2016

FINANCIAL REPORT

RIVERSIDE PUBLIC UTILITIES

WATER | ENERGY | LIFE

CITY OF RIVERSIDE

PUBLIC UTILITIES

OVERVIEW

Riverside Public Utilities generates, transmits and distributes electricity to a 90-square-mile territory that includes the City of Riverside. We also deliver water to a 74.2 square mile territory covering the majority of the City of Riverside.

The Board of Public Utilities is comprised of nine volunteers who live in all seven wards of the City of Riverside. They are appointed by the City Council to four-year terms without compensation. Board members oversee Riverside Public Utilities' policies, operations, revenues, expenditures, planning, and regulatory compliance. They provide an ongoing, year-round review of all actions by Riverside Public Utilities before any measure is sent to the elected City Council representatives for final determination.

SERVICE AREA POPULATION

324,637

RECORD PEAK DEMAND

Energy: 604 megawatts
9/16/2014

Water: 118,782,000 million gallons
8/9/2005

TOTAL OPERATING REVENUE

Energy: $353.8 million

Water: $57.1 million

CUSTOMERS

Energy: 108,776

Water: 65,094

EMPLOYEES

Almost 600

CREDIT RATING

Energy:	AA-	Fitch
	AA-	Standard & Poor's
Water:	AA+	Fitch
	AAA	Standard & Poors
	Aa2	Moody's

CITY COUNCIL

Mike Gardner
Ward 1

Andy Melendrez
Ward 2

Mike Soubirous
Ward 3

Paul Davis
Ward 4

Chris Mac Arthur
Ward 5

Jim Perry
Ward 6

John Burnard
Ward 7

Rusty Bailey
Mayor

BOARD OF PUBLIC UTILITIES

Jennifer O'Farrell
Ward 1

Kevin Foust
Ward 2

Vacant
Ward 3

Dave Austin
Ward 4

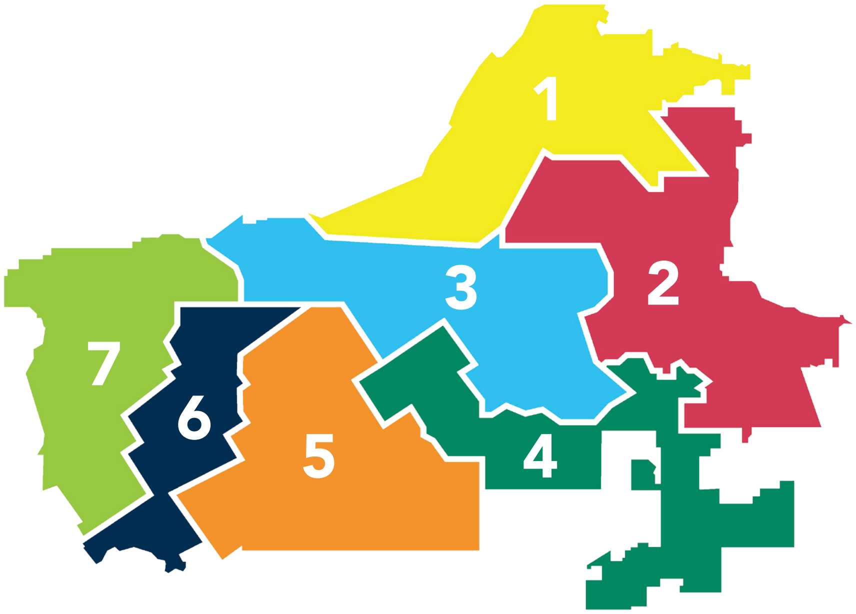
Andrew Walcker
Ward 5

Vacant
Ward 6

Ronald Cole
Ward 7

Justin Scott-Coe
Citywide 1

David Crohn
Citywide 1



EXECUTIVE MANAGEMENT

John Russo
City Manager

Girish Balachandran
Utilities General Manager

Kevin S. Milligan
Deputy General Manager

Michael J. Bacich
Assistant General Manager
Customer Relations/Marketing

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

Daniel Garcia
Interim
Assistant General Manager
Resources

George Hanson
Assistant General Manager
Energy Delivery

Todd Jorgenson
Assistant General Manager
Water

OUR MISSION

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

OUR 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.

OUR CORE VALUES

Safety

Honesty and Integrity

Teamwork

Professionalism

Quality Service

Creativity and Innovation

Community Involvement

Environmental Stewardship

Inclusiveness and Mutual Respect

OUR FOCUS AREAS

RELIABILITY & RESILIENCY
Taking care of our infrastructure, so that it remains safe, and efficient.

AFFORDABILITY
Thriving financially while balancing affordable rates for our customers.

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

CUSTOMER EXPERIENCE
Continuing to provide reliable customer-centered service every day.

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

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

OUR THREE-YEAR GOALS

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

OUR TEN-YEAR GOALS

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

OUR
FISCAL MESSAGE

In other words, these results prove that RPU is doing what our customers expect us to do.

Our water and electric grids are the essential frameworks that connect us all. Our forward-focused approach to planning ensures that our mission of providing water and electric service at the lowest possible rates to benefit the community is fulfilled. We are owned by the customers we serve and ownership allows us to take into account the needs of our community, unlike other providers who serve the needs of their stockholders.

More than a decade ago, we began to build power generation plants in Riverside to make sure our customers would have uninterrupted power on the hottest days of the year and in the event of a natural disaster. A few years later, we implemented the Safe W.A.T.E.R. Plan (Water Available to Everyone in Riverside) to be proactive about increasing aging pipeline and to replace a seismically unsafe reservoir that was also the largest water storage site in Riverside. When our community needed economic stability, in 2010, we froze our rates knowing it was in the City's best interest to ensure growth could continue during one of the worst economic downturns in recent times.

During the past few years of California's record-breaking drought, our customers, answering our calls to conserve water, used 24 percent less water with the help of RPU's water conservation programs. Also, this past summer, because of possible natural gas shortages, power conservation became a key issue that would hamper our reliability. Once again customers volunteered to conserve, if necessary, to prevent black-outs. In addition to these external forces, government mandates for 50% green energy by 2030 and ever-changing water conservation measures have driven our business decisions. We chose innovative methods to comply, so that we may balance these costs for the customer. In spite of all this, our rates have continued to be the most affordable compared to surrounding areas.

As history has proven year after year, the financial statements represented in our annual reports show an organization with stable financial metrics and strong reserves levels, backed by policy and best practices. RPU's net position for 2016 was $750.8 million, a 7% increase over 2015. Our credit ratings are outstanding. They demonstrate that we are prepared to serve our community, just as we always have since 1895. In other words, these results prove that RPU is doing what our customers expect us to do.

As we embark on the future, new challenges are ahead sparked by changes in the utility industry. To answer these changes, we have developed the Utility 2.0 Strategic Plan. The plan reaches forward to the next ten years, concentrating on accelerated infrastructure replacement, and implementing new technology projects. Just as we assured reliability with large infrastructure improvements over the past decade, these next ten years require us to shift focus toward the poles, wires, and pipes that were put in during the post- World War II baby boom in the 1950's. Implementing new technologies are just as critical as grid modernization moves forward to support customers who choose to generate or store their power. System sensors combined with interconnected data collectors will help us know more about our system and become more flexible to the customer's needs. As we use advanced metering infrastructure to measure usage more frequently, we will gather more operational data that will help us work more efficiently. Additionally, outage response times will improve, and more information will be available to customers to support them in managing their energy use.

As trends point toward cleaner energy resources, such as rooftop solar, battery storage, and electric vehicles in the utility marketplace, customer expectations are changing. Just as RPU customers have come to expect convenient choices from their cell-phone providers and online retailers, they will expect affordable and reliable services as well as more options for how they use and pay for them. The Utility 2.0 Strategic Plan addresses these expectations. We developed six focus areas backed by performance metrics, allowing us to track and transparently report our progress. These focus areas help us meet the needs outlined in the plan while continuing to thrive financially in the years to come.

RPU's six focus areas are reliability and resilience, affordability, sustainability, customer experience, operational excellence and a strong workforce. As we move toward the Utility of the Future, concentrating our efforts now will ensure our customers will have the peace of mind in knowing that they own a strong, responsive, local utility that will always be there in the moments that matter.

Girish Balachandran

GIRISH BALACHANDRAN

General Manager

Laura M Chavez-Nomura

LAURA M. CHAVEZ-NOMURA

Assistant General Manager - Finance/Administration

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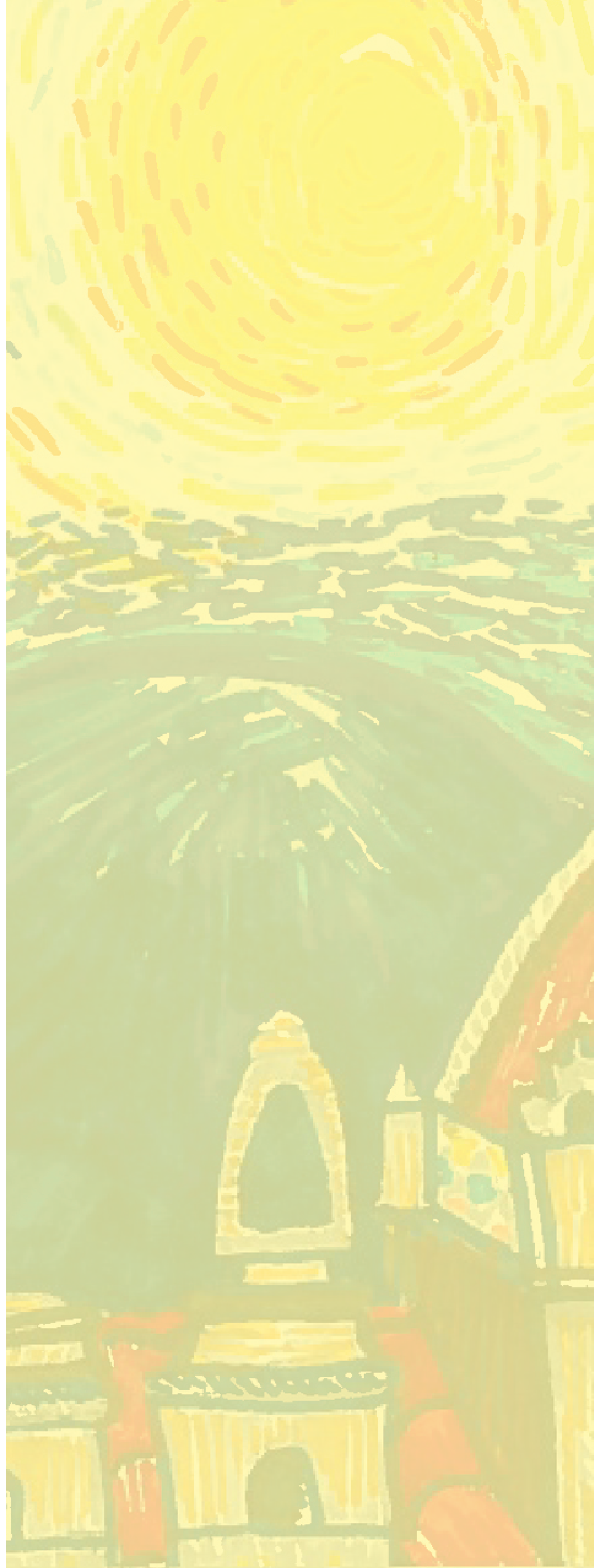
OUR
ELECTRIC



mgo Certified Public Accountants

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

Independent Auditor's Report

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

We have audited the accompanying financial statements of the Electric Utility Enterprise Fund (Electric Utility) of the City of Riverside, California, (the City), as of and for the fiscal years ended June 30, 2016 and 2015, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric Utility of the City, as of June 30, 2016 and 2015, and the changes in financial position and cash flows thereof for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements present only the Electric Utility and do not purport to, and do not present fairly the financial position of the City as of June 30, 2016 and 2015, the changes in its financial position, or, where applicable, its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

Macias Gini & O'Connell LLP

Newport Beach, California
November 9, 2016

ELECTRIC UTILITY:
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Riverside Public Utilities, a department of the City of Riverside (the City), we offer the readers this narrative overview and analysis of the 2015-16 financial report for the periods ended June 30, 2016 and 2015 for Riverside's Electric Utility (Electric Utility), an enterprise fund of the City. We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, which begin on page 23 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

- Retail sales, net of uncollectibles/recovery were $304,486 and $299,607 for years ended June 30, 2016 and 2015, respectively. The increase in sales was primarily due to increased customer consumption.
- Utility plant assets as of June 30, 2016 increased by $52,285 primarily due to the purchase of the Mission Square office building for $37,950, the receipt of $9,193 in donated land rights and easements for general access to electrical system assets and the completion of significant capital projects such as substation upgrades, distribution line extensions and replacements, and technology upgrades.
- In October 2015, the owners of San Onofre Nuclear Generating Station (SONGS) reached a $400,000 settlement with Nuclear Electric Insurance Limited for the outages caused by the failures of replacement steam generators. The Electric Utility's allocation of the settlement was $7,160. In addition, the Electric Utility also recovered $2,297 in the fiscal year on previously paid SONGS costs through settlements with Southern California Edison. These settlement recoveries were recorded as other non-operating revenues. These settlements were used to offset the write-off of the remaining portion, $7,160, of the regulatory asset related to the replacement power associated with the shutdown of SONGS Units 2 and 3.
- Total net position as of June 30, 2016 increased by $46,877 primarily due to positive operating results, non-cash capital contributions for donated assets received, and settlement recoveries.
- During the fiscal year ended June 30, 2016, the Electric Utility implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. This Statement provides guidance for determining fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. See Notes 1 and 2 of the accompanying financial statements for additional information.
- During the fiscal year ended June 30, 2015, the Electric Utility implemented GASB Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pension - an amendment of GASB Statement No. 27*, which addresses the accounting and financial reporting for pensions. The Electric Utility also implemented GASB Statement No. 71 (GASB 71), *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which resolves transition issues in GASB 68. As of July 1, 2014, the Electric Utility restated beginning net position in the amount of $94,958 to record the beginning deferred pension contributions and net pension liability. For more information, refer to the Net Position section below, Note 1 and Note 11 of the accompanying financial statements. The Electric Utility did not restate the financial statements for the fiscal year ended June 30, 2014 because the necessary actuarial information from the California Public Employees' Retirement System was not provided for the prior years presented.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

The ***Notes to the Financial Statements*** provide additional information that is essential to a full understanding of the data provided in the financial statements. The Notes to the Financial Statements can be found on pages 27 to 58 of this report.

ELECTRIC UTILITY FINANCIAL ANALYSIS

CONDENSED STATEMENTS OF NET POSITION

	2016	2015	2014
Current and other assets	$ 460,113	$ 489,995	$ 517,061
Capital assets	754,694	702,409	691,416
Deferred outflows of resources	64,735	42,266	29,288
Total assets and deferred outflows of resources	1,279,542	1,234,670	1,237,765
Long-term debt outstanding	561,728	576,081	593,108
Other liabilities	247,996	239,169	160,682
Deferred inflows of resources	24,204	20,683	-
Total liabilities and deferred inflows of resources	833,928	835,933	753,790
Net investment in capital assets	201,651	190,271	196,771
Restricted	40,913	37,345	28,690
Unrestricted	203,050	171,121	258,514
Total net position	$ 445,614	$ 398,737 (1)	$ 483,975

(1) As restated July 1, 2014, see Note 11 of the Financial Statements

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

2016 compared to 2015 The Electric Utility's total assets and deferred outflows of resources were $1,279,542, reflecting an increase of $44,872 (3.6%), primarily due to the following:

- Current and other assets, comprised of restricted and unrestricted assets, had a net decrease of $29,882.
  - Unrestricted assets increased by $17,385 primarily due to an increase of $21,822 in cash and cash equivalents due to positive operating results and settlement recoveries offset by a decrease of $6,427 in regulatory assets mainly for the recognition of the replacement power associated with the shutdown of SONGS Units 2 and 3 as an expense.
  - Restricted assets decreased by $47,267 primarily due to a decrease of $52,293 in cash and investments at fiscal agent for the use of bond proceeds to fund capital projects and a partial payment of $27,000, for the purchase of the Mission Square office building. This decrease was offset by an increase of $3,840 in cash and cash equivalents in Public Benefit Programs and $1,301 in cash and cash equivalents related to regulatory transactions.
- Capital assets increased by $52,285 primarily due to the purchase of the Mission Square office building for $37,950, the receipt of $9,193 in donated land rights and easements for general access to electrical system assets, and capital projects for additions and improvements to the Electric distribution infrastructure system and technology upgrades used to improve service to the Electric Utility's customers. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.

- Deferred outflows of resources increased by $22,469, primarily due to an increase of $14,691 in deferred outflows related to pension for contributions made in the current year subsequent to the measurement date of the net pension liability and the difference between projected and actual earnings on pension plan investments and an increase of $8,925 in deferred changes in derivative values.

2015 compared to 2014 Total assets and deferred outflows of resources were $1,234,670, a net decrease of $3,095 (0.3%). Current and other assets had a net decrease of $27,066 primarily due to a decrease of $31,663 in cash and investments at fiscal agent from the use of bond proceeds to fund capital projects, a write-off of $11,450 in net pension asset as of July 1, 2014 due to the implementation of GASB 68, and a decrease of $6,629 in regulatory assets of which $6,106 was related to the recognition of the replacement power associated with the shutdown of SONGS Units 2 and 3 as an expense. These decreases were offset by an increase of $16,496 in unrestricted cash and cash equivalents due to positive operating results and an increase of $6,832 in restricted cash and cash equivalents primarily due to regulatory transactions and debt service requirements. Capital assets increased by $10,993, due to technology upgrades, additions and improvements to the Electric system, and continued improvements to the Electric Utility's distribution infrastructure system. Deferred outflows of resources increased by $12,978 primarily due to an increase of $11,541 in deferred outflows related to pension contributions made in the fiscal year subsequent to the measurement date of the net pension liability, in accordance with GASB 71 implementation.

LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

2016 compared to 2015 The Electric Utility's total liabilities were $833,928, a decrease of $2,005 (0.2%), due to the following:

- Long-term debt outstanding decreased by $14,353 primarily due to the principal payments on revenue bonds and the amortization of bond premiums. Additional debt information can be found in the "Capital Assets and Debt Administration" section.

- Other liabilities increased by $8,827 primarily due to an increase of $9,903 in the negative fair value of derivative instruments, an increase of $6,134 in net pension liability, and an increase of $2,692 in capital leases payable for the financing of nine utility service trucks. These increases were offset by a decrease of $4,821 in accounts payable and other accruals and a decrease of $4,394 in nuclear decommissioning liabilities.

- Deferred inflows of resources increased by $3,521 due to pension related adjustments which included the changes in assumptions, the differences between expected and actual experience and the change in projected versus actual earnings on pension plan investments as determined by the plan actuary.

2015 compared to 2014 Total liabilities were $835,933, an increase of $82,143 (10.9%). Long-term debt outstanding decreased by $17,027 due to the principal payments of revenue bonds and the amortization of bond premiums. Other liabilities increased by $78,487 due to the increase in net pension liability of $71,773 related to implementation of GASB 68 and an increase of $4,705 in accounts payable and other accruals, primarily due to an increase in SONGS decommissioning activity. Deferred inflows of resources increased by $20,683 due to the implementation of GASB 68. This deferred inflow represents the change in projected versus actual earnings on pension plan investments as determined by the plan actuary.

NET POSITION

2016 compared to 2015 The Electric Utility's net position, which represents the difference between the Electric Utility's total assets and deferred outflows of resources less total liabilities and deferred inflows of resources, totaled $445,614, an increase of $46,877 (11.8%) which is primarily attributed to positive operating results, non-cash capital contribution for donated assets received, and settlement recoveries. The following represents the changes in components of Net Position:

- The largest portion of the Electric Utility's total net position, $201,651 (45.2%), reflects its investment in capital assets less any related outstanding debt used to acquire those assets. This portion increased by $11,380 primarily due to an increase in capital assets constructed or purchased during the year, net of related debt, and donated capital assets received. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.

- The restricted portion of net position totaled $40,913 (9.2%), an increase of $3,568, and represents resources that are subject to external restrictions on how they may be used. These are reserved for items such as debt payments, Public Benefit Programs, and other legally restricted assets.

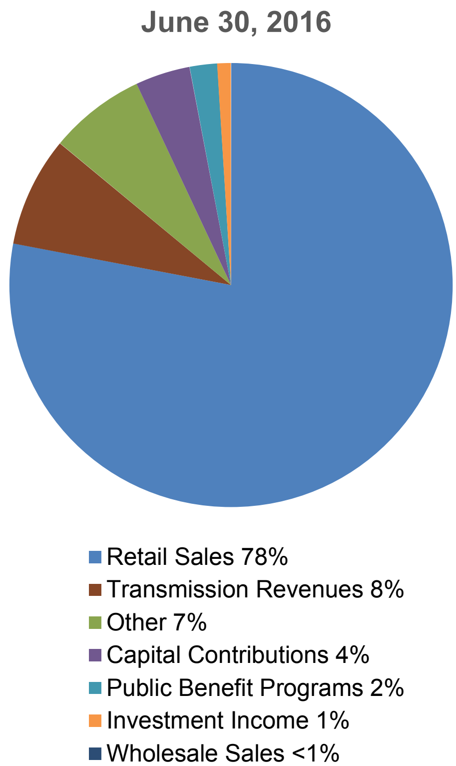
- The unrestricted portion of net position totaled $203,050 (45.6%) an increase of $31,929 (18.7%) from prior year, primarily attributable to positive operating results and settlement recoveries. Unrestricted net position may be used to meet the Electric Utility's ongoing operational needs and obligations to customers and creditors.

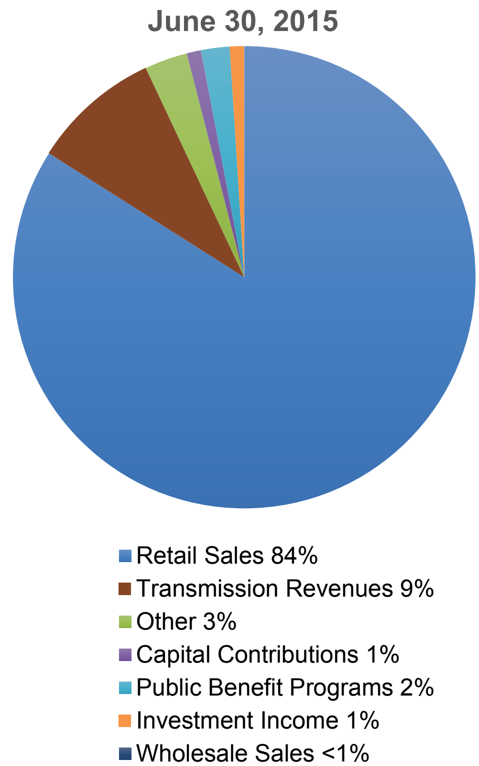
2015 compared to 2014 Total net position, decreased by $85,238 (17.6%), to a total of $398,737. Net investment in capital assets decreased by $6,500 due to depreciation expense for the fiscal year offset by an increase in capital assets constructed or purchased during the year, net of related debt. Restricted net position increased by $8,655 and the unrestricted portion decreased by $87,393 primarily due to the prior period adjustment of $94,958 to record the net pension liability as part of the implementation of GASB 68 and 71. Additional information on the prior period adjustment can be found on Note 11 of the financial statements.

CONDENSED STATEMENTS OF CHANGES IN NET POSITION

	2016	2015	2014
Revenues:			
Retail sales, net	$ 304,486	$ 299,607	$ 295,214
Wholesale sales	3	60	115
Transmission revenues	32,924	30,587	32,630
Investment income	5,143	3,821	6,041
Other revenues	26,040	12,030	10,649
Public Benefit Programs	8,929	8,699	8,577
Capital contributions	14,874	2,590	4,008
Total revenues	392,399	357,394	357,234
Expenses:			
Production and purchased power	137,081	145,312	138,822
Transmission	58,145	53,356	51,939
Distribution	49,346	49,319	50,374
Public Benefit Programs	6,657	6,870	7,933
Depreciation	30,953	29,328	27,260
Interest expenses and fiscal charges	24,980	25,311	27,499
Total expenses	307,162	309,496	303,827
Transfers to the City's general fund	(38,360)	(38,178)	(38,704)
Changes in net position	46,877	9,720	14,703
Net position, July 1, as previously reported	398,737	483,975	469,272
Less: Cumulative effect of change in accounting principle	-	(94,958)	-
Net position, July 1, as restated	398,737	389,017	469,272
Net position, June 30	$ 445,614	$ 398,737	$ 483,975

REVENUES BY SOURCES





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

- Retail sales (residential, commercial, industrial, and others), net of uncollectibles/recovery, totaled $304,486, a $4,879 (1.6%) increase. Retail sales continue to be the primary revenue source for the Electric Utility. The increase in sales was primarily due to a slight increase in customer consumption.

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

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

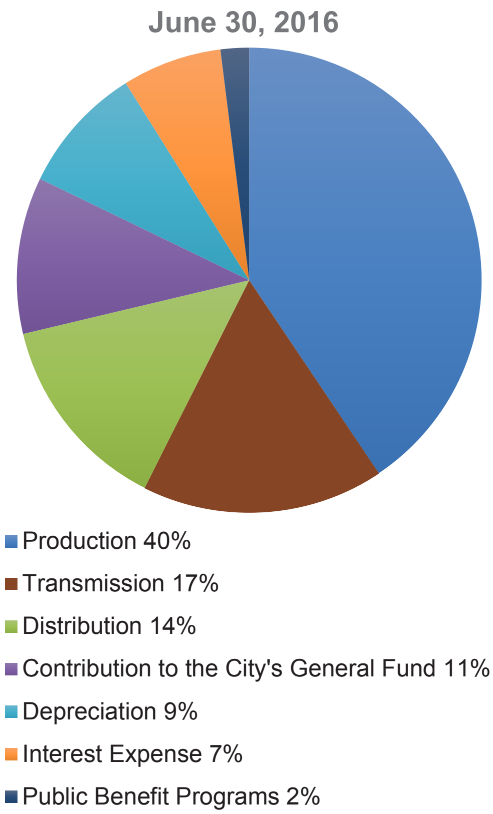
- Capital contributions of $14,874 increased by $12,284 (474%), primarily due to $9,193 in donated land rights and easements for general access to electrical system assets, $1,842 in donated streetlight equipment and $1,020 in various system equipment used to improve service to the Electric Utility's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

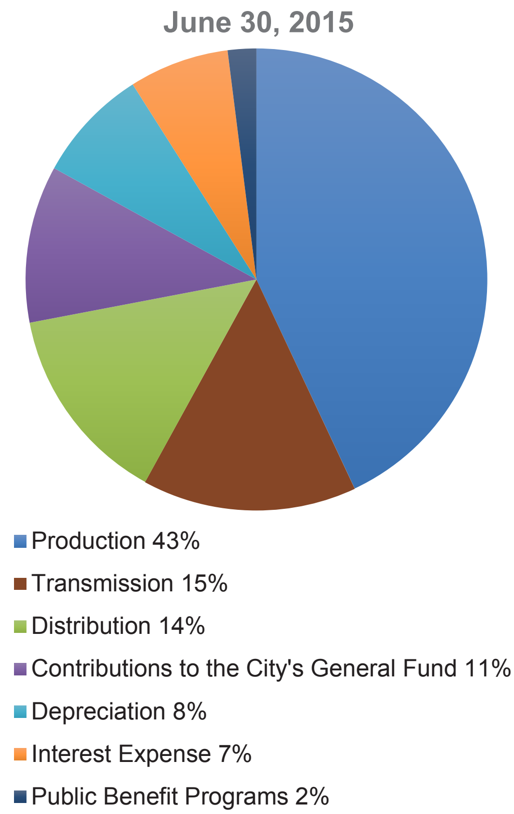
2015 compared to 2014 Total revenues of $357,394 was consistent with prior year.

- Retail sales (residential, commercial, industrial, and others), net of uncollectibles/recovery, totaled $299,607, a $4,393 (1.5%) increase. The increase was due to a slight increase in retail load as a result of warmer than normal temperature.

- Investment income of $3,821 decreased by $2,220 (36.7%), due to a decrease in the market value of investments and a lower overall interest rate in the fiscal year.
- Other revenues of $12,030 increased by $1,381 (13%), primarily due to regulatory transactions.
- Capital contributions of $2,590 decreased by $1,418 (35.4%), primarily due to a reduction in capital projects funded by other agencies and developers.

EXPENSES BY SOURCES





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

- Production and purchased power expenses of $137,081 decreased by $8,231 (5.7%) primarily due to lower energy prices.
- Transmission expenses of $58,145 increased by $4,789 (9.0%), mainly due to increases in the transmission access charge from the California Independent System Operator (CAISO).
- Depreciation expense of $30,953 increased by $1,625 (5.5%), reflecting the completion of capital projects and their current year depreciation.

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

- Production and purchased power expenses of $145,312 increased by $6,490 (4.7%) due to the $6,106 write-off of the regulatory asset related to SONGS replacement power associated with the shutdown of SONGS Units 2 and 3.

- Transmission expenses of $53,356 increased by $1,417 (2.7%), mainly due to slight increases in the transmission access charge from the CAISO.

- Distribution expenses of $49,319 decreased slightly, due to general operating expenses.

- Depreciation expense of $29,328 increased by $2,068 (7.6%), reflecting the completion of significant capital projects and their current year depreciation.

TRANSFERS

Pursuant to the City of Riverside Charter, the Electric Utility may transfer up to 11.5 percent of prior year's gross operating revenues, including adjustments, to the City's general fund. The City uses these funds to help provide needed public services to the residents of the City, including police, fire, parks, libraries and other benefits. The Electric Utility transferred $38,360 and $38,178 for 2016 and 2015, respectively based on the gross operating revenue provisions in the City's Charter.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

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

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

	2016	2015	2014
Production	$ 196,489	$ 205,316	$ 214,211
Transmission	27,425	27,922	27,919
Distribution	361,948	349,980	346,030
General	74,282	37,590	32,583
Intangibles	17,134	13,560	200
Land	21,439	8,786	8,717
Intangibles, non-amortizable	10,651	10,651	10,651
Construction in progress	45,326	48,604	51,105
Total capital assets	$ 754,694	$ 702,409	$ 691,416

2016 compared to 2015 The Electric Utility's investment in capital assets, net of accumulated depreciation, was $754,694, an increase of $52,285 (7.4%). The increase resulted primarily from the following significant capital projects offset by current year depreciation:

- $37,950 for the purchase of the Mission Square office building, a six-story, 127,544 square foot office space located in downtown City of Riverside. The Electric Utility currently occupies three floors of the building as office space with the balance leased out to other tenants.

- $19,489 in additions and improvements to the Electric system, such as substations, transformers, underground conduit and conductors, neighborhood streetlights, and distribution line extensions and replacements to serve customers.

- $9,193 in donated land rights and easements for general access to electrical system assets.

- $3,790 in technology upgrades to improve service to the Electric Utility's customers.

2015 compared to 2014 Investment in capital assets, net of accumulated depreciation, was $702,409, an increase of $10,993 (1.6%). The increase resulted from $24,991 in additions and improvements to the Electric system, $7,089 in technology upgrades, and $3,943 for the Riverside Transmission Reliability Project to provide additional generation import capability for a second point of interconnection with the State's high voltage transmission grid to serve future retail needs.

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

DEBT ADMINISTRATION

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

	2016	2015	2014
Revenue bonds	$ 566,835	$ 582,660	$ 597,580
Unamortized premium	8,213	9,231	10,434
Arbitrage liability	-	15	14
Less: Current portion	(13,320)	(15,825)	(14,920)
Total	$ 561,728	$ 576,081	$ 593,108

The Electric Utility's bond indentures require the Electric Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants, of 1.10. The Electric Utility's debt service coverage ratio was 2.99, 2.39, and 2.16 at June 30, 2016, 2015 and 2014, respectively. This debt is backed by the revenues of the Electric Utility.

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

2015 compared to 2014 Long-term debt decreased by $17,027 (2.9%) to $576,081 due to the principal payments and amortization of bond premiums.

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

CREDIT RATINGS

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

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

In June 2015, Fitch affirmed their "AA-" rating on the Electric Utility's Electric Revenue Series 2008D, 2009A, 2010A, 2010B, 2013 bonds, and variable rate Electric Revenue Series 2008A and 2008C bonds. The underlying Fitch credit ratings of the Electric Utility remain "AA-". This rating is a result of the Electric Utility's evolving power resource portfolio which is well positioned to meet California's increasing environmental regulations, the City's improving economy and strong liquidity levels.

The Electric Utility has maintained these credit ratings since 2008.

REGULATORY AND LEGISLATIVE FACTORS

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

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

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

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

The Electric Utility has completed the RPS Procurement Plan and has received approval from City Council to implement the Plan. The Plan outlines a diverse portfolio of specific geothermal, wind, utility-scale solar photovoltaic, distributed solar photovoltaic, and small hydro resources. To date, the Electric Utility has met the 20 percent target for the period of 2011-2013 and has substantially completed the procurement of eligible renewable resources to meet the stated targets through 2020.

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

SENATE BILL (SB) 1 – CALIFORNIA SOLAR INITIATIVE

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

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

30, 2015. This new solar farm pushed City's total solar generation past the 25 MW mark, five years ahead of the City's scheduled solar generation targets.

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

SENATE BILL (SB) 1368 – EMISSION PERFORMANCE STANDARD

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

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

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

ASSEMBLY BILL (AB) 2514 - ENERGY STORAGE

AB 2514 "Energy Storage Systems" was signed into law on September 29, 2010. The law directs the governing boards of POUs to consider setting targets for energy storage procurement but emphasizes that any such targets must be consistent with technological viability and cost effectiveness. The law's main directives for POUs and their respective deadlines are as follows: (a) to open a proceeding by March 1, 2012 to determine appropriate targets, if any, for the utility to procure viable and cost-effective energy storage systems, and (b) to adopt an energy storage system procurement target by October 1, 2014, if determined to be appropriate, to be achieved by the utility by December 31, 2016, and a 2nd target to be achieved by December 31, 2021.

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

On February 17, 2012, as per the statute, the City of Riverside's Board of Public Utilities opened a proceeding to investigate the various energy storage technologies available and determine if the City should adopt energy storage procurement targets. The City finished its investigation of energy storage pricing and benefits in September 2014 and concluded that the current pricing of all commercially available technology outweighs the benefits that it might provide to our electrical system. The City intends to update this assessment annually, in order to determine if and when any energy storage procurement targets should be set. On March 3, 2015, City Council approved the Ice Bear Pilot program. The program is intended to reduce load during peak hours, improve energy efficiency and demonstrate the City's proactive support of the State's energy storage goals.

ECONOMIC DEVELOPMENT AND GREEN INITIATIVES

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

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

Also in 2015, the Electric Utility played a key role in the City's effort to create and adopt the Riverside Restorative Growthprint (RRG) Plan, a comprehensive plan with two major parts: the Economic Prosperity Action Plan (RRG-EPAP) and the Climate Action Plan (RRG-CAP). The RRG helps the City identify GHG reduction measures and strategies with the greatest potential to drive local economic development through clean-tech investment and the expansion of local green businesses. Ultimately, this effort spurs entrepreneurship and smart growth while advancing the City's GHG reduction goals.

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

2016 was also a very important year for the City as the State of California formally announced that it had selected Riverside as the location for the new and expanded California Air Resources Board vehicle emissions testing and laboratory facility. This new high-tech facility will be a 300,000 square foot state-of-art, net-zero-energy campus with over 300 employees involved in all facets of vehicle emissions testing and compliance for the State of California.

The Electric Utility supports the local economy by offering some of the lowest commercial electric rates in Southern California combined with attractive economic development electric discount rates to qualified new and expanded load customers. These rate programs have helped create and retain over 2,800 jobs in the City since 2010. The City's Green Business Program recognizes local businesses for pursing sustainability in their facilities and operations. Businesses are evaluated based on their efforts to reduce pollution and waste and to improve resource use efficiency. Once certified through the program, the businesses are recognized locally and statewide through the California Green Business Network, a network of over 2,800 other businesses in the State of California that have already committed to pursuing greener practices.

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

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

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

ECONOMIC DEVELOPMENT AND GREEN INITIATIVES (CONTINUED)

For more information on these economic development and green initiatives, go to GreenRiverside.com.

REQUESTS FOR INFORMATION

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

ELECTRIC UTILITY:
FINANCIAL STATEMENTS

STATEMENTS OF NET POSITION

	June 30, 2016	June 30, 2015
	(in thousands)	
NON-CURRENT ASSETS:		
Utility plant:		
Utility plant, net of accumulated depreciation (Notes 3)	$ 754,694	$ 702,409
Restricted assets:		
Cash and investments at fiscal agent (Note 2)	92,393	144,686
Other non-current assets:		
Advances to other funds of the City	5,113	5,850
Unamortized purchased power (Note 8)	6,964	5,047
Regulatory assets	4,395	10,822
Total other non-current assets	16,472	21,719
Total non-current assets	863,559	868,814
CURRENT ASSETS:		
Unrestricted assets:		
Cash and cash equivalents (Note 2)	249,247	227,425
Accounts receivable, less allowance for doubtful accounts 2016 $750; 2015 $809	34,397	34,423
Advances to other funds of the City	418	610
Accrued interest receivable	650	885
Inventory	1,097	1,202
Prepaid expenses	22,199	20,831
Unamortized purchased power (Note 8)	496	496
Total unrestricted current assets	308,504	285,872
Restricted assets:		
Cash and cash equivalents (Note 2)	27,091	25,790
Public Benefit Programs - cash and cash equivalents (Note 2)	14,756	10,916
Public Benefit Programs receivable	897	936
Public Benefit Programs prepaids	-	76
Total restricted current assets	42,744	37,718
Total current assets	351,248	323,590
Total assets	1,214,807	1,192,404
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflows related to pension (Note 10)	26,232	11,541
Changes in derivative values	27,713	18,788
Loss on refunding	10,790	11,937
Total deferred outflows of resources	64,735	42,266
Total assets and deferred outflows of resources	$ 1,279,542	$ 1,234,670

See accompanying notes to the financial statements

STATEMENTS OF NET POSITION

	June 30, 2016	June 30, 2015
	(in thousands)	
NET POSITION:		
Net investment in capital assets	$ 201,651	$ 190,271
Restricted for:		
Regulatory requirements (Note 5)	10,802	7,432
Debt service (Note 5)	16,289	18,358
Public Benefit Programs	13,822	11,555
Unrestricted	203,050	171,121
Total net position	445,614	398,737
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4)	561,728	576,081
OTHER NON-CURRENT LIABILITIES:		
Compensated absences (Note 4)	764	578
Net pension liability (Note 4 and 10)	77,907	71,773
Advances from other funds of the City - pension obligation (Note 4)	10,084	10,719
Nuclear decommissioning liability (Note 4)	62,767	67,573
Net other postemployment benefits payable (Note 4)	7,264	6,617
Derivative instruments (Note 4)	34,201	24,298
Capital leases payable (Note 4)	3,905	1,213
Total non-current liabilities	196,892	182,771
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accounts payable and other accruals	-	9,020
Accrued interest payable	5,405	5,623
Public Benefit Programs payable	1,847	394
Nuclear decommissioning liability (Note 4)	6,126	5,714
Current portion of long-term obligations (Note 4)	13,320	15,825
Total current liabilities payable from restricted assets	26,698	36,576
CURRENT LIABILITIES:		
Accounts payable and other accruals	19,041	14,842
Customer deposits	5,040	4,512
Unearned revenue	325	468
Total current liabilities	24,406	19,822
Total liabilities	809,724	815,250
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows related to pension (Note 10)	24,204	20,683
Total deferred inflows of resources	24,204	20,683
Total net position, liabilities and deferred inflows of resources	$ 1,279,542	$ 1,234,670

See accompanying notes to the financial statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	For the Fiscal Years Ended June 30, 2016 (in thousands)	2015
OPERATING REVENUES:		
Residential sales	$ 116,997	$ 114,112
Commercial sales	69,759	68,572
Industrial sales	113,756	112,283
Other sales	4,737	5,654
Wholesale sales	3	60
Transmission revenue	32,924	30,587
Other operating revenue	7,425	7,654
Public Benefit Programs	8,929	8,699
Total operating revenues before uncollectibles	354,530	347,621
Estimated uncollectibles, net of bad debt recovery	(763)	(1,014)
Total operating revenues, net of uncollectibles	353,767	346,607
OPERATING EXPENSES:		
Production and purchased power	137,081	145,312
Transmission	58,145	53,356
Distribution	49,346	49,319
Public Benefit Programs	6,657	6,870
Depreciation	30,953	29,328
Total operating expenses	282,182	284,185
Operating income	71,585	62,422
NON-OPERATING REVENUES (EXPENSES):		
Investment income	5,143	3,821
Interest expense and fiscal charges	(24,980)	(25,311)
Gain on sale of assets	424	343
Other	18,191	4,033
Total non-operating revenues (expenses)	(1,222)	(17,114)
Income before capital contributions and transfers out	70,363	45,308
Capital contributions	14,874	2,590
Transfers out - contributions to the City's general fund	(38,360)	(38,178)
Total capital contributions and transfers out	(23,486)	(35,588)
Increase in net position	46,877	9,720
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	398,737	483,975
LESS: CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	-	(94,958)
NET POSITION, BEGINNING OF YEAR, AS RESTATED	398,737	389,017
NET POSITION, END OF YEAR	$ 445,614	$ 398,737

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

	For the Fiscal Years Ended June 30, 2016	2015
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	$ 354,041	$ 349,091
Cash paid to suppliers and employees	(259,639)	(247,170)
Other receipts	18,191	4,033
Net cash provided by operating activities	112,593	105,954
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(38,360)	(38,178)
Payment on advances from other funds of the City - pension obligation	(635)	(565)
Cash received on advances to other funds of the City	929	303
Net cash used by non-capital financing activities	(38,066)	(38,440)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(65,534)	(37,987)
Proceeds from the sale of utility plant	483	343
Principal paid on long-term obligations	(16,499)	(15,632)
Interest paid on long-term obligations	(26,500)	(27,101)
Capital contributions	2,830	2,509
Net cash used by capital and related financing activities	(105,220)	(77,868)
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Purchase of) proceeds from investment securities	(1,101)	2,808
Income from investments	5,363	4,015
Net cash provided by investing activities	4,262	6,823
Net decrease in cash and cash equivalents	(26,431)	(3,531)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR **(including $90,100 and $110,127 at June 30, 2015 and June 30, 2014, respectively, reported in restricted accounts)**	317,525	321,056
CASH AND CASH EQUIVALENTS, END OF YEAR **(including $41,847 and $90,100 at June 30, 2016 and June 30, 2015, respectively, reported in restricted accounts)**	$ 291,094	$ 317,525
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 71,585	$ 62,422
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	30,953	29,328
(Increase) decrease in deferred outflows related to pension	(14,691)	20
Increase (decrease) in deferred inflows related to pension	3,521	(5,171)
Increase in net pension liability	6,134	2,558
(Decrease) increase in allowance for uncollectible accounts	(59)	162
(Increase) decrease in accounts receivable	(195)	1,652
Decrease in inventory	105	-
(Increase) decrease in prepaid expenses	(1,368)	1,996
Increase in unamortized purchased power	(1,917)	(2,028)
Decrease in regulatory assets	7,160	6,106
(Decrease) increase in accounts payable and other accruals	(5,103)	4,897
Increase (decrease) in compensated absences	186	(252)
Increase in postemployment benefits payable	647	868
Increase in Public Benefit Programs payable	1,453	240
(Decrease) increase in unearned revenue	(143)	468
Increase in customer deposits	528	667
Decrease in decommissioning liability	(4,394)	(2,012)
Other receipts	18,191	4,033
Net cash provided by operating activities	$ 112,593	$ 105,954
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions - capital assets	12,440	451
Borrowing under capital lease	3,648	166
Decrease in fair value of investments	(50)	(1,067)

See accompanying notes to the financial statements

ELECTRIC UTILITY:
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

BASIS OF ACCOUNTING

The Electric Utility uses the accrual basis of accounting as required for enterprise funds with accounting principles generally accepted in the United States of America as applicable to governments. The accounting records of the Electric Utility are also substantially in conformity with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). The Electric Utility is not subject to the regulations of the FERC.

The Electric Utility distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the Electric Utility are charges to customers for electric sales and services. Operating expenses for the Electric Utility include the cost of electric sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

IMPLEMENTATION OF NEW ACCOUNTING PRONOUNCEMENTS

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

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

Effective July 1, 2015, the accompanying financial statements reflect the implementation of GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72). The primary objective of GASB 72 is to address accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

USE OF ESTIMATES

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

REVENUE RECOGNITION

The Electric Utility customers are billed monthly. Unbilled electric service charges, including Public Benefit Programs, are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable, totaled $16,349 at June 30, 2016, and $15,468 at June 30, 2015.

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

ELECTRIC UTILITY PLANT AND DEPRECIATION

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

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

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

RESTRICTED ASSETS

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

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

CASH AND INVESTMENTS

In accordance with the Electric Utility policy, the Electric Utility's cash and investments, except for cash and investments with fiscal agents, are invested in a pool managed by the Treasurer of the City. Cash accounts of all funds are pooled for investment purposes to enhance safety and liquidity, while maximizing interest earnings. The Electric Utility does not own specific, identifiable investments of the pool. The pooled interest earned is allocated monthly based on the month end cash balances.

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

City-wide information concerning cash and investments as of June 30, 2016, including authorized investments, fair value measurement and application, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and investments can be found in the notes to the City's financial statements in the City's "Comprehensive Annual Financial Report" (CAFR).

CASH AND INVESTMENTS AT FISCAL AGENTS

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

UNRESTRICTED DESIGNATED CASH RESERVES

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

Unrestricted designated cash reserve balances as of June 30, 2016 are as follows: Additional Decommissioning Liability Reserve $4,951, Customers Deposits $3,763, Capital Repair and Replacement Reserve $2,000, Electric Reliability Fund $45,008, and Mission Square Improvement Fund $240. The combined total for these reserves is $55,962 and is included as a component of unrestricted cash and cash equivalents in the accompanying Statements of Net Position. Prior year amounts are not comparable in specific categories due to the new reserve structure described above.

ADVANCES TO OTHER FUNDS OF THE CITY

Advances to other funds of the City have been recorded as a result of agreements between the Electric Utility and the City. The balances as of June 30, 2016 and 2015 are $5,531 and $6,460, respectively.

DERIVATIVES

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

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

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

BOND PREMIUMS AND GAINS/LOSSES ON REFUNDING

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

NUCLEAR DECOMMISSIONING LIABILITY

Federal regulations require the Electric Utility to provide for the future decommissioning of its ownership share of the nuclear units at San Onofre. The Electric Utility has established trust accounts to accumulate resources for the decommissioning of the nuclear power plant and restoration of the beachfront at San Onofre. Based on the most recent site specific decommissioning cost estimate as of September 2014, submitted by Southern California Edison (SCE) and accepted by the Nuclear Regulatory Commission (NRC), the Electric Utility has fully funded the SONGS nuclear decommissioning liability. The Electric Utility has set aside $80,494 and $79,744 in cash investments with the trustee and $4,951 and $3,337 in an unrestricted designated decommissioning reserve as the Electric Utility's estimated share of the decommissioning cost of SONGS as of June 30, 2016 and 2015, respectively, and these amounts are reflected as restricted assets and unrestricted cash and cash equivalents, respectively, on the Statements of Net Position. With the recent retirement of SONGS Units 2 and 3, there is much uncertainty as to future unknown costs to decommission SONGS. Although management believes the current cost estimate is the upper bound of decommissioning obligations, the Electric Utility has conservatively decided to continue to set aside $1,581 per year in an unrestricted designated cash reserve for unexpected costs not contemplated in the current estimates. See Note 7 for further discussion on SONGS nuclear decommissioning liability.

CAPITAL LEASES

The Electric Utility has entered into fifteen capital lease agreements as a lessee for financing fifteen compressed natural gas heavy duty service trucks. In fiscal year ended June 30, 2016, the Electric Utility entered into nine additional capital lease agreements for financing additional service trucks due to the expiration of eight prior lease agreements. All leases have seven year terms of monthly payments with interest rates ranging from 2.0 percent to 2.5 percent. The total gross value of all existing leases is $5,715 with depreciation over the seven year terms of the leases using the straight-line method.

As of June 30, 2016 and 2015, the total liability was $4,694 and $1,720, respectively, with the current portion included in accounts payable and other accruals. The remaining annual lease payments for the life of the leases are $881 annually through fiscal year ended June 30, 2019, $868 in fiscal year ended June 30, 2020, $559 annually in fiscal years ended June 30, 2021 and June 30, 2022, and $367 in fiscal year ended June 30, 2023. Total outstanding lease payments are $4,996, with $4,694 representing the present value of the net minimum lease payments and $302 representing interest.

CUSTOMER DEPOSITS

The City holds customer deposits as security for the payment of utility bills and design fee deposits for future construction of electrical facilities. The Electric Utility's portion of these deposits as of June 30, 2016 and 2015 was $5,040 and $4,512, respectively.

COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due to employees at June 30, 2016 and 2015. The Electric Utility treats compensated absences due to employees as an expense and a liability of which a current portion is included in accounts payable and other accruals in the accompanying Statements of Net Position. The amount accrued for compensated absences was $4,887 at June 30, 2016 and $4,957 at June 30, 2015.

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

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

INSURANCE PROGRAMS

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

City-wide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risk for the year ended June 30, 2016, may be found in the notes to the City's financial statements in the City's CAFR.

Although the ultimate amount of losses incurred through June 30, 2016 is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. Premiums paid to the City by the Electric Utility including the Public Benefit Programs, were $534 and $609 for the years ended June 30, 2016 and 2015, respectively. Any losses above the City's reserves would be covered through increased rates charged to the Electric Utility in future years.

EMPLOYEE RETIREMENT PLAN

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

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

PENSION OBLIGATION BONDS

The Electric Utility is obligated to pay its share of the City's pension obligation bonds, which the City issued in 2005. The Electric Utility's proportional share of the outstanding principal amount of the bonds was $10,084 and $10,719 as of June 30, 2016 and 2015, respectively, and is shown on the Statements of Net Position as Advances from other funds of the City – pension obligation. The bond proceeds were deposited with CalPERS to fund the unfunded actuarial accrued liability for non-safety employees. For more discussion relating to the City's pension obligation bond issuance, see the notes to the City's financial statements in the City's CAFR for the fiscal year ended June 30, 2016.

OTHER POSTEMPLOYMENT BENEFITS

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

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

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

The Electric Utility's annual OPEB cost (expense) is reported based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability (or funding excess) over a period not to exceed thirty years. The Electric Utility's OPEB liability as of June 30, 2016 and 2015 was $7,264 and $6,617, 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, 2016 can be found in the notes to the City's financial statements in the City's CAFR.

DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

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

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

REGULATORY ASSETS

In accordance with regulatory accounting criteria set forth in GASB Codification (GASB Statement No. 62), enterprise funds that are used to account for rate-regulated activities are permitted to defer certain expenses and revenues that would otherwise be recognized when incurred, provided that the City is recovering or expects to recover or refund such amounts in rates charged to its customers. Accordingly, regulatory assets relating to debt issuance costs and replacement power costs have been recorded by the Electric Utility. See Note 7 for further discussion of SONGS replacement power costs.

NET POSITION

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

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

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

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

CONTRIBUTIONS TO THE CITY'S GENERAL FUND

Pursuant to the City of Riverside Charter, the Electric Utility may transfer up to 11.5 percent of its prior year's gross operating revenues, including adjustments, to the City's general fund. In fiscal years ended June 30, 2016 and 2015, $38,360 and $38,178, respectively was transferred representing 11.5 percent.

CASH AND CASH EQUIVALENTS

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

BUDGET AND BUDGETARY ACCOUNTING

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

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2016 and 2015, consist of the following (in thousands):

	June 30, 2016	June 30, 2015
	Fair Value	
Equity interest in City Treasurer's investment pool	$ 291,094	$ 264,131
Cash and investments at fiscal agent	92,393	144,686
Total cash and investments	$ 383,487	$ 408,817

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

	June 30, 2016	June 30, 2015
Unrestricted cash and cash equivalents	$ 249,247	$ 227,425
Restricted cash and cash equivalents	41,847	36,706
Restricted cash and investments at fiscal agent	92,393	144,686
Total cash and investments	$ 383,487	$ 408,817

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

The Electric Utility categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Electric Utility has the following recurring fair value measurements as of June 30, 2016. Prior year comparative table has not been included as information necessary for fair value measurement reporting under GASB 72 was not readily available.

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

Cash and investments distribution by maturities as of June 30, 2016 and 2015, are as follows:

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

[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, fair value measurement, and credit risk may be found in the notes to the City's financial statements in the City's CAFR .

Investment Type	June 30, 2015 Fair Value	Remaining Maturity (In Months) 12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months
Held by fiscal agent					
Money market funds	$ 7,752	$ 7,752	$ -	$ -	$ -
State investment pool	-	-	-	-	-
Federal agency securities	52,525	8,846	30,181	13,498	-
Investment contracts [1]	64,155	53,394	-	-	10,761
Corp medium term notes	20,254	2,017	14,237	4,000	-
City Treasurer's investment pool [2]					
Money market funds	15,278	15,278	-	-	-
Federal agency securities	20,849	6,515	8,212	6,122	-
US Treasury notes/bonds	131,871	7,324	59,227	65,320	-
Corp medium term notes	31,237	10,582	10,512	10,143	-
State investment pool	55,381	55,381	-	-	-
Negotiable certificate of deposit	9,515	3,711	3,180	2,624	-
Total	$ 408,817	$ 170,800	$ 125,549	$ 101,707	$ 10,761

Presented below is the actual rating as of June 30, 2016 and 2015 for each investment type:

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

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

[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, fair value measurement, and credit risk may be found in the notes to the City's financial statements in the City's CAFR .

NOTE 3. UTILITY PLANT

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2016 and 2015 (in thousands):

	Balance As of 6/30/2014	Additions	Retirements/ Transfers	Balance As of 6/30/2015	Additions	Retirements/ Transfers	Balance As of 6/30/2016
Production	$ 267,152	$ 45	$ -	$ 267,197	$ 115	$ -	$ 267,312
Transmission	42,963	1,025	(32)	43,956	459	-	44,415
Distribution	541,381	18,787	(1,732)	558,436	27,222	(1,648)	584,010
General	60,600	9,407	(193)	69,814	41,028	(4,096)	106,746
Intangibles	325	13,539	-	13,864	5,097	-	18,961
Depreciable utility plant	912,421	42,803	(1,957)	953,267	73,921	(5,744)	1,021,444
Less accumulated depreciation:							
Production	(52,941)	(8,940)	-	(61,881)	(8,942)	-	(70,823)
Transmission	(15,044)	(990)	-	(16,034)	(956)	-	(16,990)
Distribution	(195,351)	(14,819)	1,714	(208,456)	(15,220)	1,614	(222,062)
General	(28,017)	(4,400)	193	(32,224)	(4,312)	4,072	(32,464)
Intangibles	(125)	(179)	-	(304)	(1,523)	-	(1,827)
Accumulated depreciation	(291,478)	(29,328)	1,907	(318,899)	(30,953)	5,686	(344,166)
Net depreciable utility plant	620,943	13,475	(50)	634,368	42,968	(58)	677,278
Land	8,717	69	-	8,786	12,653	-	21,439
Intangibles, non-amortizable	10,651	-	-	10,651	-	-	10,651
Construction in progress	51,105	38,638	(41,139)	48,604	65,315	(68,593)	45,326
Nondepreciable utility plant	70,473	38,707	(41,139)	68,041	77,968	(68,593)	77,416
Total utility plant	$ 691,416	$ 52,182	$ (41,189)	$ 702,409	$ 120,936	$ (68,651)	$ 754,694

NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2016 and 2015 (in thousands):

	Balance As of 6/30/2014	Additions	Reductions	Balance As of 6/30/2015	Additions	Reductions	Balance As of 6/30/2016	Due Within One Year
Revenue bonds	$608,014	$ -	$ (16,123)	$591,891	$ -	$ (16,843)	$ 575,048	$13,320
Arbitrage liability	14	1	-	15	-	(15)	-	-
Compensated absences	4,443	4,439	(3,925)	4,957	4,112	(4,182)	4,887	4,123
Advances from other funds of the City-pension obligation	11,284	-	(565)	10,719	-	(635)	10,084	-
Nuclear decommissioning liability	75,299	3,459	(5,471)	73,287	749	(5,143)	68,893	6,126
Capital leases	2,266	166	(712)	1,720	3,648	(674)	4,694	789
Total long-term obligations	$701,320	$ 8,065	$ (26,796)	$682,589	$ 8,509	$ (27,492)	$ 663,606	$24,358

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

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

REVENUE BONDS PAYABLE

		June 30, 2016		June 30, 2015
$141,840 2008 Electric Refunding/Revenue Bonds:				
A - **$84,515 2008 Series A Bonds** - variable rate bonds due in annual principal installments from $4,575 to $7,835 through October 1, 2029. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 30, 2016 was 3.0 percent). Partially refunded $13,975 on July 25, 2013 with the 2013 Electric Revenue Refunding Bonds		70,540		70,540
C - **$57,325 2008 Series C Bonds** - variable rate bonds due in annual principal installments from $700 to $5,200 through October 1, 2035. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 30, 2016 was 3.1 percent). Partially refunded $11,775 on July 25, 2013 with the 2013 Electric Revenue Refunding Bonds		41,975		41,975
$209,740 2008 Electric Revenue Series D Bonds: fixed rate bonds due in annual principal installments from $3,460 to $25,345, from October 1, 2017 through October 1, 2038, interest from 3.6 to 5.0 percent		209,740		209,740
$34,920 2009 Electric Refunding/Revenue Series A Bonds: fixed rate bonds due in annual principal installments from $1,150 to $1,275 through October 1, 2018, interest from 4.0 to 5.0 percent		3,640		6,780
$140,380 2010 Electric Revenue Bonds:				
A - **$133,290 2010 Electric Revenue Series A Bonds:** fixed rate, federally taxable Build America Bonds due in annual principal installments from $2,300 to $33,725, from October 1, 2020 through October 1, 2040, interest from 3.9 to 4.9 percent		133,290		133,290
B - **$7,090 2010 Electric Revenue Series B Bonds:** fixed rate bonds due in annual principal installments from $95 to $2,440, from October 1, 2016 through October 1, 2019, interest from 3.0 to 5.0 percent		7,090		7,090
$56,450 2011 Electric Revenue/Refunding Series A Bonds: variable rate bonds due in annual principal installments from $725 to $5,175 through October 1, 2035. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 30, 2016 was 3.1 percent). Partially refunded $11,825 on July 25, 2013 with the 2013 Electric Revenue Refunding Bonds		41,925		41,925
$79,080 2013 Electric Revenue Refunding Series A Bonds: fixed rate bonds due in annual principal installments from $795 to $12,685 through October 1, 2043, interest from 3.5 to 5.3 percent		58,635		71,320
Total electric revenue bonds payable		566,835		582,660
Unamortized bond premium		8,213		9,231
Total electric revenue bonds payable, including bond premium		575,048		591,891
Less current portion of revenue bonds payable		(13,320)		(15,825)
Total long-term electric revenue bonds payable	$	561,728	$	576,066

Revenue bonds annual debt service requirements to maturity as of June 30, 2016 are as follows (in thousands):

	2017	2018	2019	2020	2021	2022-2026	2027-2031	2032-2036	2037-2041	2042-2046	Total
Principal	$ 13,320	$ 13,795	$ 14,445	$ 14,995	$ 15,535	$ 86,775	$ 106,045	$ 130,725	$ 163,695	$ 7,505	$ 566,835
Interest	$ 25,114	$ 24,530	$ 23,887	$ 23,317	$ 22,755	$ 103,710	$ 83,015	$ 57,166	$ 22,967	$ 575	$ 387,036
Total	$ 38,434	$ 38,325	$ 38,332	$ 38,312	$ 38,290	$ 190,485	$ 189,060	$ 187,891	$ 186,662	$ 8,080	$ 953,871

The Electric Utility has a number of debt issuances (revenue bonds) outstanding that are collateralized by the pledging of electric revenues. The amount and term of the remainder of these commitments are indicated in the revenue bonds payable and annual debt service requirements to maturity tables presented within this Note 4. The purpose of the debt issuances was for the financing of various Electric Utility capital improvement projects. For June 30, 2016 and 2015, debt service payments as a percentage of the pledged gross revenue, net of certain expenses where so required by the debt agreement, are indicated in the table below. The debt service coverage ratios also approximate the relationship of the debt service to pledged revenue for the remainder of the term of the commitment.

Fiscal Year Ended	Description of Pledged Revenues	Annual Amount of Pledged Revenue (net of expenses)	Annual Debt Service Payments	Debt Service Coverage Ratio
June 30, 2016	Electric revenues	$ 126,458	$ 42,240	2.99
June 30, 2015	Electric revenues	100,260	42,017	2.39

LETTERS OF CREDIT

The Electric Utility's 2008 Electric Revenue Bonds (Series A and C) require an additional layer of security between the Electric Utility and the purchaser of the bonds. The Electric Utility has entered into the following letters of credit (LOC) in order to provide liquidity should all or a portion of the debt be optionally tendered to the remarketer without being successfully remarketed:

Debt Issue	LOC Provider	LOC Expiration Date	Annual Commitment Fee
2008 Electric Refunding/Revenue Bonds Series A	Barclays Bank, PLC	2017	0.275%
2008 Electric Refunding/Revenue Bonds Series C	Bank of America, N.A.	2017	0.390%

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

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

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

INTEREST RATE SWAPS ON REVENUE BONDS

The Electric Utility has three cash flow hedging derivative instruments, which are pay-fixed swaps. These swaps were employed as a hedge against debt that was refunded in 2008 and 2011. At the time of the refunding, hedge accounting ceased to be applied. The balance of the deferral account for each swap is included as part of the deferred loss on refunding associated with 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, 2016 is as follows:

	Notional Amount	Fair Value as of 6/30/2016	Change in Fair Value for Fiscal Year
2008 Electric Refunding/Revenue Bonds Series A	$ 68,525	$ (11,984)	$ (2,887)
2008 Electric Refunding/Revenue Bonds Series C	$ 41,975	$ (11,122)	$ (3,508)
2011 Electric Refunding/Revenue Bonds Series A	$ 41,925	$ (11,095)	$ (3,508)

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

Terms: Per the existing swap agreements, the Electric Utility pays the counterparty a fixed payment and receives a variable payment computed as 62.68 percent of the London Interbank Offering Rate ("LIBOR") one month index plus 12 basis points. The swaps have notional amounts equal to the principal amounts stated above. The notional value of the swaps and the principal amounts of the associated debt decline by $4,575 to $7,835 (2008 Series A), $700 to $5,200 (2008 Series C) and $725 to $5,175 (2011 Series A) until the debt is completely retired in fiscal years 2030 (2008 Series A) and 2036 (2008 Series C and 2011 Series A).

The bonds and the related swap agreements for the Electric Refunding/Revenue 2008 (Series A) Bonds mature on October 1, 2029 and the 2008 (Series C) and 2011 (Series A) Bonds mature on October 1, 2035. As of June 30, 2016, 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	(0.38754%)	(0.38845%)	(0.25894%)
Net interest rate swap payments		2.72346%	2.81555%	2.94206%
Variable-rate bond coupon payments		0.28295%	0.28149%	0.10774%
Synthetic interest on bonds		3.00641%	3.09704%	3.04980%

Fair value: As of June 30, 2016, in connection with all swap agreements, the transactions had a total negative fair value of ($34,201). Because the coupons on the Electric Utility's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was developed by a pricing service using the zero-coupon method. This method calculates the future net settlement payments required by the swaps, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Credit risk: As of June 30, 2016, the Electric Utility was not exposed to credit risk because the swaps had a negative fair value. The swaps counterparties, J.P. Morgan Chase & Co. and Bank of America Corp., were rated A- and BBB+ respectively by Standard & Poor's (S&P). To mitigate the potential for credit risk, the swap agreements require the fair value of the swaps to be collateralized by the counterparty with U.S. Government securities if the counterparties' rating decreases to negotiated trigger points. Collateral would be posted with a third-party custodian. At June 30, 2016, there is no requirement for collateral posting for any of the outstanding swaps.

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

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

Swap payments and associated debt: As of June 30, 2016, the debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are summarized in the table below. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30,	Variable-Rate Bonds Principal	Interest	Interest Rate Swaps, Net	Total
2017	$ -	$ 385	$ 4,767	$ 5,152
2018	-	385	4,767	5,152
2019	6,375	373	4,625	11,373
2020	8,300	353	4,389	13,042
2021	8,600	330	4,132	13,062
2022-2026	39,850	1,320	16,906	58,076
2027-2031	42,940	770	11,042	54,752
2032-2036	48,375	240	3,717	52,332
Total	$ 154,440	$ 4,156	$ 54,345	$ 212,941

NOTE 5. RESTRICTED NET POSITION

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

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

NOTE 6. JOINTLY-GOVERNED ORGANIZATIONS

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

On November 1, 1980, the City joined with the Imperial Irrigation District and the cities of Los Angeles, Anaheim, Vernon, Azusa, Banning, Colton, Burbank, Glendale and Pasadena to create the Southern California Public Power Authority (SCPPA) by a Joint Powers Agreement under the laws of the State of California. As of July 2001, the City of Cerritos was admitted as an additional member of SCPPA. The primary purpose of SCPPA is to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. SCPPA is governed by a Board of Directors, which consists of one representative from each of the members. During fiscal years ended June 30, 2016 and 2015, the Electric Utility paid approximately $22,928 and $22,058, respectively, to SCPPA under various take-or-pay and renewable contracts that are described in greater detail in Note 8. These payments are reflected as a component of production and purchased power and transmission expenses in the financial statements.

POWER AGENCY OF CALIFORNIA

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

NOTE 7. JOINTLY-OWNED UTILITY PROJECT – SONGS

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

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

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

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

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

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

NRC Proceedings. As part of the NRC's review of the SONGS outage and proceedings related to the possible restart of Unit 2, the NRC appointed an Augmented Inspection Team to review SCE's performance. In December 2013, SCE received a final NRC Inspection Report that identified a violation for the failure to verify the adequacy of the thermal-hydraulic and flow-induced vibration design of the Unit 3 replacement steam generators. In January 2014, SCE provided a response to the NRC Inspection Report stating that Mitsubishi Heavy Industries (MHI), as contracted by SCE to prepare the SONGS replacement steam generator design, was the party responsible for performing the verification and checking of the design of the steam generators. On September 13, 2013, the NRC issued a Notice of Nonconformance for MHI's flawed computer modeling in the design of the replacement steam generators. On October 17, 2013, MHI submitted a reply to the Notice of Non-Conformance, indicating that MHI did not contest the asserted noncompliance and that corrective action had been taken. In July 2015, the NRC issued a final decision regarding SCE's compliance with the license amendment regulatory process related to the replacement steam generators, finding the issue to be moot, given the permanent cessation of operation of San Onofre.

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

Nuclear Decommissioning. As a result of SCE's decision to permanently retire SONGS Units 2 and 3, SCE has begun the decommissioning phase of the plant. The process of decommissioning a nuclear power plant is governed by NRC regulations. The regulations categorize the decommissioning activities into three phases: initial activities, major decommissioning and storage activities, and license termination. Initial activities include providing notice of permanent cessation of operations (accomplished on June 12, 2013) and notice of permanent removal of fuel from the reactor vessels (provided by SCE to the NRC on June 28 and July 22, 2013 for Units 3 and 2, respectively). Within two years after the announcement of retirement, SCE, as the operating licensee must submit a post-shutdown decommissioning activities report, an irradiated fuel management plan and a site-specific decommissioning cost estimate (DCE). SCE submitted these regulatory filings to the NRC in September 2014. As of August 2015, the NRC concluded their regulatory review process and accepted the regulatory filings without revision. SCE has now obtained the required regulatory approvals from the NRC to begin the decommissioning process. According to the DCE document, total decommissioning costs for Units 2 and 3 are estimated at $4.4 billion of which the Electric Utility's share is $79 million.

Nuclear Decommissioning Funding and Liability. As of June 30, 2016, the Electric Utility has set aside $80,494 in cash investments with the trustee and $4,951 in an unrestricted designated decommissioning reserve for the Electric Utility's estimated share of the decommissioning costs. Increases to the funds held for decommissioning liability are from amounts set aside and investment earnings. The investment earnings are included in investment income in the Electric Utility's financial statements. These earnings, as well as amounts set aside, are reflected as decommissioning expense which is considered part of production and purchased power.

On February 23, 2016, the City Council adopted a resolution authorizing the commencement of SONGS decommissioning effective June 7, 2013. This resolution allows the Electric Utility to access the decommissioning trust funds to pay for its share of decommissioning costs. As of June 30, 2016, the Electric Utility has paid to date $14,936 in decommissioning obligations. The Electric Utility has submitted the necessary documents to the trustee and will begin drawing decommissioning trust funds to pay for the decommissioning costs as incurred. The Electric Utility anticipates receiving reimbursement from the trust starting in fiscal year ending June 30, 2017.

As of June 30, 2016 and 2015, decommissioning liability balance was $68,894 and $73,287, respectively, with a portion reflected as current liabilities payable from restricted assets. Due to adequate funding in the liability, the Electric Utility will no longer provide additional funding to the trustee. However, since the decommissioning cost estimate is subject to a number of uncertainties including the cost of disposal of nuclear waste, site remediation costs, as well as a number of other assumptions and estimates, the Electric Utility will continue to set aside funds in the unrestricted designated decommissioning reserve of $1,581 per year.

Replacement Power Costs. During the outage, the Electric Utility had procured replacement power to serve its customers' requirements. These costs were in addition to the usual approximate $11,500 in operating and maintenance expenses paid annually during normal operations. Replacement power costs incurred by the Electric Utility as a result of the outage (commencing on January 31, 2012 for Unit 3 and March 5, 2012 for Unit 2) through June 30, 2013 were approximately $13,266 and were reflected as regulatory assets on the Statements of Net Position. $7,160 and $6,106 of regulatory assets were expensed in fiscal years ended June 30, 2016 and 2015, respectively, as current revenues were adequate to absorb the previously incurred costs thus no longer requiring them to be deferred. The Electric Utility is currently paying for its share of ongoing operating costs and replacement power related to SONGS from current rate revenues. The Electric Utility is in the process of calculating any additional costs associated with the unexpected shutdown of SONGS and will seek recovery of any such costs, as set forth herein.

Contractual Matters. The replacement steam generators for Units 2 and 3 were designed and manufactured by MHI and were warranted for an initial period of 20 years from acceptance. MHI was contractually obligated to repair or replace defective items and to pay specified damages for certain repairs. MHI's liability under the purchase agreement is limited to $138,000 and excludes consequential damages, defined to include "the cost of replacement power." The limitations are subject to certain exceptions.

There are insurance policies for both property damage and accidental outage issued by Nuclear Electric Insurance Limited (NEIL), and SCE has notified NEIL of claims under the two policies. On October 12, 2015, the owners of SONGS reached a $400,000 settlement with NEIL for the outages caused by the failures of replacement steam generators. The Electric Utility's allocation of the settlement was $7,160 and is reported as other non-operating revenues on the Statements of Revenues, Expenses and Changes in Net Position. The settlement was used to offset the remaining portion of the regulatory asset expensed in fiscal year ended June 30, 2016. The owners of SONGS will continue to seek additional damages for the defective steam generators supplied by MHI and Mitsubishi Nuclear Energy Systems.

According to a news release issued by SCE on July 18, 2013, SCE served a formal Notice of Dispute on MHI and Mitsubishi Nuclear Energy Systems and initiated a 90-day dispute resolution process under the purchase agreement. Such arbitration will be conducted before the International Court of Arbitration (the ICC). On July 18, 2013, the City filed a lawsuit against MHI for breach of contract, negligence and misrepresentation in San Diego County Superior Court. On July 24, 2013, MHI moved the lawsuit to the United States District Court for the Southern District of California, and on August 8, 2013, MHI moved to stay the proceeding pending resolution of the dispute resolution process involving MHI and SCE arising from the contract for the purchase and sale of the steam generators. In October 2013, after a prescribed 90-day waiting period from the service of an earlier notice of dispute, SCE initiated an arbitration proceeding against MHI seeking damages stemming from the failure of the replacement steam generators. In late December 2013, MHI answered and filed a counter-claim against SCE. On March 14, 2014, the Federal District court granted MHI's motion to stay the City's proceeding, but ordered that the City participate in the SCE/MHI arbitration. SCE, SDG&E, the City and MHI have all stipulated that the City and SDG&E shall participate in the SCE/MHI arbitration before the ICC. The SCE/MHI arbitration hearings concluded on April 29, 2016. A decision may be issued by calendar year end 2016 but could be later.

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

NOTE 8. COMMITMENTS

TAKE-OR-PAY CONTRACTS

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

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

On September 29, 2006, Senate Bill 1368 (SB 1368) was enacted into law. The bill requires electric service providers to limit financial investments in power plants to those that adhere to greenhouse gas performance standards as determined by the Public Utilities Commission. Pursuant to this legislation, the Electric Utility is prohibited from renewing its participation in IPP if it remains a coal fueled generating resource. On June 16, 2015, the City Council approved the Intermountain Power Project renewal agreements, including the Second Amendatory Power Sales Contract and the Renewal Power Sales Contract, and authorized participation in the IPP renewal subscription process. The Second Amendatory Power Sales Contract became effective March 16, 2016. The generation component of IPP under the Renewal Power Sales Contract (Repower Project) is envisioned to be a natural gas fueled combined cycle plant with total capacity of 1,200 MW. The terms of the agreement state the existing IPP generating plant will be retired and decommissioned upon commercial operation of the Repower Project. There are 36 participants in the IPP, and the Repower Project requires unanimous approval of all 36 participants to proceed. The Renewal Power Sales Contract contemplates a term of fifty years, through June 2077 for the Repower Project. The Electric Utility is authorized to participate in the subscription process for the Repower Project for up to 5 percent of the Repower Project or approximately 60 MW. The Electric Utility's reduced power would allow it to diversify its energy portfolio in the future. Further, under the Renewal Power Sales Contract, the Electric Utility has the right to exit from the Repower Project by no later than November 1, 2019, if it is determined that the Repower Project is not cost beneficial to its customers.

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

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

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

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

Outstanding debts associated with the take-or-pay obligations have variable interest rates for the Palo Verde Nuclear Generating Station Project and portions of the Mead-Phoenix and Mead-Adelanto Transmission Projects. The remaining projects have fixed interest rates which range from 0.47 percent to 6.13 percent. The schedule below details the amount of principal and interest that is due and payable by the Electric Utility as part of the take-or-pay contract for each project in the fiscal year indicated.

	IPA	SCPPA					TOTAL
Debt Service Payment (in thousands) Year Ending June 30,	**Intermountain Power Project**	**Palo Verde Nuclear Generating Station**	**Southern Transmission System**	**Hoover Dam Uprating**	**Mead-Phoenix Transmission**	**Mead-Adelanto Transmission**	**All Projects**
2017	$ 11,651	$ 675	$ 8,212	$ 701	$ 262	$ 2,951	$ 24,451
2018	17,007	679	8,049	699	258	2,909	29,600
2019	18,603	-	7,956	-	257	2,881	29,697
2020	18,095	-	6,976	-	254	2,859	28,184
2021	16,470	-	8,302	-	189	2,136	27,096
2022-2026	20,846	-	31,480	-	-	-	52,326
2027-2031	-	-	6,507	-	-	-	6,507
Total	$ 102,671	$ 1,353	$ 77,482	$ 1,400	$ 1,220	$ 13,736	$ 197,862

In addition to debt service, the Electric Utility's entitlements require the payment of fuel costs, operating and maintenance, administrative and general and other miscellaneous costs associated with the generation and transmission facilities discussed above. These costs do not have a similar structured payment schedule as debt service and vary each year. The costs incurred for the year ended June 30, 2016 and 2015, 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
2016	$ 22,667	$ 3,601	$ 3,001	$ 81	$ 34	$ 377	$ 29,761
2015	$ 23,426	$ 2,628	$ 2,731	$ 113	$ 145	$ 285	$ 29,328

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

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

HOOVER UPRATING PROJECT

The Electric Utility's entitlement in the Hoover project through SCPPA will terminate on September 30, 2017. In March 2014, the Electric Utility prepaid its share of outstanding debt incurred by the Bureau of Reclamation in connection with the acquisition and construction of the Hoover Power Project Visitors Center and Air Slots. The payment of principal and interest on the debt is a component of the cost of power and energy payable by Hoover contractors, which includes SCPPA participants that receive power from the Hoover Power Project under agreements with the Western Area Power Administration. Because Bureau Debt bears interest at rates that are substantially higher than current market interest rates, the Electric Utility elected to prepay the debt in order to realize savings on power costs in the future. The Electric Utility's share of the debt is recorded on the Statements of Net Position as unamortized purchased power to be amortized over the remaining term of the project through 2017. As of June 30, 2016 and 2015, unamortized purchased power was $620 and $1,115, respectively, with amortization of $496 and $372, respectively.

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

POWER PURCHASE AGREEMENTS

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

NUCLEAR INSURANCE

The Price-Anderson Act (the Act) requires that all utilities with nuclear generating facilities purchase the maximum private primary nuclear liability insurance available ($375 million) and participate in the industry's secondary financial protection plan. The secondary financial protection program is the industry's retrospective assessment plan that uses deferred premium charges from every licensed reactor owner if claims and/or costs resulting from a nuclear incident at any licensed reactor in the United States were to exceed the primary nuclear insurance at that plant's site. Effective April 15, 2016, the Act limits liability from third-party claims to approximately $13.4 billion per incident. Under the industry wide retrospective assessment program provided for under the Act, assessments are limited to $127.3 million per reactor for each nuclear incident occurring at any nuclear reactor in the United States, with payments under the program limited to $19.0 million per reactor, per year, per event to be indexed for inflation every five years. Based on the Electric Utility's interest in Palo Verde and ownership in SONGS, the Electric Utility would be responsible for a maximum assessment of $5.8 million, limited to payments of $0.9 million per incident, per year. If the public liability limit above is insufficient, federal regulations may impose further revenue-raising measures to pay claims, including a possible additional assessment on all licensed reactor operators.

RENEWABLE PORTFOLIO STANDARD (RPS)

On April 12, 2011, the California Renewable Energy Resources Act (SBX1-2) was passed by the State Legislative and signed by the Governor. SBX1-2 revised the amount of statewide retail electricity sales from renewable resources in the State Renewable Energy Resources Program to 33 percent by December 31, 2020 in three stages: average of 20 percent of retail sales during 2011-2013; 25 percent of retail sales by December 31, 2016; and 33 percent of retail sales by December 31, 2020. The Riverside Public Utilities Board and City Council approved the enforcement program required by SBX1-2 on November 18, 2011 and December 13, 2011, respectively, and further approved the Electric Utility's RPS Procurement plan implementing the new RPS mandates on May 3, 2013 and May 14, 2013, respectively. The Electric Utility met the 20 percent mandates from 2011-2013, and is expected to meet future mandates with resource procurement actions as outlined in the Electric Utility's RPS Procurement Plan. For calendar year 2015, renewable resources provided 22 percent of retail sales requirements.

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

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

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

Supplier	Type	Maximum Contract [1]	Contract Expiration	Estimated Annual Cost For 2017
Salton Sea Power LLC	Geothermal	46.0 MW	5/31/2020	$ 28,306
Wintec Energy, Ltd.	Wind	1.3 MW	12/30/2018	239
WKN Wagner	Wind	6.0 MW	12/22/2032	1,274
SunEdison - AP North Lake	Photovoltaic	20.0 MW	8/11/2040	4,487
Dominion - Columbia II	Photovoltaic	11.1 MW	12/22/2034	2,314
Cabazon Wind	Wind	39.0 MW	1/1/2025	4,299
First Solar - Kingbird B	Photovoltaic	14.0 MW	12/31/2036	2,867
FTP Solar				
sPower - Summer Solar	Photovoltaic	10.0 MW	12/31/2041	1,748
sPower - Antelope Big Sky Ranch	Photovoltaic	10.0 MW	12/31/2041	1,599
Solar Star - Tequesquite Landfill Solar	Photovoltaic	7.3 MW	12/31/2040	1,301
CalEnergy - Salton Sea Portfolio Phase 1	Geothermal	20.0 MW	12/31/2039	11,830
Total		184.7 MW		$ 60,264

Long-term renewable PPAs with expected delivery:

Supplier	Type	Maximum Contract [1]	Expected Delivery	Energy Delivery No Later Than	Contract Term In Years
CalEnergy - Salton Sea Portfolio Phase 2	Geothermal	20.0 MW	1/1/2019	1/1/2019	21
CalEnergy - Salton Sea Portfolio Phase 3	Geothermal	46.0 MW	6/1/2020	6/1/2020	20
FTP Solar sPower - Antelope DSR 1 Solar	Photovoltaic	25.0 MW	12/31/2016	6/30/2017	20
Total		91.0 MW			

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

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

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

Concurrently, the pricing under the Salton Sea PPA has been amended to conform to pricing in the new PPA with CalEnergy through the remaining term of the Salton Sea PPA. The pricing under the Salton Sea PPA increased by approximately $7.57 per MWh, commencing July 1, 2013 to $69.66 per MWh, with an escalation of 1.5 percent annually thereafter, reflecting the exchange of benefits for a substantial lower pricing under the new PPA. The cost increase under the Salton Sea PPA is approximately $2,700 per year for the agreement's remaining term. As of June 30, 2016 and 2015, the Electric Utility's prepayment of future contractual obligations was $6,840 and $4,428, respectively. The balance is recorded in the Statements of Net Position as unamortized purchased power, to be amortized over the term of the CalEnergy PPA. The CalEnergy PPA commenced in February 2016 and the Electric Utility has recorded $45 in amortization related to the unamortized purchased power.

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

On October 16, 2012, the Electric Utility entered into a 25-year PPA with AP North Lake, LLC (AP North) for 20 MW of solar photovoltaic energy generated by a new facility located in the City of Hemet, California. The AP North Lake Project became fully operational in August 2015. The project is expected to generate 55,000 MWh of renewable energy per year at a levelized cost of $95 per MWh for the term of the PPA.

On December 20, 2012, the Electric Utility entered into a 20-year PPA with WKN Wagner, LLC (WKN) for up to 6 MW of renewable wind energy and renewable energy credits from the WKN Wagner wind project in Palm Springs, California. WKN is expected to generate 21,000 MWh of renewable energy annually, which is approximately 1 percent of the City's retail load requirements at a levelized cost of $73 per MWh.

On January 8, 2013, the Electric Utility entered into two 25-year PPAs for a combined total of 20 MW of solar photovoltaic energy generated by two facilities to be built by Silverado Power, which was later acquired by FTP Solar LLC, in the City of Lancaster, California. The two projects are referred to as Antelope Big Sky Ranch and Summer Solar, each rated at 20 MW. The Electric Utility will have a 50 percent share of the output from each project through SCPPA. On April 1, 2014, the City Council approved the first amendment to the PPAs, which postponed the outside commercial operation date for each project from December 31, 2015 to December 31, 2016, with the most significant change being a reduction in a price for energy and environmental attributes from $95.30 per MWh to $71.25 per MWh over the term of the agreement. Summer Solar became commercially operational on July 25, 2016, and Antelope Big Sky Ranch became commercially operational on August 19, 2016. The Electric Utility's share from the two projects is 55,000 MWh of renewable energy per year.

On September 19, 2013, the Electric Utility entered into a 20-year PPA for 14 MW of solar photovoltaic energy generated by a facility to be built by First Solar in Kern County, California. The project is referred to as the Kingbird B Solar Photovoltaic Project, with a nameplate capacity of 20 MW. The Electric Utility will have a 70 percent share of the output from the project through SCPPA. The project became commercially operational on April 30, 2016. The Electric Utility's share from the project is approximately 35,000 MWh of renewable energy per year with an all-in price for energy, capacity and environmental attributes of $68.75 per MWh over the term of the agreement.

On September 19, 2013, the Electric Utility entered into two 20-year PPAs for a combined 26 MW of solar photovoltaic energy generated by two facilities to be built by Recurrent Energy in Kern County, California. The two projects initially intended to be developed are referred to as Clearwater and Columbia Two Solar Photovoltaic Projects, with a nameplate capacity of 20 MW and 15 MW, respectively. Unanticipated permitting challenges for Clearwater stalled and eventually terminated construction plans for the facility in 2014. As a result, the Electric Utility received liquidated damages in the amount of $1,336 from the Clearwater Project in fiscal year ended June 30, 2016. The liquidated damages are reported as other non-operating revenues on the Statement of Revenues, Expenses and Changes in Net Position. On March 14, 2014 a Consent and Agreement was entered into by SCPPA consenting to the transfer of ownership of the Columbia Two project from Recurrent Energy to Dominion Resources. The Columbia Two Project completed construction and achieved commercial operation in December 2014. The Electric Utility has a 74.3 percent share (11.1 MW) of the output from the Columbia Two Project through SCPPA. The Electric Utility's share of Columbia Two is approximately 33,000 MWh of renewable energy per year with an all-in price for energy, capacity and environmental attributes of $69.98 per MWh over the term of the agreements.

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

On March 11, 2014, the Electric Utility and Solar Star California XXXI, LLC (Solar Star) entered into a 25-year PPA for 7.3 MW of solar photovoltaic energy generated by a facility to be built on the City-owned Tequesquite Landfill. The project was initially expected to become commercially operational by June 1, 2015 and is expected to generate approximately 15,000 MWh of renewable energy per year. On September 5, 2014, SunPower, the parent company of Solar Star, requested an extension of the date of commercial operation to September 30, 2015. The project was fully commissioned and operational on September 30, 2015. The all-in price for energy, capacity and environmental attributes is $81.30 per MWh, escalating at 1.5 percent annually.

On July 16, 2015, the Electric Utility entered into a 20-year PPA for 25 MW of solar photovoltaic energy generated by FTP Solar LLC subsidiary sPower's Antelope DSR Solar PV Project in the City of Lancaster, California. The Electric Utility has a 50 percent share of the output of the project through SCPPA. The project is expected to become commercially operational at the end of 2016, but no later than June 30, 2017. The Electric Utility's share of Antelope DSR Solar is approximately 71,000 MWh of renewable energy per year with an all-in price for energy, capacity and environmental attributes of $53.75 per MWh over the term of the agreement.

CAP-AND-TRADE PROGRAM

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

At times, the Electric Utility may have allocated allowances in excess of its compliance obligations that can be sold into the CARB quarterly auctions. In fiscal years ended June 30, 2016 and 2015, the Electric Utility received $3,698 and $4,282, respectively, in proceeds related to the sale of the GHG allowances which are included on the Statements of Revenues, Expenses and Changes in Net Position as other operating revenue. The Electric Utility has established a restricted Regulatory Requirement reserve to comply with regulatory restrictions and governing requirements related to the use of the GHG proceeds. The available funds are to be utilized for qualifying projects, consistent with the goals of AB 32 to benefit the retail ratepayers. The balance in the Regulatory Requirement reserve was $10,802 and $7,432 as of June 30, 2016 and 2015, respectively.

The Electric Utility also purchases GHG allowances which can be used in future periods for GHG compliance regulations. The balance of purchased GHG allowances was $1,097 and $1,202 as of June 30, 2016 and 2015, respectively, and is recorded as inventory in the Statements of Net Position. In the fiscal year ended June 30, 2016, $105 of allowances were surrendered to CARB to meet GHG compliance obligations.

CONSTRUCTION COMMITMENTS

As of June 30, 2016, the Electric Utility had major commitments (encumbrances) of approximately $8,229 with respect to unfinished capital projects, all of which is expected to be funded by unrestricted cash reserves.

FORWARD PURCHASE/SALE AGREEMENTS

In order to meet summer peaking requirements, the Electric Utility may contract on a monthly or quarterly basis, for the purchase or sale of natural gas, electricity and/or capacity products on a short term horizon. As of June 30, 2016, the Electric Utility has net commitments for fiscal year 2017 and thereafter, of approximately $15,704, with a market value of $14,587.

NOTE 9. LITIGATION

The Electric Utility is a defendant in various lawsuits arising in the normal course of business. Present lawsuits and other claims against the Electric Utility are incidental to the ordinary course of operations of the Electric Utility and are largely covered by the City's self-insurance program. In the opinion of management and the City Attorney, such claims and litigation will not have a materially adverse effect upon the financial position or results of operation of the Electric Utility. Contractual and litigation matters of the Electric Utility relating to SONGS are contained in Note 7.

CALIFORNIA ENERGY CRISIS SETTLEMENT

During the California Energy Crisis of 2001-2002, the Electric Utility made numerous power sales into the California centralized markets. Due to financial problems experienced by numerous market participants, notably Pacific Gas & Electric (PG&E) and the California Power Exchange (Cal PX), who filed for Chapter 11 bankruptcy in 2001, the Electric Utility was not paid for many of these transactions. On June 4, 2008, the FERC approved a settlement agreement between the Electric Utility and numerous California entities, including all of the investor-owned utilities (IOUs) and the California Attorney General, under which the Electric Utility was paid all of its unpaid receivables, plus interest, minus $1.3 million in refunds. The net payout to the Electric Utility was $3.7 million (including all unpaid receivables, including interest and its deposit with the Cal PX, minus $269 thousand paid to the City of Banning for transactions made on its behalf by the Electric Utility). Under the settlement, the Electric Utility may receive additional distributions of refunds from other sellers. The Electric Utility also may be responsible for paying its allocated portion, as determined by FERC, of payments due to other sellers for any emission offset, fuel cost allowance, or cost offset associated with sales by such other sellers during the energy crisis. It is not possible at this time to estimate the net effect of any such future distributions to or payments by the Electric Utility.

DAIRY COW LITIGATION

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

In February 2005, claimants filed a lawsuit in the Utah state court, entitled *Gunn Hill Dairy Properties, LLC, et al. v. Los Angeles Department of Power, et al.*, Case No. 050700157, naming SCPPA (the entity financing the Southern Transmission System’s (STS) facilities), LADWP (the operator of the STS facilities), the IPA (the owners of the STS facilities), and others as defendants. The plaintiff dairies seek compensatory damages in excess of $515 million plus punitive damages. In November 2013, a mistrial was declared in the case relating to six of the plaintiff dairies.

A new trial date is set for March 9, 2017, and the six plaintiff dairies will have their claims addressed in the retrial.

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

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

OLQUIN LAWSUIT

On April 28, 2016, a writ of mandate lawsuit entitled *Richard Olquin v. City of Riverside* was filed against the City asserting that adding certain funds received by the Electric Utility from the CAISO to the Electric revenue transfer to the City's general fund was a violation of Proposition 26. Plaintiff is seeking a court order compelling the City to return to the Electric Utility approximately $115 million, which represents all Electric revenue transfer paid to the City's general fund since May 1, 2013, as well as a permanent injunction prohibiting future Electric revenue transfers. To the City's knowledge, the California Supreme Court has not ruled whether such a transfer violates Proposition 26. Further, because the City has not yet filed a response to the lawsuit and no trial date has been set, the City is unable to predict the outcome of the case at this time.

NOTE 10. EMPLOYEE RETIREMENT PLAN

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

PLAN DESCRIPTIONS

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

FUNDING POLICY

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

- 1st Tier - The retirement formula is 2.7 percent at age 55. The City pays the employee share (8 percent) of contributions on their behalf and for their account except for general Service Employees International Union (SEIU) employees, which contributed 6 percent and 4 percent in fiscal years June 30, 2016 and 2015 respectively, with the City paying the remaining 2 percent and 4 percent of the employee share, respectively.

- 2nd Tier - The retirement formula is 2.7 percent at age 55, and:
  - SEIU employees hired on or after June 7, 2011 pay their share (8 percent) of contributions.
  - All other miscellaneous employees hired on or after October 19, 2011 pay their share (8 percent) of contributions.
- 3rd Tier – The retirement formula is 2 percent at age 62 for new members hired on or after January 1, 2013 and the employee must pay the employee share ranging from 7 percent to 8 percent based on bargaining group classification. Classic members (CalPERS members prior to 12/31/12) hired on or after January 1, 2013 may be placed in a different tier.

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

BENEFITS PROVIDED

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

EMPLOYEES COVERED

At June 30, 2016 and 2015, the following employees, City-wide, were covered by the benefit terms of the Plan:

	June 30, 2016	June 30, 2015
Inactive employees or beneficiaries currently receiving benefits	1,889	1,846
Inactive employees entitled to but not yet receiving benefits	1,283	1,267
Active employees	1,550	1,567

CONTRIBUTIONS

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

NET PENSION LIABILITY

The City's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. For fiscal year June 30, 2016, the net pension liability of the Plan is measured as of June 30, 2015, using an annual actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. For fiscal year June 30, 2015, the net pension liability of the Plan is measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

ACTUARIAL ASSUMPTIONS

The total pension liabilities in the June 30, 2014 and 2013 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous - Current Year	Miscellaneous - Prior Year
Valuation date	June 30, 2014	June 30, 2013
Measurement date	June 30, 2015	June 30, 2014
Actuarial cost method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial assumptions:		
Discount rate	7.65%	7.50%
Inflation	2.75%	2.75%
Payroll growth	3.00%	3.00%
Projected salary increase (1)	3.30% - 14.20%	3.30% - 14.20%
Investment rate of return (2)	7.50%	7.50%
Mortality (3)	-	-

(1) Depending on age, service and type of employment
(2) Net of pension plan investment expenses, including inflation
(3) The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

DISCOUNT RATE

The discount rate used to measure the total pension liability for the Plan was 7.65 percent and 7.50 percent for fiscal years June 30, 2016 and 2015, respectively. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent are applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained from the CalPERS website.

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

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

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

Asset Class	Current Target Allocation	Real Return Years 1 -10 [1]	Real Return Years 11 + [2]
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%

[1] An expected inflation of 2.50% used for this period

[2] An expected inflation of 3.00% used for this period

CHANGES IN THE NET PENSION LIABILITY

The changes in the Electric Utility's proportionate share of the net pension liability as of June 30, 2016 (measurement date June 30, 2015) and 2015 (measurement date June 30, 2014) for the Plan are as follows:

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

June 30, 2015		
Proportion - Reporting date June 30, 2015 (measurement date June 30, 2014)	$ 71,773	31.14%
Proportion - Reporting date June 30, 2014 (measurement date June 30, 2013)	$ 92,702	31.12%
Change - Increase / (Decrease)	$ (20,929)	0.02%

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

The following presents the Electric Utility's proportionate share of the net pension liability of the Plan, calculated using the discount rate of 7.65 percent and 7.50 percent for fiscal years June 30, 2016 and 2015 respectively, as well as what the Electric Utility's proportionate share of the net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

NOTE 10. EMPLOYEE RETIREMENT PLAN (CONTINUED)

	June 30, 2016			June 30, 2015		
	Discount Rate -1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)	Discount Rate - 1% (6.50%)	Current Discount Rate (7.50%)	Discount Rate + 1% (8.50%)
The Electric Utility's proportionate share of the Plan's net pension liability	$ 130,950	$ 77,907	$ 34,313	$ 121,991	$ 71,773	$ 30,197

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

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

For the fiscal years ended June 30, 2016 and 2015, the Electric Utility recognized pension expense of $5,110 and $7,054 (as adjusted), respectively. At June 30, 2016 and 2015, the Electric Utility reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	June 30, 2016		June 30, 2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 10,145	$ -	$ 9,648	$ -
Difference between actual and actuarial determined contribution	3,252	-	-	-
Changes in assumptions	-	(4,885)	-	-
Differences between expected and actual experience	-	(3,807)	1,893	-
Net differences between projected and actual earnings on plan investments	12,835	(15,512)	-	(20,683)
Total	$ 26,232	$ (24,204)	$ 11,541	$ (20,683)

$10,145 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

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

Year Ended June 30	Deferred Outflows of Resources	Deferred Inflows of Resources
2017	$ 4,630	$ (9,310)
2018	4,630	(9,310)
2019	3,619	(5,584)
2020	3,208	-
Total	$ 16,087	$ (24,204)

NOTE 11. PRIOR PERIOD ADJUSTMENT

A prior period adjustment of $94,958 was made to decrease the Electric Utility's beginning net position as of July 1, 2014. The adjustment was made to reflect the prior period costs related to the elimination of net pension asset and the establishment of a net pension liability due to the implementation of GASB 68 and GASB 71.

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

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

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

ELECTRIC UTILITY:
KEY HISTORICAL OPERATING DATA

FISCAL YEAR	2015/16	2014/15	2013/14	2012/13	2011/12
POWER SUPPLY MEGAWATT-HOURS (MWH)					
Nuclear					
San Onofre	0	0	0	0	191,900
Palo Verde	103,300	103,900	99,900	102,300	101,100
Coal					
Intermountain Power	560,000	744,200	802,100	754,900	799,700
Hoover (Hydro)	30,900	30,900	33,200	32,500	35,300
Gas					
Springs	500	950	1,300	5,500	2,300
RERC	51,600	39,500	64,400	77,700	39,400
Clearwater	15,500	16,100	20,600	24,000	17,000
Renewable Resources	585,800	397,000	423,800	444,300	472,300
Market Purchases	1,084,700	1,029,350	899,200	937,500	620,000
Exchanges In	28,600	87,000	93,300	95,800	75,200
Exchanges Out	(133,500)	(131,800)	(158,300)	(134,900)	(133,500)
Total	2,327,400	2,317,100	2,279,500	2,339,600	2,220,700
System peak megawatt (MW)	598.6	604.4	577.9	591.7	581.2
ELECTRIC USE					
Number of meters as of year end					
Residential[1]	96,934	96,664	96,820	96,207	95,988
Commercial	10,898	10,757	10,558	10,337	10,425
Industrial	891	888	898	894	822
Other[2]	53	79	82	87	86
Total	108,776	108,388	108,358	107,525	107,321
Millions of kilowatt-hours (kWh) sales					
Residential	726	711	700	726	688
Commercial	438	428	421	419	413
Industrial	982	995	997	1,003	969
Other	23	31	30	31	31
Subtotal	2,169	2,165	2,148	2,179	2,101
Wholesale[3]	0	2	4	14	2
Total	2,169	2,167	2,152	2,193	2,103

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

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

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

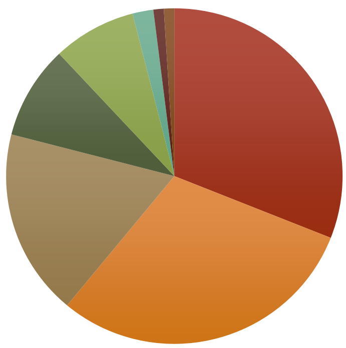
	2015/16	2014/15	2013/14	2012/13	2011/12
ELECTRIC FACTS					
Average annual kWh per residential customer	7,528	7,334	7,239	7,547	7,208
Average price (cents/kWh) per residential customer	16.12	16.05	16.00	16.27	16.07
Debt service coverage ratio (DSC)[4]	2.99	2.39	2.16	2.73	2.24
Operating income as a percent of operating revenues	20.2%	18.0%	19.5%	24.0%	22.1%
Employees[5]	465	465	463	460	453

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

[5]Approved positions.

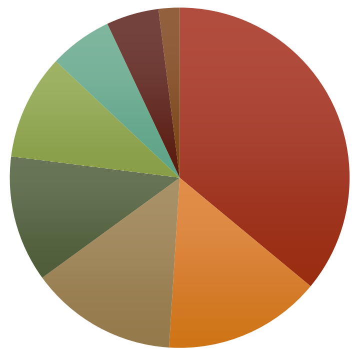
2015/2016 ELECTRIC REVENUE AND RESOURCES

SOURCE OF REVENUE



- Residential Sales 31¢
- Industrial Sales 30¢
- Commercial Sales 18¢
- Transmission Revenue 9¢
- Other Revenue 8¢
- Public Benefit Programs 2¢
- Other Sales 1¢
- Investment Income 1¢
- Wholesale Sales (less than 1¢)

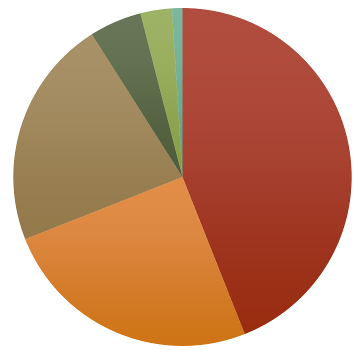
DISTRIBUTION OF REVENUE



- Production 36¢
- Transmission 15¢
- Distribution 14¢
- Debt Service 12¢
- Transfers to the City's General Fund* 10¢
- Additional Reserves 6¢
- Additions & Replacements to the System 5¢
- Public Benefit Programs 2¢

*Based on transfer of 11.5% of fiscal year 2014/2015 gross operating revenues including adjustments.

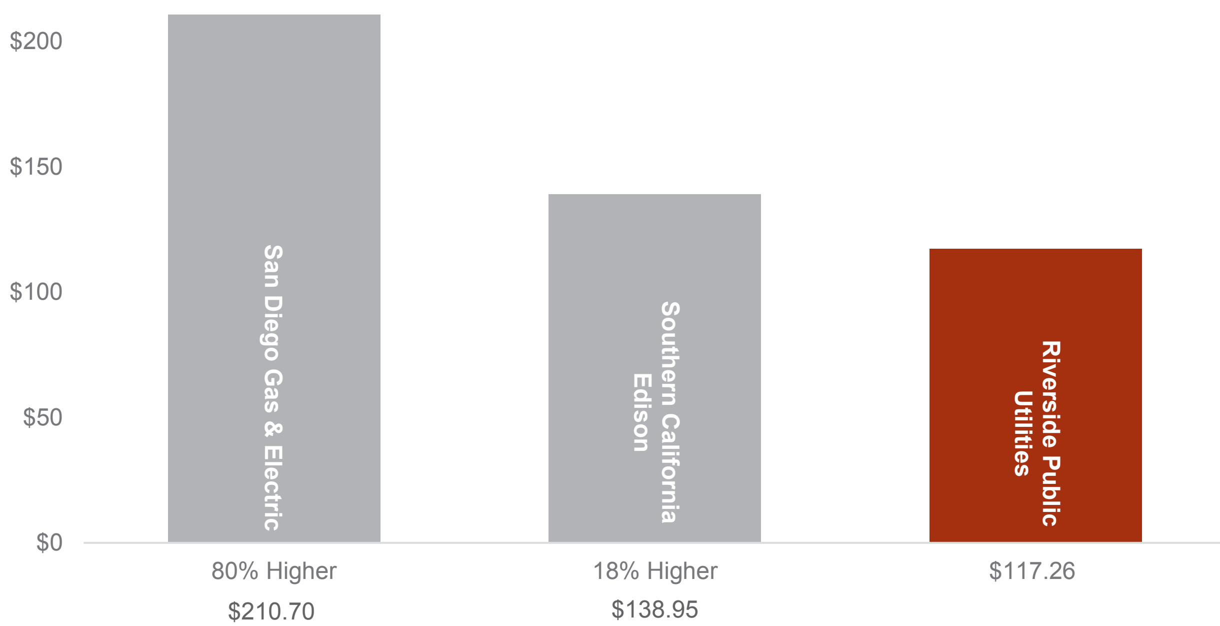
ENERGY RESOURCES*



- Market Purchases 44%
- Coal 25%
- Renewables 22%
- Nuclear 5%
- Gas 3%
- Hydropower 1%

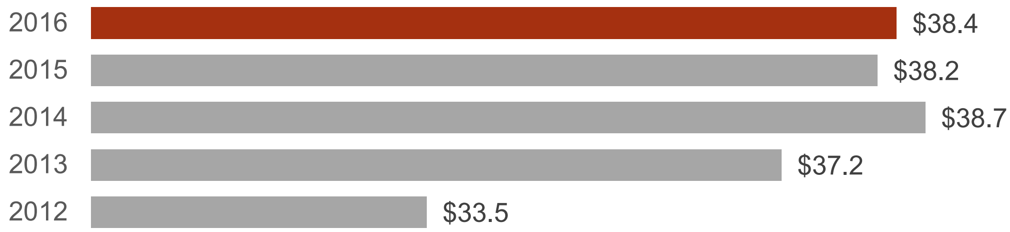
*Energy Resources are based on calendar year 2015 as filed with the California Energy Commission

ELECTRIC RATE COMPARISON — 750 KWH PER MONTH (AS OF JUNE 30, 2016)

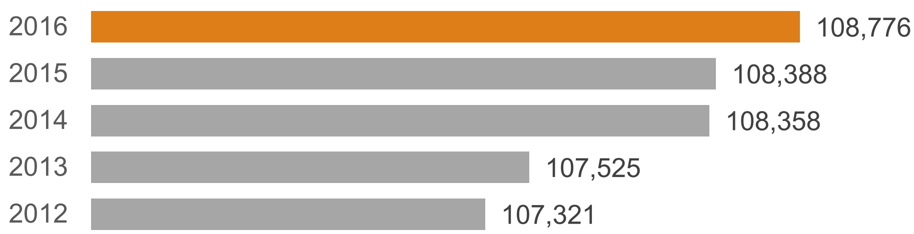


ELECTRIC KEY OPERATING INDICATORS

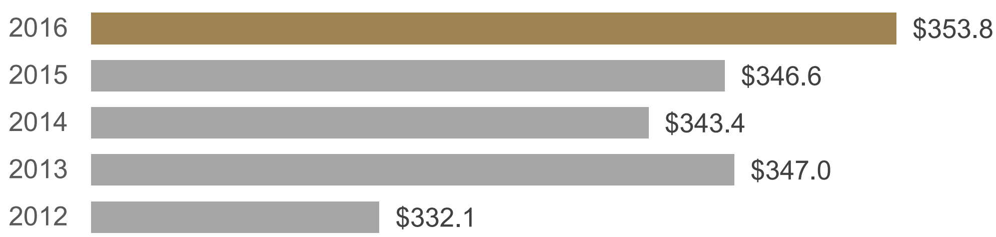
General Fund Transfer (In Millions)



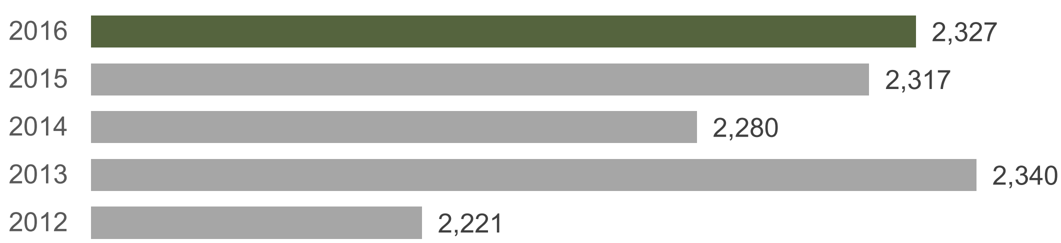
Number of Meters At Year End



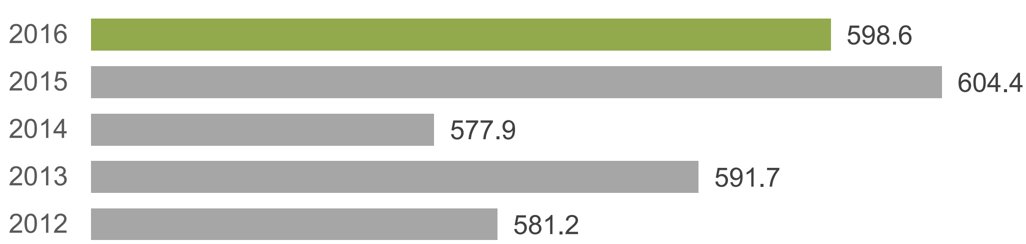
Total Operating Revenue (In Millions)



Production (In Million Kilowatt-Hours)



Peak Day Demand (In Megawatts)



ELECTRIC FACTS AND SYSTEM DATA

Established 1895

Service Area Population 324,637

Service Area Size (square miles) 81.5

System Data

- Transmission Lines (circuit miles) 98.6
- Distribution Lines (circuit miles) 1,330
- Number of Substations 14
- 2015-16 Peak Day (megawatts) 599
  - Highest Single Hourly Use:
  - 06/20/2016, 5pm, 104.7 degrees
- Historical Peak (megawatts) 604
  - Highest Single Hourly Use:
  - 09/16/2014, 3pm, 91 degrees

Bond Ratings

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

OUR
WATER

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the Water Utility Enterprise Fund (Water Utility) of the City of Riverside, California, (the City), as of and for the fiscal years ended June 30, 2016 and 2015, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Utility of the City, as of June 30, 2016 and 2015, and the changes in financial position and cash flows thereof for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements present only the Water Utility and do not purport to, and do not present fairly the financial position of the City as of June 30, 2016 and 2015, the changes in its financial position, or, where applicable, its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

Macias Gini & O'Connell LLP

Newport Beach, California
November 9, 2016

WATER UTILITY:
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Riverside Public Utilities, a department of the City of Riverside (the City), we offer the readers this narrative overview and analysis of the 2015-16 financial report for the period ended June 30, 2016 and 2015 for Riverside's Water Utility (Water Utility), an enterprise fund of the City. We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, which begin on page 78 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

- Retail sales, net of uncollectibles/recovery, were $50,195 and $56,983 for the fiscal years ended June 30, 2016 and 2015, respectively. The decrease in sales was primarily due to lower retail consumption as a result of customer conservation efforts resulting from drought conditions.

- Utility plant assets as of June 30, 2016 increased by $5,792 for continued investment in water infrastructure system to provide safe, reliable water to Water Utility's customers.

- Total net position as of June 30, 2016 increased by $2,526 primarily due to positive operating results. While retail sales, the primary revenue source for the Water Utility, decreased due to customer conservation efforts, the Water Utility continued to monitor its operating costs and reduce controllable expenses where possible in response to the reduction in revenues.

- During the fiscal year ended June 30, 2016, the Water Utility implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. This Statement provides guidance for determining fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. See Notes 1 and 2 of the accompanying financial statements for additional information.

- During the fiscal year ended June 30, 2015, the Water Utility implemented GASB Statement No. 68 (GASB 68*), Accounting and Financial Reporting for Pension - an amendment of GASB Statement No. 27*, which addresses the accounting and financial reporting for pensions. The Water Utility also implemented GASB Statement No. 71 (GASB 71), *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which resolves transition issues in GASB 68. As of July 1, 2014, the Water Utility restated beginning net position in the amount of $35,215 to record the beginning deferred pension contributions and net pension liability. For more information, refer to the Net Position section below, Note 1 and Note 9 of the accompanying financial statements. The Water Utility did not restate the financial statements for the fiscal year ended June 30, 2014 because the necessary actuarial information from the California Public Employees' Retirement System was not provided for the prior years presented.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

The ***Notes to the Financial Statements*** provide additional information that is essential to a full understanding of the data provided in the Water Utility's financial statements. The Notes to the Financial Statements can be found on pages 82 to 101 of this report.

WATER UTILITY FINANCIAL ANALYSIS

CONDENSED STATEMENTS OF NET POSITION

	2016	2015	2014
Current and other assets	$ 92,456	$ 105,788	$ 128,267
Capital assets	463,149	457,357	442,845
Deferred outflows of resources	24,023	15,884	11,156
Total assets and deferred outflows of resources	579,628	579,029	582,268
Long-term debt outstanding	191,530	197,210	202,968
Other liabilities	74,107	68,299	39,903
Deferred inflows of resources	8,779	10,834	6,667
Total liabilities and deferred inflows of resources	274,416	276,343	249,538
Net investment in capital assets	260,468	252,615	245,731
Restricted	8,175	8,547	8,429
Unrestricted	36,569	41,524	78,570
Total net position	$ 305,212	$ 302,686 (1)	$ 332,730

(1) As restated July 1, 2014, see Note 9 of the Financial Statements

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

2016 compared to 2015 The Water Utility's total assets and deferred outflows of resources were $579,628, reflecting a slight increase primarily due to the following:

- Current and other assets, comprised of restricted and unrestricted assets, decreased by $13,332. This change reflects a decrease of $10,323 in unrestricted cash and cash equivalent for the use of reserves to fund on-going capital projects and a decrease in other receivables for the receipt of $3,333 for the final payment on the general fund transfer settlement.

- Capital assets increased by $5,792 primarily due to $11,165 in completed transmission and distribution system assets, net of current year depreciation, offset by a decrease of $5,373 in construction in progress. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.

- Deferred outflows of resources increased by $8,139 primarily due to an increase of $5,329 in deferred outflows related to pension for contributions made in the current year subsequent to the measurement date of the net pension liability and the difference between project and actual earnings on pension plan investments and an increase of $3,338 in deferred changes in derivative values.

2015 compared to 2014 Total assets and deferred outflows of resources were $579,029, reflecting a decrease of $3,239 (0.6%). Current and other assets decreased by $22,479 due to the use of $10,554 in bond proceeds to fund capital projects, the write-off of the net pension asset of $4,926 as a result of the implementation of GASB 68, a decrease of $3,333 in non-current receivables related to the general fund transfer settlement, $2,317 in unrestricted cash and cash equivalents to fund on-going capital projects, and $2,437 in Water Conservation Programs cash and cash equivalents for the timing of reimbursable costs incurred. These decreases are offset by an increase in Water Conservation Programs receivables of $2,906 for reimbursable turf removal program costs. Capital Assets increased by $14,512 primarily due to $18,312 in completed transmission and distribution system assets. Deferred outflows of resources increased by $4,728 primarily due to $4,186 in deferred outflows related to pension contributions made in the fiscal year subsequent to the measurement date of the net pension liability and an increase of $1,067 in deferred changes in derivative values.

LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

2016 compared to 2015 The Water Utility's total liabilities and deferred inflows of resources were $274,416, a decrease of $1,927 (0.7%) primarily due to the following:

- Long-term debt outstanding decreased by $5,680 primarily due to principal payments on revenue bonds.

- Other liabilities increased by $5,808 primarily due to an increase of $3,537 in the negative fair value of derivative instruments, an increase of $2,253 in note payable for the completion of well relocation paid for by a developer and an increase of $2,225 in the net pension liability. These increases were offset by a decrease of $1,572 in accounts payable and other accruals.

- Deferred inflows of resources decreased by $2,055 due a decrease in deferred regulatory charges of $3,333 reflecting the recognition of the transfer-in from the general fund for the final payment on the City's lawsuit settlement. The decrease was offset by an increase of $1,277 in deferred inflows related pension which included the changes in assumptions, the differences between expected and actual experience, and the change in projected versus actual earnings on pension plan investments as determined by the plan actuary.

2015 compared to 2014 Total liabilities and deferred inflows of resources were $276,343, reflecting an increase of $26,806 (10.7%). The increase was primarily due to an increase in other liabilities of $28,396 for the recording of the net pension liability of $26,032 resulting from the implementation of GASB 68 and the increase in note payable of $2,831 for a well relocation paid by a developer. Deferred inflows of resources also increased by $4,168 reflecting the recognition of $7,501 in deferred inflows related to the implementation of GASB 68, offset by a decrease in deferred regulatory charges of $3,333 reflecting the second of three payments on the City's general fund lawsuit settlement. These increases were also offset by a decrease of $5,758 in long-term debt outstanding for principal payments on revenue bonds.

NET POSITION

2016 compared to 2015 The Water Utility's total net position, which represents the difference between the Water Utility's total assets and deferred outflows of resources less total liabilities and deferred inflows of resources, totaled $305,212, an increase of $2,526 (0.8%).

- The largest portion of the Water Utility's total net position, which is its investment in capital assets of $260,468 (85.3%), had an increase of $7,853 from prior year. Investment in capital assets reflects the Water Utility's investment in treatment, pumping, source of supply, transmission and distribution facilities, less any related outstanding debt used to acquire these assets. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.

- The restricted portion of net position totaled $8,175 (2.7%), a slight decrease from prior year. Restricted net position is subject to external restrictions on its use and is reserved for items such as debt repayment and funds collected for Water Conservation Programs.

- The unrestricted portion of net position totaled $36,569 (12.0%) a decrease of $4,955 (12.0%) from prior year, primarily attributable to the use of unrestricted cash and cash equivalent to fund capital projects. Unrestricted net position may be used to meet the Water Utility's ongoing operational needs and obligations to customers and creditors.

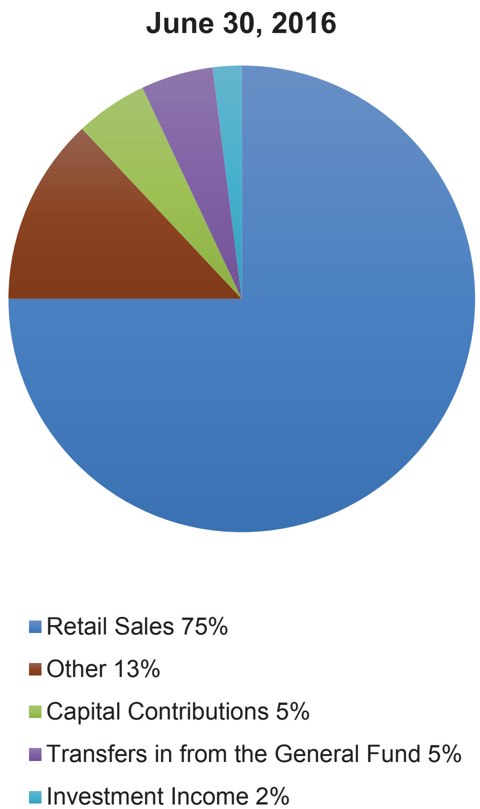
2015 compared to 2014 Total net position decreased by $30,044 (9.0%) to $302,686. The decrease was primarily due to the decrease of $37,046 in the unrestricted portion of net position mainly resulting from the prior period adjustment of $35,215 to record the net pension liability as part of the implementation of GASB 68 and 71. The decrease was mainly offset by an increase in net investment in capital assets of $6,884, net of related debt.

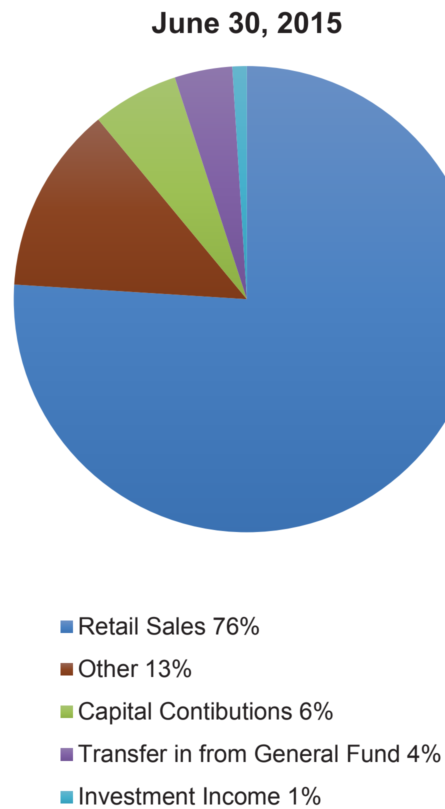
CONDENSED STATEMENTS OF CHANGES IN NET POSITION

	2016	2015	2014
Revenues:			
Retail sales, net	$ 50,195	$ 56,983	$ 62,762
Other revenues	8,861	9,845	6,276
Investment income	1,075	749	1,049
Capital contributions	3,133	4,017	3,534
Total revenues	63,264	71,594	73,621
Expenses:			
Operations and maintenance	31,115	35,972	33,104
Purchased energy	4,664	5,248	5,430
Depreciation	13,510	13,088	12,799
Interest expenses and fiscal charges	8,352	8,350	8,599
Total expenses	57,641	62,658	59,932
Transfers:			
Transfers in from the City's general fund	3,333	3,333	3,333
Transfers to the City's general fund	(6,430)	(7,098)	(6,991)
Total transfers	(3,097)	(3,765)	(3,658)
Changes in net position	2,526	5,171	10,031
Net position, July 1, as previously reported	302,686	332,730	322,699
Less: Cumulative effect of change in accounting principle	-	(35,215)	-
Net position, July 1, as restated	302,686	297,515	322,699
Net position, June 30	$ 305,212	$ 302,686	$ 332,730

WATER UTILITY FINANCIAL ANALYSIS (CONTINUED)

REVENUES BY SOURCES





2016 compared to 2015 The Water Utility's total revenues of $63,264, excluding transfers in, decreased by $8,330 (11.6%) primarily due to the following changes:

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

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

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

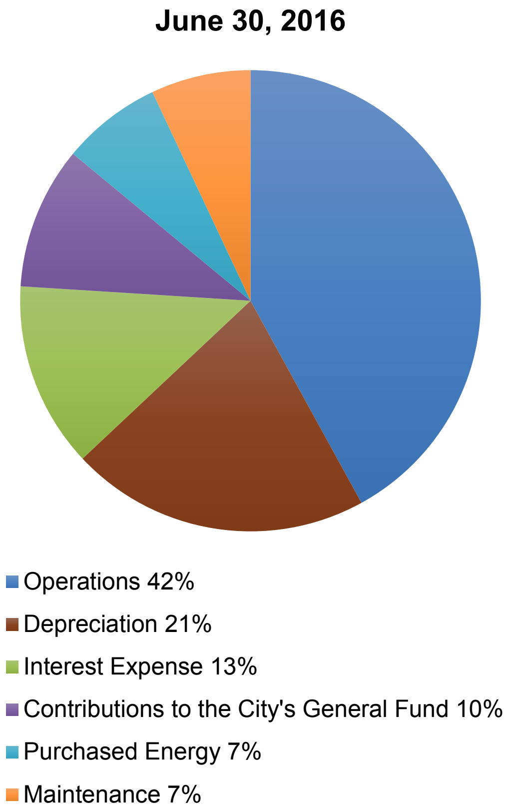
2015 compared to 2014 Total revenues of $71,594, excluding transfers in, decreased by $2,027 (2.8%) due to:

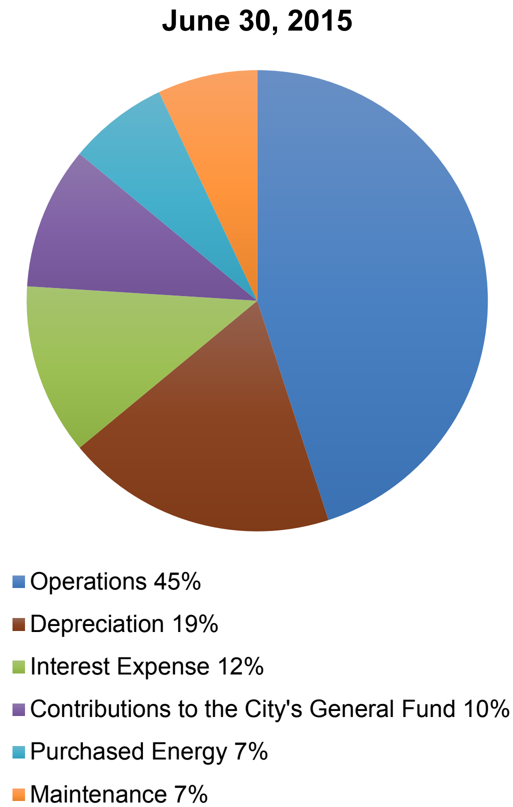
- Retail sales, net of uncollectibles/recovery, totaled $56,983, a decrease of $5,779 (9.2%) from prior fiscal year. The decrease in sales was primarily due to a 10.0% decrease in retail consumption as a result water conservation mandates due to drought conditions.

- Other revenues of $9,845 increased by $3,569 (59.9%) primarily due to an increase in Water Conservation turf removal reimbursement programs offered by WMWD.

- Investment income of $749 reflects a decrease of $300 (28.6%), due to lower overall interest rates in the fiscal year.
- Capital contributions of $4,017 increased by $483 (13.7%), primarily due to an increase of $512 in backup facility capacity charges paid by developers.

EXPENSES BY SOURCES





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

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

TRANSFERS

Pursuant to the City's Charter, the Water Utility may transfer up to 11.5 percent of prior year's gross operating revenues, including adjustments, to the City's general fund. The City uses these funds to help provide needed public services to the residents of the City, including police, fire, parks, libraries and other benefits. The Water Utility transferred $6,430 and $7,098 for 2016 and 2015, respectively to the City's general fund. This represents a $668 decrease from prior fiscal year due to a decrease in retail sales as a result of water conservation.

In April 2013, the City settled a lawsuit challenging the transfer of Water Utility monies to the general fund. Under the settlement agreement, the general fund agreed to pay $10,000 over a three-year period beginning fiscal year 2013-14. As of June 30, 2016, the Water Utility received the final payment in the amount of $3,333.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

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

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

	2016	2015	2014
Source of supply	$ 46,355	$ 40,222	$ 34,603
Pumping	20,197	19,556	19,518
Treatment	31,746	32,822	33,989
Transmission and distribution	323,027	318,975	304,439
General	1,852	2,322	2,986
Land	20,484	20,484	20,484
Intangible	12,833	10,948	10,998
Construction in progress	6,655	12,028	15,828
Total capital assets	$ 463,149	$ 457,357	$ 442,845

The Water Utility continues to make progress in replacing its aging infrastructure since the adoption of the SAFE W.A.T.E.R. (Water Available to Everyone in Riverside) Plan. Since implementation, the Water Utility has invested approximately $247 million in infrastructure improvements.

2016 compared to 2015 The Water Utility's investment in capital assets, net of accumulated depreciation, is $463,149, an increase of $5,792 (1.3%). The increase resulted mainly from the following significant capital projects, offset by current year depreciation:

- $6,845 for system expansion and improvements, transmission mains, and facilities rehabilitation including pump stations, booster stations and wells.

- $7,138 for continued pipeline replacement programs.

2015 compared to 2014 Investment in capital assets, net of accumulated depreciation, increased by $14,512 (3.3%) to $457,357. Major capital projects included $9,289 for system expansion and improvements, facilities rehabilitation, and reservoir construction and $12,420 for continued pipeline replacement programs.

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 as of June 30:

	2016	2015	2014
Revenue bonds	$ 193,480	$ 198,740	$ 203,755
Unamortized bond premium	2,442	2,938	3,436
Contracts payable	938	942	942
Less: Current portion	(5,330)	(5,410)	(5,165)
Total	$ 191,530	$ 197,210	$ 202,968

The Water Utility's bond indentures require a minimum debt service coverage ratio, as defined by the bond covenants, of 1.25. The Water Utility's debt service coverage ratio was 1.93, 2.22, and 2.56 at June 30, 2016, 2015, and 2014, respectively. The debt is backed by the revenues of the Water Utility.

The Water Utility's long-term debt decreased by $5,680 (2.9%) and $5,758 (2.8%) for 2016 and 2015, respectively primarily due to principal payments.

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

CREDIT RATINGS

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

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

On July 12, 2016, S&P lowered its long-term rating to "AA+" from "AAA" for the Water Utility's revenue bonds, reflecting S&P's revised rating criteria for U.S. Municipal Waterworks and Sanitary Sewer Utility Revenue Bonds, as published in RatingsDirect on January 19, 2016.

On July 22, 2016, S&P raised its long-term rating to "AAA" from "AA+" for the Water Utility's revenue bonds, reflecting S&P's further clarity on the Water Utility's financial forecast and local economic base.

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

REGULATORY AND LEGISLATIVE FACTORS

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

The State of California has experienced unprecedented drought conditions over the last four years resulting in severe impacts to California's water supplies and its ability to meet all of the demands for water in the State. In July 2014, the City implemented Stage Two of the Water Conservation Ordinance in reaction to the state's ongoing water supply concerns which calls for customers to cut back consumption by 15% by primarily reducing irrigation for outdoor landscape. The Governor of California issued an Executive Order, in April 2015, to increase water conservation efforts. In June 2015, the City approved emergency regulations and implemented Stage Three of the Water Conservation Ordinance to work towards achieving a revised mandatory water reduction of 28 percent, as set by California's State Water Resources Control Board, for the Water Utility for the period of June 2015 through February 2016. In June 2016, the State reduced its mandatory restrictions and the City reverted back to Stage One of the Water Conservation Ordinance.

The Water Utility is very fortunate as a water provider in California in that the Water Utility owns, operates and maintains its own water supply and is not typically dependent on imported water from outside sources. The Water Utility currently has sufficient water supplies to meet customer needs even during severe drought conditions; however, the aquifers the Water Utility draws from are experiencing historic low levels. The Water Utility has responded by continuing to offer a wide variety of water conservation programs for its customers in an effort to conserve its water resources. In addition, the Water Utility has increased its drought messaging to its customers, increased community educational awareness and leveraged funding from The Metropolitan Water District of Southern California to increase incentive levels where possible.

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

SANTA ANA SUCKER FISH

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

This expansion would potentially impact a number of water supply projects planned by the Water Utility.
In August 2011, the Water Utility joined with eleven other local cities and water agencies in filing a lawsuit against the federal government to overturn the final rule. The trial court issued a ruling on October 23, 2012, upholding the critical habitat designation, to which the Water Utility then appealed

In June of 2015, the 9th Circuit Court of Appeals upheld the FWS's designation of the Santa Ana River as critical habitat for the Santa Ana Sucker fish. The Water Utility subsequently joined in the filing of an appeal (through a petition for writ of certiorari) with the United States Supreme Court to the 9th Circuit decision. Fifteen other water and/or public agencies joined in the appeal. The agencies requested that the United States Supreme Court order the FWS to 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.

The appeal was filed in September of 2015, and in January of 2016 the United States Supreme Court declined to take review of the case. The Water Utility has no further rights of appeal to the final rule designating the critical habit. However, during the pendency of these proceedings, the Water Utility has been complying with the requirements of the final rule, and do not anticipate any further legal action.

WATER STANDARDS

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

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

In addition to the above mentioned contaminants, there are several other water quality regulations that may impact the Water Utility's water supply costs due to the proposed levels and grouping of contaminants. In particular, the USEPA is developing a regulation that would group contaminants into one lower standard. Depending on the grouping, the Water Utility would have to employ treatment for a group of chemicals rather than individual chemicals. This may increase treatment costs as combining chemicals would create a treatment requirement which did not exist when the chemicals were regulated individually. The Water Utility will continue to monitor the progress of the proposed standard changes and will advocate for standards that protect human health and are based on the best available science.

CLEAN WATER ACT

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

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

REQUESTS FOR INFORMATION

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

WATER UTILITY: FINANCIAL STATEMENTS

STATEMENTS OF NET POSITION

	June 30, 2016	June 30, 2015
	(in thousands)	
UTILITY PLANT:		
Utility plant, net of accumulated depreciation (Note 3)	$ 463,149	$ 457,357
OTHER NON-CURRENT ASSETS:		
Regulatory assets	705	580
Total other non-current assets	705	580
Total non-current assets	463,854	457,937
CURRENT ASSETS:		
Unrestricted assets:		
Cash and cash equivalents (Note 2)	73,541	83,864
Accounts receivable, less allowance for doubtful accounts 2016 $170; 2015 $151	9,088	8,332
Accrued interest receivable	182	311
Advances to other funds of the City	179	261
Prepaid expenses	168	2
Other receivables	-	3,333
Total unrestricted current assets	83,158	96,103
Restricted assets:		
Cash and cash equivalents (Note 2)	5,949	6,063
Water Conservation Programs - cash and cash equivalents (Note 2)	2,542	-
Water Conservation Programs receivable	102	3,034
Water Conservation Programs prepaid	-	8
Total restricted current assets	8,593	9,105
Total current assets	91,751	105,208
Total assets	555,605	563,145
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflows related to pension (Note 8)	9,515	4,186
Changes in derivative values	7,346	4,008
Loss on refunding	7,162	7,690
Total deferred outflows of resources	24,023	15,884
Total assets and deferred outflows of resources	$ 579,628	$ 579,029

See accompanying notes to the financial statements

STATEMENTS OF NET POSITION

	June 30, 2016	June 30, 2015
	(in thousands)	
NET POSITION:		
Net investment in capital assets	$ 260,468	$ 252,615
Restricted for:		
Debt service (Note 5)	5,949	6,063
Water Conservation Programs	2,226	2,484
Unrestricted	36,569	41,524
Total net position	305,212	302,686
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4)	191,530	197,210
OTHER NON-CURRENT LIABILITIES:		
Advances from other funds of the City - pension obligation (Note 4)	4,338	4,612
Net other postemployment benefits payable (Note 4)	3,032	2,787
Net pension liability (Note 4 and 8)	28,257	26,032
Compensated absences (Note 4)	196	309
Derivative instrument (Note 4)	12,398	8,861
Note payable (Note 4)	13,764	11,470
Total other non-current liabilities	61,985	54,071
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	1,687	1,751
Water Conservation Programs payable	87	530
Current portion of long-term obligations (Note 4)	5,180	5,260
Total current liabilities payable from restricted assets	6,954	7,541
CURRENT LIABILITIES:		
Accounts payable and other accruals	3,677	5,249
Current portion of long-term obligations (Note 4)	150	150
Customer deposits	539	445
Note payable (Note 4)	802	843
Total current liabilities	5,168	6,687
Total liabilities	265,637	265,509
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows related to pension (Note 8)	8,779	7,501
Regulatory charges	-	3,333
Total deferred inflows of resources	8,779	10,834
Total net position, liabilities and deferred inflows of resources	$ 579,628	$ 579,029

See accompanying notes to the financial statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	For the Fiscal Years Ended June 30, 2016	2015
	(in thousands)	
OPERATING REVENUES:		
Residential sales	$ 32,061	$ 36,266
Commercial sales	16,572	18,932
Other sales	1,690	1,919
Water conveyance revenue	3,944	2,286
Water Conservation Programs	1,289	4,420
Other operating revenue	1,694	2,228
Total operating revenues before uncollectibles	57,250	66,051
Estimated uncollectibles, net of bad debt recovery	(128)	(134)
Total operating revenues, net of uncollectibles	57,122	65,917
OPERATING EXPENSES:		
Operations	24,707	25,793
Maintenance	4,432	4,745
Purchased energy	4,664	5,248
Water Conservation Programs	1,976	5,434
Depreciation	13,510	13,088
Total operating expenses	49,289	54,308
Operating income	7,833	11,609
NON-OPERATING REVENUES (EXPENSES):		
Investment income	1,075	749
Interest expense and fiscal charges	(8,352)	(8,350)
Gain on sale of assets	132	79
Other	1,802	832
Total non-operating revenues (expenses)	(5,343)	(6,690)
Income before contributions and transfers	2,490	4,919
Capital contributions	3,133	4,017
Transfers in from the City's general fund	3,333	3,333
Transfers out - contributions to the City's general fund	(6,430)	(7,098)
Total capital contributions and transfers	36	252
Increase in net position	2,526	5,171
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	302,686	332,730
LESS: CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	-	(35,215)
NET POSITION, BEGINNING OF YEAR, AS RESTATED	302,686	297,515
NET POSITION, END OF YEAR	$ 305,212	$ 302,686

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

	For the Fiscal Years Ended June 30, 2016 (in thousands)	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	$ 59,367	$ 63,708
Cash paid to suppliers and employees	(39,646)	(42,995)
Other receipts	761	832
Net cash provided by operating activities	20,482	21,545
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(6,430)	(7,098)
Transfers in from the City's general fund	3,333	3,333
Cash received on advances to other funds of the City	82	131
Payment on advances to other funds of the City - pension obligation	(274)	(243)
Net cash used by non-capital financing activities	(3,289)	(3,877)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(15,042)	(23,288)
Proceeds from the sale of utility plant	148	148
Principal paid on long-term obligations	(5,263)	(5,017)
Interest paid on long-term obligations	(8,406)	(8,685)
Capital contributions	2,271	3,132
Net cash used by capital and related financing activities	(26,292)	(33,710)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Income from investments	1,204	867
Net cash provided by investing activities	1,204	867
Net decrease in cash and cash equivalents	(7,895)	(15,175)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR **(including $6,063 and $18,921 at June 30, 2015 and June 30, 2014, respectively, reported in restricted accounts)**	89,927	105,102
CASH AND CASH EQUIVALENTS, END OF YEAR **(including $8,491 and $6,063 at June 30, 2016 and June 30, 2015, respectively, reported in restricted accounts)**	$ 82,032	$ 89,927
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 7,833	$ 11,609
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	13,510	13,088
(Increase) decrease in deferred outflows related to pension	(5,329)	6
Increase (decrease) in deferred inflows related to pension	1,278	(1,876)
Increase in net pension liability	2,225	928
Increase in allowance for uncollectible accounts	19	19
Decrease (increase) in accounts receivable	2,131	(1,872)
(Increase) decrease in prepaid expenses	(158)	7
Decrease in accounts payable and other accruals	(1,571)	(1,511)
Increase in postemployment benefits payable	245	365
Decrease in compensated absences	(113)	(24)
(Decrease) increase in Water Conservation Programs payable	(443)	464
Increase (decrease) in customer deposits	94	(490)
Other receipts	761	832
Net cash provided by operating activities	$ 20,482	$ 21,545
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions - capital assets	888	1,164
Well relocation with note payable	3,082	2,980

See accompanying notes to the financial statements

WATER UTILITY:
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

BASIS OF ACCOUNTING

The Water Utility uses the accrual basis of accounting as required for enterprise funds with accounting principles generally accepted in the United States of America as applicable to governments. The accounting records of the Water Utility are also in conformity with the Uniform System of Accounts prescribed by the California Public Utilities Commission. The Water Utility is not subject to the regulations of the California Public Utilities Commission.

The Water Utility distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the Water Utility are charges to customers for water sales and services. Operating expenses for the Water Utility include the cost of water sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

IMPLEMENTATION OF NEW ACCOUNTING PRONOUNCEMENTS

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

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

Effective July 1, 2015, the accompanying financial statements reflect the implementation of GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72). The primary objective of GASB 72 is to address accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

USE OF ESTIMATES

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

REVENUE RECOGNITION

The Water Utility customers are billed monthly. Unbilled water service charges, including the Water Conservation Programs, are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled $3,092 at June 30, 2016, and $2,736 at June 30, 2015.

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

WATER UTILITY PLANT AND DEPRECIATION

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

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

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

RESTRICTED ASSETS

Proceeds of revenue bonds yet to be used for capital projects, as well as certain resources set aside for debt service, are classified as restricted assets on the Statements of Net Position because their use is limited by applicable bond covenants. Generally, the Water Utility will first apply restricted resources when expenses incurred for which both restricted and unrestricted resources are available.

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

CASH AND INVESTMENTS

In accordance with the Water Utility policy, the Water Utility's cash and investments, except for cash and investments with fiscal agents, are invested in a pool managed by the Treasurer of the City. Cash accounts of all funds are pooled for investment purposes to enhance safety and liquidity, while maximizing interest earnings. The Water Utility does not own specific, identifiable investments of the pool. The pooled interest earned is allocated monthly based on the month end cash balances.

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

City-wide information concerning cash and investments as of June 30, 2016, including authorized investments, fair value measurement and application, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and investments can be found in the notes to the City's financial statements in the City's "Comprehensive Annual Financial Report" (CAFR).

CASH AND INVESTMENTS AT FISCAL AGENTS

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

UNRESTRICTED DESIGNATED CASH RESERVES

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

Unrestricted designated cash reserve balances as of June 30, 2016 are as follows: Property Reserve $26,004, Recycled Water Reserve $9,800, Customer Deposits $433, and Capital Repair and Replacement Reserve $750. The combined total for these reserves is $36,987 and is included as a component of unrestricted cash and cash equivalents in the accompanying Statements of Net Position. Prior year amounts are not comparable in specific categories due to the new reserve structure described above.

DERIVATIVES

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

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

BOND PREMIUM/DISCOUNTS AND GAINS/LOSSES ON REFUNDING

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

CUSTOMER DEPOSITS

The City holds customer deposits as security for the payment of utility bills and plan check fee deposits for future water connection. The Water Utility's portion of these deposits as of June 30, 2016 and 2015 was $539 and $445, respectively.

COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due to employees at June 30, 2016 and 2015. The Water Utility treats compensated absences due to employees as an expense and a liability of which a current portion is included in accounts payable and other accruals in the accompanying Statements of Net Position. The amount accrued for compensated absences was $1,598 at June 30, 2016, and $1,788 at June 30, 2015.

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

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

INSURANCE PROGRAMS

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

City-wide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risks for the year ended June 30, 2016, may be found in the notes to the City's financial statements in the City's CAFR.

Although the ultimate amount of losses incurred through June 30, 2016 is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. Premiums paid to the City by the Water Utility were $289 and $328 for the years ended June 30, 2016 and 2015, respectively. Any losses above the City's reserves would be covered through increased rates charged to the Water Utility in future years.

EMPLOYEE RETIREMENT PLAN

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

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

PENSION OBLIGATION BONDS

The Water Utility is obligated to pay its share of the City's pension obligation bonds, which the City issued in 2005. The Water Utility's proportional share of the outstanding principal amount of the bonds was $4,338 and $4,612 as of June 30, 2016 and 2015, respectively, and is shown on the Statements of Net Position as Advances from other funds of the City - pension obligation. The bond proceeds were deposited with CalPERS to fund the unfunded actuarial accrued liability for non-safety employees. For more discussion relating to the City's pension obligation bonds issuance, see the notes to the City's financial statements in the City's CAFR for the fiscal year ended June 30, 2016.

OTHER POSTEMPLOYMENT BENEFITS

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

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

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

The Water Utility's annual OPEB cost (expense) is reported based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability (or funding excess) over a period not to exceed thirty years. The Water Utility's OPEB liability including Water Conservation Programs as of June 30, 2016 and 2015 was $3,032 and $2,787, 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, 2016 can be found in the notes to the City's financial statements in the City's CAFR.

DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

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

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

REGULATORY ASSETS AND DEFERRED REGULATORY CHARGES

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

NET POSITION

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

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

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

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

CONTRIBUTIONS TO THE CITY'S GENERAL FUND

Pursuant to the City of Riverside Charter, the Water Utility may transfer up to 11.5 percent of prior year's gross operating revenues, including adjustments, to the City's general fund. In fiscal years ended June 30, 2016 and 2015, $6,430 and $7,098, respectively was transferred representing 11.5 percent.

In April 2013, the City settled a lawsuit challenging its century-old practice of transferring Water Utility monies to the general fund. Under the settlement agreement, the general fund agreed to pay $10,000 over a three-year period beginning in fiscal year 2013-14. The settlement has been reflected as a receivable and a corresponding deferred regulatory charge under deferred inflows of resources on the Statements of Net Position. As of June 30, 2016, the Water Utility received the final payment in the amount of $3,333.

CASH AND CASH EQUIVALENTS

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

BUDGETS AND BUDGETARY ACCOUNTING

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

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2016 and 2015, consist of the following (in thousands):

	June 30, 2016	June 30, 2015
	Fair Value	
Equity interest in City Treasurer's investment pool	$ 82,032	$ 89,927
Total cash and investments	$ 82,032	$ 89,927

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

	June 30, 2016	June 30, 2015
Unrestricted cash and cash equivalents	$ 73,541	$ 83,864
Restricted cash and cash equivalents	8,491	6,063
Total cash and investments	$ 82,032	$ 89,927

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

The Water Utility categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Water Utility has the following recurring fair value measurements as of June 30, 2016. Prior year comparative table has not been included as information necessary for fair value measurement reporting under GASB 72 was not readily available.

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

Cash and investments distribution by maturities as of June 30, 2016 and 2015, are as follows:

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

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

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

Presented below is the actual rating as of June 30, 2016 and 2015 for each investment type:

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

Investment Type	2015 Fair Value	Rating as of Year End AAA	AA	A	Unrated
City Treasurer's investment pool [1]					
Money market funds	5,202	202	245	4,755	-
Federal agency securities	7,098	7,098	-	-	-
US Treasury notes/bonds	44,897	44,897	-	-	-
Corp medium term notes	10,635	-	10,635	-	-
State investment pool	18,855	-	-	-	18,855
Negotiable certificate of deposit	3,240	-	-	-	3,240
Total	$ 89,927	$ 52,197	$ 10,880	$ 4,755	$ 22,095

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

NOTE 3. UTILITY PLANT

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2016 and 2015 (in thousands):

	Balance As of 6/30/2014	Additions	Retirements/ Transfers	Balance As of 6/30/2015	Additions	Retirements/ Transfers	Balance As of 6/30/2016
Source of supply	$ 49,066	6,739	(902)	$ 54,903	$ 7,380	$ -	$ 62,283
Pumping	29,747	692	-	30,439	1,306	-	31,745
Treatment	43,697	16	-	43,713	107	-	43,820
Transmission and distribution	438,521	23,971	(597)	461,895	13,929	(752)	475,072
General	14,369	53	(141)	14,281	-	(4)	14,277
Intangible	386	-	-	386	1,968	-	2,354
Depreciable utility plant	575,786	31,471	(1,640)	605,617	24,690	(756)	629,551
Less accumulated depreciation							
Source of supply	(14,463)	(1,060)	842	(14,681)	(1,247)	-	(15,928)
Pumping	(10,229)	(654)	-	(10,883)	(665)	-	(11,548)
Treatment	(9,708)	(1,183)	-	(10,891)	(1,183)	-	(12,074)
Transmission and distribution	(134,082)	(9,425)	587	(142,920)	(9,861)	736	(152,045)
General	(11,383)	(717)	141	(11,959)	(471)	5	(12,425)
Intangible	(229)	(50)	-	(279)	(83)	-	(362)
Accumulated depreciation	(180,094)	(13,089)	1,570	(191,613)	(13,510)	741	(204,382)
Net depreciable utility plant	395,692	18,382	(70)	414,004	11,180	(15)	425,169
Land	20,484	-	-	20,484	-	-	20,484
Intangible, non-amortizable	10,841	-	-	10,841	-	-	10,841
Construction in progress	15,828	23,215	(27,015)	12,028	15,108	(20,481)	6,655
Nondepreciable utility plant	47,153	23,215	(27,015)	43,353	15,108	(20,481)	37,980
Total utility plant	$ 442,845	$ 41,597	$ (27,085)	$ 457,357	$ 26,288	$ (20,496)	$ 463,149

NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2016 and 2015 (in thousands):

	Balance As of 6/30/2014	Additions	Reductions	Balance As of 6/30/2015	Additions	Reductions	Balance As of 6/30/2016	Due Within One Year
Revenue bonds	$ 207,191	$ -	$ (5,513)	$ 201,678	$ -	$ (5,756)	$ 195,922	$ 5,180
Water stock acquisition rights	942	-	-	942	-	(4)	938	150
Advances from other funds of the City pension obligation	4,855	-	(243)	4,612	-	(274)	4,338	-
Compensated absences	1,682	1,494	(1,388)	1,788	1,379	(1,569)	1,598	1,402
Note payable	9,482	2,980	(149)	12,313	3,082	(829)	14,566	802
Total long-term obligations	$ 224,152	$ 4,474	$ (7,293)	$ 221,333	$ 4,461	$ (8,432)	$ 217,362	$ 7,534

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

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

CONTRACTS PAYABLE

	June 30, 2016	June 30, 2015
Water Stock Acquisitions: Payable to various water companies	$ 938	$ 942
Total contracts payable	938	942

REVENUE BONDS PAYABLE

	June 30, 2016	June 30, 2015
$58,235 2008 Water Revenue Series B Bonds: fixed rate bonds due in annual principal installments from $1,210 to $7,505 from October 1, 2016 through October 1, 2038, interest from 4.0 to 5.0 percent	58,235	58,235
$31,895 2009 Water Refunding/Revenue Series A Bonds: fixed rate bonds due in annual principal installments from $2,270 to $2,970 through October 1, 2020, interest from 4.0 to 5.0 percent	12,730	17,065
$67,790 2009 Water Revenue Series B Bonds: fixed rate, federally taxable, Build America Bonds due in annual principal installments from $2,475 to $4,985 from October 1, 2021 through October 1, 2039, interest from 3.3 to 4.1 percent	67,790	67,790
$59,000 2011 Water Revenue/Refunding Series A Bonds: variable rate bonds due in annual principal installments from $600 to $3,950 through October 1, 2035. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 30, 2016 was 3.1 percent)	54,725	55,650
Total water revenue bonds payable	193,480	198,740
Total water revenue bonds and contracts payable	194,418	199,682
Unamortized bond premium	2,442	2,938
Total water revenue bonds and contracts payable, including bond premium	196,860	202,620
Less current portion	(5,330)	(5,410)
Total long-term water revenue bonds and contracts payable	$ 191,530	$ 197,210

Revenue bonds annual debt service requirements, including contracts payable, to maturity, as of June 30, 2016, are as follows (in thousands):

	2017	2018	2019	2020	2021	2022-2026	2027-2031	2032-2036	2037-2040	TOTAL
Principal	$ 5,330	$ 5,565	$ 5,785	$ 6,015	$ 6,230	$ 34,178	$ 41,110	$ 49,955	$ 40,250	$ 194,418
Interest	7,920	7,683	7,457	7,226	6,994	31,074	23,417	14,296	3,234	109,301
Total	$ 13,250	$ 13,248	$ 13,242	$ 13,241	$ 13,224	$ 65,252	$ 64,527	$ 64,251	$ 43,484	$ 303,719

The Water Utility has a number of debt issuances (revenue bonds) outstanding that are collateralized by the pledging of water revenues. The amount and term of the remainder of these commitments are indicated in the revenue bonds payable and annual debt service requirements to maturity tables presented within this Note 4. The purpose of the debt issuances was for the financing of various Water Utility capital improvement projects. For June 30, 2016 and 2015, debt service payments as a percentage of the pledged gross revenue, net of certain expenses where so required by the debt agreement, are indicated in the table below. The debt service coverage ratios also approximate the relationship of the debt service to pledged revenue for the remainder of the term of the commitment.

Fiscal Year Ended	Description of Pledged Revenues	Annual Amount of Pledged Revenue (net of expenses)	Annual Debt Service Payments	Debt Service Coverage Ratio
June 30, 2016	Water revenues	$ 26,245	$ 13,596	1.93
June 30, 2015	Water revenues	30,225	13,600	2.22

INTEREST RATE SWAPS ON REVENUE BONDS

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

A summary of the derivative activity for the year ended June 30, 2016 is as follows:

	Notional Amount	Fair Value as of 6/30/2016	Change in Fair Value for Fiscal Year
2011 Water Refunding/Revenue Bonds Series A	$ 54,725	$ (12,398)	$ (3,537)

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

Terms: Per the existing swap agreement, the Water Utility pays the counterparty a fixed payment and receives a variable payment computed as 62.68 percent of the London Interbank Offering Rate ("LIBOR") one-month index plus 12 basis points. The swap has a notional amount equal to the principal amount stated above. The notional value of the swap and principal amount of the associated debt decline by $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, 2016, rates were as follows:

Interest rate swap:	Terms	Rates
Fixed payment to counterparty	Fixed	3.20000%
Variable payment from counterparty	62.68 LIBOR + 12bps	(0.25894%)
Net interest rate swap payments		2.94106%
Variable-rate bond coupon payments		0.15580%
Synthetic interest on bonds		3.09686%

Fair value: As of June 30, 2016, in connection with the swap agreement, the transactions had a total negative fair value of ($12,398). Because the coupons on the Water Utility's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was developed by a pricing service using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Credit risk: As of June 30, 2016, the Water Utility was not exposed to credit risk because the swap had a negative fair value. The swap counterparty, J.P. Morgan Chase & Co. was rated A- by Standard & Poor's (S&P). To mitigate the potential for credit risk, the swap agreement requires the fair value of the swap to be collateralized by the counterparty with U.S. Government securities if the counterparty's rating decreases to negotiated trigger points. Collateral would be posted with a third-party custodian. At June 30, 2016, there is no requirement for collateral posting for the outstanding swap.

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

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

Swap payments and associated debt: As of June 30, 2016, the debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are summarized as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2017	$ 600	$ 90	$ 1,691	$ 2,381
2018	1,700	87	1,648	3,435
2019	1,475	85	1,599	3,159
2020	2,375	81	1,533	3,989
2021	2,475	77	1,456	4,008
2022-2026	13,550	321	6,052	19,923
2027-2031	15,175	201	3,803	19,179
2032-2036	17,375	68	1,291	18,734
Total	$ 54,725	$ 1,010	$ 19,073	$ 74,808

NOTE PAYABLE

On September 30, 2013, the Water Utility entered into a Purchase and Sale Agreement and a Well Relocation Agreement with Hillwood Enterprises, L.P. (Hillwood) for their development of a logistic center located in the City of San Bernardino. In order to construct the logistic center, Hillwood purchased 27.21 acres of land owned by a private entity and conveyed it to the Water Utility for a purchase price of $9,482. Under a 55-year Ground Lease Agreement entered into on May 20, 2014, the land was leased back to Hillwood including 22.56 acres of existing land owned by the Water Utility. The Water Utility has two active wells located on the leased site that were relocated by Hillwood under the terms of the Well Relocation Agreement. The total cost of the well relocation was $6,061. The land purchase and the cost of the well relocation are being paid by the Water Utility through credits against rent payments for the first 15 years under terms of the Ground Lease Agreement. Construction on the first well was completed in April 2015 for a total cost of $2,944, at which time Hillwood's rent obligation commenced. The second well relocation was completed in April 2016 for a total cost of $3,117. Monthly rent credits start at $87, subject to annual price level changes according to the Consumer Price Index. Estimated annual rent credits to be applied for the land purchase and well relocation, at an interest rate of 1.71 percent, are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2017	$ 802	$ 242	$ 1,044
2018	837	228	1,065
2019	873	214	1,086
2020	910	198	1,108
2021	947	183	1,130
2022-2026	5,346	653	5,999
2027-2030	4,851	166	5,017
Total	$ 14,566	$ 1,884	$ 16,449

NOTE 5. RESTRICTED NET POSITION

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

NOTE 6. LITIGATION

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

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

NOTE 7. CONSTRUCTION COMMITMENTS

As of June 30, 2016, the Water Utility had major commitments (encumbrances) of approximately $2,509 with respect to unfinished capital projects of which $595 is expected to be funded by other agencies and $1,914 to be funded by unrestricted cash reserves.

NOTE 8. EMPLOYEE RETIREMENT PLAN

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

PLAN DESCRIPTION

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

FUNDING POLICY

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

- 1st Tier – The retirement formula is 2.7 percent at age 55. The City pays the employee share (8 percent) of contributions on their behalf and for their account except for general Service Employees International Union (SEIU) employees, which contributed 6 percent and 4 percent in fiscal years June 30, 2016 and 2015 respectively, with the City paying the remaining 2 percent and 4 percent of the employee share respectively.

- 2nd Tier – The retirement formula is 2.7 percent at age 55, and:

  - SEIU employees hired on or after June 7, 2011 pay their share (8 percent) of contributions.

  - All other miscellaneous employees hired on or after October 19, 2011 pay their share (8 percent) of contributions.

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

NOTE 8. EMPLOYEE RETIREMENT PLAN (CONTINUED)

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

BENEFITS PROVIDED

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

EMPLOYEES COVERED

At June 30, 2016 and 2015, the following employees, City-wide, were covered by the benefit terms of the Plan:

	June 30, 2016	June 30, 2015
Inactive employees or beneficiaries currently receiving benefits	1,889	1,846
Inactive employees entitled to but not yet receiving benefits	1,283	1,267
Active employees	1,550	1,567

CONTRIBUTIONS

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

NET PENSION LIABILITY

The City's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. For fiscal year June 30, 2016, the net pension liability of the Plan is measured as of June 30, 2015, using an annual actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. For fiscal year June 30, 2015, the net pension liability of the Plan is measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

ACTUARIAL ASSUMPTIONS

The total pension liabilities in the June 30, 2014 and 2013 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous - Current Year	Miscellaneous - Prior Year
Valuation date	June 30, 2014	June 30, 2013
Measurement date	June 30, 2015	June 30, 2014
Actuarial cost method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial assumptions:		
Discount rate	7.65%	7.50%
Inflation	2.75%	2.75%
Payroll growth	3.00%	3.00%
Projected salary increase (1)	3.30% - 14.20%	3.30% - 14.20%
Investment rate of return (2)	7.50%	7.50%
Mortality (3)	-	-

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

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

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

DISCOUNT RATE

The discount rate used to measure the total pension liability for the Plan was 7.65 percent and 7.50 percent for fiscal years June 30, 2016 and 2015, respectively. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent are applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained from the CalPERS website.

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

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

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

Asset Class	Current Target Allocation	Real Return Years 1 -10 [1]	Real Return Years 11 + [2]
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%

[1] An expected inflation of 2.50% used for this period

[2] An expected inflation of 3.00% used for this period

CHANGES IN THE NET PENSION LIABILITY

The changes in the Water Utility's, including Water Conservation Programs, proportionate share of the net pension liability for the Plan are as follows:

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

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

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

The following presents the Water Utility's, including Water Conservation Programs, proportionate share of the net pension liability of the Plan, calculated using the discount rate of 7.65 percent and 7.50 percent for fiscal years June 30, 2016 and 2015 respectively, as well as what the Water Utility's proportionate share of the net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	June 30, 2016			June 30, 2015		
	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)	Discount Rate - 1% (6.50%)	Current Discount Rate (7.50%)	Discount Rate + 1% (8.50%)
The Water Utility's proportionate share of the Plan's net pension liability	$ 47,488	$ 28,257	$ 12,443	$ 44,245	$ 26,032	$ 10,952

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

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

For the fiscal years ended June 30, 2016 and 2015, the Water Utility, including Water Conservation Programs, recognized pension expense of $1,853 and $2,558 (as adjusted), respectively. At June 30, 2016 and 2015, the Water Utility, including Water Conservation Programs, reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	June 30, 2016		June 30, 2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 3,680	$ -	$ 3,499	$ -
Differences between actual and actuarial determined contribution	1,180	-	-	-
Changes in assumptions	-	(1,772)	-	-
Differences between expected and actual experience	-	(1,381)	687	-
actual earnings on plan investments	4,655	(5,626)	-	(7,501)
Total	$ 9,515	$ (8,779)	$ 4,186	$ (7,501)

$3,680 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

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

Year Ended June 30	Deferred Outflows of Resources	Deferred Inflows of Resources
2017	$ 1,680	$ (3,377)
2018	1,680	(3,377)
2019	1,312	(2,025)
2020	1,163	-
Total	$ 5,835	$ (8,779)

NOTE 9. PRIOR PERIOD ADJUSTMENT

A prior period adjustment of $35,215 was made to decrease the Water Utility's beginning net position as of July 1, 2014. The adjustment was made to reflect the prior period costs related to the elimination of the net pension asset and the establishment of a net pension liability due to the implementation of GASB 68 and GASB 71.

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

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

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

WATER UTILITY:
KEY HISTORICAL OPERATING DATA

FISCAL YEAR	2015/16	2014/15	2013/14	2012/13	2011/12
WATER SUPPLY (ACRE FEET)					
Pumping	58,057	65,259	72,647	72,480	69,564
Percentage pumped[1]	100.00%	100.00%	100.00%	100.00%	100.00%
System peak day (gallons)	74,720,000	86,580,000	90,020,000	95,390,000	88,370,000

[1] No purchased water.

WATER USE	2015/16	2014/15	2013/14	2012/13	2011/12
Number of meters as of year end					
Residential	59,137	58,922	58,958	58,756	58,506
Commercial/Industrial	5,619	5,594	5,527	5,508	5,504
Other	338	355	344	327	357
Total	65,094	64,871	64,829	64,591	64,367
CCF* sales					
Residential	13,125,476	15,424,999	17,432,384	17,061,832	16,288,918
Commercial/Industrial	8,011,884	9,511,177	10,292,548	10,045,813	9,703,162
Other	764,125	895,876	960,694	869,807	893,971
Subtotal	21,901,485	25,832,052	28,685,626	27,977,452	26,886,051
Wholesale	627,978	175,438	201,678	208,726	176,091
Total	22,529,463	26,007,490	28,887,304	28,186,178	27,062,142

*(CCF equals 100 cubic feet)

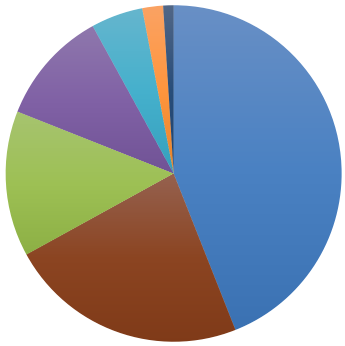
WATER FACTS	2015/16	2014/15	2013/14	2012/13	2011/12
Average annual CCF per residential customer	223	262	296	291	280
Average price ($/CCF) per residential customer	$2.44	$2.35	$2.33	$2.36	$2.37
Debt service coverage ratio (DSC)[2]	1.93	2.22	2.56	2.61	2.82
Employees[3]	181	181	182	181	181

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

[3] Approved positions

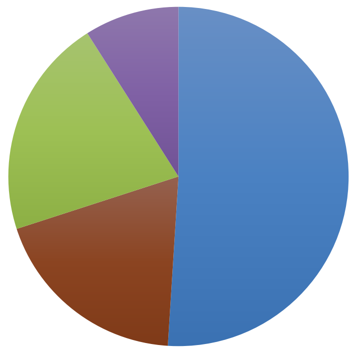
2015/2016 WATER REVENUE AND RESOURCES

SOURCE OF REVENUE



- Residential Sales 44¢
- Commercial Sales 23¢
- Other Revenue 14¢
- Use of Reserves 11¢
- Transfer in from the General Fund 5¢
- Other Sales 2¢
- Investment Income 1¢

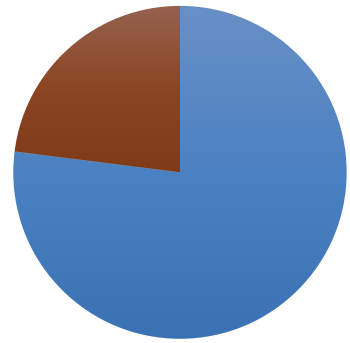
DISTRIBUTION OF REVENUE



- Operations and Maintenance 51¢
- Debt Service 19¢
- Additions and Replacements to the System 21¢
- Transfers to the City's General Fund* 9¢

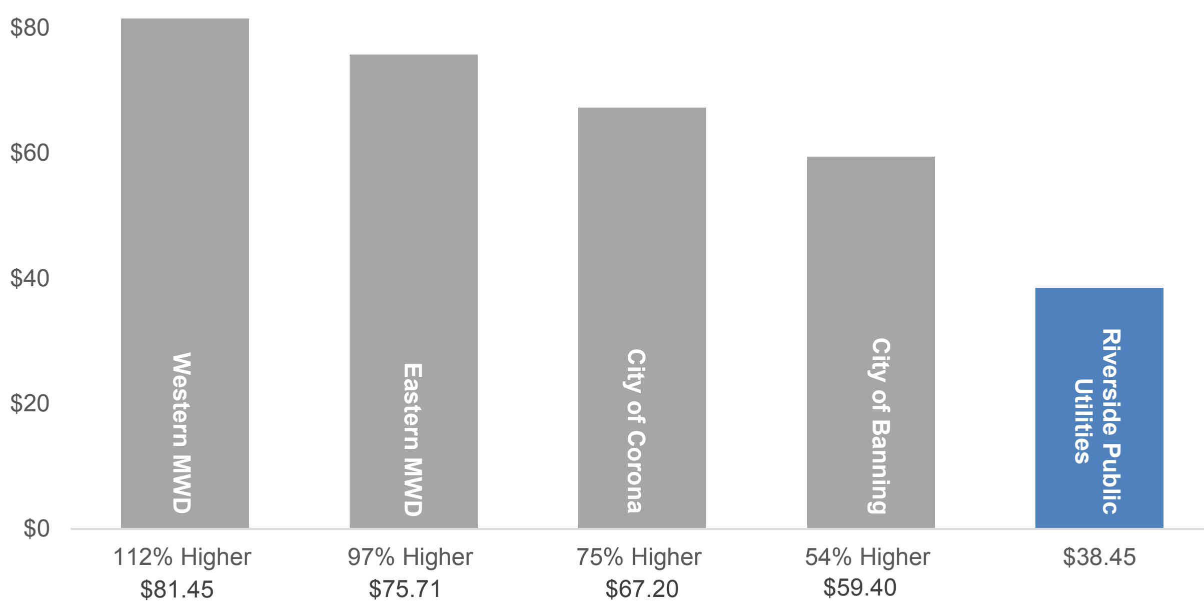
*Based on transfer of 11.5% of fiscal year 2014/2015 gross operating revenues including adjustments

WATER RESOURCES



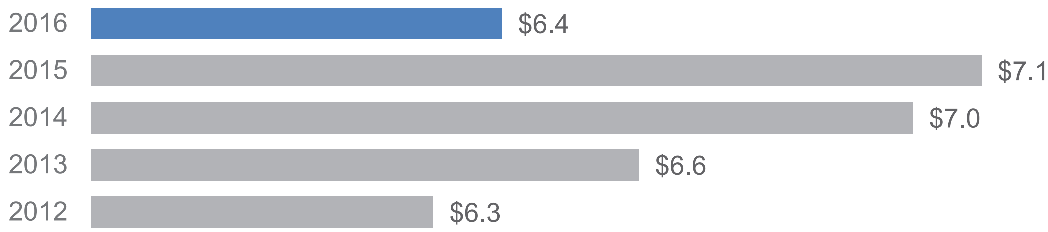
- San Bernardino Basin Wells 77%
- Riverside Basin Wells 23%
- Purchased Water 0%

RESIDENTIAL WATER RATE COMPARISON 19 CCF PER MONTH (AS OF JUNE 30, 2016)

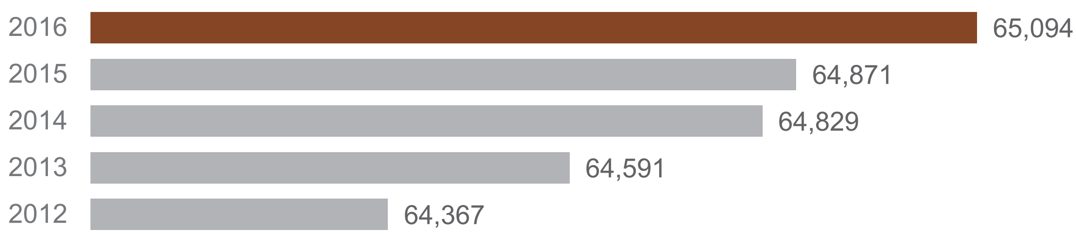


WATER KEY OPERATING INDICATORS

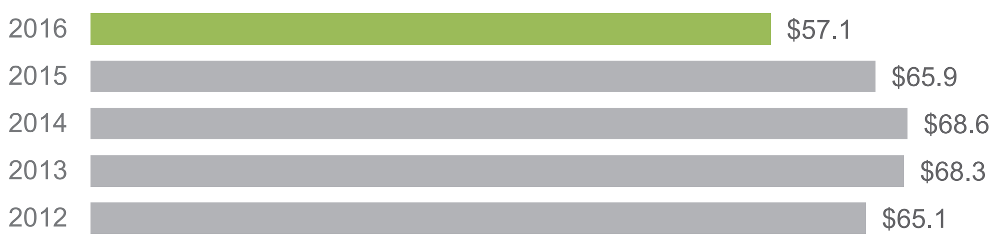
General Fund Transfer (In Millions)



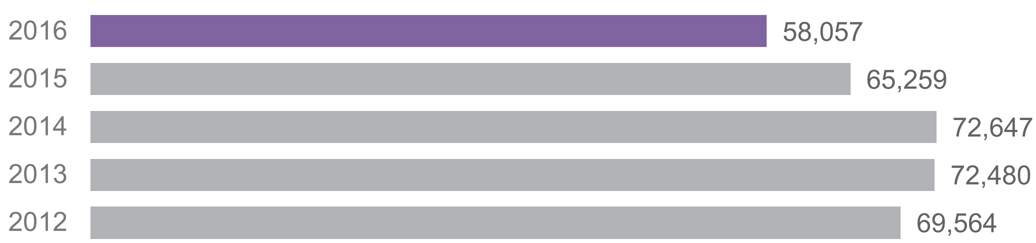
Number of Meters At Year End



Total Operating Revenue (In Millions)



Production (In Acre Feet)



Peak Day Demand (In Millions of Gallons)

WATER FACTS AND SYSTEM DATA

Established.. 1913

Service Area Population.. 324,637

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 56
- Number of Active Reservoirs 16
- Total Reservoir Capacity (gallons).. 108,500,000
- Number of Treatment Plants... 6
- Number of Treatment Vessels 84
- Miles of Canal 14
- Number of Fire Hydrants 7,908
- Daily Average Production (gallons) 49,277,679
- 2015-2016 Peak Day (gallons) 74,720,000
  - 07/7/14, 105 Degrees
- Historical Peak (gallons) 118,782,000
  - 08/9/05, 99 Degrees

Bond Ratings

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

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