 2012-13 and 2011-12 fiscal years, the Utility paid approximately $16,171 and $20,855, 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 and can only be reactivated by authorization of the Agency Board.

# NOTE 7. JOINTLY-OWNED UTILITY PROJECT – SONGS

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

Units 2 and 3 of SONGS became operational on October 9, 1983 and April 1, 1984, respectively. The City's share of the original construction costs plus subsequent ongoing betterments was approximately $165 million, which was financed mainly through revenue bonds. In the fiscal year ended June 30, 2012, SONGS provided 191,900 MWh of energy to the City at an average cost of 13.6 cents per kilowatt (kWh), exclusive of delivery costs.

SONGS was operated and maintained by SCE, under an agreement with the City and San Diego Gas & Electric Company (SDG&E), that 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.

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 Anaheim in 2006), and SDG&E, with a 20.00% interest.


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City of Riverside
Public Utilities

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

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 City's share of the cost to replace the steam generators was approximately $13.4 million. Replacement of the steam generators was expected to enable plant operations to continue through at least 2022, and perhaps beyond, subject to the approval of the Nuclear Regulatory Commission (NRC).

In January 2012, a water leak occurred in one of the heat transfer tubes of Unit 3's steam generators, causing it to be shut down. At that time, Unit 2 was off-line for a planned outage when unexpected wear in areas of tube-to-support structure were found. Units 2 and 3 remained off-line for extensive inspections, testing and analysis of their steam generators. Due to challenges encountered during the regulatory process to bring the units back into operation, 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 be need to be extended in order for the plant to be decommissioned and the site restored.

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

***Contractual Matters.*** The replacement steam generators for Units 2 and 3 were designed and manufactured by Mitsubishi Heavy Industries (MHI) and were warranted for an initial period of 20 years from acceptance. MHI was contractually obligated to repair or replace defective items and to pay specified damages for certain repairs. On July 18, 2012, the NRC issued a report providing the result of the inspection performed by the Augmented Inspection Team. The inspection concluded that faulty computer modeling that inadequately predicted conditions in the steam generators at SONGS and manufacturing issues contributed to excessive wear of the components. This report also identified a number of still unresolved issues that are continuing to be examined. MHI's liability under the purchase agreement is limited to $138 million and excludes consequential damages, defined to include "the cost of replacement power." The limitations are subject to certain exceptions. SCE has reported that the disagreement with MHI as to whether MHI's liability is not limited to $138 million may ultimately become subject to dispute resolution procedures contained in the purchase agreement, including international arbitration. SCE, on behalf of itself and the other SONGS co-owners, has submitted five invoices to MHI totaling $139 million for steam generator repair costs incurred through February 28, 2013. MHI paid the first invoice of $45 million (of which the City has received its proportional share of $812), while reserving its right to challenge any of the charges in the invoice. In January 2013, MHI advised SCE that it rejected a portion of the first invoice and required further documentation regarding the remainder of it. The City expects to receive its proportional share of any recovery that SCE receives from MHI.

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, as well as warranty claims with MHI, but there is no assurance that the City will recover all or any of its applicable costs under these arrangements. To the extent that any third-party recoveries are made, they will reduce cost to the Utility. At this time, the City continues to collect from customers, through its rates, the City's share of the operating costs related to SONGS.

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. On July 18, 2013, the City filed a lawsuit against MHI for breach of contract, negligence and misrepresentation in San Diego County Superior Court (Note 9). On July 24, 2013, MHI moved the lawsuit to the United States District Court for the Southern District of California.



# NOTE 8. COMMITMENTS

## TAKE-OR-PAY CONTRACTS

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

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

The Utility is a member of SCPPA, a joint powers agency (see Note 6). SCPPA provides for the financing and construction of electric generating and transmission projects for participation by some or all of its members. To the extent the Utility participates in projects developed by SCPPA, it has entered into Power Purchase or Transmission Service Agreements, entitling the Utility to the power output or transmission service, as applicable, and the Utility will be obligated for its proportionate share of the project costs whether or not such generation output of transmission service is available.

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

| Project | Percent Share | Entitlement | Final Maturity | Contract Expiration |
|---|---|---|---|---|
| Palo Verde Nuclear Generating Station | 5.4 percent | 12.3 MW | 2017 | 2030 |
| Southern Transmission System | 10.2 percent | 244.0 MW | 2027 | 2027 |
| Hoover Dam 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 Utility has agreed to pay its share of current and long-term obligations. Management intends to pay these obligations from operating revenues received during the year that payment is due. A long–term obligation has not been recorded on the accompanying financial statements for these commitments. Take-or-pay commitments terminate upon the later of contract expiration or final maturity of outstanding bonds for each project.

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

| | 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 |
| 2014 | $ 6,876 | $ 664 | $ 8,181 | $ 705 | $ 333 | $ 3,273 | $ 20,032 |
| 2015 | 21,289 | 668 | 8,335 | 703 | 277 | 3,141 | 34,413 |
| 2016 | 21,965 | 672 | 9,823 | 701 | 261 | 2,959 | 36,381 |
| 2017 | 17,825 | 675 | 6,685 | 701 | 262 | 2,952 | 29,100 |
| 2018 | 16,398 | 679 | 7,980 | 699 | 258 | 2,910 | 28,924 |
| 2019-2023 | 78,898 | - | 40,141 | - | 700 | 7,877 | 127,616 |
| 2024-2028 | 6,019 | - | 22,101 | - | - | - | 28,120 |
| Total | $ 169,270 | $ 3,358 | $ 103,246 | $ 3,509 | $ 2,091 | $ 23,112 | $ 304,586 |

In addition to debt service, the Utility's entitlements require the payment of fuel costs, operating and maintenance, administrative and general and other miscellaneous costs associated with the generation and transmission facilities discussed above. These costs do not have a similar structured payment schedule as debt service and vary each year. The costs incurred for the year ended June 30, 2013 and 2012, 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 |
|---|---|---|---|---|---|---|---|
| 2013 | $ 26,445 | $ 2,528 | $ 2,405 | $ 97 | $ 41 | $ 338 | $ 31,854 |
| 2012 | $ 22,555 | $ 2,843 | $ 2,677 | $ 102 | $ 40 | $ 300 | $ 28,517 |

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

The Utility has become a Participating Transmission Owner (PTO) with the California Independent System Operator (CAISO) (see Note 9) and has turned over the operational control of its transmission entitlements including the Southern Transmission System, Mead-Phoenix and Mead-Adelanto Transmission Projects. In return, users of the California's high voltage transmission grid are charged for, and the Utility receives reimbursement for, its transmission revenue requirements (TRR), including the costs associated with these three transmission projects.

## HOOVER UPRATING PROJECT

The Hoover Uprating Project has contractors from Arizona, Nevada, and California. Over the past two years, the contractors have been meeting to negotiate terms for the renewal of contracts for electric services, which are set to expire on September 30, 2017. The contractors developed proposed legislation, that became known as the Hoover Power Allocation Act, which would extend the availability of Hoover power to the existing contractors for an additional fifty years and create a pool for new entrants.

In December 2011, President Obama signed the Hoover Power Allocation Act of 2011 which provides for the extension of the existing contract for an additional 50 years from 2017 to 2067. The new Legislation requires the Utility to relinquish 5% (1.5 MW) of their current power for a new entitlement of 28.5 MW, effective October 1, 2017. The power relinquished will be used to create a new resource pool equal to 5% of the full rated capacity of 2,074,000 kilowatts (KW), and associated firm energy, and would be allocated to new entities as follows: two-thirds to the Western Area Power Administration and one-third allocated equally to new contractors in Nevada, California and Arizona including federally recognized Indian tribes that do not currently purchase Hoover power. The new entities will be required to execute the Boulder Canyon Project Implementation Agreement which will include a provision requiring them to pay a proportionate share of their State's respective contribution to the cost of the Lower Colorado River Multi-Species Conservation Program and the Uprate Program. Any of the capacity and firm energy not allocated to the new entities and not placed under contract by October 1, 2017, will be returned to the existing contractors in the same proportion as the contractor's allocations. The Utility's cost incurred for the Multi-Species Conservation Program will be reduced and the Utility will receive reimbursement for a proportionate share of the uprating costs.

## POWER PURCHASE AGREEMENTS

The Utility has one firm power purchase agreement (PPA) with Bonneville Power Administration (BPA) for the purchase of capacity 50 MW during the summer months and 13 MW during the winter months beginning April 30, 1996, for 20 years. Effective May 1, 1998, these summer and winter capacity amounts increased to 60 MW and 15 MW, respectively, for the remainder of the second agreement. On January 29, 2013, the Utility revised the delivery and return portion of the agreement to allow for a flat 40 MW of delivery during May and June through calendar year 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 September 10, 2013, the Act limits liability from third-party claims to approximately $13.6 billion per incident. Under the industry wide retrospective assessment program provided for under the Act, assessments are limited to $127.3 million per reactor for each nuclear incident occurring at any nuclear reactor in the United States, with payments under the program limited to $19.0 million per reactor, per year, per event to be indexed for inflation every five years. Based on the Utility's interest in Palo Verde and ownership in SONGS, the Utility would be responsible for a maximum assessment of $25.2 million, limited to payments of $3.8 million per incident, per year. If the public liability limit above is insufficient, federal regulations may impose further revenue-raising measures to pay claims, including a possible additional assessment on all licensed reactor operators.

## RENEWABLE PORTFOLIO STANDARD (RPS)

On April 12, 2011, the California Renewable Energy Resources Act (SBX1-2) was passed by the State Legislative and signed by the Governor. SBX1-2 revised the amount of statewide retail electricity sales from renewable resources in the State Renewable Energy Resources Program to 33% by December 31, 2020 in three stages: average of 20% of retail sales during 2011-2013; 25% of retail sales by December 31, 2016; and 33% of retail sales by December 31, 2020. The Riverside Public Utilities Board and City Council approved the enforcement program required by SBX1-2 on November 18, 2011 and December 13, 2011, respectively, and further approved the Utility's RPS Procurement Plan implementing the new RPS mandates on May 3, 2013 and May 14, 2013, respectively. It is expected that the Utility will be able to meet the new mandates with new resource procurement actions as outlined in the City's RPS Procurement Plan. For Calendar year 2012, renewable resources provided 20% of retail sales requirements.

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

Long-term renewable PPAs (in thousands):

| Supplier | Type | Maximum Contract [1] | Contract Expiration | Estimated Annual Cost For 2014 |
|---|---|---|---|---|
| Salton Sea Power LLC | Geothermal | 46.0 MW | 5/31/2020 | $ 24,170 |
| CalEnergy | Geothermal | 86.0 MW | 12/31/2039 | - |
| Wintec | Wind | 1.3 MW | 12/30/2018 | 209 |
| WKN Wagner | Wind | 6.0 MW | 12/22/2032 | 1,100 |
| AP North Lake | Photovoltaic | 20.0 MW | [2] | - |
| Silverado Power | | | [2] | |
| Summer Solar | Photovoltaic | 20.0 MW | [2] | - |
| Antelope Big Sky Ranch | Photovoltaic | 20.0 MW | [2] | - |
| Total | | 199.3 MW | | $ 25,479 |

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

2 Power purchase agreements have a 25-year term. The contract expiration dates are 25 years from the commercial operation of the power plant. The plants are expected to become commercially operational by January 1, 2015, but in no event later than December 31, 2015.

On August 23, 2005, the City Council approved an amendment to the PPA between Salton Sea and the Utility. The agreement increases the amount of renewable energy available to the Utility from 20 MW to 46 MW effective June 1, 2009 through May 31, 2020. The pricing under the Salton Sea PPA was amended on May 14, 2013 to conform to pricing in the new PPA with CalEnergy (discussed below) through the remaining term of the Salton Sea PPA. The price increased by $7.57 per MWh to $69.66, reflecting the exchange of benefits for a substantial lower price 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.

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 2021. The PPA is expected to provide 7.5%, 15% and 30% of the City's total power demand in 2016, 2019, 2021, respectively. The price under the agreement will be $72.85 per MWh in calendar year 2016 and escalate at 1.5% annual for the remaining term of the agreement. Similar to other renewable PPAs, the Utility is only obligated for purchases of energy delivered to the City.

On November 10, 2006, the Utility entered into a second renewable PPA with Wintec Energy, Ltd (Wintec) for wind generation capacity of up to 8.0 MW on their proposed Wintec Facility II Wind Turbine Project. The contract term is for 15 years, expiring November 10, 2021. The developer is encountering challenges in finding suitable wind turbines to complete the project and the project is expected to continue to be delayed. The Utility does not expect to receive more than 1.3 MW from Wintec per the original contract which expires in December 2018. Due to the delay of the proposed Wintec Facility II Wind Turbine Project, on February 7, 2012, Wintec entered into an Assignment Agreement with WKN Wagner, LLC (WKN) for the purpose of assigning to WKN all of Wintec's right, title, and interest in the Renewable PPA dated November 10, 2006. The Utility was in agreement with 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.

On October 16, 2012, the City entered into a 25-year PPA with AP North Lake, LLC (AP North) for 20 MW of solar photovoltaic energy generated by a new facility located in the City of Hemet, California. The AP North project is expected to become commercially operational by January 1, 2015, but in no event later than December 31, 2015. The project is expected to generate 55,000 MWh of renewable energy per year at a levelized cost of $95 per MWh for the term of the PPA.

On January 8, 2013, the City entered into two 25-year PPAs for a combined total of 40 MW of solar photovoltaic energy generated by two facilities to be built by Silverado Power 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 City will have a 50% share of the output from each project through SCPPA. The Silverado projects are expected to become commercially operational by January 1, 2015, but in no event later than December 31, 2015. The City's share from the two projects is 55,000 MWh of renewable energy per year at a levelized cost of $93.4 per MWh for the term of the PPAs.

## CONSTRUCTION COMMITMENTS

As of June 30, 2013, the Utility had major commitments (encumbrances) of approximately $14,722 with respect to unfinished capital projects, of which $13,368 is expected to be funded by bonds and $1,354 funded by rates.

## FORWARD PURCHASE/SALE AGREEMENTS

In order to meet summer peaking requirements, the Utility may contract on a monthly or quarterly basis, for the purchase or sale of natural gas, electricity and/or capacity products on a short term horizon. As of June 30, 2013, the Utility has net commitments for fiscal year 2014 and thereafter, of approximately $24,770, with a market value of $22,508.

# NOTE 9. LITIGATION

The Utility is a defendant in various lawsuits arising in the normal course of business. Present lawsuits and other claims against the Utility are incidental to the ordinary course of operations of the Utility and are largely covered by the City's self-insurance program. In the opinion of management and the City Attorney, such claims and litigation will not have a materially adverse effect upon the financial position or results of operation of the Utility.

On July 18, 2013, the City filed a lawsuit against MHI for breach of contract, negligence and misrepresentation in San Diego County Superior Court related to the replacement steam generators installed at SONGS. No arbitration date or trial date has been scheduled. See Note 7 for information on contractual and litigation matters for SONGS.

## CALIFORNIA ENERGY CRISIS SETTLEMENT

During the California Energy Crisis of 2001-2002, the Utility made numerous power sales into the California centralized markets. Due to financial problems experienced by numerous market participants, notably Pacific Gas & Electric (PG&E) and the California Power Exchange (Cal PX), who filed for Chapter 11 bankruptcy in 2001, the Utility was not paid for many of these transactions. On June 4, 2008, the FERC approved a settlement agreement between the Utility and numerous California entities, including all of the Investor-Owned Utilities and the California Attorney General, under which the Utility was paid all of its unpaid receivables, plus interest, minus $1.27 million in refunds. The net payout to the Utility was $3.7 million (including all unpaid receivables, including interest and its deposit with the Cal PX, minus $269 thousand paid to the City of Banning for transactions made on its behalf by the Utility). Under the settlement, the Utility may receive additional distributions of refunds from other sellers. The Utility also may be responsible for paying its allocated portion, as determined by FERC, of payments due to other sellers for any Emission Offset, Fuel Cost Allowance, or Cost Offset associated with sales by such other sellers during the energy crisis. It is not possible at this time to estimate the net effect of any such future distributions to or payments by the Utility.

## TRANSMISSION REVENUE REQUIREMENT (TRR) FILING

The Utility continues to participate in key FERC dockets impacting the Utility, such as the CAISO's Market Redesign and Technology Upgrade (MRTU). On January 1, 2003, the Utility became a PTO with the CAISO, entitling the Utility to receive compensation for use of its transmission facilities committed to the CAISO's operational control. The compensation is based on the Utility's TRR as approved by the FERC.

On July 1, 2011, the Utility filed a revised TRR at FERC. In its filing, the Utility updated its projected transmission costs and confirmed the Utility's ability to automatically recover further cost increases imposed by SCE without filing an application with FERC for a new TRR tariff. On December 19, 2011, FERC approved the Utility's new TRR of $29,415, an increase of $3,900 from the previous TRR of $25,515. The new TRR became effective August 1, 2011.

On May 11, 2004, the CAISO filed Amendment No. 60 to its Tariff to modify the CAISO's process for dispatching generation and allocating associated costs. Numerous parties, including the Utility as a member of the "Southern Cities" group, submitted testimony to the FERC on the allocation of these costs, and a hearing was held in 2005. On October 31, 2005, the Presiding Administrative Law Judge issued an Initial Decision, and on December 27, 2006, the FERC issued an order generally affirming the determinations in the Initial Decision. The FERC order adopted the Utility's position with respect to "South-of-Lugo" costs, which would have resulted in a large part of these generation dispatch costs being allocated to SCE. On November 20, 2007, the FERC issued its Order on Rehearing, reversing its position on South-of-Lugo costs in a manner that would require the Utility to share these costs. The Utility and a number of other parties filed requests for rehearing of the Order on Rehearing. On September 16, 2011, FERC issued an Order Denying Rehearing of the Order on Rehearing. The Utility and other parties filed a petition for review with the Appellate Court on November 14, 2011. The outcome of the appeal and the ultimate resolution is unknown at this time. Due to the complicated process for calculating cost allocations, if the appeal is granted or denied, it is impossible at this time to estimate the Utility's likely cost exposure.

## NOTE 10. EXTRAORDINARY ITEM

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

## NOTE 11. ACCOUNTING CHANGE

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

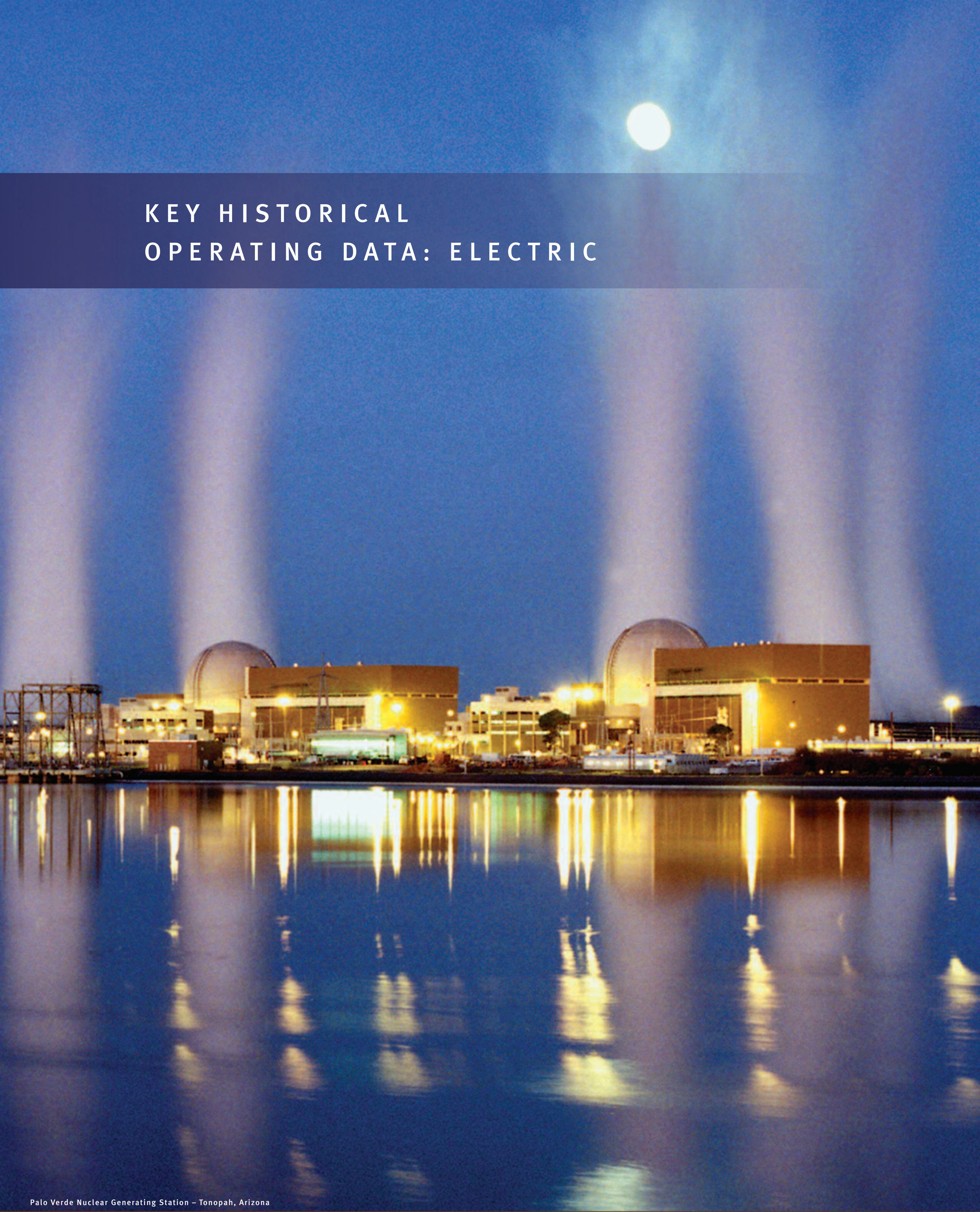
## NOTE 12. SUBSEQUENT EVENT

**2013 Electric Revenue Refunding Bonds**

On July 25, 2013 the Utility issued $79,080 of 2013 Electric Revenue Refunding Series A Bonds and $780 of Taxable Electric Revenue Series B Bonds. The bonds were issued to prepay the outstanding obligation to the City of Corona related to the Clearwater Power Plant; to refund certain outstanding variable rate 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. Interest on the Series A bonds is payable semi-annually on April 1 and October 1, commencing October 1, 2013. Principal is due in annual installments from $175 to $12,685 through October 1, 2043. The rate of interest varies from 3% to 5.25% per annum. Series B bonds, with an interest rate of 0.5%, is due in one installment of $780 on October 1, 2013.



# KEY HISTORICAL OPERATING DATA: ELECTRIC



Palo Verde Nuclear Generating Station – Tonopah, Arizona

# KEY HISTORICAL OPERATING DATA

**POWER SUPPLY (MWH)**

| | 2012/13 | 2011/12 | 2010/11 | 2009/10 | 2008/09 |
|---|---|---|---|---|---|
| Nuclear | | | | | |
| San Onofre | 0 | 191,900 | 284,900 | 240,000 | 281,400 |
| Palo Verde | 102,300 | 101,100 | 102,000 | 96,300 | 97,700 |
| Coal | | | | | |
| Intermountain Power | 754,900 | 799,700 | 895,600 | 1,068,500 | 1,051,200 |
| Deseret | 0 | 0 | 0 | 187,400 | 406,000 |
| Hoover (Hydro) | 32,500 | 35,300 | 32,900 | 30,000 | 32,500 |
| Gas | | | | | |
| Springs | 5,500 | 2,300 | 3,100 | 1,400 | 3,300 |
| RERC | 77,700 | 39,400 | 34,500 | 11,500 | 48,700 |
| Clearwater | 24,000 | 17,000 | 9,700 | 0 | 0 |
| Renewable Resources | 444,300 | 472,300 | 385,700 | 354,900 | 233,000 |
| Other purchases | 937,500 | 620,000 | 464,200 | 276,500 | 349,200 |
| Exchanges In | 95,800 | 75,200 | 92,200 | 92,700 | 90,000 |
| Exchanges Out | (134,900) | (133,500) | (176,100) | (156,200) | (160,600) |
| Total | 2,339,600 | 2,220,700 | 2,128,700 | 2,203,000 | 2,432,400 |
| System peak (MW) | 591.7 | 581.2 | 579.7 | 560.3 | 534.1 |

**ELECTRIC USE**

| | 2012/13 | 2011/12 | 2010/11 | 2009/10 | 2008/09 |
|---|---|---|---|---|---|
| Number of meters as of year end | | | | | |
| Residential | 96,207 | 95,988 | 95,676 | 95,258 | 95,214 |
| Commercial | 10,337 | 10,425 | 10,185 | 10,073 | 10,178 |
| Industrial | 894 | 822 | 908 | 916 | 904 |
| Other | 87 | 86 | 86 | 88 | 89 |
| Total | 107,525 | 107,321 | 106,855 | 106,335 | 106,385 |
| Millions of kilowatt-hours sales | | | | | |
| Residential | 726 | 688 | 666 | 701 | 733 |
| Commercial | 419 | 413 | 400 | 406 | 433 |
| Industrial | 1,003 | 969 | 912 | 906 | 946 |
| Other | 31 | 31 | 31 | 32 | 33 |
| Subtotal | 2,179 | 2,101 | 2,009 | 2,045 | 2,145 |
| Wholesale | 14 | 2 | 7 | 44 | 137 |
| Total | 2,193 | 2,103 | 2,016 | 2,089 | 2,282 |

**ELECTRIC FACTS**

| | 2012/13 | 2011/12 | 2010/11 | 2009/10 | 2008/09 |
|---|---|---|---|---|---|
| Average annual kWh per residential customer | 7,547 | 7,208 | 7,006 | 7,397 | 7,739 |
| Average price (cents/kWh) per residential customer | 16.27 | 16.07 | 16.17 | 15.31 | 14.39 |
| Debt service coverage ratio (DSC)[2] | 2.73 | 2.24 | 2.21 | 2.75 | 2.58 |
| Operating income as a percent of operating revenues | 24.0% | 22.1% | 18.9% | 23.5% | 22.2% |
| Employees[1] | 460 | 453 | 449 | 427 | 416 |

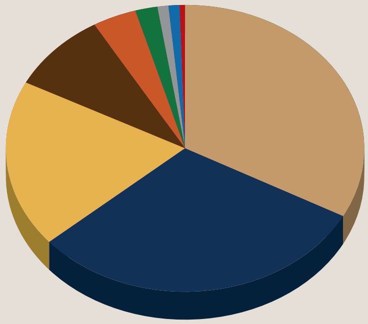
[1]Approved positions

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



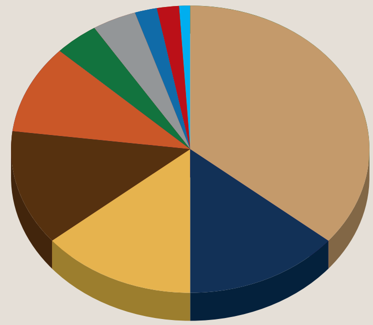
# 2012/2013 ELECTRIC REVENUE AND RESOURCES

### Source of Revenue



- Residential Sales 33¢
- Industrial Sales 31¢
- Commercial Sales 19¢
- Transmission Revenue 9¢
- Other Revenue 4¢
- Public Benefit Programs 2¢
- Other Sales 1¢
- Investment Income 1¢
- Wholesale Sales < 1¢

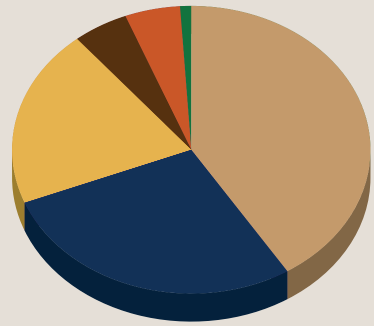
### Distribution of Revenue



- Production 36¢
- Distribution 14¢
- Debt Service 14¢
- Transmission 13¢
- Transfers to the City's General Fund* 10¢
- Additional Reserves 4¢
- Regulatory Assets 4¢
- Public Benefit Programs 2¢
- Additions and Replacements to the System 2¢
- Extraordinary Item 1¢

** Based on transfer of 11.5% of fiscal year 2011/2012 operating revenues (excludes wholesale sales and Public Benefit Programs revenues).*

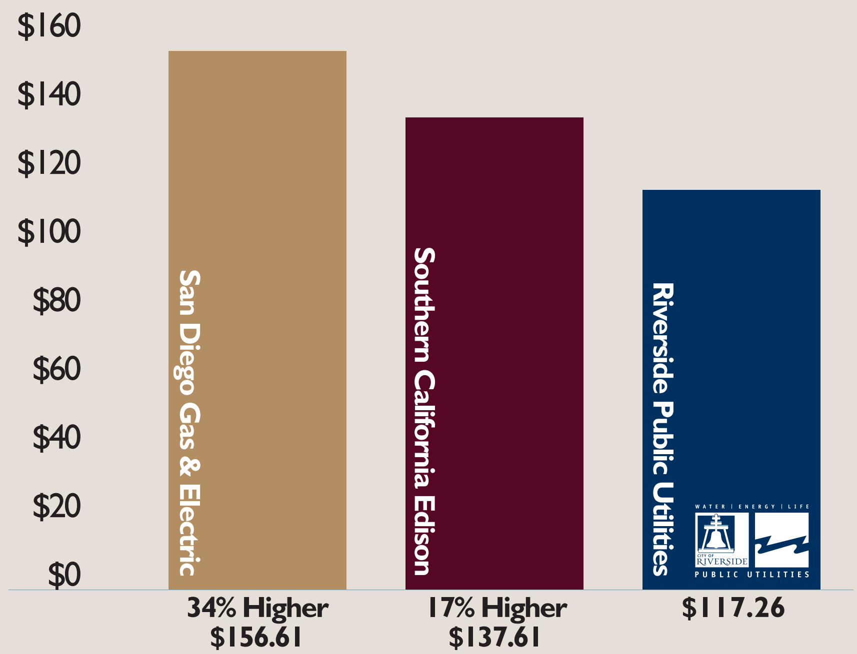
### Energy Resources



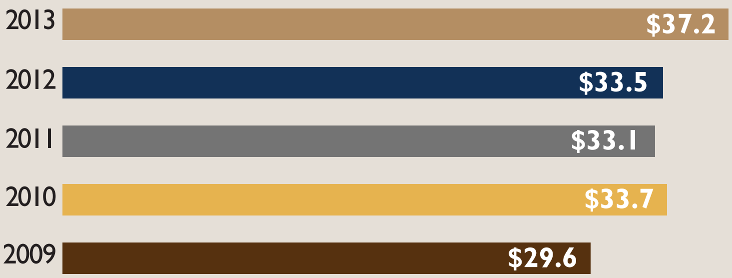
- Other Purchases 41%
- Coal 28%
- Renewables 20%
- Gas 5%
- Nuclear 5%
- Hydropower 1%

** Energy Resources are based on calendar year 2012 as filed with the California Energy Commission.*

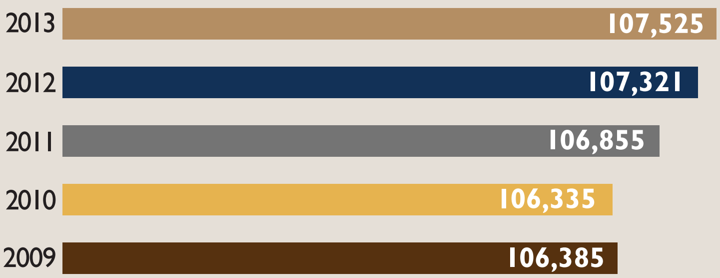
## ELECTRIC RATE COMPARISON 750 KWH PER MONTH (AS OF JUNE 30, 2013)



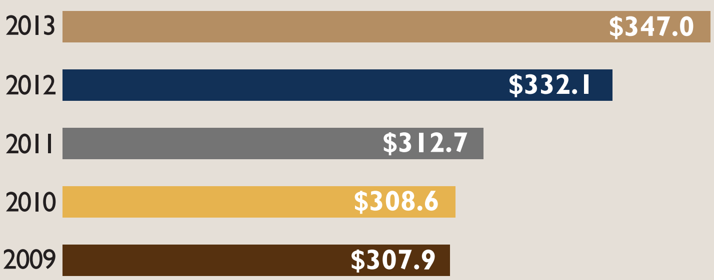
## GENERAL FUND TRANSFER (IN MILLIONS)



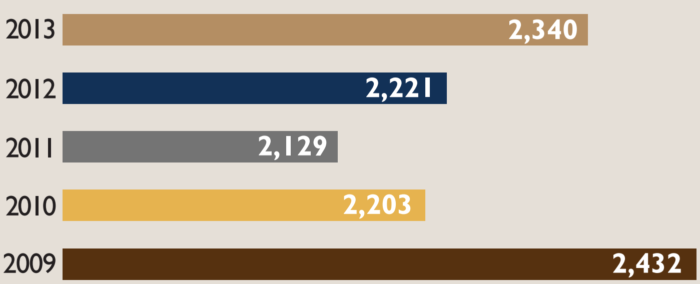

## NUMBER OF METERS AT YEAR END



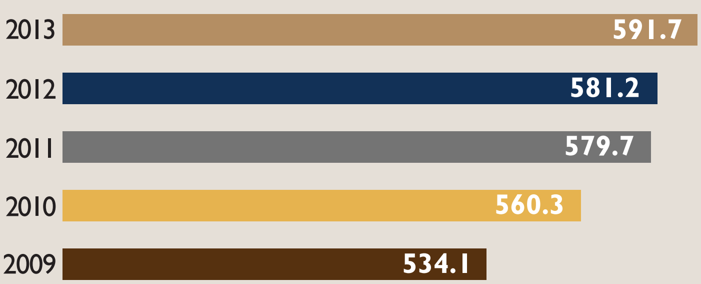

## TOTAL OPERATING REVENUE (IN MILLIONS)




## PRODUCTION (IN MILLION KILOWATT-HOURS)




## PEAK DAY DEMAND (IN MEGAWATTS)




## ELECTRIC FACTS AND SYSTEM DATA

| | |
|---|---|
| Established | 1895 |
| Service Area Population | 311,896 |
| Service Area Size (square miles) | 81.5 |
| System Data: | |
| Transmission lines (circuit miles) | 91.1 |
| Distribution lines (circuit miles) | 1,323 |
| Number of substations | 14 |
| 2012-2013 Peak day (megawatts): | 592 |
| Highest single hourly use: | |
| 08/13/2012, 5 pm, 97 degrees | |
| Historical peak (megawatts): | 604 |
| 08/31/2007, 4 pm, 106 degrees | |

**Bond Ratings**

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



# 2013 WATER


2007



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## REPORT OF INDEPENDENT AUDITORS

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the City of Riverside, California, Water Utility (Water Utility), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Water Utility's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Water Utility'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.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Riverside, California, Water Utility as of June 30, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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***Emphasis of Matter***

As discussed in Note1, the financial statements present only the Water Utility and do not purport to, and do not, present fairly the financial position of the City of Riverside, California, as of June 30, 2013, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United Stated of America. Our opinion is not modified with respect to this matter.

***Other Matters***

*Prior-Year Comparative Information*

We have previously audited the Water Utility's 2012 financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated October 24, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 opinions on the financial statements that collectively comprise the Water Utility's basic financial statements. The accompanying information, such as the mission statement, fiscal message, and supplementary water information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The mission statement, fiscal message, and supplementary water information have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express on opinion or provide any assurance on them.

Moss Adams LLP

Los Angeles, California
October 25, 2013



# MANAGEMENT'S DISCUSSION AND ANALYSIS: WATER

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 2012-13 financial report for the period ended June 30, 2013 and 2012 for Riverside's Water Utility (the Utility), an enterprise fund of the City. We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, which begin on page 73 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

## FINANCIAL HIGHLIGHTS

- The Utility implemented new financial accounting standards which renamed and added classifications to the Utility's financial statements. The Balance Sheets were renamed Statements of Net Position and now include deferred inflows and outflows of resources and changed the equity section to net position. The income statements were renamed the Statements of Revenues, Expenses and Changes in Net Position. In addition, these standards required reclassifying certain assets and liabilities to deferred inflows and outflows of resources. For more information refer to the Overview below and Note 8 in the accompanying financial statements.
- Retail sales, net of reserve/recovery, were $61,837 and $59,620 for the fiscal years ended June 30, 2013 and 2012, respectively. The increase in sales was primarily due to a 4.1% increase in retail consumption as a result of warmer weather patterns and a slight increase in customers.
- The net position for fiscal years 2013 and 2012 was $322,699 and $313,939, respectively. Of this amount, $69,996 and $61,859 represent unrestricted net position which if necessary would cover 141% and 129% of annual operating expenses, respectively.
- In April 2013, the City settled a lawsuit challenging its century-old practice of transferring Utility monies to the City's general fund. Under the settlement agreement, the City agreed to pay the Utility $10,000 over a three-year period beginning in fiscal year 2013-14. This item is recorded on the Statements of Net Position as a current and non-current asset and a deferred inflow of resources. For more information refer to Note 1 in the accompanying financial statements.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

The ***Notes to the Financial Statements*** provide additional information that is essential to a full understanding of the data provided in the Utility's financial statements. The notes to the financial statements can be found on pages 77-89 of this report.



# UTILITY FINANCIAL ANALYSIS

## CONDENSED STATEMENTS OF NET POSITION

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Current and other assets | $ 134,052 | $ 134,732 | $ 143,396 |
| Capital assets | 422,278 | 409,675 | 392,264 |
| Deferred outflows of resources | 11,165 | 15,851 | 9,799 |
| Total assets and deferred outflows of resources | 567,495 | 560,258 | 545,459 |
| Long-term debt outstanding | 208,438 | 213,763 | 218,914 |
| Other liabilities | 26,358 | 32,556 | 24,812 |
| Deferred inflows of resources | 10,000 | - | - |
| Total liabilities and deferred inflows of resources | 244,796 | 246,319 | 243,726 |
| Net investment in capital assets | 244,937 | 243,997 | 241,552 |
| Restricted | 7,766 | 8,083 | 8,000 |
| Unrestricted | 69,996 | 61,859 | 52,181 |
| Total net position | $ 322,699 | $ 313,939 | $ 301,733 |

## ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

**2013 compared to 2012** Total assets and deferred outflows of resources were $567,495, reflecting an increase of $7,237 (1.3%), mainly due to the following:

- Capital assets increased by $12,603 primarily due to $8,586 in completed transmission and distribution system assets and $4,534 in intangibles for water rights. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.
- The decrease in deferred outflows of resources of $4,686 primarily represents the reduction in negative fair value of the Utility's derivative instruments. See Notes 1 and 4 in the accompanying financial statements.

**2012 compared to 2011** Total assets and deferred outflows of resources were $560,258 reflecting an increase of $14,799 (2.7%). This increase was primarily due to $31,152 of completed capital assets for pipeline improvements, system rehabilitation and reservoir construction; $9,843 of improved cash position and accounts receivable due to positive operating results, and an increase of $6,614 in the negative fair value of the Utility's derivative instruments. These increases were offset by decreases of $13,876 in construction in progress and $19,477 in bond funds held by the fiscal agent to complete capital projects.

## LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

**2013 compared to 2012** The Utility's total liabilities and deferred inflows of resources were $244,796, a decrease of $1,523 (0.6%), mainly due to the following:

- Long-term debt outstanding decreased by $5,325 primarily due to principal payments.
- Other liabilities decreased by $6,198 primarily due to a reduction of $4,884 in negative fair value of the Utility's derivative instruments (see Notes 1 and 4 in the accompanying financial statements) and $1,304 decrease in accounts payable and other accruals.
- The increase in deferred inflows of resources represents the City's lawsuit settlement whereby the City's general fund will pay the Utility $10,000 over a three-year period beginning in fiscal year 2013-14.

**2012 compared to 2011** The Utility's total liabilities and deferred inflows of resources were $246,319, an increase of $2,593 (1.1%), primarily due to an increase of $6,614 in the negative fair value of the Utility's derivative instruments, offset by a decrease of $5,151 in long-term debt outstanding mostly due to principal payments.

## NET POSITION

**2013 compared to 2012** The Utility's total net position, which represents the difference between the Utility's total assets and deferred outflows of resources less total liabilities and deferred inflows of resources, totaled $322,699 an increase of $8,760 (2.8%).

- The largest portion of the Utility's total net position, which is its investment in capital assets of $244,937 (75.9%), had an immaterial increase from prior year. Investment in capital assets reflects the Utility's investment in treatment, pumping, source of supply, transmission and distribution facilities, less any related outstanding debt used to acquire these assets. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.
- The restricted portion of net position totaled $7,766 (2.4%), an immaterial decrease of $317 from prior fiscal year. Restricted net position is subject to internal and external restrictions on use and is reserved for items such as debt repayment and funds collected for the Conservation and Reclamation Programs.
- The unrestricted portion of net position totaled $69,996 (21.7%) an increase of $8,137, primarily attributable to positive operating results. Unrestricted net position may be used to meet the Utility's ongoing operational needs and obligations to customers and creditors.

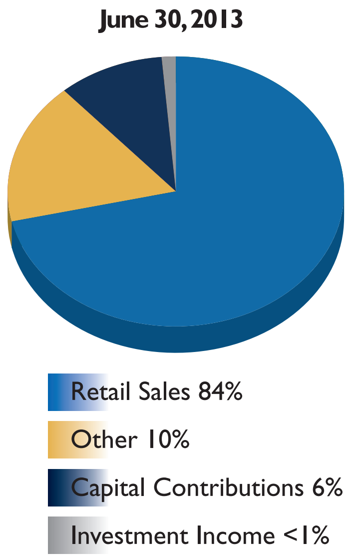
**2012 compared to 2011** The Utility's total net position increased by $12,206 (4.0%) to $313,939. The largest portion of the total net position, $243,997 (77.7%), is represented by investment in capital assets, which increased by $2,445 (1.0%) primarily due to an increase in capital assets constructed or purchased during the fiscal year, net of the debt used to acquire these assets. The restricted portion is consistent with prior fiscal year and the unrestricted portion increased by $9,678, primarily due to increased capital contributions and positive operating results.

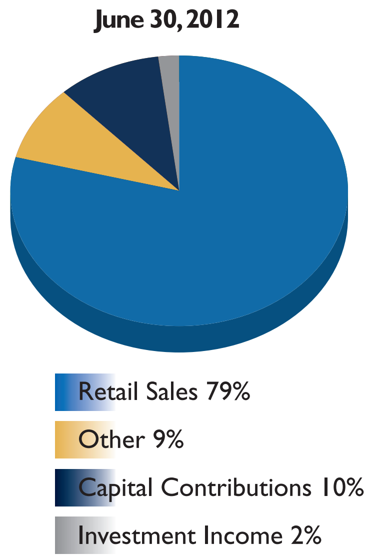
# UTILITY FINANCIAL ANALYSIS (CONTINUED)

## CONDENSED STATEMENTS OF CHANGES IN NET POSITION

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Revenues: | | | |
| Retail sales, net | $ 61,837 | $ 59,620 | $ 55,186 |
| Other revenues | 7,310 | 6,543 | 8,936 |
| Investment income | 503 | 1,428 | 2,635 |
| Capital contributions | 4,282 | 7,440 | 1,982 |
| Total revenues | 73,932 | 75,031 | 68,739 |
| Expenses: | | | |
| Operations and maintenance | 32,186 | 31,633 | 31,411 |
| Purchased energy | 4,832 | 4,600 | 4,558 |
| Depreciation | 12,698 | 11,824 | 11,386 |
| Interest expenses and fiscal charges | 8,877 | 8,510 | 8,912 |
| Total expenses | 58,593 | 56,567 | 56,267 |
| Transfers to the City's general fund | (6,579) | (6,258) | (5,847) |
| Special item | - | - | 17,114 |
| Changes in net position | 8,760 | 12,206 | 23,739 |
| Net position, July 1 | 313,939 | 301,733 | 277,994 |
| Net position, June 30 | $ 322,699 | $ 313,939 | $ 301,733 |

## REVENUES BY SOURCES



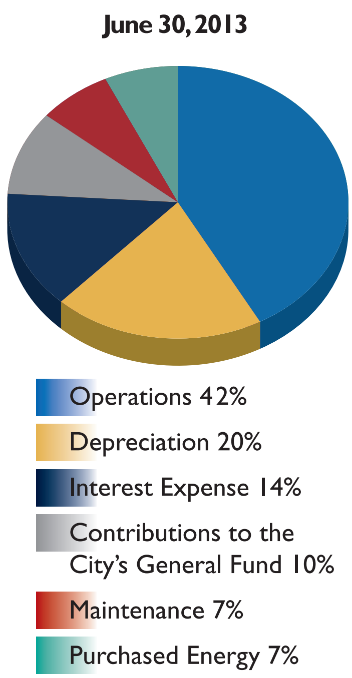
**2013 compared to 2012** Total revenues of $73,932 decreased by $1,099 (1.5%) due to the following major changes:

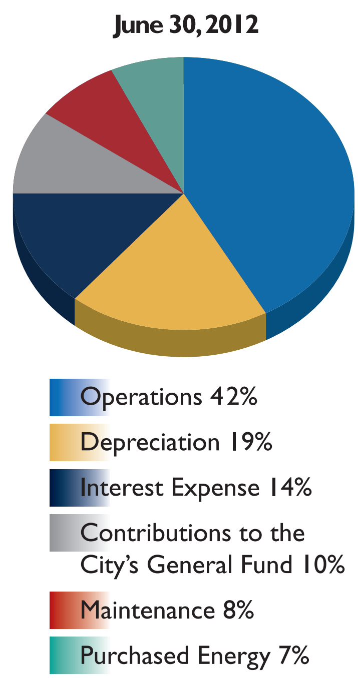
- Retail sales (residential, commercial, industrial, and others), net of reserve/recovery, totaled $61,837, an increase of $2,217 (3.7%) over the prior fiscal year. Retail sales continue to be the primary revenue source for the Utility making up 84% of total revenues. The increase in sales was primarily due to an increase in retail consumption.
- Other revenues of $7,310 increased by $767 (11.7%), primarily due to an increase of $771 in wholesale sales.
- Capital contributions of $4,282 decreased by $3,158 (42.4%), primarily as a result of completed phases in the construction of the high occupancy vehicle (HOV) lanes project funded by Riverside County Transportation Commission (RCTC).
- Investment income of $503 decreased by $925 (64.8%), due to lower cash balances from the use of bond proceeds for capital projects and lower overall interest rates during the fiscal year.

**2012 compared to 2011** Total revenues of $75,031 decreased by $10,822 (12.6%) due to the following major changes:

- Retail sales (residential, commercial, industrial, and others), net of reserve/recovery, totaled $59,620, an increase of $4,434 (8.0%) over the prior fiscal year. Retail sales represented 79% of total revenues. The increase in sales was primarily due to a full year rate increase of 10% that became effective November 1, 2010 as part of the SAFE W.A.T.E.R. Plan, and a 4.4% increase in retail consumption.
- Other revenues of $6,543 decreased by $2,393 (26.8%), primarily due to a decrease of $1,064 on gain on the sale of assets in the prior fiscal year and a decrease of $1,221 in other operating revenue.
- Capital contributions of $7,440 increased by $5,458 (275.4%), primarily due to capital projects including the HOV lanes project funded by RCTC.
- Investment income of $1,428 decreased by $1,207 (45.8%), due to lower cash balances from the use of bond proceeds for capital projects and lower overall interest rates during the fiscal year.
- A special item in fiscal year 2011 of $17,114 represented an intra-entity property sale.

## EXPENSES BY SOURCES






# UTILITY FINANCIAL ANALYSIS (CONTINUED)

**2013 compared to 2012** Total expenses, excluding general fund transfer, were $58,593, an increase of $2,026 (3.6%) primarily due to:

- Operating and other expenses of $45,895 increased by $1,152 (3.1%) primarily due to increased building occupancy costs associated with relocation to new facilities.
- Depreciation expense of $12,698 increased $874 (7.4%) primarily due to the completion of $13,483 of system expansion and improvements during the fiscal year.

**2012 compared to 2011** Total expenses were $56,567, reflecting an increase of $300 (0.5%) over the prior year's expenses.

## TRANSFERS

Pursuant to the City of Riverside Charter, the Utility may transfer up to 11.5 percent of prior year's gross operating revenues including adjustments to the City's general fund. The City uses these funds to help provide needed public services to the residents of the City, including police, fire, parks, libraries and other benefits. The Utility transferred $6,579 and $6,258 for 2013 and 2012, respectively to the City's general fund. This represents a $321 and $411 increase, respectively year over year primarily due to increased retail sales.

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

# CAPITAL ASSETS AND DEBT ADMINISTRATION

## CAPITAL ASSETS

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

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

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Source of supply | $ 32,793 | $ 33,888 | $ 32,955 |
| Pumping | 18,960 | 17,871 | 17,175 |
| Treatment | 35,172 | 36,355 | 34,998 |
| Transmission and distribution | 299,939 | 289,285 | 260,134 |
| General | 3,233 | 4,069 | 5,266 |
| Land | 10,996 | 10,996 | 10,861 |
| Intangible | 11,010 | 6,519 | 6,307 |
| Construction in progress | 10,175 | 10,692 | 24,568 |
| Total | $ 422,278 | $ 409,675 | $ 392,264 |

**2013 compared to 2012** The Utility's investment in capital assets was $422,278, an increase of $12,603 (3.1%). The increase (net of accumulated depreciation) resulted mainly from the following significant capital projects:

- $13,483 for system expansion and improvements, including facilities rehabilitation.
- $7,693 for continued pipeline replacement programs.
- $3,081 for the HOV lanes funded by RCTC.

**2012 compared to 2011** Investment in capital assets (net of accumulated depreciation) for the Utility increased by $17,411 (4.4%), to a total of $409,675. Major capital projects included $15,653 for system expansion and improvements, facilities rehabilitation and reservoir construction; $6,050 for continued pipeline replacement programs; and $5,987 HOV lanes funded by RCTC.

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

## DEBT ADMINISTRATION

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

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Revenue bonds | $ 208,115 | $ 213,320 | $ 217,865 |
| Unamortized bond premium | 3,888 | 4,341 | 4,797 |
| Contracts payable | 945 | 947 | 947 |
| Less: Current portion | (4,510) | (4,845) | (4,695) |
| Total | $ 208,438 | $ 213,763 | $ 218,914 |

The Utility's bond indentures require a minimum debt service coverage ratio, as defined by the bond covenants, of 1.25. The Utility's debt service coverage ratio was 2.61, 2.82, and 3.49 at June 30, 2013, 2012, and 2011, respectively. The debt is backed by the revenues of the Utility.

The Utility's long-term debt decreased by $5,325 (2.5%) and $5,151 (2.4%) for 2013 and 2012, respectively primarily due to principal payments.

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

## CREDIT RATINGS

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

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

In June 2013, Standard & Poor's affirmed its "A-1+" short-term rating on the 2011A Variable Rate Water Refunding Revenue Bonds and its "AAA" long-term rating on the Utility's outstanding debt.

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



# REGULATORY AND LEGISLATIVE FACTORS

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

The adoption of the Utility's SAFE W.A.T.E.R. Plan in March 2006, was to implement system improvements contained in the Water Master, Water Supply and Asset Management Plans. The SAFE W.A.T.E.R. Plan was initially funded by a fifty-two percent, five-year water rate increase, consisting of a twelve percent and four-ten percent increases effective November 1, 2006, 2007, 2008, 2009, and 2010, respectively. The Utility continues to make significant progress in replacing its aging infrastructure and since implementation of the rate increases, the Utility has invested approximately $187 million in infrastructure improvements.

At this time, the Utility obtains its water from local supplies and does not rely on imported water supplies. However, under certain emergency conditions or a prolonged interruption of water supply, the challenges faced at the state level could impact the Utility.

## SACRAMENTO-SAN JOAQUIN RIVER DELTA

A majority of Southern California's water supply comes from the State Water Project (SWP). The hub of SWP, the Sacramento-San Joaquin River Delta, is in an ecological crisis that has led to historic restrictions on water deliveries from northern to southern California and threatens California's economy. In addition, the levees along the Delta are at risk of failure during a seismic event. A catastrophic failure could lead to saltwater intrusion into the Delta and stop SWP deliveries for an extended period of time. This problem is being addressed through a 50 year adaptive management plan known as the Bay Delta Conservation Plan (BDCP), a collaborative effort between the state, federal, local government agencies, water agencies, environmental organizations, and other interested parties with the goal of improving water supply reliability and ecosystem restoration in the Delta. In May 2013, the BDCP released the final chapters of the Plan for public review.

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

In November 2009, the California legislature enacted a comprehensive set of laws aimed at improving the state's water supply reliability and restoring the Sacramento-San Joaquin River Delta ecosystem. The package included four policy bills and an $11 billion general obligation bond measure now targeted for the November 2014 ballot. One of the bills enacted, SB X7-7, requires a statewide 20% reduction in urban per-capita water use by 2020. Urban water retail suppliers determine baseline water use and set reduction targets to achieve a 10% cumulative urban per capita water use reduction by December 31, 2015 and 20% by December 31, 2020, respectively. Further, SB X7-7 requires agricultural water suppliers to plan and develop efficient water management plans by December 31, 2012 with updates by December 31, 2015 and every 5 years thereafter. After January 2021, failure to meet the targets establishes a violation of law for administrative or judicial proceedings.

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

## SOUTHWESTERN WILLOW FLYCATCHER

In February 2013, the United States Fish and Wildlife Service (FWS) issued a final rule to revise the designation of portions of the Santa Ana River as critical habitat for the Southwestern Willow Flycatcher *(Empidonax traillii extimus)*, a federally threatened bird species. The revised designation includes a total of approximately 1,227 streams encompassing a total area of approximately 208,973 acres. This ruling could increase costs to planned water supply projects.

## SANTA ANA SUCKER FISH

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

In August 2011, the Utility joined with eleven other local cities and water agencies in filing a lawsuit against the federal government to overturn the rule. A hearing on plaintiffs' and defendant's motions for Summary Judgment was held in the U.S. District Court in Santa Ana on September 20, 2012. In October 2012, a federal judge upheld the U.S. FWS final rule of the expanded critical habitat area designation. In June 2013, the Utility along with the eleven other local cities and water agencies filed an appeal in the Ninth Circuit Court of Appeals regarding the expanded critical habitat designation. The agencies are requesting that the U.S. FWS reevaluate the effect of its decision with the primary concern that the expanded territory could adversely impact water diversion, storage, groundwater recharge and flood control efforts on the Santa Ana River, as well as potentially nullify water rights obtained recently by San Bernardino Valley and Western Municipal water districts.

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

### CHROMIUM - 6

The development of new and increasingly stringent drinking water regulations by the California Department of Public Health (CDPH) 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 2011 and 2012, respectively, the California Office of Environmental Health Hazard Assessment (OEHHA) issued a Public Health Goal (PHG) for chromium-6 and a revised PHG for perchlorate. The issuance of these new PHGs requires the CDPH to establish a drinking water standard that is as feasibly close to the PHG. In August 2013, the CDPH proposed a 10 part per billion (ppb) chromium-6 drinking water standard which will be enforceable in approximately one year. A chromium-6 standard at this level will not require a change in the Utility's current treatment strategy unless it is revised during the public comment period. In 2007, CDPH set a drinking water standard for perchlorate at 6 ppb, which is equal to the PHG set by the OEHHA. During this time, the Utility employed treatment technologies to remove perchlorate to below the drinking water standard set by the CDPH. However, in 2012, OEHHA revised its PHG for perchlorate and set it at 1 ppb. CDPH is currently evaluating its 6 ppb perchlorate standard and is expected to release it in 2014. A reduction in the perchlorate standard by CDPH will impact the Utility's water supply costs.

In addition to the above mentioned contaminants, there are several other water quality regulations that may impact the Utility's water supply costs due to the proposed levels and grouping of contaminants. In particular, the USEPA is developing a regulation that would group contaminants into one lower standard. Depending on the grouping, the Utility would have to employ treatment for a group of chemicals rather than individual chemicals. This may increase treatment costs as combining chemicals would create a treatment requirement which did not exist when the chemicals were regulated individually. Management 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.

## REQUESTS FOR INFORMATION

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



# FINANCIAL STATEMENTS: WATER

# STATEMENTS OF NET POSITION

| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | June 30, 2013 | June 30, 2012 |
|---|---|---|
| | (in thousands) | |
| UTILITY PLANT: | | |
| Utility plant, net of accumulated depreciation (Note 3) | $ 422,278 | $ 409,675 |
| RESTRICTED ASSETS: | | |
| Cash and investments at fiscal agent (Note 2) | 25,072 | 41,810 |
| OTHER NON-CURRENT ASSETS: | | |
| Net pension asset | 5,143 | 5,327 |
| Other non-current receivables | 6,670 | - |
| Regulatory assets | 1,523 | 2,106 |
| Total other non-current assets | 13,336 | 7,433 |
| Total non-current assets | 460,686 | 458,918 |
| CURRENT ASSETS: | | |
| Unrestricted assets: | | |
| Cash and cash equivalents (Note 2) | 73,081 | 63,927 |
| Accounts receivable, less allowance for doubtful accounts 2013 $118; 2012 $111 | 10,238 | 12,105 |
| Accrued interest receivable | 384 | 280 |
| Advances to City | 756 | 976 |
| Prepaid expenses | 19 | 23 |
| Other receivables | 3,330 | - |
| Total unrestricted current assets | 87,808 | 77,311 |
| Restricted assets: | | |
| Cash and cash equivalents (Note 2) | 5,479 | 5,764 |
| Conservation and Reclamation - cash and cash equivalents (Note 2) | 2,229 | 2,294 |
| Conservation and Reclamation Programs receivable | 128 | 120 |
| Total restricted current assets | 7,836 | 8,178 |
| Total current assets | 95,644 | 85,489 |
| Total assets | 556,330 | 544,407 |
| DEFERRED OUTFLOWS OF RESOURCES: | | |
| Deferred changes in derivative values (Note 4) | 2,437 | 6,614 |
| Deferred loss on refunding | 8,728 | 9,237 |
| Total deferred outflows of resources | 11,165 | 15,851 |
| Total assets and deferred outflows of resources | $ 567,495 | $ 560,258 |

*See accompanying notes to the financial statements*

# STATEMENTS OF NET POSITION

| NET POSITION, LIABILITIES, AND DEFERRED INFLOWS OF RESOURCES | June 30, 2013 | June 30, 2012 |
|---|---|---|
| | (in thousands) | |
| NET POSITION: | | |
| Net investment in capital assets | $ 244,937 | $ 243,997 |
| Restricted for: | | |
| Debt service (Note 5) | 5,479 | 5,764 |
| Conservation and Reclamation Programs | 2,287 | 2,319 |
| Unrestricted | 69,996 | 61,859 |
| Total net position | 322,699 | 313,939 |
| LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4) | 208,438 | 213,763 |
| OTHER NON-CURRENT LIABILITIES: | | |
| Advance from City - pension obligation (Note 4) | 5,069 | 5,164 |
| Postemployment benefits payable (Note 4) | 2,083 | 1,644 |
| Compensated absences (Note 4) | 201 | 216 |
| Derivative instrument (Note 4) | 7,884 | 12,768 |
| Total other non-current liabilities | 15,237 | 19,792 |
| CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS: | | |
| Accrued interest payable | 1,845 | 1,858 |
| Conservation and Reclamation Programs payable | 70 | 95 |
| Current portion of long-term obligations (Note 4) | 4,360 | 4,695 |
| Total current liabilities payable from restricted assets | 6,275 | 6,648 |
| CURRENT LIABILITIES: | | |
| Accounts payable and other accruals | 3,938 | 5,242 |
| Current portion of long-term obligations (Note 4) | 150 | 150 |
| Customer deposits | 758 | 724 |
| Total current liabilities | 4,846 | 6,116 |
| Total liabilities | 234,796 | 246,319 |
| COMMITMENTS AND CONTINGENCIES (NOTES 6 AND 7) | - | - |
| DEFERRED INFLOWS OF RESOURCES: | | |
| Deferred regulatory charges | 10,000 | - |
| Total deferred inflows of resources | 10,000 | - |
| Total net position, liabilities and deferred inflows of resources | $ 567,495 | $ 560,258 |

*See accompanying notes to the financial statements*



# STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

| | For the Fiscal Years Ended June 30, 2013 | 2012 |
|---|---|---|
| | (in thousands) | |
| OPERATING REVENUES: | | |
| Residential sales | $ 40,313 | $ 38,552 |
| Commercial sales | 19,891 | 19,353 |
| Other sales | 1,808 | 1,863 |
| Wholesale sales | 3,370 | 2,599 |
| Conservation and Reclamation Programs | 1,047 | 928 |
| Other operating revenue | 2,060 | 1,911 |
| Total operating revenues before reserve | 68,489 | 65,206 |
| Reserve for uncollectible, net of bad debt recovery | (175) | (148) |
| Total operating revenues, net of reserve | 68,314 | 65,058 |
| OPERATING EXPENSES: | | |
| Operations | 26,474 | 25,668 |
| Maintenance | 4,633 | 5,040 |
| Purchased energy | 4,832 | 4,600 |
| Conservation and Reclamation Programs | 1,079 | 925 |
| Depreciation | 12,698 | 11,824 |
| Total operating expenses | 49,716 | 48,057 |
| Operating income | 18,598 | 17,001 |
| NON-OPERATING REVENUES (EXPENSES): | | |
| Investment income | 503 | 1,428 |
| Interest expense and fiscal charges | (8,877) | (8,510) |
| Gain on sale of assets | 191 | 187 |
| Other | 642 | 918 |
| Total non-operating revenues (expenses) | (7,541) | (5,977) |
| Income before contributions and transfers out | 11,057 | 11,024 |
| Capital contributions | 4,282 | 7,440 |
| Transfers out - contributions to the City's general fund | (6,579) | (6,258) |
| Total capital contributions and transfers out | (2,297) | 1,182 |
| Increase in net position | 8,760 | 12,206 |
| NET POSITION, BEGINNING OF YEAR | 313,939 | 301,733 |
| NET POSITION, END OF YEAR | $ 322,699 | $ 313,939 |

*See accompanying notes to the financial statements*

# STATEMENTS OF CASH FLOWS

| | | For the Fiscal Years Ended June 30, 2013 (in thousands) | | 2012 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | | |
| Cash received from customers and users | $ | 67,918 | $ | 64,610 |
| Cash paid to suppliers and employees | | (38,111) | | (35,345) |
| Other receipts | | 642 | | 918 |
| Net cash provided by operating activities | | 30,449 | | 30,183 |
| **CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:** | | | | |
| Transfers out - contributions to the City's general fund | | (6,579) | | (6,258) |
| Advances to City | | 220 | | (976) |
| Payment on advance from City - pension obligation | | (187) | | (163) |
| Net cash used by non-capital financing activities | | (6,546) | | (7,397) |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:** | | | | |
| Purchase of utility plant | | (24,934) | | (27,794) |
| Proceeds from the sale of utility plant | | 270 | | 208 |
| Principal paid on long-term obligations | | (5,207) | | (4,545) |
| Interest paid on long-term obligations | | (8,861) | | (9,273) |
| Bond issuance costs | | (65) | | - |
| Capital contributions | | 6,561 | | 4,810 |
| Net cash used by capital and related financing activities | | (32,236) | | (36,594) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | | |
| Proceeds from investment securities | | 535 | | 149 |
| Income from investments | | 399 | | 1,583 |
| Net cash provided by investing activities | | 934 | | 1,732 |
| Net decrease in cash and cash equivalents | | (7,399) | | (12,076) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR **(including $49,333 and $68,532 at June 30, 2012 and June 30, 2011, respectively, reported in restricted accounts)** | | 113,260 | | 125,336 |
| CASH AND CASH EQUIVALENTS, END OF YEAR **(including $32,780 and $49,333 at June 30, 2013 and June 30, 2012, respectively, reported in restricted accounts)** | $ | 105,861 | $ | 113,260 |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:** | | | | |
| Operating income | $ | 18,598 | $ | 17,001 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | |
| Depreciation | | 12,698 | | 11,824 |
| Amortization of net pension asset | | 184 | | 153 |
| Increase (decrease) in allowance for uncollectible accounts | | 7 | | (150) |
| Increase in accounts receivable | | (612) | | (491) |
| Decrease (increase) in prepaid expenses | | 4 | | (21) |
| (Decrease) increase in accounts payable and other accruals | | (1,505) | | 401 |
| Increase in postemployment benefits payable | | 439 | | 422 |
| (Decrease) increase in compensated absences | | (15) | | 31 |
| (Decrease) increase in Conservation & Reclamation Programs | | (25) | | 49 |
| Increase in customer deposits | | 34 | | 46 |
| Other receipts | | 642 | | 918 |
| Net cash provided by operating activities | $ | 30,449 | $ | 30,183 |
| **SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:** | | | | |
| Capital contributions - capital assets | | 185 | | 548 |

*See accompanying notes to the financial statements*



# NOTES TO THE FINANCIAL STATEMENTS: WATER

# NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

## BASIS OF ACCOUNTING

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

## USE OF ESTIMATES

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

## REVENUE RECOGNITION

The Utility customers are billed monthly. Unbilled water service charges including the Conservation and Reclamation Programs, are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled $3,528 at June 30, 2013, and $3,475 at June 30, 2012.

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

## UTILITY PLANT AND DEPRECIATION

The Utility defines capital assets as assets with an initial, individual cost of more than five thousand dollars and an estimated useful life in excess of one year. Utility plant assets are valued at historical costs or estimated historical cost, if actual historical cost is not available. Costs include labor; materials; interest during construction; allocated indirect charges such as engineering, supervision, construction and transportation equipment; retirement plan contributions and other fringe benefits. Contributed plant assets are valued at estimated fair value on the date contributed. The cost of relatively minor replacements is included in maintenance expense. Intangible assets that cost more than one hundred thousand dollars with useful lives of at least three years are capitalized and are recorded at cost.

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 |



# NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## RESTRICTED ASSETS

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

In June 2004, the Utility began collecting a surcharge for Conservation and Reclamation 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. The programs and services offered include conservation, education, and water use efficiency programs; programs to encourage the use of reclaimed water; research, development and demonstration programs to advance science and technology with respect to water conservation and reclamation; and water service provided to low-income customers. The activity associated with the surcharge is reflected in the accompanying financial statements on the Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows.

## CASH AND INVESTMENTS

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

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

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

City-wide information concerning cash and investments for the year ended June 30, 2013, including authorized investments, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and investments may be found in the notes to the City's "Comprehensive Annual Financial Report."

## CASH AND INVESTMENTS AT FISCAL AGENTS

Cash and investments maintained by fiscal agents are considered restricted by the Utility and are used to fund construction of capital assets. A portion is pledged as collateral for payment of principal and interest on outstanding bonds.

## DERIVATIVES

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

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

## BOND PREMIUMS/DISCOUNTS AND GAINS/LOSSES ON REFUNDING

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

## CUSTOMER DEPOSITS

The City holds customer deposits as security for the payment of utility bills and plan check fee deposits for future water connection. The Utility's portion of these deposits as of June 30, 2013 and 2012 was $758 and $724, respectively, including $77 held on behalf of La Sierra Water Company at June 30, 2012. As of June 30, 2013, La Sierra Water Company has been dissolved and the remaining deposit has been distributed to the shareholders, of which the Utility was the largest owner.

## COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due to employees at June 30, 2013 and 2012. The Utility including the Conservation and Reclamation Programs, 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 $1,479 at June 30, 2013, and $1,428 at June 30, 2012.

Employees receive 10 to 25 vacation days per year based upon length of service. A maximum of two years vacation accrual may be accumulated and unused vacation is paid in cash upon separation.

Employees primarily receive one day of sick leave for each month of employment with unlimited accumulation. Upon retirement or death, certain employees or their estates receive a percentage of unused sick-leave paid in a lump sum based on longevity.

## INSURANCE PROGRAMS

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

City-wide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risks for the year ended June 30, 2013, may be found in the notes to the City's "Comprehensive Annual Financial Report."

Although the ultimate amount of losses incurred through June 30, 2013 is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. Premiums paid to the City by the Utility including the Conservation and Reclamation Programs, were $598 and $662 for the years ended June 30, 2013 and 2012, respectively. Any losses above the City's reserves would be covered through increased rates charged to the Utility in future years.

## EMPLOYEE RETIREMENT PLAN

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

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

> 1st Tier – The retirement formula is 2.7% at age 55. The Utility pays the employee share (8%) of contributions on their behalf and for their account.
>
> 2nd Tier – The retirement formula is 2.7% at age 55. Employees hired on or after October 19, 2011 pay their share (8%) of contributions.
>
> 3rd Tier – The retirement formula is 2% at age 62 for new members hired on or after January 1, 2013. Employees must pay the employee share ranging from 7-8% based on bargaining group classification. Classic members (PERS members prior to 12/31/12) hired on or after January 1, 2013 may be placed in a different tier.



# NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Utility is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The total Utility's contribution to PERS including the Conservation and Reclamation Programs as of June 30, 2013 and 2012 was $3,066 and $3,095, respectively. The employer portion of PERS funding as of June 30, 2013 and 2012 was 18.28 percent and 18.44 percent, respectively, of annual covered payroll.

City-wide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the fiscal year ended June 30, 2013, and recent trend information may be found in the notes to the City's "Comprehensive Annual Financial Report."

## PENSION OBLIGATION BONDS AND NET PENSION ASSET

The Utility is obligated to pay its share of the City's pension obligation bonds, which the City issued in 2005. The Utility's proportional share of the outstanding principal amount of the bonds was $5,069 and $5,164 as of June 30, 2013 and 2012, respectively, and is shown on the Statements of Net Position as an Advance from City-pension obligation. The bond proceeds were deposited with PERS to fund the unfunded actuarial accrued liability for nonsafety employees. The net pension asset will be amortized over 19 years in accordance with the method used by PERS for calculating actuarial gains and losses. The balance in the net pension asset as of June 30, 2013 and 2012 was $5,143 and $5,327, respectively. For more discussion relating to the City's issue, see the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2013.

## OTHER POSTEMPLOYMENT BENEFITS

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

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

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

The Utility's annual OPEB cost (expense) is reported based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability (or funding excess) (UAAL) over a period not to exceed thirty years. The Utility's OPEB liability including the Conservation and Reclamation Programs as of June 30, 2013 and 2012 was $2,103 and $1,656, 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, 2013 can be found in the notes to the City's "Comprehensive Annual Financial Report."

## DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

When applicable, the Statements of Net Position will report a separate section for deferred outflows of resources. Deferred outflows of resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense or expenditure until that time.

When applicable, the Statements of Net Position will report a separate section for deferred inflows of resources. Deferred inflows of resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as an inflow of resources (revenue) until that time.

## REGULATORY ASSETS AND DEFERRED REGULATORY CHARGES

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

## NET POSITION

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

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

***Restricted*** – this component consists of net position on which constraints are placed as to their use. Constraints include those imposed by creditors (such as through debt covenants), contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or through enabling legislation.

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

## CONTRIBUTIONS TO THE CITY'S GENERAL FUND

Pursuant to the City of Riverside Charter, the Utility may transfer up to 11.5 percent of prior year's gross operating revenues including adjustments to the City's general fund. In fiscal years ended June 30, 2013 and 2012, $6,579 and $6,258, respectively was transferred representing 11.5 percent.

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

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

## RECLASSIFICATIONS

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

## PRIOR YEAR DATA

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Utility's prior year financial statements, from which this selected financial data was derived.


*The utility fund transfer preserves quality of life by maintaining funding for many community events throughout each year.*

# NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2013 and 2012, consist of the following (in thousands):

| | June 30, 2013 | June 30, 2012 |
|---|---|---|
| | Fair Value | |
| Equity interest in City Treasurer's investment pool | $ 80,789 | $ 71,985 |
| Cash and investments at fiscal agent | 25,072 | 41,287 |
| | 105,861 | 113,272 |
| Certificate of Deposit with financial institutions at fiscal agent [3] | - | 523 |
| Total cash and investments | $ 105,861 | $ 113,795 |

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

| | June 30, 2013 | June 30, 2012 |
|---|---|---|
| Unrestricted cash and cash equivalents | $ 73,081 | $ 63,927 |
| Restricted cash and cash equivalents | 7,708 | 8,058 |
| Restricted cash and investments at fiscal agent | 25,072 | 41,810 |
| Total cash and investments | $ 105,861 | $ 113,795 |

Cash and investments distribution by maturities as of year end are as follows:

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

Presented below is the actual rating as of year end for each investment type:

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

1 Amounts related to bond construction proceeds are invested in specific maturities but are available for construction of capital assets as funding is needed.
2 Additional information on investment types and credit risk may be found in the City's "Comprehensive Annual Financial Report."
3 Certificate of Deposit, if any, is not considered an investment under GASB Statement No. 40, Deposit and Investment Risk Disclosures, and is excluded from the Investment Type presentation above.



## NOTE 3. UTILITY PLANT

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2013 and 2012 (in thousands):

| | Balance As of 6/30/2011 | Additions | Retirements/ Transfers | Balance As of 6/30/2012 | Additions | Retirements/ Transfers | Balance As of 6/30/2013 |
|---|---|---|---|---|---|---|---|
| Source of supply | $ 46,452 | $ 1,852 | $ - | $ 48,304 | $ 464 | $ (2,514) | $ 46,254 |
| Pumping | 25,564 | 1,305 | - | 26,869 | 1,715 | (34) | 28,550 |
| Treatment | 41,200 | 2,497 | - | 43,697 | - | - | 43,697 |
| Transmission and distribution | 373,964 | 37,089 | (2,392) | 408,661 | 20,696 | (3,806) | 425,551 |
| General | 14,365 | 38 | (362) | 14,041 | 162 | (209) | 13,994 |
| Intangible | 137 | 216 | - | 353 | - | - | 353 |
| Depreciable utility plant | 501,682 | 42,997 | (2,754) | 541,925 | 23,037 | (6,563) | 558,399 |
| Less accumulated depreciation | | | | | | | |
| Source of supply | (13,497) | (919) | - | (14,416) | (963) | 1,918 | (13,461) |
| Pumping | (8,389) | (609) | - | (8,998) | (626) | 34 | (9,590) |
| Treatment | (6,202) | (1,140) | - | (7,342) | (1,183) | - | (8,525) |
| Transmission and distribution | (113,830) | (7,938) | 2,392 | (119,376) | (8,894) | 2,658 | (125,612) |
| General | (9,099) | (1,214) | 341 | (9,972) | (989) | 200 | (10,761) |
| Intangible | (137) | (4) | - | (141) | (43) | - | (184) |
| Accumulated depreciation | (151,154) | (11,824) | 2,733 | (160,245) | (12,698) | 4,810 | (168,133) |
| Net depreciable utility plant | 350,528 | 31,173 | (21) | 381,680 | 10,339 | (1,753) | 390,266 |
| Land | 10,861 | 135 | - | 10,996 | - | - | 10,996 |
| Intangible | 6,307 | - | - | 6,307 | 3,951 | 583 | 10,841 |
| Construction in progress | 24,568 | 29,368 | (43,244) | 10,692 | 25,001 | (25,518) | 10,175 |
| Nondepreciable utility plant | 41,736 | 29,503 | (43,244) | 27,995 | 28,952 | (24,935) | 32,012 |
| Total utility plant | $ 392,264 | $ 60,676 | $ (43,265) | $ 409,675 | $ 39,291 | $ (26,688) | $ 422,278 |

## NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2013 and 2012 (in thousands):

| | Balance As of 6/30/2011 | Additions | Reductions | Balance As of 6/30/2012 | Additions | Reductions | Balance As of 6/30/2013 | Due Within One Year |
|---|---|---|---|---|---|---|---|---|
| Revenue bonds | $ 222,661 | $ - | $ (5,000) | $ 217,661 | $ - | $ (5,658) | $ 212,003 | $ 4,360 |
| Advance from City - pension obligation | 5,327 | - | (163) | 5,164 | 92 | (187) | 5,069 | - |
| Postemployment benefits payable | 1,222 | 422 | - | 1,644 | 439 | - | 2,083 | - |
| Water stock acquisition rights | 947 | - | - | 947 | - | (2) | 945 | 150 |
| Compensated absences | 1,422 | 1,203 | (1,206) | 1,419 | 1,270 | (1,224) | 1,465 | 1,264 |
| Total long-term obligations | $ 231,579 | $ 1,625 | $ (6,369) | $ 226,835 | $ 1,801 | $ (7,071) | $ 221,565 | $ 5,774 |

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

## CONTRACTS PAYABLE

| | June 30, 2013 | June 30, 2012 |
|---|---|---|
| **Water Stock Acquisitions:** Payable on demand to various water companies | $ 945 | $ 947 |
| Total contracts payable | 945 | 947 |

## REVENUE BONDS PAYABLE

| | June 30, 2013 | June 30, 2012 |
|---|---|---|
| **$20,000 2001 Water Revenue Bonds:** all outstanding bonds were called October 1, 2012 | - | 1,000 |
| **$58,235 2008 Water Revenue Series B Bonds:** fixed rate bonds due in annual 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 installments from $2,360 to $4,335 through October 1, 2020, interest from 3.0 to 5.0 percent | 24,715 | 28,095 |
| **$67,790 2009 Water Revenue Series B Bonds:** fixed rate, federally taxable, Build America Bonds due in annual 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 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, 2013 was 3.1 percent) | 57,375 | 58,200 |
| Total water revenue bonds payable | 208,115 | 213,320 |
| Total water revenue bonds and contracts payable | 209,060 | 214,267 |
| Unamortized bond premium | 3,888 | 4,341 |
| Total water revenue bonds and contracts payable, net of bond premium | 212,948 | 218,608 |
| Less current portion | (4,510) | (4,845) |
| Total long-term water revenue bonds and contracts payable | $ 208,438 | $ 213,763 |

Revenue Bonds annual debt service requirements, including contracts payable, to maturity, as of June 30, 2013, are as follows (in thousands):

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019-2023 | 2024-2028 | 2029-2033 | 2034-2038 | 2039-2040 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Principal | $ 4,510 | $ 5,165 | $ 5,410 | $ 5,330 | $ 5,565 | $ 30,630 | $ 36,630 | $ 44,420 | $ 54,120 | $ 17,280 | $ 209,060 |
| Interest | 8,507 | 8,276 | 8,046 | 7,814 | 7,577 | 34,446 | 28,032 | 20,007 | 10,002 | 596 | 133,303 |
| Total | $ 13,017 | $ 13,441 | $ 13,456 | $ 13,144 | $ 13,142 | $ 65,076 | $ 64,662 | $ 64,427 | $ 64,122 | $ 17,876 | $ 342,363 |

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

## INTEREST RATE SWAPS ON REVENUE BONDS

The Utility has one cash flow hedging derivative instrument, which is a pay-fixed swap. The swap was employed as a hedge against debt that was refunded in 2008 and 2011. At the time of the refunding, hedge accounting ceased to be applied. The balance of the deferral account for the swap is included as part of the deferred loss on refunding associated with the new bonds. The swap was also employed as a hedge against the new debt. Hedge accounting was applied to that portion of the hedging relationship, which was determined to be effective. The negative fair value of the interest rate swaps related to the new hedging relationship has been recorded and deferred on the Statements of Net Position.



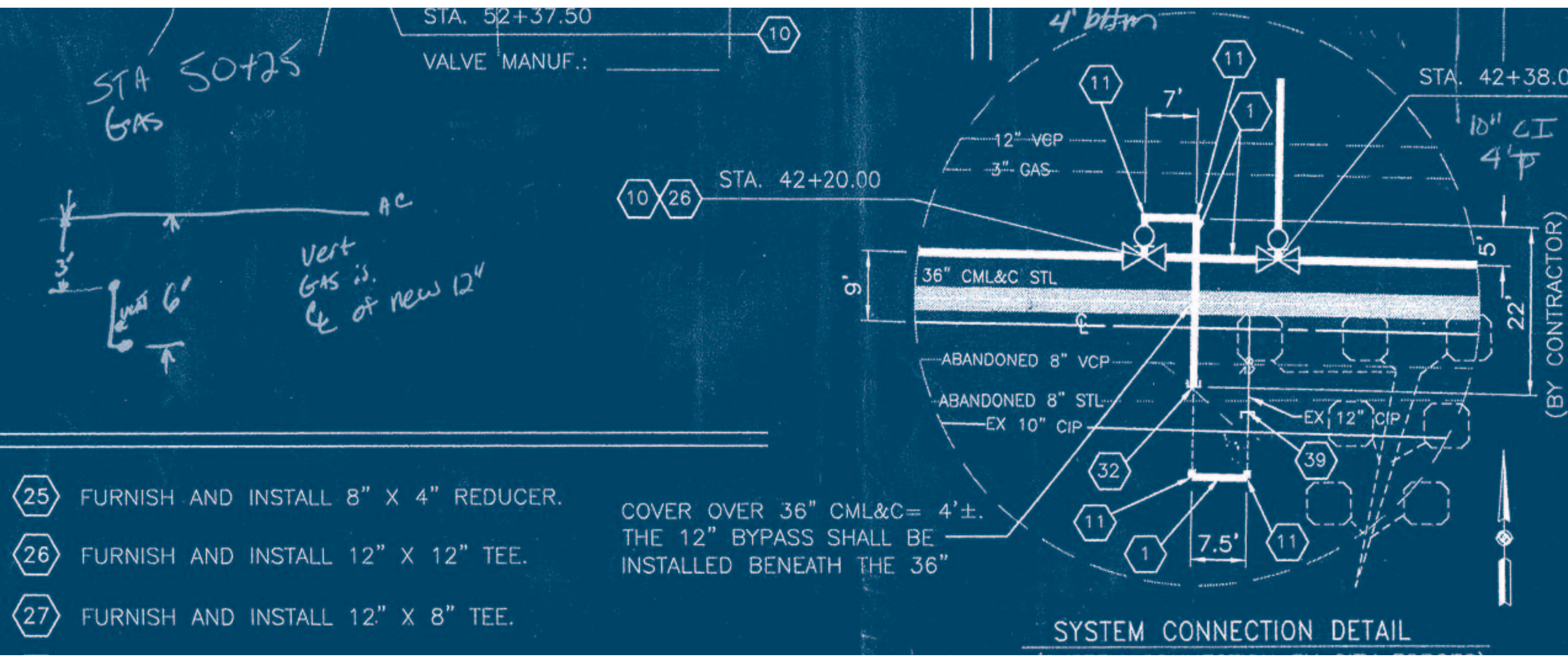
# NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

A summary of the derivative activity for the year ended June 30, 2013 is as follows:

| | Notional Amount | Fair Value as of 6/30/2013 | Change in Fair Value for Fiscal Year |
|---|---|---|---|
| 2011 Water Refunding/Revenue Bonds Series A | $ 59,000 | $ (7,884) | $ 4,884 |

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

**Terms:** Per the existing swap agreement, the Utility pays the counterparty a fixed payment and receives a variable payment computed as 62.68% of the London Interbank Offering Rate ("LIBOR") one month index plus 12 basis points. The swap has a notional amount equal to the principal amount stated above. The notional value of the swap and principal amount of the associated debt decline by $600 to $3,950 until the debt is completely retired in fiscal year 2036.



The bonds and the related swap agreement for the 2011 Water Refunding/Revenue Series A Bonds mature on October 1, 2035. As of June 30, 2013, rates were as follows:

| Interest rate swap: | Terms | Rates |
|---|---|---|
| Fixed payment to counterparty | Fixed | 3.20000% |
| Variable payment from counterparty | 62.68 LIBOR + 12bps | (0.26049%) |
| Net interest rate swap payments | | 2.93951% |
| Variable-rate bond coupon payments | | 0.20403% |
| Synthetic interest on bonds | | 3.14354% |

**Fair value:** As of June 30, 2013, in connection with the swap agreement, the transactions had a total negative fair value of ($7,884). Because the coupons on the Utility's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was developed by a pricing service using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

**Credit risk:** As of June 30, 2013, the Utility was not exposed to credit risk because the swap had a negative fair value. The swap counterparty, J.P. Morgan Chase & Co. was rated A by Standard & Poor's. 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, 2013, there is no requirement for collateral posting for the outstanding swap.

**Basis risk:** As noted above, the swap exposes the Utility to basis risk should the relationship between LIBOR and the variable interest rates converge, changing the synthetic rate on the bonds. If a change occurs that results in the rates moving to convergence, the expected cost savings may not be realized.

**Termination risk:** The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination event." That is, a swap may be terminated by the Utility if the counterparty's credit quality falls below "BBB-" as issued by Standards & Poor's. The Utility or the counterparty may terminate a swap if the other party fails to perform under the terms of the contract. If a swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination a swap has a negative fair value, the Utility would be liable to the counterparty for a payment equal to the swap's fair value.

**Swap payments and associated debt:** As of June 30, 2013, 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** |
| 2014 | $ 850 | $ 115 | $ 1,661 | $ 2,626 |
| 2015 | 875 | 113 | 1,636 | 2,624 |
| 2016 | 925 | 112 | 1,609 | 2,646 |
| 2017 | 600 | 110 | 1,591 | 2,301 |
| 2018 | 1,700 | 107 | 1,541 | 3,348 |
| 2019-2023 | 11,450 | 470 | 6,766 | 18,686 |
| 2024-2028 | 14,525 | 331 | 4,769 | 19,625 |
| 2029-2033 | 14,975 | 179 | 2,573 | 17,727 |
| 2034-2036 | 11,475 | 24 | 345 | 11,844 |
| Total | $ 57,375 | $ 1,561 | $ 22,491 | $ 81,427 |



## NOTE 5. RESTRICTED NET POSITION

Pursuant to applicable bond indentures, a reserve for debt service has been established by restricting assets and reserving a portion of net position. Bond indentures for the Utility's water revenue and refunding bonds require debt service reserves that equate to the maximum annual debt service required in future years and bond service reserves of three months interest and nine months principal due in the next fiscal year. Variable rate revenue and refunding bonds require 110% of the monthly reserves was issue 2001 which was called and paid in October 2012. Certain revenue/refunding bond issues are covered by a Surety Bond (2008B) and certain issues have no debt service reserve requirements (2009A & B and 2011A).


## NOTE 6. LITIGATION

The Utility is a defendant in various lawsuits arising in the normal course of business. Present lawsuits and other claims against the Utility are incidental to the ordinary course of operations of the Utility and are largely covered by the City's self-insurance program. In the opinion of management and the City Attorney, such claims and litigation will not have a materially adverse effect upon the financial position or results of operations of the Utility.

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

## NOTE 7. CONSTRUCTION COMMITMENTS

As of June 30, 2013, the Utility had major commitments (encumbrances) of approximately $3,263 with respect to unfinished capital projects of which $2,336 is expected to be funded by bonds and $927 to be funded by other sources.

## NOTE 8. ACCOUNTING CHANGE

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


CITY OF RIVERSIDE
2007

# KEY HISTORICAL OPERATING DATA: WATER

# KEY HISTORICAL OPERATING DATA

### WATER SUPPLY (ACRE FEET)

| | 2012/13 | 2011/12 | 2010/11 | 2009/10 | 2008/09 |
|---|---|---|---|---|---|
| Pumping | 72,480 | 69,564 | 66,492 | 69,676 | 76,830 |
| Percentage pumped[1] | 100.00% | 100.00% | 100.00% | 100.00% | 100.0% |
| System peak day (gallons) | 95,390,000 | 88,370,000 | 90,556,000 | 98,017,000 | 105,780,000 |

### WATER USE

| | 2012/13 | 2011/12 | 2010/11 | 2009/10 | 2008/09 |
|---|---|---|---|---|---|
| Number of meters as of year end | | | | | |
| Residential | 58,756 | 58,506 | 58,460 | 58,372 | 58,152 |
| Commercial/Industrial | 5,508 | 5,504 | 5,482 | 5,451 | 5,519 |
| Other | 327 | 357 | 407 | 408 | 391 |
| Total | 64,591 | 64,367 | 64,349 | 64,231 | 64,062 |
| *CCF sales | | | | | |
| Residential | 17,061,832 | 16,288,918 | 15,698,321 | 16,321,425 | 17,898,798 |
| Commercial/Industrial | 10,045,813 | 9,703,162 | 9,219,913 | 9,344,085 | 10,342,284 |
| Other | 869,807 | 893,971 | 826,165 | 871,396 | 983,553 |
| Subtotal | 27,977,452 | 26,886,051 | 25,744,399 | 26,536,906 | 29,224,635 |
| Wholesale | 208,726 | 176,091 | 158,040 | 150,365 | 496,601 |
| Total | 28,186,178 | 27,062,142 | 25,902,439 | 26,687,271 | 29,721,236 |

*(CCF equals 100 cubic feet)

### WATER FACTS

| | 2012/13 | 2011/12 | 2010/11 | 2009/10 | 2008/09 |
|---|---|---|---|---|---|
| Average annual CCF per residential customer | 290 | 278 | 269 | 280 | 308 |
| Average price ($/CCF) per residential customer | $2.36 | $2.37 | $2.28 | $2.05 | $1.81 |
| Debt service coverage ratio (DSC)[2] | 2.61 | 2.82 | 3.49 | 2.08 | 2.25 |
| Employees[3] | 181 | 181 | 180 | 178 | 167 |

[1] No purchased water.

[2] For FY 09/10 and thereafter, interest expense used to calculate DSC is net of federal subsidy on Build America Bonds.

[3] Approved positions

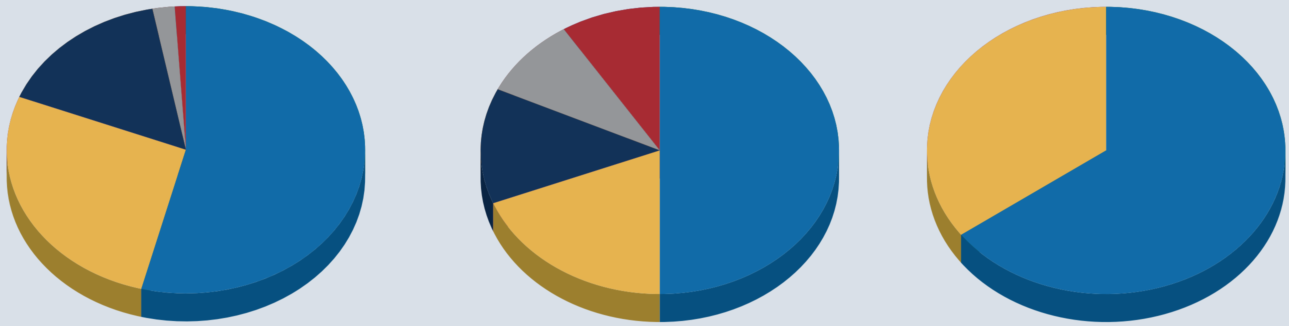


## 2012/2013 WATER REVENUE AND RESOURCES

### Source of Revenue

### Distribution of Revenue

### Water Resources



**Source of Revenue**

- Residential Sales 54¢
- Commercial Sales 27¢
- Other Revenues 16¢
- Other Sales 2¢
- Investment Income 1¢

**Distribution of Revenue**

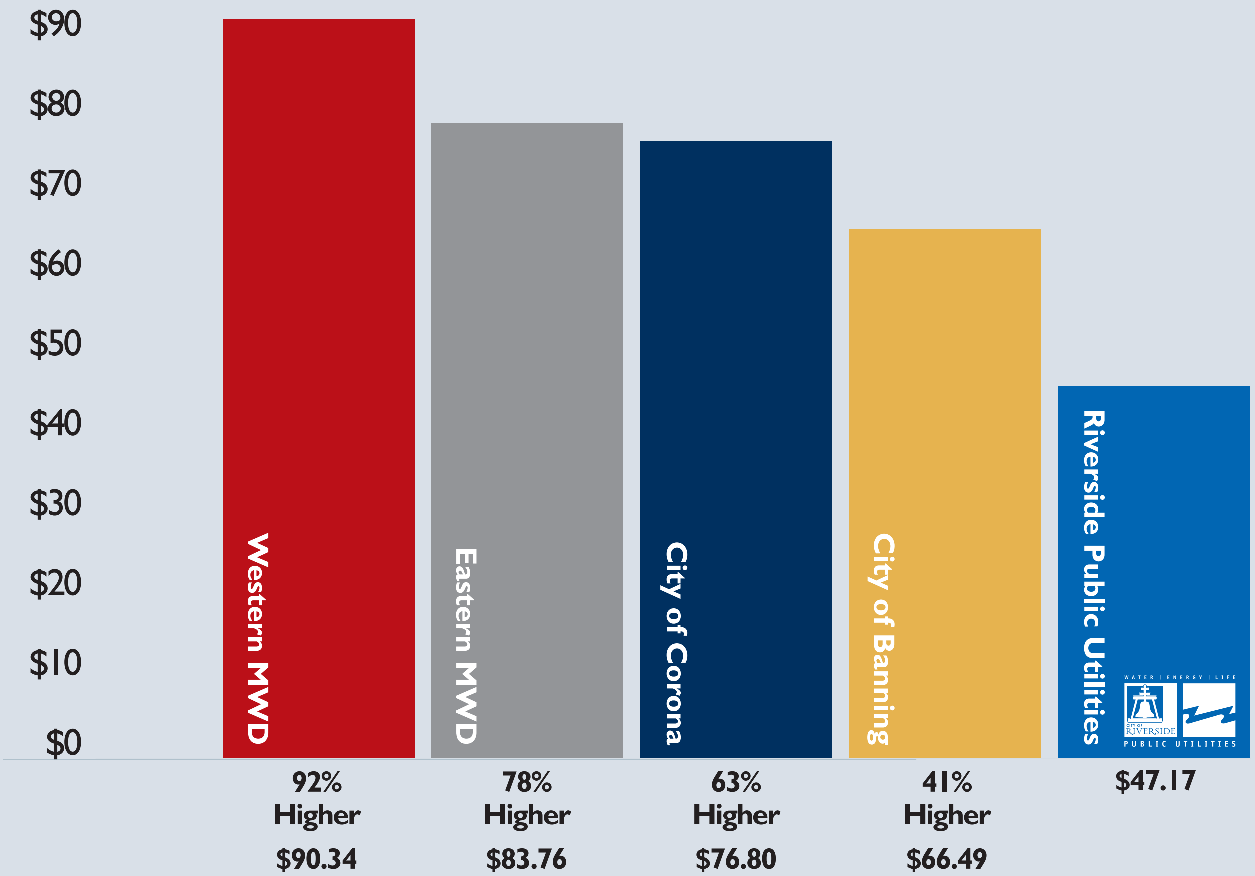
- Operations and Maintenance 50¢
- Debt Service 19¢
- Additions and Replacements to the System 13¢
- Additional Reserves 9¢
- Transfers to the City's General Fund* 9¢

** Based on transfer of 11.5% of fiscal year 2011/2012 operating revenues (excludes wholesale sales and Conservation and Reclamation revenue)*

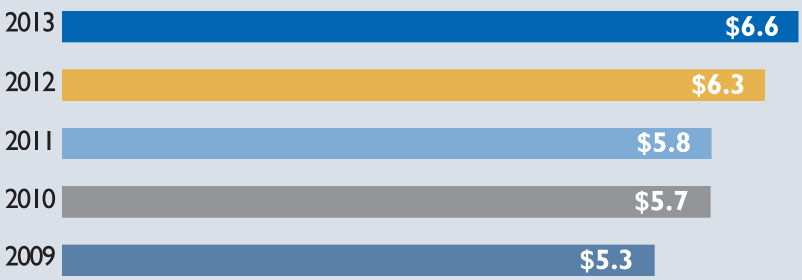
**Water Resources**

- San Bernardino Basin Wells 65%
- Riverside Basin Wells 35%
- Purchased Water 0%

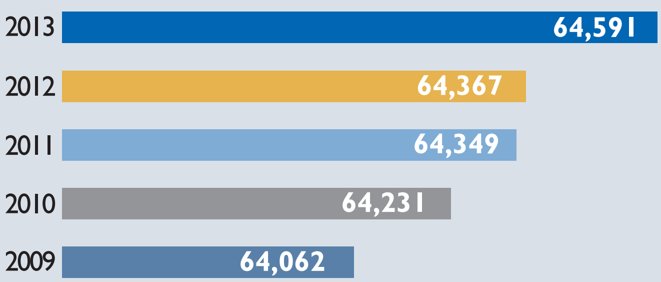
## RESIDENTIAL WATER RATE COMPARISON – 24 CCF PER MONTH (AS OF JUNE 30, 2013)



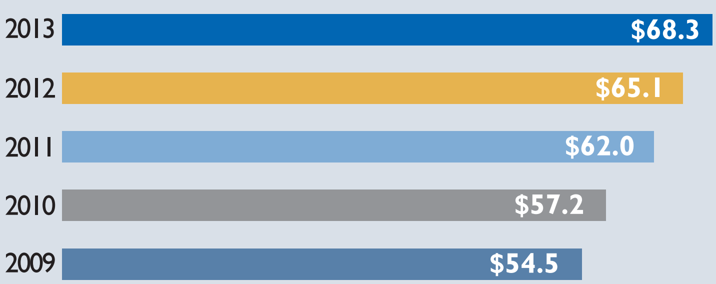
## GENERAL FUND TRANSFER (IN MILLIONS)



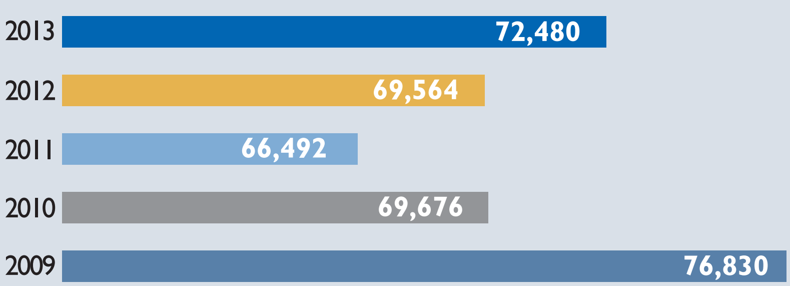

## NUMBER OF METERS AT YEAR END



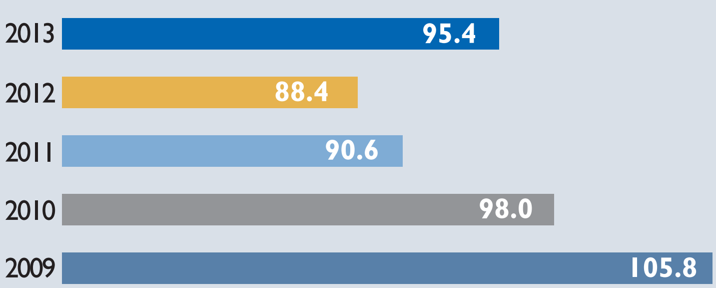

## TOTAL OPERATING REVENUE (IN MILLIONS)




## PRODUCTION (IN ACRE FEET)




## PEAK DAY DEMAND (IN MILLION GALLONS)



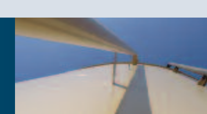

## WATER FACTS AND SYSTEM DATA

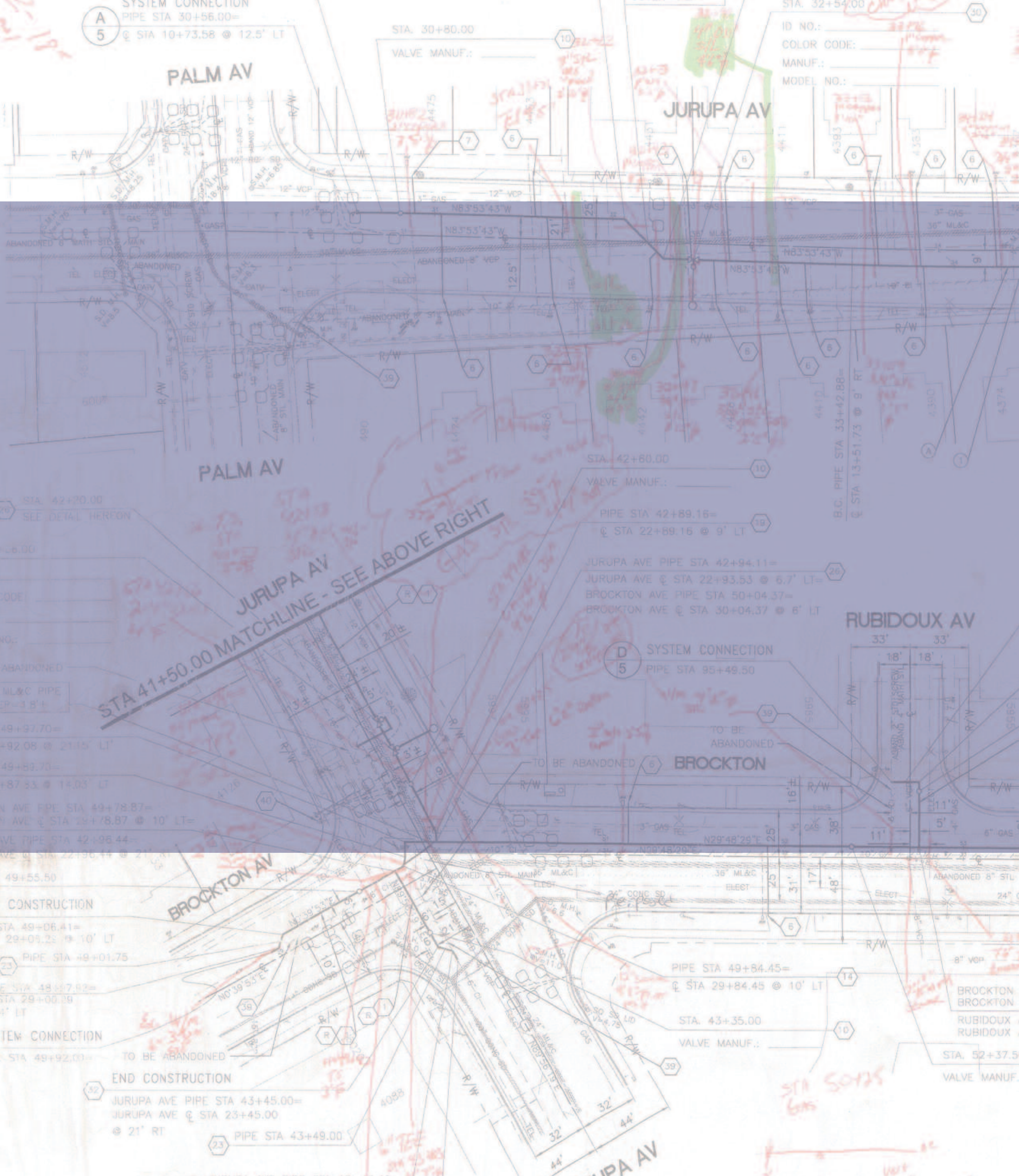
| | |
|---|---|
| Established | 1913 |
| Service Area Population | 311,896 |
| Service Area Size (square miles) | 74.20 |
| System Data: | |
| Smallest pipeline | 2.0” |
| Largest pipeline | 72.0” |
| Miles of pipeline | 1,000 |
| Number of domestic wells | 54 |
| Number of active reservoirs | 15 |
| Total reservoir capacity (gallons) | 108,500,000 |
| Number of treatment plants | 6 |
| Number of treatment vessels | 84 |
| Miles of canal | 14 |
| Number of fire hydrants | 7,726 |
| Daily average production (gallons) | 62,029,419 |
| 2012-2013 Peak day (gallons) 08/13/12, 106 degrees | 95,390,000 |
| Historical peak (gallons) 08/09/05, 99 degrees | 118,782,000 |

**Bond Ratings**

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








# NSTRUCTION NOTES:

TRAIN ALL JOINTS.

NISH AND INSTALL 12-INCH DUCTILE IRON PIPE, CL-350, PER

(11) FURNISH AND INSTALL 12" - 90° ELL.

(12) FURNISH AND INSTALL 8" - 90° ELL.

(25) FURNISH AND INSTALL 8" X 4" REDUCER.

(26) FURNISH AND INSTALL

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