2019

FINANCIAL REPORT

RIVERSIDE PUBLIC UTILITIES

RiversidePublicUtilities.com

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

328,042

RECORD PEAK DEMAND

Energy: 640 megawatts
8/31/2017

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

TOTAL OPERATING REVENUE

Energy: $362.7 million

Water: $65.1 million

CUSTOMERS

Energy: 110,480

Water: 68,640

CREDIT RATING

Energy:	AA-	Fitch
	AA-	S&P Global
Water:	AA+	Fitch
	AAA	
	Aa2	Moody's

WATER | ENERGY | LIFE

CITY OF RIVERSIDE

PUBLIC UTILITIES

RiversidePublicUtilities.com

Cover artwork by
Madeleine Chaffin, Woodcrest Christian High School

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 positive 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.

CITY COUNCIL

Rusty Bailey
Mayor

Erin Edwards
Ward 1

Andy Melendrez
Ward 2

Ronaldo Fierro
Ward 3

Chuck Conder
Ward 4

Gaby Plascencia
Ward 5

Jim Perry
Ward 6

Steve Hemenway
Ward 7

BOARD OF PUBLIC UTILITIES

Jo Lynne Russo-Pereyra (Board Chair)
Citywide / Ward 4

David Crohn
Citywide / Ward 1

Jennifer O'Farrell
Ward 1

Ana Miramontes
Ward 2

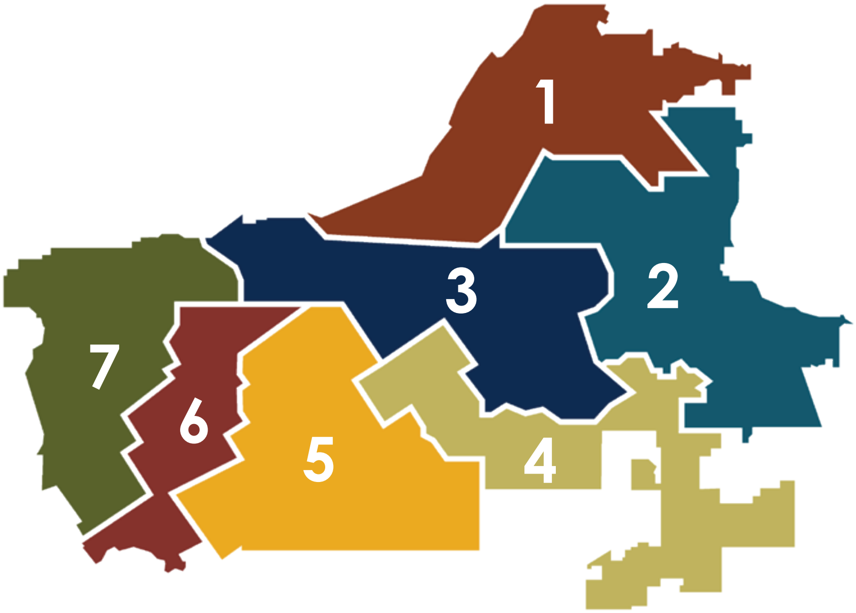
Elizabeth Sanchez-Monville
(Board Vice Chair)
Ward 3

David Austin
Ward 4

Andrew Walcker
Ward 5

Jeanette Hernandez
Ward 6

Gil Oceguera
Ward 7



EXECUTIVE MANAGEMENT

Al Zelinka
City Manager

Todd Corbin
Utilities General Manager

Daniel E. Garcia
Assistant General Manager
Resources

George Hanson
Assistant General Manager
Energy Delivery

Todd Jorgenson
Assistant General Manager
Water

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OUR **ELECTRIC**

RIVERSIDE PUBLIC UTILITIES


HIGH
RIVERSIDE

LSL
CPAs AND ADVISORS

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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 year ended June 30, 2019, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 opinions.

CPAs AND ADVISORS

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Electric Utility of the City, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Electric Utility and do not purport to, and do not present fairly the financial position of the City as of June 30, 2019, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United 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 basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Prior Year Comparative Financial Statements

The financial statements of the Electric Utility as of June 30, 2018, were audited by other auditors whose report dated October 31, 2018, expressed an unmodified opinion on those statements.

Other Information

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

Lance, Soll & Lunghard, LLP

Brea, California
November 7, 2019

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 2018-19 financial report for the periods ended June 30, 2019 and 2018 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 30 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

- During the fiscal year ended June 30, 2019, the Electric Utility implemented Governmental Accounting Standards Board Statement No. 88 (GASB 88), Certain Disclosures Related To Debt, Including Direct Borrowings And Direct Placements. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. For further details, refer to Note 4.

- Operating expense reflects a non-cash pension accounting standard adjustment, which will continue to fluctuate based on yearly actuarial information provided by the California Public Employees' Retirement System. The adjustment was ($1,323) and 9,056 in June 30, 2019 and 2018, respectively.

- Retail sales, net of uncollectibles/recovery were $304,172 and $305,969 for years ended June 30, 2019 and 2018, respectively. The decrease in sales was primarily due to reduced consumption.

- Utility plant assets as of June 30, 2019 increased by $13,458 primarily due to the completion of significant capital projects such as substation improvements, cable replacements, and major 4-12 kV conversions, as well as donated easements received for access to electrical systems, offset by current year depreciation.

- Total net position as of June 30, 2019 increased by $5,320 primarily due to a prior period adjustment to net position for costs related to pension and positive operating results.

- During the fiscal year ended June 30, 2018, the Electric Utility implemented Governmental Accounting Standards Board Statement No. 75 (GASB 75), Accounting and Financial Reporting for Postemployment Benefits other than Pensions – a replacement of GASB Statements No. 45 as amended, and No. 57, and establishes new accounting and financial reporting requirements for OPEB plans. For more information, refer to the Other Post-Employment Benefits (OPEB) section below, Note 7 of the accompanying financial statements. As of July 1, 2017, the Electric Utility restated beginning net position in the amount of $328 to record adjustments to the OPEB liability. The Electric Utility did not restate the financial statements for the fiscal year ended June 30, 2017 because the necessary actuarial information was not provided for the prior year 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 34 to 72 of this report.

ELECTRIC UTILITY FINANCIAL ANALYSIS

CONDENSED STATEMENTS OF NET POSITION

	2019	2018	2017
Current and other assets	$ 525,587	$ 450,808	$ 464,254
Capital assets	794,712	781,254	768,792
Deferred outflows of resources	46,663	50,285	65,176
Total assets and deferred outflows of resources	1,366,962	1,282,347	1,298,222
Long-term debt outstanding	616,130	531,567	557,540
Other liabilities	224,007	238,675	238,796
Deferred inflows of resources	16,093	6,692	17,685
Total liabilities and deferred inflows of resources	856,230	776,935	814,021
Net investment in capital assets	255,893	267,230	229,432
Restricted	47,876	48,906	47,727
Unrestricted	206,963	189,276	207,042
Total net position	$ 510,732 (1)	$ 505,412	$ 484,201

(1) Restated July 1, 2018, see Note 13 of the Financial Statements.

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

2019 compared to 2018 The Electric Utility's total assets and deferred outflows of resources were $1,366,962, reflecting an increase of $84,615 (6.6%), primarily due to the following:

- Current and other assets, comprised of restricted and unrestricted assets, had a net increase of $74,779, primarily due to the $283,325 issuance of the 2019 Electric Revenue Series A Bonds, which partially refunded the 2008 Electric Revenue Series A and C Bonds, fully refunded the 2008 Electric Revenue Series D Bonds, and finance capital projects for the Electric Utility. The net increase was also due to an increase of $18,762 in unrestricted cash and cash equivalents, offset by the use of bond proceeds to fund capital projects.

- Capital assets increased by $13,458 primarily due to an increase of $10,832 in additions and improvements to the Electric distribution infrastructure system to improve service and reliability to Electric Utility's customers, along with a slight increase in donated land rights and easement fir general access to electrical system assets. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.

- Deferred outflows of resources decreased by $3,622 primarily due to pension related adjustments which included the changes in assumptions and the change in projected versus actual earnings on pension plan investments as determined by the plan actuary. The decrease was offset by an increase in the fair market value of interest rate swaps. Additional information can be found in the "Interest Rate Swaps on Revenue Bonds" section of Note 4 Long-term Obligation.

2018 compared to 2017 Total assets and deferred outflows of resources were $1,282,347, a net decrease of $15,875 (1.2%). Current and other assets had a net decrease of $13,446 primarily due to a decrease of $12,714 in restricted assets due to a decrease of $13,894 in cash and investments at fiscal agent for payment of decommissioning costs related to San Onofre Nuclear Generating Station (SONGS) Units 2 and 3. This was offset by a slight increase in cash and cash equivalents related to proceeds on the sale of greenhouse gas (GHG) allowances. Capital assets increased by $12,462 primarily due to the receipt of $13,637 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 to improve service to the Electric Utility's customers. Deferred outflows of resources decreased by $14,891 primarily due to pension related adjustments which included the changes in assumptions and the change in projected versus actual earnings on pension plan investments as determined by the plan actuary.

LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

2019 compared to 2018 The Electric Utility's total liabilities and deferred inflows of resources were $856,230, an increase of $79,295 (10.2%), due to the following:

- Long-term debt outstanding increased by $84,562 primarily due to the issuance of the 2019 Electric Revenue Series A Bonds, which was partially offset by the partial refunding of the 2008 Electric Revenue Series A and C Bonds and the full refunding of the 2008 Electric Revenue Series D Bonds. Additional debt information can be found in the "Capital Assets and Debt Administration" section.

- Other liabilities decreased by $14,668 primarily due to a decrease of $24,418 in net pension liability offset by an increase of $7,410 in accounts payable and other accruals.

- Deferred inflows of resources increased by $9,401 primarily 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.

2018 compared to 2017 Total liabilities and deferred inflows of resources were $776,935, a decrease of $37,086 (4.6%). Long-term debt outstanding decreased by $25,972 primarily due to the principal payments on revenue bonds and the amortization of bond premiums, along with a bond defeasance of $11,005. Other liabilities decreased by $121, primarily due to an increase of $12,693 in net pension liability and an increase of $769 in accounts payable and other accruals, offset by a decrease of $7,297 in the fair value of derivative instruments, and a decrease of $4,097 in nuclear decommissioning liabilities. Deferred inflows of resources decreased by $10,993 primarily due to pension related adjustments, which included the changes in assumptions, the differences between expected and actual experience and the change in projected versus actual earnings on pension plan investments as determined by the plan actuary.

NET POSITION

2019 compared to 2018 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 $510,732, an increase of $5,320 (1.1%) which is primarily attributed to pension related adjustments. The following represents the changes in components of Net Position:

- The largest portion of the Electric Utility's total net position, $255,893 (50.1%), reflects its investment in capital assets less any related outstanding debt used to acquire those assets. This portion decreased by $11,337 primarily due to an increase in long-term debt, offset by an increase in bond proceeds and utility plant. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.

- The restricted portion of net position totaled $47,876 (9.4%), a decrease of $1,030, 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 $206,963 (40.5%) an increase of $17,687 from prior year, primarily attributable to the use of bond proceeds to fund capital projects and positive operating results. Unrestricted net position may be used to meet the Electric Utility's ongoing operational needs and obligations to customers and creditors.

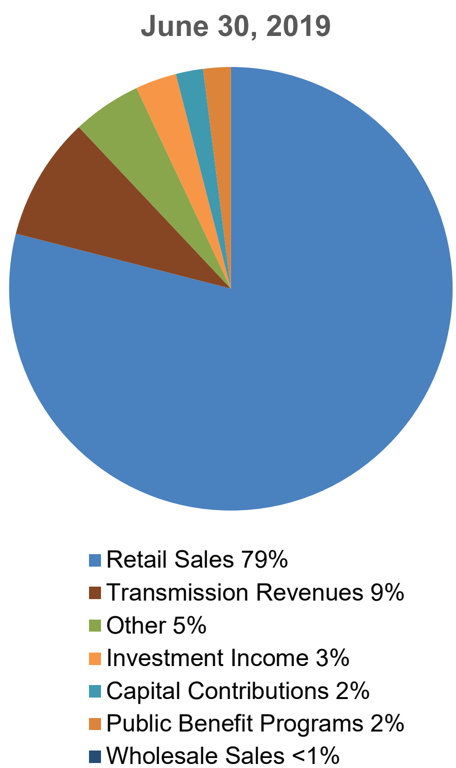
2018 compared to 2017 Total net position, increased by $21,211 (4.4%), to a total of $505,412. Net investment in capital assets increased by $37,798 primarily due to an increase in capital assets constructed or purchased during the year, net of related debt, and donated capital assets received. Restricted net position increased by $1,179 and the unrestricted portion decreased by $17,766 primarily due to the payment on bond defeasance and the use of unrestricted cash and cash equivalents to fund capital projects.

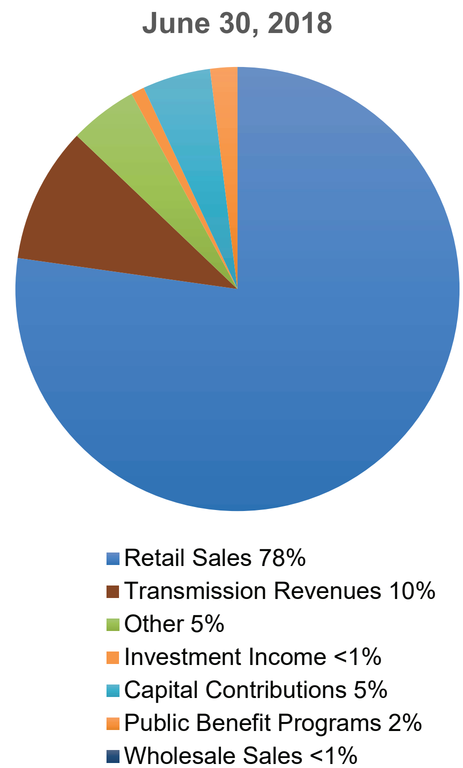
CONDENSED STATEMENTS OF CHANGES IN NET POSITION

	2019	2018	2017
Revenues:			
Retail sales, net	$ 304,172	$ 305,969	$ 308,781
Wholesale sales	344	2	9
Transmission revenues	35,730	37,484	35,497
Investment income	13,372	2,567	1,809
Other revenues	17,397	18,922	20,493
Public Benefit Programs	9,292	8,860	8,880
Capital contributions	6,383	20,182	19,684
Total revenues	386,690	393,986	395,153
Expenses:			
Production and purchased power	155,264	136,423	132,349
Transmission	64,443	62,981	59,497
Distribution	58,729	67,436	59,906
Public Benefit Programs	8,933	7,820	7,602
Depreciation	34,471	33,585	32,642
Interest expenses and fiscal charges	25,053	24,129	25,340
Total expenses	346,893	332,374	317,336
Transfers to the City's general fund	(39,886)	(40,073)	(39,230)
Changes in net position	(89)	21,539	38,587
Net position, July 1, as previously reported	505,412	484,201	445,614
Less: Cumulative effect of change in accounting principle (1)	5,409	(328)	-
Net position, July 1, as restated	510,821	483,873	445,614
Net position, June 30	$ 510,732	$ 505,412	$ 484,201

(1) For the implementation of postemployment benefits other than pensions, GASB Statement No. 75, for the year ended June 30, 2018, and restatement of pension allocation, GASB Statement No. 68, for the year ended June 30, 2019.

REVENUES BY SOURCES





2019 compared to 2018 The Electric Utility's total revenues of $386,690 decreased by $7,296 (1.9%) with changes in the following:

- Retail sales (residential, commercial, industrial, and others), net of uncollectibles/recovery, totaled $304,172, a $1,797 (0.6%) decrease. Retail sales continue to be the primary revenue source for the Electric Utility. The decrease in sales was primarily due a slight decrease in consumption.

- Transmission revenues of $35,730 decreased by $1,754 (4.7%), primarily due to a slight decrease in the load requirements as a result of a decrease in consumption.

- Investment income of $13,372 increased by $10,805 (420.9%) due to an increase in cash balances as a result of the 2019 Electric Revenue Series A Bonds and a higher overall interest rate in the current fiscal year.

- Other revenues of $17,397 decreased by $1,525 (8.1%), primarily due to a decrease settlement recoveries and refunds and reimbursements, offset by an increase in proceeds from sale of renewable energy credits.

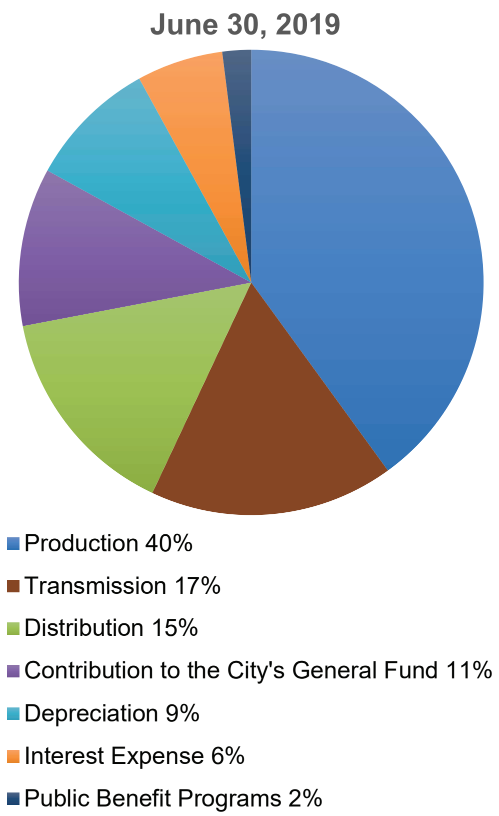
2018 compared to 2017 The Electric Utility's total revenues of $393,986 decreased by $1,167 (0.3%) with changes in the following:

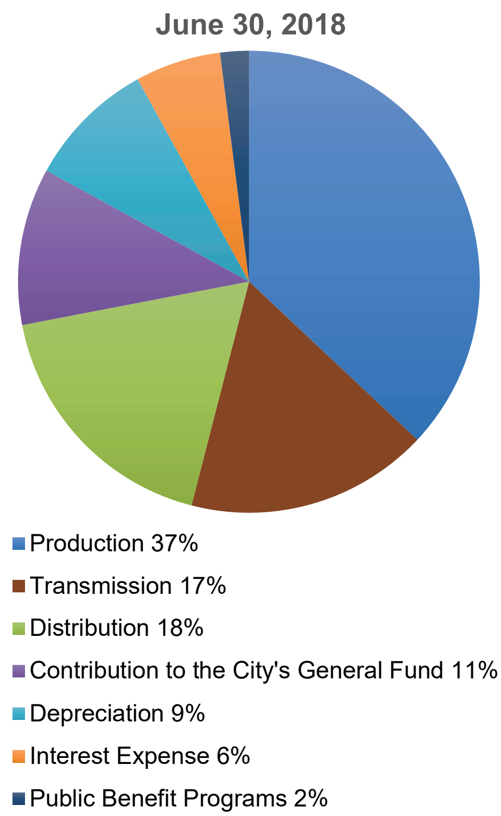
- Retail sales (residential, commercial, industrial, and others), net of uncollectibles/recovery, totaled $305,969, a $2,812 (0.9%) decrease. The decrease in sales was primarily due to a slight decrease in customer consumption.

- Transmission revenues of $37,484 increased by $1,987 (5.6%), primarily due to an increase in the high voltage utility specific rate per the annual filing with Federal Energy Regulatory Commission.

- Other revenues of $18,922 decreased by $1,571 (7.7%), primarily due to a decrease in proceeds from the sale of renewable energy credits and settlement recoveries, offset by an increase in proceeds from the sale of GHG allowances.

EXPENSES BY SOURCES





2019 compared to 2018 The Electric Utility's total expenses, excluding general fund transfer, were $346,893, an increase of $14,519 (4.4%). The increase was primarily due to the following:

- Production and purchased power expenses of $155,264 increased by $18,841 (13.8%) primarily due to an increase in power supply costs related to elevated market energy and natural gas prices during the summer season.

- Transmission expenses of $64,443 increased by $1,462 (2.3%), mainly due to increased maintenance costs related to the Southern Transmission System.

- Distribution expenses of $58,729 decreased by $8,707 (12.9%), mainly due to a non-cash pension credit adjustment of $1,323 compared to prior year non-cash pension adjustment of $9,056 as a result of pension accounting standards, offset by an overall increase in general operating expenses.

- Depreciation expense of $34,471 increased by $886 (2.6%), reflecting the completion of capital projects and their current year depreciation.

2018 compared to 2017 Total expenses, excluding general fund transfer, were $332,374, an increase of $15,038 (4.7%). The increase was primarily due to the following:

- Production and purchased power expenses of $136,423 increased by $4,074 (3.1%) primarily due to an increase in power supply costs in the current year and new renewable energy projects coming online.
- Transmission expenses of $62,981 increased by $3,484 (5.9%), mainly due to increases in the transmission access charge from the California Independent System Operator (CAISO).
- Distribution expenses of $67,436 increased by $7,530 (12.6%), mainly due to non-cash pension expense adjustment of $9,056 as a result of pension accounting standards, as well as an overall increase in general operating expenses. This is offset by a decrease of a one-time expenditure in the prior year of $2,593 in pension obligation.
- Depreciation expense of $33,585 increased by $943 (2.9%), reflecting the completion of capital projects and their current year depreciation.

TRANSFERS

Pursuant to the City of Riverside Charter, the Electric Utility may transfer up to 11.5 percent of prior year's gross operating revenues, including adjustments, to the City's general fund. The City uses these funds to help provide needed public services to the residents of the City, including police, fire, parks, libraries and other benefits. The Electric Utility transferred $39,886 and $40,073 for 2019 and 2018, 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:

	2019	2018	2017
Production	$ 170,209	$ 178,597	$ 187,543
Transmission	25,440	26,237	27,068
Distribution	389,552	375,143	363,986
General	67,250	68,674	72,923
Intangibles	13,274	15,366	17,140
Land	53,029	52,111	37,845
Intangibles, non-amortizable	10,651	10,651	10,651
Construction in progress	65,307	54,475	51,636
Total capital assets	$ 794,712	$ 781,254	$ 768,792

2019 compared to 2018 The Electric Utility's investment in capital assets, net of accumulated depreciation, was $794,712, an increase of $13,458 (1.7%). The increase resulted primarily from the following significant capital projects offset by current year depreciation:

- $31,731 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.
- $6,396 for the Riverside Transmission Reliability Project for additional generation import capability for a second point of interconnection with the State's high voltage transmission grid.
- $3,086 in upgrades of lower voltage (4kV) electric distribution facilities to higher distribution voltage (12kV) to reduce system losses, increase capacity for necessary system growth, and improve system reliability.
- $1,736 in donated underground electrical conduit and $899 in donated land rights and easement for general access to electrical system assets.

2018 compared to 2017 Investment in capital assets, net of accumulated depreciation, was $781,254, an increase of $12,462 (1.6%). The increase resulted from $22,474 in additions and improvements to the Electric system, $13,637 in donated land rights and easements for general access to electrical system assets, $2,197 in upgrades of lower voltage (4kV) electric distribution facilities to higher distribution voltage (12kV), and $3,207 for the Riverside Transmission Reliability Project for additional generation import capability for a second point of interconnection with the State's high voltage transmission grid.

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

DEBT ADMINISTRATION

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

	2019	2018	2017
Revenue bonds (including private placement revenue bonds)	$ 565,455	$ 528,715	$ 553,515
Unamortized premium	52,484	6,624	7,402
Capital leases	1,444	2,274	3,098
Pension obligation bonds	8,400	10,418	12,312
Less: Current portion of revenue and pension obligation bonds	(11,653)	(16,463)	(15,689)
Total	$ 616,130	$ 531,568	$ 560,638

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 2.23, 2.71, and 2.95 at June 30, 2019, 2018 and 2017, respectively. This debt is backed by the revenues of the Electric Utility. The prior years' debt service coverage ratio has been restated to exclude the non-cash pension related adjustment for required pension accounting standards. For additional information, see Note 4 of the accompanying financial statements and Key Historical Operating Data section.

2019 compared to 2018 The Electric Utility's long-term debt increased by $84,562 (15.9%) to $616,130 as a result of issuance of the 2019 Electric Revenue Series A Bonds, which partially refunded the 2008 Electric Revenue Series A and C Bonds, fully refunded the 2008 Electric Revenue Series D Bonds, and finance capital projects for the Electric Utility. This is offset by current year principal payments and amortization of bond premiums.

2018 compared to 2017 Long-term debt decreased by $28,246 (5.1%) to $529,294 as a result of principal payments and amortization of bond premiums, along with the principal payment for bond defeasance.

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 S&P Global Ratings (S&P) and "AA-" from Fitch Ratings (Fitch).

In January 2019, S&P assigned its "AA-" rating on the Electric Utility's 2019A Refunding Electric System revenue bonds and affirmed its "AA-" long-term rating on the Electric Utility's outstanding fixed rate bonds. The rating reflects the Electric Utility's strong enterprise and financial risk profiles and the Electric Utility's diverse and low-cost resource portfolio, including an emphasis on renewable energy resources.

In January 2019, Fitch also assigned its "AA-" rating on the Electric Utility's Refunding Electric System revenue bonds and affirmed its "AA-" long-term rating on the Electric Utility's outstanding fixed rate bonds. This rating is a result of the Electric Utility's evolving power resource portfolio, which is well positioned to meet California's increasing environmental regulations, stable financial performance and strong liquidity levels.

The Electric Utility has maintained these credit ratings since 2008.

REGULATORY, LEGISLATIVE FACTORS, AND RATES

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

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

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

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

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

Any allowance not used for current year compliance or carried over for future use in compliance must be sold into the quarterly allowance auctions administered by CARB. Proceeds from the auctions must be used for the intended purposes as specified in AB 32 which include but are not limited to procurement of renewable resources, energy efficiency and conservation programs and measures that provide clear GHG reduction benefits. The Electric Utility is segregating the proceeds from the sales of allowances in the auctions as a restricted asset.

SENATE BILL (SB) 1368 – EMISSION PERFORMANCE STANDARD

The state legislature passed SB 1368 in 2006, which mandates that electric utilities are prohibited from making long term financial commitments (commitments greater than five years in duration) for generating resources with capacity factors greater than 60 percent that exceed a GHG emission factor of 1,100 lbs. /megawatt hour (MWh). SB 1368 essentially prohibits any long-term investments in generating resources based on coal. Thus, SB 1368 initially disproportionally impacted Southern California POU's as these utilities had heavily invested in coal technology. Now with the changing landscape of legislation and regulations that are constantly increasing renewable goals and continually decreasing GHG emissions via bills such as SBX1-2, SB 350, SB 100, and SB 32 have led to a gradual decrease in the generation of existing coal resources to serve load.

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

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

ASSEMBLY BILL (AB) 2514 - ENERGY STORAGE

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

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

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

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

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

On September 26, 2017, after reevaluating its assessment of the first adopted energy storage procurement target of zero megawatts, the City approved and adopted the second energy storage procurement target of six megawatts for submittal to the CEC.

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

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

Beginning June 1, 2016, Southern California Gas Company (SoCalGas) implemented new Operational Flow Order (OFO) tariffs due to limitations surrounding Aliso Canyon storage injections and withdrawals. These tariff changes were put in place to reduce the probability of natural gas curtailments, which would disproportionally impact Riverside due to the requirements to operate internal natural gas generation to maintain system reliability during the summer. Also, gas curtailments during high peak days could lead to severe service curtailments throughout Riverside. Therefore, the Electric Utility immediately increased internal communication across divisions, created internal gas curtailment procedures to address this specific issue, and created revised dispatch procedures when load forecasts exceed 400 MW. These tighter OFO tariff restrictions were scheduled to conclude upon the earlier of the return of Aliso Canyon to at least 450 million cubic feet per day (MMcfd) of injection capacity and 1,395 MMcfd of withdrawal capacity, or March 31, 2017. Aliso Canyon had not been able to meet its injection and withdrawal targets, therefore, these tighter OFO tariff restrictions continued to remain in effect. In addition, the Electric Utility continues to communicate daily with the CAISO and SoCalGas on any changes that could impact our service territory.

On July 19, 2017, DOGGR issued a press release on their determination, in concurrence with the CPUC, that Aliso Canyon was safe to resume injections up to 28% of the facility's maximum capacity. On that same day, the CEC issued a different press release with a recommendation urging closure of Aliso Canyon in the long-term. On July 31, 2017, SoCalGas resumed injections. Effective July 23, 2019, the CPUC approved new protocols that enable SoCalGas to withdraw from Aliso Canyon natural gas storage facility when specific conditions are met related to Low Operational Flow Order (OFO) calculations, Southern California natural gas inventory levels, and/or emergency conditions.

The Electric Utility fulfilled its system reliability without any issues during multiple heat waves in 2016, 2017, and 2018. Going forward, the Electric Utility will continue to monitor workshops and new legislation and regulations that impact the status of Aliso Canyon and its effect on the reliability of our service territory. Senate Bill 380 added Section 715 to the Public Utilities Code, which requires the CPUC to determine the range of Aliso inventory necessary to ensure safety, reliability, and just and reasonable rates. In the most recent 715 Report, the Energy Division recommended that the maximum allowable Aliso inventory be increased from 24.6 to 34 billion cubic feet for summer 2018 due to continuing pipeline outages on the SoCalGas system. As of October 07, 2019, the results of the 114 injection well tests are as follows: 66 wells have completed all required tests and have received final DOGGR approval; 27 wells are in the process of restoration; and 21 wells have been plugged and abandoned.

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

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

The Electric Utility is still waiting upon direction from the CEC on the actual MW obligation shares and the target date on when the contracts must be procured. It is expected that these facilities will be counted towards the Electric Utility's Renewable Portfolio Standard (RPS) goals and preliminary analysis indicated that the City's MW share should be minimal. On October 13, 2016, the CPUC adopted Resolution E-4805, which established that the POUs be allocated 29 MW of the 125 MW statewide mandate. The City determined that their obligated share would be 1.3 MW to meet the mandate.

In 2017, the affected POUs consisting of the cities of Anaheim, Los Angeles, and Riverside, Imperial Irrigation District, Modesto Irrigation District, Sacramento Municipal Utility District, and Turlock Irrigation District decided it would be beneficial to procure a contract together for economies of scale. This was accomplished by utilizing SCPPA to issue a Request for Proposal on behalf of all the affected POUs, since four of the seven POUs affected are existing SCPPA members.

In January 2018, the Riverside Board and City Council approved the City's five-year Power Sales Agreement with SCPPA for 0.8 MW from the ARP-Loyalton biomass project. On April 20, 2018, the facility declared commercial operation. The remaining MW procurement requirement is currently undergoing negotiations with another entity.

On September 21, 2018, the Governor signed into law SB 901, which primarily focuses on strengthening California's ability to prevent and recover from catastrophic wildfires such as via forest management activities, updating requirements for maintenance and operations of utility infrastructure, assessing GHG emissions impact, and protecting ratepayers. The bill also included a clause for certain biomass contracts that were procured or operating in 2018 and set to expire on or before December 31, 2023 to be offered a contract extension. The Electric Utility is required to "seek to amend the contract to include, or seek approval for a new contract that includes, an expiration date 5 years later than the expiration in the contract". Although there is no enforcement mechanism, the ARP-Loyalton biomass project meets the above criteria and feedstock requirement referenced in SB 901 and SB 859. The Electric Utility is currently working with ARP-Loyalton to comply with SB 901.

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

SB 350, enacted in 2015, consists of a multitude of requirements to meet the Clean Energy and Pollution Reduction Act of 2015. The primary components that affect the Electric Utility are: 1) the increased mandate of the California RPS to 50% by December 31, 2030, 2) doubling of energy efficiency savings by January 1, 2030, and 3) providing for the transformation of the CAISO into a regional organization. In addition, there is a specific integrated resource planning mandate embedded in the bill that applies to the 16 POUs that have an annual electrical demand exceeding 700 GWh over a 3-year average, which includes the Electric Utility.

The bill also requires that an updated RPS Procurement Policy must be approved and adopted before January 1, 2019 and be incorporated into the Electric Utility's Integrated Resource Plan (IRP). An Updated 2018 Renewable Energy Procurement Policy was adopted by the Board and City Council on September 10, 2018 and October 9, 2018, respectively. In parallel, on or before January 1, 2019, the governing board of the Electric Utility must adopt an IRP and a process for updating the plan at least once every 5 years. The IRP must address specific topics such as energy efficiency and demand response resources, transportation electrification, GHG emissions, energy storage resources, enhance distribution systems and demand-side management, etc. The IRP must be submitted to the CEC for review, of which the CEC will check if the statutory requirements have been met and will adopt guidelines to govern the submission of the IRP information. On August 9, 2017, the CEC adopted the POU IRP Submission and Review Guidelines.

Shortly thereafter, on September 30, 2017, the Governor signed SB 338, which requires that the governing board of local POUs consider as part of the IRP process the role of existing renewable generation, grid operational efficiencies, energy storage, energy efficiency, and distributed energy resources in meeting the energy and reliability needs of each utility during the hours of peak demand. On August 1, 2018, the CEC adopted a Second Edition of the POU IRP Submission and Review Guidelines to include the requirements of SB 338. On October 3, 2018, the CEC adopted an amendment to the second edition guidelines to include the CARB's GHG emission reduction planning targets for IRPs.

On November 26, 2018 and December 11, 2018, the Board of Public Utilities and City Council, respectively, adopted the Electric Utility's 2018 Integrated Resource Plan. The IRP and additional submittal requirements were submitted to the CEC on December 18, 2018. In April 2019, the CEC issued their Staff Paper Review of the Electric Utility's IRP and the CEC Executive Director's Determination Letter finding the Electric Utility to be consistent with the requirements of SB 350. The adoption of this determination occurred at the CEC Business meeting on August 14, 2019.

The CEC continues to host various workshops on different components of the SB 350 requirement and the Electric Utility has been monitoring its outcome.

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

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

In 2017, the CEC began hosting workshops on the GHG emissions disclosure requirements and initiated the rulemaking process of updating their PSD regulations. A pre-rulemaking phase also began that included an implementation proposal on AB 1110. The legislation requires the CEC to adopt guidelines by January 1, 2018. In early 2018, the CEC provided an update to their 2017 pre-rulemaking activities and proposed changes to the regulations and reports, but additional workshops were needed. In March 2019, the last pre-rulemaking workshop was held by the CEC, with the intent to begin the formal rulemaking in May, but was delayed until September 2019. The adoption of the updated PSD regulations and how the additional GHG emissions intensity information will be conveyed to customers in the PSD report and PCL is expected to occur in November 2019. The most notable changes to the report and label is the addition of the GHG emission intensity and how certain energy resources will be conveyed to the customers to meet the AB 1110 requirement. Riverside continues to monitor the workshops and draft regulations for any impacts to the utility's reporting and resources in meeting this requirement.

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

AB 398 was signed on July 25, 2017, and approved extending the GHG cap-and-trade program to December 31, 2030, which was originally implemented under AB 32. This bill was also a companion bill to AB 617 as part of a legislative package that will be discussed further below. AB 398 required the CARB to update their scoping plan no later than January 1, 2018 and that all GHG rules and regulations that are adopted are consistent with this plan. On July 27, 2017, the ARB approved the 2016 Cap-and-Trade Amendments, which includes the Electric Utility's 2021-2030 allowance allocations they will receive each year. The Electric Utility's allowance allocations should be more than sufficient to cover all of our 2021-2030 direct compliance obligations.

Initially, it was unclear under AB 398 whether the Electric Utility would be required to consign 100% of their allowances to the market and then purchase allowances to fulfill its compliance obligations. POUs receive a sufficient amount of allowances each year to cover their compliance. Since the start of the Cap and Trade program in 2012, POUs have been able to use those received allowances for compliance. However, in 2017, the CARB announced they were reconsidering that provision. In early 2018, after much discussion and collaboration with the CARB in which the POUs demonstrated that they are including the price of GHG emissions in the cost of energy, it was agreed that the POUs would not be forced to consign their allocated allowances and the structure would remain the same as it has and currently functions. Other unknown components of the law are the banking provisions and the specific GHG revenue spending requirement for revenues generated from the sale of excess allowances. CARB will be hosting more workshops and issuing the next iteration of regulation changes in 2019 and 2020. The Electric Utility will continue to monitor the outcome and impacts of the upcoming regulations on its service territory and ratepayers.

ASSEMBLY BILL (AB) 617 – AIR QUALITY MONITORING

AB 617 was signed on July 26, 2017, and was part of a legislative bill package with AB 398 which authorized the extension of the Cap and Trade Program in the State. AB 617 addresses the disproportionate impacts of air pollution in areas impacted by a combination of economic, health, and environmental burdens. These burdens include combinations of poverty, high unemployment, health conditions such as asthma and heart disease, air and water pollution, and hazardous wastes. Both the CARB and local air districts are required to take specific actions to reduce air pollution and toxic air contaminants from commercial and industrial sources, including from electricity-generating facilities. The bill requires the CARB, by October 1, 2018, to prepare a statewide monitoring plan regarding technologies and reasons for monitoring air quality and, based on that plan, identify the highest priority locations for the deployment of community level air monitoring systems. Local air districts are required to deploy the air monitoring systems in the specified communities by July 1, 2019. Additional locations for the deployment of the systems will be identified annually by the CARB beginning January 1, 2020. CARB is also required to provide grants to community-based organizations for technical assistance and to support community participation in the programs. In turn, this effort would require the local air district of the selected community to adopt a community emissions reduction program.

Additionally, AB 617 requires the CARB to develop uniform reporting standards for criteria air pollutants and toxic air contaminants for specific uses, including electricity-generating facilities. Air districts are to adopt an expedited schedule for implementing best available retrofit control technologies for the uses, while the CARB will identify these technologies.

This bill affects the City and the Electric Utility by imposing additional reporting requirements, particularly on power plants, and potentially adding or improving air monitoring systems in selected communities located within the City of Riverside. For Riverside, the local air district is the Southern California Air Quality Management District ("SCAQMD"). The CARB and SCAQMD have held and continue to hold community meetings to implement the required elements of AB 617. Preliminary discussions and proposals have already been conveyed by community members from the City as well as from the University of California, Riverside proposing areas for community air monitoring and planning. The City and Electric Utility is monitoring the progress of the community meetings and the two proposed areas for any impacts.

ASSEMBLY BILL (AB) 802 – BUILDING ENERGY USE BENCHMARKING AND PUBLIC DISCLOSURE PROGRAM

On October 8, 2015, AB 802 was signed into law creating a new statewide building energy use benchmarking and public disclosure program for the State of California. The bill requires California utilities to maintain records of energy usage data for all buildings (i.e., commercial and multifamily buildings over 50,000 square feet gross floor area) for at least the most recent 12 months. Beginning January 1, 2017, utilities are required to deliver or provide aggregated energy usage data for a covered building, as defined, to the owner, owner's agent or operator upon written request. The Electric Utility provides consumption data for buildings meeting the legislative requirement upon owners' written request. The CEC adopted regulations on October 11, 2017 and approved the regulation action to be effective on March 1, 2018. Building owners are required to report annually with the first report due by June 1, 2018.

SENATE BILL (SB) 100 – THE 100 PERCENT CLEAN ENERGY ACT OF 2018

On September 10, 2018, the Governor signed into law the 100 Percent Clean Energy Act of 2018 (SB 100). This bill further increases the RPS goals of SBX1-2 and SB 350, while maintaining the 33% RPS target by December 31, 2020, but modifying the future RPS percentages to be 44% by December 31, 2024, 52% by December 31, 2027, and 60% by December 31, 2030. The current end goal of SB 100 is to have 100% of the state's retail electricity supply generated from a mix of RPS-eligible and zero-carbon resources by December 31, 2045.

The CEC is required to establish appropriate multiyear compliance periods for all subsequent years after 2030 that will require POUs to procure not less than 60% of retail sales from renewable resources. In September 2019, the CEC began conducting pre-rulemaking workshops to discuss potential amendments to the RPS Enforcement Procedures for POUs that would incorporate the SB 100 mandates. In addition, POUs will need to include the increased requirements in their future IRP. It is expected that additional workshops and the formal rulemaking process to adopt revised regulations will occur throughout the year in 2020. Riverside will continue to monitor the outcome and impacts of any upcoming workshops and regulations in meeting the new requirements.

SENATE BILL (SB) 1028, SB 901 AND ASSEMBLY BILL (AB) 1054 – LEGISLATION RELATING TO WILDFIRES

On September 24, 2016, Governor Brown signed into law SB 1028, which requires each POU, IOU and electric cooperative to construct, maintain, and operate its electrical lines and equipment in a manner that will minimize the risk of catastrophic wildfire posed by those electrical lines and equipment.

SB 901, which was passed at the end of the 2017-2018 biennium session of the California State Legislature and signed by the Governor on September 21, 2018, is meant to address the Governor's and legislative leaders' desire to address response, mitigation, and prevention of wildfires. The bill requires, among other things, the Electric Utility to prepare before January 1, 2020 and annually thereafter, a wildfire mitigation plan (WMP) that includes specified information and elements. The Electric Utility must present its WMP in an appropriately noticed public meeting and accept comments on the plan from the public, other local and state agencies, and interested parties, and to verify that the plan complies with all applicable rules, regulations, and standards, as appropriate. In addition, the Electric Utility must contract with a qualified independent evaluator to review and assess the comprehensiveness of its plan. The report of the independent evaluator must be made available on the Electric Utility's website and will present it at the local governing board's public meeting.

On July 12, 2019, the Governor signed into law AB 1054, which establishes the California Wildfire Safety Advisory Board, adds an additional process requirement for review of wildfire mitigation plans, and establishes a wildfire fund. In addition to the Electric Utility presenting its WMP to its local governing board by January 1, 2020, the Electric Utility must submit it to the new advisory board by July 1, 2020 and provide annual updates each year thereafter, and is required to submit a comprehensive WMP at least once every three years. The Electric Utility plans to bring its WMP to the Public Utilities Board for adoption by the end of 2019. For the wildfire fund, only voluntary participating IOUs are eligible for claims arising from a covered wildfire. The POUs are not required nor able to join due to concerns and issues over complications of funding as a public entity.

The bills do not address existing legal doctrine relating to utilities' liability for wildfires. However, any future legislation that addresses California's inverse condemnation and strict liability issues for utilities in the context of wildfires in particular could be significant for the Electric Utility. Riverside will continue to monitor the outcome and impacts of any upcoming legislation and regulations on its service territory and ratepayers.

FIVE-YEAR ELECTRIC RATE PLAN

On May 22, 2018, the City Council approved a five-year Electric Rate Plan, with rate increases that become effective on January 1, 2019, 2020, 2021, 2022 and 2023 with annual reviews of the adopted rates by City Council. The system average rate increase effective January 1, 2019 was 2.95%, followed by system average rate increases of 3.0% in years two through five. The Electric Rate Plan included the introduction of electric rate components over a five-year period to better align with its cost of serving customers and its revenue requirement. The Electric Rate Plan was designed to provide financial stability and correct the imbalance of costs versus revenue recovery by increasing fixed cost recovery through monthly service charges and a new network access charge to reflect the nature of underlying costs.

ECONOMIC DEVELOPMENT AND GREEN INITIATIVES

The City of Riverside has a long history of valuing sustainability and ensuring economic development. Recent efforts for sustainability began in 2001 when the City began using light-emitting diodes in all City traffic signals. Today, the City remains committed to environmental issues and serves as a state leader in sustainability.

The City's first sustainability policy statement was adopted in 2007 and ultimately led to the adoption of three Green Action Plans, the most recent in 2012. In 2009, the City also adopted sustainability policies associated with economic development as part of the "Seizing Our Destiny" citywide vision, incorporating a "Becoming a Green Machine" strategic route with specific initiatives. Additional adopted policies can be found in the City's General Plan 2025 (2007), the Environmentally Preferable Purchasing Policy (2009), the Food and Agriculture Policy Action Plan (2015) and the Riverside Restorative Growthprint (2016).

In 2012, the City hosted the first of three community-wide Green Riverside Leadership Summits. Subsequent summits were held in 2014, 2016, and 2019. Events in 2012 and 2019 were in partnership with the University of California Riverside. Events in 2014 and 2016 were conducted as part of the community-led Riverside Green Festival and Summit.

In 2015, the City earned a 3-STAR Community Rating designation from Sustainability Tools for Assessing and Rating (STAR) Communities, an organization that works to evaluate, improve and certify sustainable communities. The STAR Community Rating system has since ended and the City, along with RPU, is evaluating several sustainability ratings systems to select the system under which the City will report.

The City has received numerous recognitions for its sustainability programs and initiatives. In 2009, the California Department of Conservation named Riverside its first "Emerald City" in recognition for its sustainable green initiatives and commitment to help the state achieve multiple state environmental priorities. 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. The Green California Leadership Summit again recognized the City in 2018 with its Leadership Award for the City Green Fleet Program.

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

In 2017, the City received the "Outstanding Award" for Climate Change from the Association of Environmental Professional (AEP) for the Riverside Restorative Growthprint (RRG) Plan, a comprehensive plan adopted in 2016 with two major parts: an Economic Prosperity Action Plan and a Climate Action Plan. The Electric Utility played a key role in the City's effort to create and adopt RRG, which helps the City identify GHG reduction measures and strategies with the greatest potential to drive local economic development through clean-tech investment and the expansion of local green businesses. Ultimately, this effort spurs entrepreneurship and smart growth while advancing the City's GHG reduction goals.

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

Beyond rate incentives, the Electric Utility also offers local businesses a comprehensive assortment of water and energy efficiency programs to improve building efficiency and reduce customer electric consumption. These programs include the Small Business Direct Installation Program, which, in fiscal year 2019, helped 618 customers conserve over 2 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 the end of 2021, resulting in approximately 10 million kWh saved annually along with substantially reduced maintenance costs. Additionally, the Electric Utility's grant program continues to provide assistance to local universities by providing funding for important research projects that explore new ways to advance energy technology and water conservation techniques.

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

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

REQUESTS FOR INFORMATION

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

ELECTRIC UTILITY:
FINANCIAL STATEMENTS

STATEMENTS OF NET POSITION

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	June 30, 2019	June 30, 2018
	(in thousands)	
NON-CURRENT ASSETS:		
Utility plant:		
Utility plant, net of accumulated depreciation (Notes 3)	$ 794,712	$ 781,254
Restricted assets:		
Cash and investments at fiscal agent (Note 2)	125,372	69,047
Other non-current assets:		
Advances to other funds of the City	3,803	4,227
Unamortized purchased power (Note 11)	12,683	10,913
Regulatory assets	1,939	1,949
Total other non-current assets	18,425	17,089
Total non-current assets	938,509	867,390
CURRENT ASSETS:		
Unrestricted assets:		
Cash and cash equivalents (Note 2)	293,449	274,687
Accounts receivable, less allowance for doubtful accounts 2019 $890; 2018 $629	31,222	32,799
Advances to other funds of the City	325	305
Accrued interest receivable	976	1,016
Inventory	971	1,097
Prepaid expenses	5,839	5,310
Unamortized purchased power (Note 11)	329	218
Total unrestricted current assets	333,111	315,432
Restricted assets:		
Cash and cash equivalents (Note 2)	31,399	32,784
Public Benefit Programs - cash and cash equivalents (Note 2)	16,439	15,575
Public Benefit Programs receivable	841	881
Total restricted current assets	48,679	49,240
Total current assets	381,790	364,672
Total assets	1,320,299	1,232,062
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflows related to pension (Note 6)	22,300	30,596
Changes in derivative values	14,740	10,692
Loss on refunding	9,623	8,997
Total deferred outflows of resources	46,663	50,285
Total assets and deferred outflows of resources	$ 1,366,962	$ 1,282,347

See accompanying notes to the financial statements

STATEMENTS OF NET POSITION

NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	June 30, 2019	June 30, 2018
	(in thousands)	
NET POSITION:		
Net investment in capital assets	$ 255,893	$ 267,230
Restricted for:		
Regulatory requirements (Note 8)	18,004	16,093
Debt service (Note 6)	13,396	16,691
Public Benefit Programs	16,476	16,122
Unrestricted	206,963	189,276
Total net position	510,732	505,412
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4)	616,130	531,568
OTHER NON-CURRENT LIABILITIES:		
Compensated absences (Note 5)	750	521
Net pension liability (Note 6)	84,468	108,886
Nuclear decommissioning liability (Note 10)	52,864	55,120
Net other postemployment benefits liability (Note 7)	8,572	8,283
Derivative instruments (Note 4)	19,037	15,228
Regulatory liability	2,904	-
Total non-current liabilities	168,595	188,038
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	5,854	4,846
Public Benefit Programs payable	643	235
Nuclear decommissioning liability (Note 10)	5,335	5,457
Current portion of long-term obligations (Note 4)	11,653	16,463
Total current liabilities payable from restricted assets	23,485	27,001
CURRENT LIABILITIES:		
Accounts payable and other accruals	19,217	11,807
Compensated absences (Note 5)	4,563	4,547
Customer deposits	7,255	6,397
Unearned revenue	62	61
Current portion of long-term obligations (Note 4)	830	824
Total current liabilities	31,927	23,636
Total liabilities	840,137	770,243
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows related to pension (Note 6)	15,786	6,396
Deferred inflows related to other postemployment benefits (Note 7)	307	296
Total deferred inflows of resources	16,093	6,692
Total net position, liabilities and deferred inflows of resources	$ 1,366,962	$ 1,282,347

See accompanying notes to the financial statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	For the Fiscal Years Ended June 30, 2019	2018
	(in thousands)	
OPERATING REVENUES:		
Residential sales	$ 116,303	$ 115,630
Commercial sales	69,878	71,128
Industrial sales	114,078	115,106
Other sales	4,824	4,792
Wholesale sales	344	2
Transmission revenue	35,730	37,484
Other operating revenue	13,121	11,514
Public Benefit Programs	9,292	8,860
Total operating revenues before uncollectibles	363,570	364,516
Estimated uncollectibles, net of bad debt recovery	(911)	(687)
Total operating revenues, net of uncollectibles	362,659	363,829
OPERATING EXPENSES:		
Production and purchased power	155,264	136,423
Transmission	64,443	62,981
Distribution	58,729	67,436
Public Benefit Programs	8,933	7,820
Depreciation	34,471	33,585
Total operating expenses	321,840	308,245
Operating income	40,819	55,584
NON-OPERATING REVENUES (EXPENSES):		
Investment income	13,372	2,567
Interest expense and fiscal charges	(25,053)	(24,129)
Gain on sale of assets	287	579
Other	3,989	6,829
Total non-operating revenues (expenses)	(7,405)	(14,154)
Income before capital contributions and transfers out	33,414	41,430
Capital contributions	6,383	20,182
Transfers out - contributions to the City's general fund	(39,886)	(40,073)
Total capital contributions and transfers out	(33,503)	(19,891)
Increase in net position	(89)	21,539
NET POSITION, BEGINNING OF YEAR	505,412	484,201
RESTATEMENT OF NET POSITION (Note 13)	5,409	(328)
NET POSITION, BEGINNING OF YEAR, AS RESTATED	510,821	483,873
NET POSITION, END OF YEAR	$ 510,732	$ 505,412

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

	For the Fiscal Years Ended June 30, 2019 (in thousands)	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	$ 365,134	$ 366,925
Cash paid to suppliers and employees	(284,991)	(270,224)
Net cash provided by operating activities	80,143	96,701
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(39,886)	(40,073)
Payment on pension obligation bonds	(2,018)	(1,894)
Other receipts from non-operating activities	3,989	6,829
Cash received on advances to other funds of the City	404	316
Net cash used by non-capital financing activities	(37,511)	(34,822)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(43,160)	(27,460)
Proceeds from the sale of utility plant	369	671
Proceeds from revenue bonds, including premium	103,303	-
Revenue bond refunding cost	(2,323)	-
Payment on bond defeasance	-	(11,005)
Principal paid on long-term obligations	(15,269)	(14,602)
Interest paid on long-term obligations	(27,149)	(25,894)
Capital contributions	3,497	3,154
Bond issuance costs	(746)	-
Net cash provided (used) by capital and related financing activities	18,522	(75,136)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investment securities	2,707	13,895
Income from investments	13,412	2,442
Net cash provided by investing activities	16,119	16,337
Net increase in cash and cash equivalents	77,273	3,080
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR **(including $48,359 and $47,133 at June 30, 2018 and June 30, 2017, respectively, reported in restricted accounts)**	323,046	319,966
CASH AND CASH EQUIVALENTS, END OF YEAR **(including $106,870 and $48,359 at June 30, 2019 and June 30, 2018, respectively, reported in restricted accounts)**	$ 400,319	$ 323,046
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 40,819	$ 55,584
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	34,471	33,585
Increase in allowance for uncollectible accounts	261	120
Decrease in accounts receivable	1,356	2,575
Decrease in inventory	126	-
(Increase) decrease in prepaid expenses	(530)	735
(Increase) in unamortized purchased power	(1,881)	(2,080)
Increase in accounts payable and other accruals	7,364	329
Increase in compensated absences	245	83
Increase in Public Benefit Programs payable	454	55
Increase in unearned revenue	1	10
Increase in customer deposits	858	401
(Decrease) in decommissioning liability	(2,378)	(4,097)
Changes in net pension liability and related deferred outflows and inflows of resources	(1,323)	9,055
Changes in postemployment benefits liability and related deferred outflows and inflows of resources	300	346
Net cash provided by operating activities	$ 80,143	$ 96,701
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions - capital assets	2,887	17,012
Increase (decrease) in fair value of investments	935	(79)
Principal balance of revenue bonds refunded	195,090	-

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

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations* (GASB 83). This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. This Statement establishes criteria for (1) determining the timing and pattern of liability recognition and a corresponding deferred outflow, (2) requires liability recognition when it is incurred and reasonably estimable, and (3) requires ARO measurement to be based on the best estimate of the current value of outlays expected to be incurred. If an ARO has been incurred but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain AROs, including obligations that may not have been previously reported. This Statement is effective for reporting period beginning after June 15, 2018.

According to *Clearwater Power Plant Asset Purchase and Sale Agreement* dated March 3, 2010, the City of Riverside purchased the Clearwater Power Plant (the "Plant") from the City of Corona to own, operate, pay all costs related to the Plant and the assets, as set forth in the agreement. In August 26, 2010, Temporary Right of Entry Agreement was made and entered between the City of Riverside ("Riverside") and the City of Corona ("Corona") in which Corona leased the Corona Clearwater Cogeneration Facility (the "Property") to Riverside for its operation and maintenance of the Property. Riverside is responsible for plant decommissioning and site restoration related to the Plant. As of June 30, 2019, the ARO is not reasonably estimable; as such, it is not yet recognized. Once the ARO evaluation study to measure the obligation is complete and the life of the plant is determined, a liability and deferred outflow will be recorded.

In March of 2018, the GASB issued Statement No. 88, *Certain Disclosures Related To Debt, Including Direct Borrowings And Direct Placements* (GASB 88). The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows. This Statement is effective for reporting period beginning after June 15, 2018. For further details, refer to Note 4.

In June 2017, the GASB issued Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The Department is evaluating the impact of this standard.

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. Accordingly, 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 $13,594 at June 30, 2019, and $15,270 at June 30, 2018.

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

ELECTRIC UTILITY PLANT AND DEPRECIATION

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

Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed. For fiscal years ended June 30, 2019 and 2018, the Electric Utility capitalized net interest costs of $1,964

and $1,667, respectively. Total interest expense incurred by the Electric Utility was $27,691 and $25,120, respectively.
Depreciation is provided over the estimated useful lives of the related assets using the straight-line method. The estimated useful lives are as follows:

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

RESTRICTED ASSETS

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

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

CASH AND INVESTMENTS

The Electric Utility's cash and investments, except for funds required to be held by outside fiscal agents under the provisions of bond indentures, which are administered by outside agencies, are invested in the cash and investment pool of the City. At June 30, 2019, $15,754 reported as cash and investments in the Electric Utility, is held at and administered by Southern California Public Power Authority (SCPPA) as part of a project stabilization fund used to pay for power, transmission, capital and operating cost relating to projects in which the Electric Utility is a participant, or other expenditures owed to SCPPA. Cash and investments administered by SCPPA shall be invested in investment securities and managed in accordance with all applicable laws (including, but not limited, to California Code §53600.3, 53600.5 and 53601). The maturity of an investment security (or, if applicable, the remaining maturity of an investment security) shall not exceed five years.

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, 2019, 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

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

Unrestricted designated cash reserve balances as of June 30, 2019 and 2018 were as follows: Additional Decommissioning Liability Reserve $9,935 and $8,245, Customers Deposits $4,582 and $4,562, Capital Repair and Replacement Reserve $3,219 and $4,865, Electric Reliability Reserve $72,694 and $62,800, and Mission Square Improvement Reserve $1,483 and $1,244 and Dark Fiber Reserve $2,942 and $2,303. In June 2017, the Board of Public Utilities and City Council approved the establishment of a bond defeasance designated cash reserve account and authorized the transfer of settlements and cost recoveries in the amount of $11,244 to the designated reserve for bond defeasance. In fiscal year June 30, 2018, bond defeasance reserve has been fully utilized to partially defease existing revenue bonds. The combined total for these reserves was $94,855 and $ 84,019 at June 30, 2019 and 2018, respectively and is included as a component of unrestricted cash and cash equivalents in the accompanying Statements of Net Position.

ADVANCES TO OTHER FUNDS OF THE CITY

Advances to other funds of the City have been recorded as a result of agreements between the Electric Utility and the City. The balances as of June 30, 2019 and 2018 are $4,128 and $4,532, 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.

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, 2018 and 2017 was $7,255 and $6,397, respectively.

COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due to employees at June 30, 2019 and 2018. 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 $5,313 at June 30, 2019 and $5,068 at June 30, 2018.

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, 2019, 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, 2019 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 $1,098 and $627 for the years ended June 30, 2019 and 2018, 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 6.

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

OPEB refers to the benefits, other than pensions, that the City provides as part of an employee's retirement benefits. The net OPEB liability is defined as the liability of employers contributing to employees for benefits provided through a defined benefit OPEB plan that is administered through a trust. In order to improve the financial reporting of these benefits, the Electric Utility has implemented GASB 75, which is explained in details in Note 7.

DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

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

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

REGULATORY ASSETS

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

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, 2019 and 2018, $39,886 and $40,073, 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.

RECLASSIFICATIONS

Certain reclassifications have been made to prior year’s financial statements to conform with the current year’s presentation. Such reclassifications have no effect on the net position or the changes in net position.

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2019 and 2018, consist of the following (in thousands):

	June 30, 2019	June 30, 2018
	Fair Value	
Equity interest in City Treasurer's investment pool	$ 341,287	$ 323,046
Cash and investments at fiscal agent	125,372	69,047
Total cash and investments	$ 466,659	$ 392,093

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

	June 30, 2019	June 30, 2018
Unrestricted cash and cash equivalents	$ 293,449	$ 274,687
Restricted cash and cash equivalents	47,838	48,359
Restricted cash and investments at fiscal agent	125,372	69,047
Total cash and investments	$ 466,659	$ 392,093

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.

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

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, 2019 and 2018:

Investment Type	June 30, 2019 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	$ 68,993	$ -	$ 68,993	$ -	$ -
US Treasury notes/bonds	39,179	-	39,179	-	-
Investment contracts	10,761	-	-	-	10,761
Corp medium term notes	6,439	-	6,439	-	-
City Treasurer's investment pool [1]					
Money market funds	2,660	-	2,660	-	-
Joint powers authority pools	63,644	-	63,644	-	-
Mortgage/Asset backed securities	8,822	-	8,822	-	-
US Treasury notes/bonds	149,734	-	149,734	-	-
Federal agency securities	6,831	-	6,831	-	-
Federal agency discount notes	6,712	-	6,712	-	-
Corp medium term notes	32,810	-	32,810	-	-
Supranational securities	872	-	872	-	-
Neg certificate of deposit	2,556	-	2,556	-	-
State investment pool	66,646	-	-	-	66,646
Total	$ 466,659	$ -	$ 389,252	$ -	$ 77,407

Investment Type	June 30, 2018 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	$ 2,745	$ -	$ 2,745	$ -	$ -
Federal agency securities	46,314	-	46,314	-	-
Investment contracts	10,761	-	-	-	10,761
Corp medium term notes	9,227	-	9,227	-	-
City Treasurer's investment pool [1]					
Money market funds	72,397	-	72,397	-	-
Federal agency securities	18,022	-	18,022	-	-
Federal agency discount notes	2,997	-	2,997	-	-
US Treasury notes/bonds	145,973	-	145,973	-	-
Corp medium term notes	17,371	-	17,371	-	-
State investment pool	62,702	-	-	-	62,702
Neg certificate of deposit	3,584	-	3,584	-	-
Total	$ 392,093	$ -	$ 318,630	$ -	$ 73,463

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

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

Cash and investments distribution by maturities as of June 30, 2019 and 2018, are as follows:

Investment Type	June 30, 2019 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	$ 68,993	$ 68,993	$ -	$ -	$ -
US Treasury notes/bonds	39,179	11,980	9,049	18,150	-
Investment contracts	10,761	-	-	-	10,761
Corp medium term notes	6,439	3,408	3,031	-	-
City Treasurer's investment pool [1]					
Money market funds	2,660	2,660	-	-	-
Joint powers authority pools	63,644	63,644	-	-	-
State investment pool	66,646	66,646	-	-	-
Mortgage/asset backed securities	8,822	3,597	-	5,225	-
US Treasury notes/bonds	149,734	48,792	45,766	55,176	-
Federal agency securities	6,831	513	4,155	2,163	-
Federal agency discount notes	6,712	6,712	-	-	-
Corp medium term notes	32,810	9,867	2,731	20,212	-
Supranational securities	872	872	-	-	-
Negotiable certificate of deposit	2,556	510	1,021	1,025	-
Total	$ 466,659	$ 288,194	$ 65,753	$ 101,951	$ 10,761

Investment Type	June 30, 2018 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	$ 2,745	$ 2,745	$ -	$ -	$ -
US Treasury notes/bonds	46,314	10,962	8,890	26,462	-
Investment contracts	10,761	-	-	-	10,761
Corp medium term notes	9,227	2,880	3,379	2,968	-
City Treasurer's investment pool [1]					
Money market funds	72,397	72,397	-	-	-
Federal agency securities	18,022	14,175	-	3,847	-
Federal agency discount notes	2,997	2,997	-	-	-
US Treasury notes/bonds	145,973	19,723	68,207	58,043	-
Corp medium term notes	17,371	4,114	7,207	6,050	-
State investment pool	62,702	62,702	-	-	-
Negotiable certificate of deposit	3,584	2,162	477	945	-
Total	$ 392,093	$ 194,857	$ 88,160	$ 98,315	$ 10,761

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

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

Presented below is the actual rating as of June 30, 2019 and 2018 for each investment type:

Investment Type	June 30, 2019 Fair Value	Rating as of Year End AAA	AA	A	Unrated
Held by fiscal agent					
Money market funds	$ 68,993	$ 9,900	$ -	$ 59,055	$ 38
US Treasury notes/bonds	39,179	39,179	-	-	-
Investment contracts	10,761	-	-	-	10,761
Corp medium term notes	6,439	-	3,031	3,408	
City Treasurer's investment pool [1]					
Money market funds	2,660	-	-	2,644	16
State investment pool	66,646	-	-	-	66,646
Joint powers authority pools	63,644	-	63,644	-	-
Mortgage/asset backed securities	8,822	8,822	-	-	-
US Treasury notes/bonds	149,734	149,734	-	-	-
Federal agency securities	6,831	6,318	513	-	-
Federal agency discount notes	6,712	-	-	-	6,712
Corp medium term notes	32,810	-	27,766	5,044	-
Supranational securities	872	872	-	-	-
Neg certificate of deposit	2,556	-	-	-	2,556
Total	$ 466,659	$ 214,825	$ 94,954	$ 70,151	$ 86,729

Investment Type	June 30, 2018 Fair Value	Rating as of Year End AAA	AA	A	Unrated
Held by fiscal agent					
Money market funds	$ 2,745	$ 1,506	$ -	$ 1,239	$ -
Federal agency securities	46,314	46,314	-	-	-
Investment contracts	10,761	-	-	-	10,761
Corp medium term notes	9,227	2,880	2,968	3,379	
City Treasurer's investment pool [1]					
Money market funds	72,397	-	69,557	2,480	360
Federal agency securities	18,022	3,847	14,175	-	-
Federal agency discount notes	2,997	-	-	-	2,997
US Treasury notes/bonds	145,973	145,973	-	-	-
Corp medium term notes	17,371	-	17,371	-	-
State investment pool	62,702	-	-	-	62,702
Neg certificate of deposit	3,584	-	-	-	3,584
Total	$ 392,093	$ 200,520	$ 104,071	$ 7,098	$ 80,404

[1] Additional information on investment types, fair value measurement, interest rate risk 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, 2019 and 2018 (in thousands):

	Balance As of 6/30/2017	Additions	Retirements/ Transfers	Balance As of 6/30/2018	Additions	Retirements/ Transfers	Balance As of 6/30/2019
Production	$ 267,312	$ -	$ -	$ 267,312	$ 561	$ -	$ 267,873
Transmission	44,968	83	(44)	45,007	102	-	45,109
Distribution	601,306	27,721	(1,136)	627,891	31,746	(2,713)	656,924
General	109,899	709	(216)	110,392	3,567	(1,491)	112,468
Intangibles	20,951	521	-	21,472	285	-	21,757
Depreciable utility plant	1,044,436	29,034	(1,396)	1,072,074	36,261	(4,204)	1,104,131
Less accumulated depreciation:							
Production	(79,769)	(8,946)	-	(88,715)	(8,949)	-	(97,664)
Transmission	(17,900)	(914)	44	(18,770)	(899)	-	(19,669)
Distribution	(237,321)	(16,471)	1,044	(252,748)	(17,257)	2,633	(267,372)
General	(36,975)	(4,959)	216	(41,718)	(4,989)	1,489	(45,218)
Intangibles	(3,811)	(2,295)	-	(6,106)	(2,377)	-	(8,483)
Accumulated depreciation	(375,776)	(33,585)	1,304	(408,057)	(34,471)	4,122	(438,406)
Net depreciable utility plant	668,660	(4,551)	(92)	664,017	1,790	(82)	665,725
Land	37,845	14,266	-	52,111	918	-	53,029
Intangibles, non-amortizable	10,651	-	-	10,651	-	-	10,651
Construction in progress	51,636	28,834	(25,995)	54,475	44,553	(33,721)	65,307
Nondepreciable utility plant	100,132	43,100	(25,995)	117,237	45,471	(33,721)	128,987
Total utility plant	$ 768,792	$ 38,549	$ (26,087)	$ 781,254	$ 47,261	$ (33,803)	$ 794,712

NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2019 and 2018 (in thousands):

	Balance As of 6/30/2017	Additions	Reductions	Balance As of 6/30/2018	Additions	Reductions	Balance As of 6/30/2019	Due Within One Year
Revenue bonds	$518,992		$ (25,578)	$493,414	$333,120	$ (249,620)	$ 576,914	$ 8,185
Pension obligation bonds	12,312		(1,894)	10,418	-	(2,018)	8,400	1,718
Direct Borrowings:								
Private placement revenue bonds	41,925		-	41,925	-	(900)	41,025	1,750
Leased purchase	3,905		(807)	3,098	-	(824)	2,274	830
Total long-term obligations	$577,134	$ -	$ (28,279)	$548,855	$333,120	$ (253,362)	$ 628,613	$12,483

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

PENSION OBLIGATION BONDS PAYABLE

	June 30, 2019	June 30, 2018
$30,000 2005 Taxable Pension Obligation Bonds Series A: fixed rate bonds issued by the City due in annual installments from $630 to $3,860 through June 2020, interest from 3.9 to 4.8 percent. The Electric Utility's proportional share of the outstanding debt is 29.6 percent.	789	1,933
$31,960 2017 Taxable Pension Obligation Bonds Series A: fixed rate bonds issued by the City due in annual installments from $2,910 to $3,580 through June 2027, interest from 1.3 to 3.1 percent. The Electric Utility's proportional share of the outstanding debt is 29.6 percent.	7,611	8,485
Total pension obligation bonds payable	8,400	10,418

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

REVENUE BONDS PAYABLE

	June 30, 2019	June 30, 2018
$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, 2018 was 3.0 percent). Partially refunded $13,975 on July 25, 2013 with the 2013 Electric Revenue Refunding Bonds. Partially refunded $31,500 on April 1, 2019 with 2019A Electric Refunding Bonds.	34,465	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, 2018 was 3.1 percent). Partially refunded $11,775 on July 25, 2013 with the 2013 Electric Revenue Refunding Bonds. Partially refunded $8,925 on April 1, 2019 with 2019A Electric Refunding Bonds.	32,150	41,975
$209,740 2008 Electric Revenue Series D Bonds - all outstanding bonds were refinanced with the 2019 series A Revenue/Refunding Bonds on February 26, 2019.	-	195,275
$34,920 2009 Electric Refunding/Revenue Series A Bonds: fixed rate bonds due in final principal installment of $1,275 on October 1, 2018, interest of 4.0 percent.	-	1,275
$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 final principal installment of $2,210 on October 1, 2019, interest of 4.0 percent	2,210	4,650
$79,080 2013 Electric Revenue Refunding Series A Bonds: fixed rate bonds due in annual principal installments from $795 to $2,625 through October 1, 2043, interest from 3.5 to 5.3 percent	38,990	39,785
$283,325 2019 Electric Revenue Refunding Series A Bonds: fixed rate bonds due in annual principal installments from $3,545 to $24,005 through October 1, 2048, interest of 5.0 percent	283,325	-
Total electric revenue bonds payable	524,430	486,790
Total electric revenue and pension obligation bonds payable	532,830	497,208
Unamortized bond premium	52,484	6,624
Total electric revenue and pension obligation bonds payable, including bond premium	585,314	503,832
Less current portion of revenue and pension obligation bonds payable	(9,903)	(15,563)
Total long-term electric revenue and pension obligation bonds payable	$ 575,411	$ 488,269

For fiscal year ended June 30, 2018, the City restructured the presentation of the long term pension obligation bonds from advances from other funds to long term obligations. The Electric Utility is obligated to pay its share of the City's pension obligation bonds, which the City issued in 2005 and refinanced a portion in May 2017. The Electric Utility's proportional share of the outstanding principal amount of the bonds was $8,400 and $10,418 as of June 30, 2019 and 2018, respectively. 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, 2019.

Remaining pension obligation bond debt service payments will be made from revenues of the Electric Fund. Annual debt service requirements to maturity as of June 30, 2019 are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2020	$ 1,718	$ 246	$ 1,964
2021	907	188	1,095
2022	926	169	1,095
2023	949	145	1,094
2024	974	121	1,095
2025-2029	2,926	191	3,117
Total	$ 8,400	$ 1,060	$ 9,460

All electric revenue bonds are covenanted per the Amended and Restated Resolution No. 17662 (Electric) Master Resolution that upon the occurrence and continuation of an event of default, the owners of 25% in aggregate amount of Bond Obligation may, by written notice to the City, declare the entire unpaid principal and accreted value of the bonds due and payable should the City fail to pay its debts as they become due or upon the entry of any decree or order of bankruptcy of the City.

In May 2018, the Electric Utility defeased $11,005 of the total outstanding $206,280 of Electric Revenue Bonds, Issue 2008D with monies received from settlements and cost recoveries associated with the early closure of the SONGS Units 2 and 3. The partial defeasance related to bond proceeds that funded part of the Steam Generator Replacement Project and other SONGS capital costs. The partial bond defeasance reduced debt and realized interest savings of $10,233 over the remaining 20-year life of the bonds. On April 1, 2019, the Electric Utility fully refunded the remaining balance of $191,715 with the issuance of the 2019 Electric Revenue Refunding Series A Bonds.

$283,325 2019 Electric Revenue/Refunding Bonds; Series A. The bonds were issued in February 2019 to fund short-term and long-term capital projects, refund the 2008 Electric Revenue Bonds; Series D, and partially refund and partially unwind the swap on the 2008 Electric Revenue Bonds; Series A and C. The refunding transactions resulted in a total net present value savings of $36,810. 5% due in annual installments from $3,545 to $24,005 through 10/1/2048.

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

Remaining revenue bond debt service payments will be made from revenues of the Electric Fund. Annual debt service requirements to maturity as of June 30, 2019 are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2020	$ 8,185	$ 24,963	$ 33,148
2021	13,530	24,256	37,786
2022	14,135	23,585	37,720
2023	14,810	22,879	37,689
2024	16,790	22,107	38,897
2025-2029	96,890	97,759	194,649
2030-2034	104,940	75,314	180,254
2035-2039	132,775	48,756	181,531
2040-2044	97,380	13,748	111,128
2045-2049	24,995	3,246	28,241
Premium	52,484	-	52,484
Total	$ 576,914	$ 356,613	$ 933,527

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, 2019 and 2018, 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) (1)	Annual Debt Service Payments	Debt Service Coverage Ratio
June 30, 2019	Electric revenues	$ 94,751	$ 42,466	2.23
June 30, 2018	Electric revenues	$ 110,331	$ 40,720	2.71

[1] Excludes GASB 68 Accounting and Financial Reporting for Pension non-cash adjustments of (1,323) and $9,055 as expenses for June 30, 2019 and 2018 respectively.

LINE OF CREDIT

On February 1, 2019, the City entered into a subordinate line of credit agreement with U.S. Bank, National Association. The Subordinate Line of Credit is a tool approved through the Electric and Water Utility Five-Year Rate Plan to manage rate increases by enabling the Electric Utility to reduce cash levels while maintaining compliance with the Riverside Public Utilities Cash Reserve Policy. Under the terms and conditions of the agreement, the City may borrow up to $35,000 for purposes of the capital or operating financial needs of the Electric System. There were no borrowings against the line as of June 30, 2019.

LETTERS OF CREDIT

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

Debt Issue	LOC Provider	LOC Expiration Date	Annual Commitment Fee
2008 Electric Refunding/Revenue Bonds Series A	Barclays Bank, PLC	2021	0.325%
2008 Electric Refunding/Revenue Bonds Series C	Barclays Bank, PLC	2021	0.325%

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

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

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

DIRECT BORROWINGS

PRIVATE PLACEMENT REVENUE BONDS PAYABLE

	June 30, 2019	June 30, 2018
$56,450 2011 Electric Revenue/Refunding Series A Bonds: the bonds were issued at a variable rate; however, the City entered into an agreement to convert to a fixed rate of 3.2%. For information on the swap agreements, see below. Bonds are due in annual principal installments from $725 to $5,175 through October 1, 2035. Partially refunded $11,825 on July 25, 2013 with the 2013 Electric Revenue Refunding Bonds.	41,025	41,925
Total private placement revenue bonds payable	41,025	41,925

Remaining private placement bond debt service payments will be made from revenues of the Electric Fund. Annual debt service requirements to maturity as of June 30, 2019 are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2020	$ 1,750	$ 1,528	$ 3,278
2021	1,825	1,458	3,283
2022	1,900	1,386	3,286
2023	1,950	1,311	3,261
2024	725	1,272	1,997
2025-2029	3,625	5,941	9,566
2030-2034	19,075	3,936	23,011
2035-2039	10,175	297	10,472
Total	$ 41,025	$ 17,129	$ 58,154

Upon event of default, the bank may declare the outstanding amount of the obligations payable to be due immediately.

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

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, 2019 is as follows:

	Notional Amount	Fair Value as of 6/30/2019	Change in Fair Value for Fiscal Year
2008 Electric Refunding/Revenue Bonds Series A	$ 34,465	$ (4,702)	$ 75
2008 Electric Refunding/Revenue Bonds Series C	$ 32,150	$ (6,969)	$ (1,735)
2011 Electric Refunding/Revenue Bonds Series A	$ 41,025	$ (7,365)	$ (2,149)

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 $6,000 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, 2019, 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	(0.57485%)	(0.57539%)	(0.60247%)
Net interest rate swap payments		2.53615%	2.62861%	2.59853%
Variable-rate bond coupon payments		0.47429%	0.47541%	0.53013%
Synthetic interest on bonds		3.01044%	3.10402%	3.12866%

Fair value: As of June 30, 2019, in connection with all swap agreements, the transactions had a total negative fair value of ($19,037). 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, 2019, 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, 2019, 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, 2019, the debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are summarized in the table below. As rates vary, variable-rate bond interest payments and net swap payments will vary.

	Variable-Rate Bonds			
Fiscal Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2020	$ 1,750	$ 614	$ 3,202	$ 5,566
2021	1,825	574	2,987	5,386
2022	1,900	562	2,926	5,388
2023	1,950	549	2,865	5,364
2024	725	543	2,831	4,099
2025-2029	33,130	2,326	12,126	47,582
2030-2034	45,985	1,180	6,100	53,265
2035-2039	20,375	88	457	20,920
Total	$ 107,640	$ 6,436	$ 33,494	$ 147,570

LEASE PURCHASE FINANCING

The Electric Utility has entered into sixteen purchase lease agreements as a lessee for financing sixteen compressed natural gas heavy duty service trucks. All leases have seven year terms of monthly payments with interest rates ranging from 2.0 percent to 2.5 percent. The total gross value of all existing leases is $5,715 with depreciation over the seven year terms of the leases using the straight-line method. As of June 30, 2019 and 2018, the total liability was $2,274 and $3,098, respectively, with the current portion included in accounts payable and other accruals. The remaining annual lease payments for the life of the leases is $868 in fiscal year ended June 30, 2020, $559 annually in fiscal years ended June 30, 2021 and 2022, and $366 in fiscal year ended June 30, 2023. Total outstanding lease payments are $2,352, with $2,272 representing the present value of the net minimum lease payments and $80 representing interest.

NOTE 5. COMPENSATED ABSENCES

A liability is recorded for unused vacation and similar compensatory leave balances since the employees' entitlement to these balances are attributable to services already rendered and it is probably that virtually all of these balances will be liquidated by either paid time-off or payments upon termination or retirement.

Below is a summary of changes in Compensated absences for the Electric Utility during the fiscal year.

	Balance As of 6/30/2017	Additions	Reductions	Balance As of 6/30/2018	Additions	Reductions	Balance As of 6/30/2019	Due Within One Year
Compensated absences	4,985	4,556	(4,473)	5,068	4,597	(4,352)	5,313	4,563

NOTE 6. EMPLOYEE RETIREMENT PLAN

PLAN DESCRIPTION

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

FUNDING POLICY

The City has contributed at the actuarially determined rate provided by CalPERS' actuaries. Participants are required to contribute 8 percent of their annual covered salary. The City has a multiple tier retirement plan with benefits varying by plan. All permanent full-time and selected part-time employees are eligible for participation in 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 for employees hired before October 19, 2011. Effective January 1, 2018 for unrepresented employees (Sr. Management, Management, Professional, Para-professional, Supervisory, Confidential, and Executive units), the employees were required to pay 2 percent of the employee contribution of their pensionable income, with the City contributing the other 6 percent. Effective January 1, 2019, employees will be required to pay an additional portion of their pensionable income. This portion is a three year increase of 2 percent (2019), 2 percent (2020) and 2 percent (2021). By 2021, employees will be contributing the entire 8 percent of their pensionable income.

    - The retirement formula is 2.7 percent at age 55 for SEIU employees hired before June 7, 2011. The employee is required to pay 6 percent of their pensionable income with the City contributing the other 2 percent. Effective January 1, 2019, employees will be required to pay an additional portion of their pensionable income. This portion is a two year increase of 1 percent (2019) and 1 percent (2020). By 2020, employees will be contributing the entire 8 percent of their pensionable income.

- The retirement formula is 2.7 percent at age 55 for IBEW employees hired before October 19, 2011. Effective November 1, 2017 employees contributed 2 percent of their total pensionable income with the City paying the remaining 6 percent. Effective November 1, 2018, employees will be required to pay an additional portion of their pensionable income. This portion is a three year increase of 2 percent (2018), 2 percent (2019) and 2 percent (2020). By 2020, employees will be contributing the entire 8 percent of their pensionable income.

- 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

As of measurement date June 30, 2018 and 2017, the following employees, City-wide, were covered by the benefit terms of the Plan:

	Measurement Date	
	June 30, 2018	**June 30, 2017**
Inactive employees or beneficiaries currently receiving benefits	2,184	2,114
Inactive employees entitled to but not yet receiving benefits	1,375	1,325
Active employees	1,607	1,599

NOTE 6. EMPLOYEE RETIREMENT PLAN (CONTINUED)

CONTRIBUTIONS

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

NET PENSION LIABILITY

The City's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. For fiscal year ended June 30, 2019, the net pension liability of the Plan is measured as of June 30, 2018, using an annual actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. For fiscal year ended June 30, 2018, the net pension liability of the Plan is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 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, 2017 and 2016 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous - Current Year	Miscellaneous - Prior Year
Valuation Date	June 30, 2017	June 30, 2016
Measurement Date	June 30, 2018	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount rate	7.15%	7.15%
Inflation	2.50%	2.75%
Projected salary increase	(1)	(1)
Mortality	(2)	(2)

(1) Depending on age, service and type of employment.
(2) The mortality table used was developed based on CalPERS specific data. The table includes 15 years of mortality improvements using the Society of Acutaries Scale 90% of scale MP 2016.

CHANGES IN ASSUMPTIONS

In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017.

NOTE 6. EMPLOYEE RETIREMENT PLAN (CONTINUED)

DISCOUNT RATE

The discount rate used to measure the Plan's total pension liability was 7.15 percent measurement date as of June 30, 2018 and 2017. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability..

LONG-TERM DISCOUNT RATE OF RETURN

The long-term expected rate of return on pension plan investments was determined using a building-block method in 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 of the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ 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 rounded 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 equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The expected real rates of return by asset class are as follows:

June 30, 2018 Measurement Date

Asset Class [1]	Current Target Allocation	Real Return Years 1 - 10 [2]	Real Return Years 11 + [3]
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Assets	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%

(1) In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

(2) An expected inflation of 2.00% used for this period.

(3) An expected inflation of 2.92% used for this period.

June 30, 2017 Measurement Date

Asset Class [1]	Current Target Allocation	Real Return Years 1 - 10 [2]	Real Return Years 11 + [3]
Global Equity	47.00%	4.90%	5.38%
Fixed Income	19.00%	0.80%	2.27%
Inflation Assets	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Assets	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%

(1) In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

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

(3) 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, 2019 (measurement date June 30, 2018) and 2018 (measurement date June 30, 2017) for the Plan are as follows:

June 30, 2019	Net Pension Liabiltiy	Proportion of the Plan
Proportion - Reporting date June 30, 2019 (measurement date June 30, 2018)	$ 84,468	30.32%
Proportion - Reporting date June 30, 2018 (measurement date June 30, 2017)	108,886	31.08%
Change - Increase / (Decrease)	(24,418)	(0.76%)
June 30, 2018		
Proportion - Reporting date June 30, 2018 (measurement date June 30, 2017)	108,886	32.04%
Proportion - Reporting date June 30, 2017 (measurement date June 30, 2016)	96,193	31.08%
Change - Increase / (Decrease)	12,693	0.96%

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 7.15 percent, 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:

	Measurement Date					
		June 30, 2018			June 30, 2017	
	Discount Rate -1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)	Discount Rate -1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)
The Electric Utility's proportionate share of the Plan's net pension liability	$ 140,951	$ 84,468	$ 38,024	$ 170,418	$ 108,886	$ 58,484

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, 2019 and 2018, the Electric Utility recognized pension expense of $9,133 and $18,169, respectively. At June 30, 2019 and 2018, the Electric Utility reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	June 30, 2019		June 30, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 10,456	$ -	$ 9,073	$ -
Changes in assumptions	10,650	(8,006)	17,082	-
Differences between expected and actual experience	-	(7,780)	-	(6,396)
Net differences between projected and actual earnings on plan investments	1,194	-	4,441	-
Total	$ 22,300	$ (15,786)	$ 30,596	$ (6,396)

$10,456 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, 2020.

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/ (Inflows) of Resources
2019	3,217
2020	(1,614)
2021	(4,713)
2022	(832)
2023	-
Total	$ (3,942)

NOTE 7. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

PLAN DESCRIPTION

The City's defined benefit OPEB plan, Retiree Health Plan, provides continuation of medical (including prescription drugs) and dental coverage benefits to retirees and surviving spouses in the form of an implied rate subsidy. The Retiree Health Benefits plan is a single employer defined benefit OPEB plan administered by the City. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

BENEFITS PROVIDED

Eligibility for continuation of coverage requires retirement from the City and CalPERS with at least 5 years of City service. The retiree is responsible for 100% of the premium cost for coverage, which is based on the blended experience of both the active and retired employees. 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 benefit to eligible retirees and beneficiaries. Retiree and spousal coverage terminates when the retiree becomes covered under another employer health plan, or when the retiree reaches Medicare eligibility age, which is currently age 65. However, retiree benefit continues to the surviving spouse if the retiree elects the CalPERS survivor annuity.

As of measurement date June 30, 2018 and 2017, the following employees, City-wide, were covered by the benefit terms:

	Measurement Date	
	June 30, 2018	June 30, 2017
Inactive employees or beneficiaries currently receiving benefits	304	304
Inactive employees entitled to but not yet receiving benefits	-	-
Active employees	2,121	2,121

ACTUARIAL ASSUMPTIONS

The total OPEB liability was determined by actuarial valuation as of June 30, 2018 and 2017 using the following actuarial assumptions:

	Current Year	Prior Year
Valuation Date	June 30, 2017	June 30, 2016
Measurement Date	June 30, 2018	June 30, 2017
Funding Policy	Pay-as-you-go for implicit rate subsidy	Pay-as-you-go for implicit rate subsidy
Actuarial Assumptions:		
Discount rate (1)	3.50%	3.40%
Inflation rate	2.75%	2.75%
Salary inflation	3.00%	3.00%
Salary increases (2)	--	--
Mortality	CalPERS 2014 Experience Study	CalPERS 2014 Experience Study

(1) The discount rate is the average, rounded to 5 basis points, of the range of 3-20 year municipal bond rate indices: S&P Municipal Bond 20 Year High Grade Rate Index, Bond Buyer 20-Bond GO Index, and Fidelity GO AA 20 Year Bond Index.

(2) The benefits are not payroll related but the City's cost for each individual's projected City contribution is allocated over their lifetime as a level-percentage of pay. For cost method purposes the merit increases from the most recent CalPERS pension plan valuation will be used.

CHANGES OF ASSUMPTIONS

In 2018, the discount rate was changed from 3.4 percent to 3.5 percent.

SENSITIVITY OF TOTAL OPEB LIABILITY TO CHANGES IN HEALTHCARE COST TREND RATES

The following presents the Electric Utility's, including Public Benefits, proportionate share of the City's total OPEB liability, calculating using the healthcare trend rate of 6.00%/HMO and 6.50%/PPO for the measurement date as of June 30, 2018 and 2017, as well as what the Electric Utility's total OPEB liability would be if it was calculated using a healthcare cost trend rate that is 1-percentage-point lower (5.00%/HMO and 5.50%/PPO) or 1-percentage-point higher (7.00%/HMO and 7.50%/PPO) than the current rate:

	June 30, 2018 - Measurement Date			June 30, 2017 - Measurement Date		
	1% Decrease	Current healthcare cost trend rates	1% Increase	1% Decrease	Current healthcare cost trend rates	1% Increase
The Electric Utility's proportionate share of the City's total OPEB liability	$ 7,641	$ 8,572	$ 9,666	$ 7,445	$ 8,283	$ 9,262

SENSITIVITY OF TOTAL OPEB LIABILITY TO CHANGES IN DISCOUNT RATES

The following presents the Electric Utility's, including Public Benefits, proportionate share of the City's total OPEB liability, calculating using the discount rate of 3.50% and 3.40% for measurement date of June 30, 2018 and 2017 respectively, as well as what the Electric Utility's total OPEB liability would be if it was calculated using a discount rate that is 1-percentage-point lower (2.40%) or 1-percentage-point higher (4.40%) than the current rate:

	June 30, 2018 - Measurement Date			June 30, 2017 - Measurement Date		
	1% Decrease (2.50%)	Current Discount Rate (3.50%)	1% Increase (4.50%)	1% Decrease (2.40%)	Current Discount Rate (3.40%)	1% Increase (4.40%)
The Electric Utility's proportionate share of the City's total OPEB liability	$ 9,287	$ 8,572	$ 7,922	$ 8,981	$ 8,283	$ 7,648

CHANGE IN TOTAL OPEB LIABILITY

For fiscal year ended June 30, 2019 and 2018, the Electric Utility's, including Public Benefits, recognized total OPEB expense of $645 and $697 respectively. The following table shows the change in the Electric Utility's, including Public Benefits, proportionate share of the City's total OPEB liability for the year ended June 30, 2019 (measurement date June 30, 2018):

June 30, 2019	Total OPEB Liability	Proportion to the City
Proportion - Reporting date June 30, 2019 (measurement date June 30, 2018)	$ 8,572	22.36%
Proportion - Reporting date June 30, 2018 (measurement date June 30, 2017)	8,283	22.52%
Change - Increase / (Decrease)	289	-0.16%

June 30, 2018	Total OPEB Liability	Proportion to the City
Proportion - Reporting date June 30, 2018 (measurement date June 30, 2017)	$ 8,283	22.52%
Proportion - Reporting date June 30, 2017 (measurement date June 30, 2016)	8,233	22.53%
Change - Increase / (Decrease)	50	-0.01%

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES RELATED TO OPEB

At June 30, 2019, the Electric Utility, including Public Benefits, reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ -	$ (307)
Total	$ -	$ (307)

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30	Deferred Inflows of Resources
2019	$ (50)
2020	(50)
2021	(50)
2022	(50)
2023	(50)
Thereafter	(57)
Total	$ (307)

NOTE 8. 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 11 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 and certain issues have no debt service reserve requirements (2009A, 2010A & B, 2011A, 2013A and 2019A).

NOTE 9. 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, 2019 and 2018, the Electric Utility paid approximately $25,999 and $26,631, respectively, to SCPPA under various take-or-pay and renewable contracts that are described in greater detail in Note 11. 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 10. JOINTLY-OWNED UTILITY PROJECT – SONGS

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

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

SONGS was operated and maintained by SCE, under an agreement with the City and SDG&E, which expires upon termination of the easement for the plant in 2024. In 2005, the California Public Utilities Commission (CPUC) authorized a project to install four new steam generators in Units 2 and 3 at SONGS and remove and dispose of the predecessor generators. SCE completed the installation of these steam generators in 2010 and 2011 for Units 2 and 3, respectively. The Electric Utility's share of the cost to replace the steam generators was approximately $13.4 million. Replacement of the steam generators was expected to enable plant operations to continue through at least 2022, and perhaps beyond, subject to the approval of the NRC.

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

Nuclear Decommissioning. As a result of SCE's decision to permanently retire SONGS Units 2 and 3, the decommissioning phase of the plant began in June 2013. The process of decommissioning the nuclear power plant is expected to take many years and is governed by NRC regulations. According to the SCE's decommissioning cost estimate document as of March 2018, total decommissioning costs for Units 2 and 3 are estimated at $4.7 billion of which the Electric Utility's share is $84 million.

Nuclear Decommissioning Funding and Liability. As of June 30, 2019, the Electric Utility has set aside $55,519 in cash investments with the trustee and $9,935 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 investment earnings. The investment earnings are included in investment income in the Electric Utility's financial statements. An equivalent amount is reflected as decommissioning expense which is considered part of production and purchased power. Decreases to the funds held for decommissioning liability are from actual funds drawn from the trust for decommissioning costs invoiced by SCE.

On February 23, 2016, the City Council adopted a resolution authorizing the commencement of SONGS decommissioning effective June 7, 2013. This resolution allows the Electric Utility to access the decommissioning trust funds to pay for its share of decommissioning costs. The Electric Utility began drawing decommissioning trust funds to pay for decommissioning costs in the fiscal year ended June 30, 2017. As of June 30, 2019, the Electric Utility has paid to date $27,117 in decommissioning obligations, which have been reimbursed by the trust funds.

As of June 30, 2019 and 2018, decommissioning liability balance was $58,199 and $60,577, respectively, with a portion reflected as current liabilities payable from restricted assets. Due to adequate funding in the liability, the Electric Utility no longer provides additional funding to the trustee. However, since the decommissioning cost estimate is subject to a number of uncertainties including the cost of disposal of nuclear waste, site remediation costs, as well as a number of other assumptions and estimates, the Electric Utility will continue to set aside funds in the unrestricted designated decommissioning reserve of $1,581 per year, as approved by the Board of Public Utilities and City Council.

	Balance As of 6/30/2017	Additions	Reductions	Balance As of 6/30/2018	Additions	Reductions	Balance As of 6/30/2019	Due Within One Year
Nuclear decommissioning liability	64,673	529	(4,625)	60,577	1,227	(3,605)	58,199	5,335

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

According to a news release issued by SCE on July 18, 2013, SCE served a formal Notice of Dispute on MHI and Mitsubishi Nuclear Energy Systems and an arbitration hearing for such dispute was set for March and April of 2016. The SCE/MHI arbitration hearings concluded on April 29, 2016. On March 13, 2017, the arbitration tribunal awarded the owners of SONGS $125,000 for the defective steam generators supplied by MHI. In addition, the tribunal ordered SONGS owners to pay MHI $58,000 in legal costs but rejected MHI's counterclaims. The Electric Utility was awarded an amount of $1,078, which was reported as other non-operating revenues on the Statements of Revenues, Expenses and Changes in Net Position for fiscal year ended June 30, 2017.

NOTE 11. COMMITMENTS

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

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

On September 29, 2006, Senate Bill 1368 (SB 1368) was enacted into law. The bill requires electric service providers to limit financial investments in power plants to those that adhere to greenhouse gas performance standards as determined by the Public Utilities Commission. Pursuant to this legislation, the Electric Utility is prohibited from renewing its participation in IPP if it remains a coal fueled generating resource.

In order to facilitate the continued participation in the IPP, the IPA Board issued the Second Amendatory Power Sales Contract, which amended the IPP Contract allowing the plant to replace the coal units with combined cycle natural gas units by July 1, 2025. 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 Repower Project for up to 5 percent in generation capacity or 60 MW. The Second Amendatory Power Sales Contract became effective March 16, 2016.

On January 5, 2017, the Electric Utility executed the Renewal Power Sales Contract and the Electric Utility accepted an offer of 4.167 percent entitlement or 50 MW generation capacity in the IPP Repower Project based on the 1,200 MW designed capacity, which is within the maximum participation level approved by the City Council. The Electric Utility's corresponding Southern Transmission System allocation is 5.278 percent or approximately 127 MW. 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.

On September 11, 2018, the City Council approved "Alternative Repowering" of the IPP Repower Project, which reduced the design capacity of the future plant from 1,200 MW to 840 MW.

On May 7, 2019, the City Council authorized termination of the Renewal Power Sales Contract between the IPA and the Electric Utility effective November 1, 2019, and the Electric Utility's exit from the IPP Repower Project upon the expiration date of the current Power Sales Contract on June 15, 2027, due to numerous uncertainties surrounding the IPP Repower Project.

The Electric Utility is a member of SCPPA, a joint powers agency (see Note 9). 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 take-or-pay 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
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.

The outstanding debts associated with the take-or-pay obligations have fixed interest rates which range from 1.829 percent to 5.00 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**	**Southern Transmission System**	**Mead-Phoenix Transmission**	**Mead-Adelanto Transmission**	**All Projects**
2020	$ 15,081	$ 6,850	$ 254	$ 2,859	$ 25,044
2021	15,881	7,758	189	2,135	25,963
2022	10,835	9,369	-	-	20,204
2023	8,059	7,083	-	-	15,142
2024	840	7,124	-	-	7,964
2025-2029	-	13,026	-	-	13,026
Total	$ 50,696	$ 51,210	$ 443	$ 4,994	$ 107,343

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, 2019 and 2018, 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
2019	$ 19,375	$ 3,588	$ 4,622	$ -	$ 46	$ 500	$ 28,131
2018	$ 20,755	$ 3,653	$ 3,529	$ 14	$ 58	$ 302	$ 28,311

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.

NOTE 11. COMMITMENTS (CONTINUED)

HOOVER UPRATING PROJECT

The Electric Utility's entitlement in the Hoover project through SCPPA terminated on September 30, 2017. Through SCPPA 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 was a component of the cost of power and energy payable by Hoover contractors, which included SCPPA participants that received power from the Hoover Power Project under agreements with the Western Area Power Administration. Because Bureau Debt had interest at rates that were 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 prepaid debt was recorded on the Statements of Net Position as unamortized purchased power to be amortized over the remaining term of the project through 2017. The prepaid debt was fully amortized as of June 30, 2018.

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 is effective as of October 1, 2017. The ESC extends the Electric Utility's 30 MW entitlement in the Hoover project an additional 50 years. The IA is a supplemental agreement to the ESC that establishes administrative, budgetary and project oversight by creating project committees and process for decision making plant operations.

NUCLEAR INSURANCE

The Price-Anderson Act (the Act) requires that all utilities with nuclear generating facilities purchase the maximum private primary nuclear liability insurance available ($450 million) and participate in the industry's secondary financial protection plan. The secondary financial protection program is the industry's retrospective assessment plan that uses deferred premium charges from every licensed reactor owner if claims and/or costs resulting from a nuclear incident at any licensed reactor in the United States were to exceed the primary nuclear insurance at that plant's site. Effective June 30, 2019, the Act limits liability from third-party claims to approximately $13.9 billion per incident. Under the industry wide retrospective assessment program provided for under the Act, assessments are limited to $137.6 million per reactor for each nuclear incident occurring at any nuclear reactor in the United States, with payments under the program limited to $20.5 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, the Electric Utility would be responsible for a maximum assessment of $1.3 million, limited to payments of $0.2 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 signed into law by the Governor, which officially created the first set of tiered RPS targets of 20% by 2013, 25% by 2016 and 33% by 2020. SBX1-2 specified that publicly owned utilities must meet these defined targets via interim Compliance Period (CP) targets to achieve the end goal of 33% RPS by December 31, 2020 as follows: CP1 - an average of 20 percent of retail sales during the 3-year period from 2011-2013; CP2 – no less than 25 percent of retail sales by December 31, 2016; and CP3 – no less than 33 percent of retail sales by December 31, 2020. The Riverside Public Utilities Board and City Council approved the RPS 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 (a.k.a. Procurement Policy) implementing the new RPS mandates on May 3, 2013 and May 14, 2013, respectively. The Electric Utility has met the procurement requirements of SBX1-2 for CP1 (2011-2013) and CP2 (2014-2016). The additional future mandates are expected to be met with resource procurement actions as outlined in the Electric Utility's

RPS Procurement Plan. For calendar year 2018, renewable resources provided 34 percent of retail sales requirements.
On October 7, 2015, the Governor signed into law Senate Bill 350 (SB 350) increasing the RPS mandate from 33 percent by 2020 to 50 percent by December 31, 2030. In addition, SB 350 required that an updated RPS Procurement Policy must be approved and adopted before January 1, 2019 and be incorporated into the Electric Utility's Integrated Resource Plan. An Updated 2018 Renewable Energy Procurement Policy was adopted by the Board and City Council on September 10, 2018 and October 9, 2018, respectively. The Electric Utility expects to be able to substantially meet the increased RPS mandates imposed by SB 350 with the actions described in the updated procurement policy and the portfolio of renewable resources outlined below.

On September 10, 2018, the 100 Percent Clean Energy Act of 2018 (Senate Bill 100) was signed into law by the California Governor. This bill further increases the RPS goals of SBX1-2 and SB 350 while maintaining the 33 percent RPS target by December 31, 2020, but modifying the RPS percentages to be 44 percent by December 31, 2024, 52 percent by December 31, 2027, 60 percent by December 31, 2030, with an end goal of 100 percent of total retail sales of electricity in California generated from eligible renewable energy resources and zero-carbon resources by December 31, 2045. It is expected that the California Energy Commission will have further guidance and enforcement procedures for publicly owned utilities to meet these increased mandates. The Electric Utility will continue to monitor the outcome and impacts of any upcoming workshops and regulations in meeting the new requirements.

In an effort to increase the share of renewables in the Electric Utility's power portfolio, the Electric Utility entered into power purchase agreements (PPA) and power sales agreements (PSA) with various entities described below in general on a "take-and-pay" basis. The contracts in the following tables were executed as part of compliance with RPS mandates.

Long-term renewable PPAs and PSAs in operation (dollars in thousands):

Supplier	Type	Maximum Contract [1]	Contract Expiration	Estimated Annual Cost For 2019
Salton Sea Power LLC	Geothermal	46.0 MW	5/31/2020	$ 27,219
Wintec Energy, Ltd.	Wind	1.3 MW	2/19/2024	151
WKN Wagner	Wind	6.0 MW	12/22/2032	1,319
SunEdison - AP North Lake	Photovoltaic	20.0 MW	8/11/2040	4,705
Dominion - Columbia II	Photovoltaic	11.1 MW	12/22/2034	2,320
GlidePath Power Solutions - GPS Cabazon Wind LLC	Wind	39.0 MW	1/1/2025	4,311
Capital Dynamics - Kingbird Solar B, LLC	Photovoltaic	14.0 MW	12/31/2036	2,875
FTP Solar				
sPower - Summer Solar	Photovoltaic	10.0 MW	12/31/2041	1,752
sPower - Antelope Big Sky Ranch	Photovoltaic	10.0 MW	12/31/2041	1,752
sPower - Antelope DSR 1 Solar	Photovoltaic	25.0 MW	12/19/2036	3,836
Capital Dynamics - Tequesquite Landfill Solar	Photovoltaic	7.3 MW	12/31/2040	1,365
American Renewable Power-Loyalton	Biomass	0.8 MW	4/19/2023	617
CalEnergy - Salton Sea Portfolio Phase 1 and 2	Geothermal	40.0 MW	12/31/2039	18,619
Total		230.5 MW		$ 70,841

[1] All contracts are contingent on energy delivered from specific related generating facilities. The Electric Utility has no commitment to pay any amounts except for energy delivered on a monthly basis from these facilities except for any economic curtailments directed by the Electric Utility.

NOTE 11. COMMITMENTS (CONTINUED)

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 3		Geothermal	46.0 MW	6/1/2020	6/1/2020	20
	Total		46.0 MW			

[1] All contracts are contingent on energy delivered from specific related generating facilities. The Electric Utility has no commitment to pay any amounts except for energy delivered on a monthly basis from these facilities except for any economic curtailments directed by the Electric Utility.

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

On May 14, 2013, the City Council approved a new 25-year PPA with CalEnergy, the parent of Salton Sea, for additional renewable geothermal power. The PPA provides power from a portfolio of ten geothermal generating units, instead of a single generating unit, with an increasing amount of delivery that started with 20 MW in 2016 increasing to 40 MW in 2019 and 86 MW in 2020. The initial price under the agreement was $72.85 per megawatt-hour (MWh) in calendar year 2016 which will 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 substantially lower pricing under the new PPA. The cost increase under the Salton Sea PPA is approximately $2,500 per year for the agreement's remaining term. As of June 30, 2019 and 2018, the Electric Utility's prepayment of future contractual obligations was $13,013 and $11,131, respectively. This prepayment is recorded on the Statements of Net Position as unamortized purchased power, to be amortized over the term of the CalEnergy PPA. The CalEnergy PPA commenced in February 2016. As of June 30, 2019 and 2018, the Electric Utility has recorded $186 and $141, respectively, in amortization related to the unamortized purchased power.

On January 28, 2003, the Electric Utility entered into a 15-year renewable PPA with Wintec Energy, Ltd (Wintec) to purchase all of the energy output generated by Wintec's wind powered electric generating units with capacity up to 5 MW. Due to unforeseen circumstances, Wintec was only able to generate capacity totaling 1.3 MW. On November 15, 2005, the City Council approved an amendment to the original agreement, reducing the capacity to 1.3 MW. The amended contract with Wintec terminated in December 2018, however, on February 12, 2019, the City Council approved an extension to the amended agreement for an additional five years for a reduced price of $35.77 per MWh.

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

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

On January 17, 2013, the Electric Utility entered into two 25-year PSAs with SCPPA for a combined total of 20 MW of solar photovoltaic energy generated by two facilities to be built in the City of Lancaster by

Silverado Power, which later changed its name to sPower after a series of ownership changes. The two projects are referred to as Antelope Big Sky Ranch and Summer Solar, each rated at 20 MW. The Electric Utility has a 50 percent share of the output from each project through SCPPA, which has two 20 MW PPAs with sPower. 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. The price under the agreements is $71.25 per MWh over the term of the agreements.
On September 19, 2013, the Electric Utility entered into a 20-year PSA with SCPPA for 14 MW of solar photovoltaic energy generated by a facility to be built by First Solar in Kern County, California. The project is referred to as the Kingbird B Solar Photovoltaic Project, with a nameplate capacity of 20 MW. The Electric Utility has a 70 percent share of the output from the project through SCPPA, which has a 20 MW PPA with Kingbird Solar B, LLC, which was acquired by Capital Dynamics in 2018. 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 a 20-year PSAs with SCPPA for an 11.1 MW of solar photovoltaic energy generated by a facility to be built by Recurrent Energy in Kern County, California. The project referred to as Columbia Two Solar Photovoltaic Projects, with a nameplate capacity of 15 MW. 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, which has a 15 MW PPA with Dominion Resources. 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 agreement.

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. In 2018, after it was acquired by GlidePath Power Solutions, FPL Energy Cabazon Wind, LLC changed its name to GPS Cabazon Wind, LLC.

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 fully commissioned and operational on September 30, 2015 and is expected to generate approximately 15,000 MWh of renewable energy per year. The all-in price for energy, capacity and environmental attributes is $81.30 per MWh, escalating at 1.5 percent annually. In 2018, Capital Dynamics became the new parent company of Solar Star after acquiring it from SunPower.

On July 16, 2015, the Electric Utility entered into a 20-year PSA with SCPPA for 25 MW of solar photovoltaic energy generated by sPower's Antelope DSR Solar PV Project in the City of Lancaster, California. The Electric Utility has a 50 percent share of the output from the project through SCPPA, which has a 50 MW PPA with sPower. The project became commercially operational on December 20, 2016. The Electric Utility's share of Antelope DSR Solar is expected to generate 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.

On November 16, 2017, the Electric Utility entered into a 5-year PSA with SCPPA for 0.8 MW of biomass energy generated by American Renewable Power (ARP) - Loyalton Biomass Project. The Electric Utility has a 4.48% share of the output of the project through SCPPA, along with Imperial Irrigation District, Modesto Irrigation District, Sacramento Municipal Utility District, and Turlock Irrigation District, has an 18 MW PPA with ARP-Loyalton. The project became commercially operational on April 20, 2018. The Electric Utility's share of ARP Loyalton is expected to generate 6,358 MWh of renewable energy per year with an all-in price for energy, capacity and environmental attributes of $97.50 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, 2019 and 2018, the Electric Utility received $7,303 and $8,131, 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 $18,004 and $16,093 as of June 30, 2019 and 2018, 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 $971 and $1,097 as of June 30, 2019 and 2018, respectively, and is recorded as inventory in the Statements of Net Position.

CONSTRUCTION COMMITMENTS

As of June 30, 2019, the Electric Utility had major commitments (encumbrances) of approximately $16,425 with respect to unfinished capital projects, of which $1,561 is expected to be funded by restricted cash reserves, $5,506 to be funded by unrestricted cash reserves, and $9,358 to be funded by bonds.

FORWARD PURCHASE/SALE AGREEMENTS

In order to meet summer peaking requirements, the Electric Utility may contract on a monthly or quarterly basis, for the purchase or sale of natural gas, electricity and/or capacity products on a short term horizon. As of June 30, 2019, the Electric Utility has net commitments for fiscal year 2020 and thereafter, of approximately $14,618, with a market value of $12,307.

NOTE 12. 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 9.

OLQUIN LAWSUIT

On April 28, 2016, a writ of mandate lawsuit entitled *Richard Olquin v. City of Riverside* was filed against the City asserting that adding certain funds received by the Electric Utility from the CAISO to the Electric revenue transfer to the City's general fund was a violation of Proposition 26. Plaintiff sought a court order compelling the City to return to the Electric Utility approximately $115 million, which represents all Electric revenue transfer paid to the City's general fund since May 1, 2013, as well as a permanent injunction prohibiting future Electric revenue transfers.

In April of 2017, the trial court entered judgment in favor of the City, on the grounds that (1) Olquin had failed to allege a rate increase, because the contested transfer did not require the Electric Utility to raise its rates; and (2) even if such a rate increase could be alleged, Olquin's lawsuit was untimely under the statute of limitations in Public Utilities Code Section 10004.5. Mr. Olquin subsequently passed away and Alysia Webb substituted in as plaintiff. In May of 2017, Olquin/Webb filed an appeal to that judgment. On May 4, 2018, the appellate court ruled in favor of the City in a published decision, *Alysia Webb v. City of Riverside* (2018) 23 Cal.App.5th 244. No appeal has been filed to that decision, and the time within which to file the appeal has expired.

PARADA I LAWSUIT

On October 19, 2017, a writ of mandate entitled **PARADA V. CITY OF RIVERSIDE** (Parada I) was filed against the City seeking to enjoin the City from levying electric its utility users tax on the portion of electric rates that are attributable to the General Fund Transfer. On September 21, 2018, the trial court ruled in favor of the City, and on November 7, 2018, the court entered judgement in favor of the City.

PARADA II CLASS ACTION LAWSUIT

On September 12, 2018, a class action petition for writ of mandate entitled *Parada v. City of Riverside* (Parada II) was filed against the City seeking to invalidate, rescind and void under Proposition 26 the Electric Utility's rates, approved by City Council on May 22, 2018, which took effect on January 1, 2019, challenging the portion of the electric rates that are attributable to the General Fund Transfer. The trial has been set for December 6, 2019.

NOTE 13. PRIOR PERIOD ADJUSTMENTS

A prior period adjustment of $5,409 was made to increase the Electric Utility's, including Public Benefits, net position. The adjustment was made to reflect the prior period costs related to pension. The restatement of beginning net position is as follows:

Net position at July 1, 2018, as previously stated	$	505,412
Pension related adjustments		5,409
Net position at July 1, 2018, as restated	$	510,821

ELECTRIC UTILITY:
KEY HISTORICAL OPERATING DATA

FISCAL YEAR	2018/19	2017/18	2016/17	2015/16	2014/15
POWER SUPPLY MEGAWATT-HOURS (MWH)					
Nuclear					
Palo Verde	100,200	102,900	102,400	103,300	103,900
Coal					
Intermountain Power	677,900	627,100	619,500	560,000	744,200
Hoover (Hydro)	28,600	29,000	28,400	30,900	30,900
Gas					
Springs	400	700	500	500	950
RERC	93,900	89,600	84,300	51,600	39,500
Clearwater	13,700	24,200	25,900	15,500	16,100
Renewable Resources[1]	835,500	790,100	669,900	577,200	388,700
Market Purchases	511,500	633,500	770,500	1,084,700	1,029,350
Exchanges In	0	0	0	28,600	87,000
Exchanges Out	0	0	0	(133,500)	(131,800)
Total	2,261,700	2,297,100	2,301,400	2,318,800	2,308,800
System peak megawatt (MW)	610.9	640.3	581.7	598.6	604.4
ELECTRIC USE					
Number of meters as of year end					
Residential	98,322	97,531	97,372	96,934	96,664
Commercial	11,219	11,181	11,016	10,898	10,757
Industrial	888	854	833	891	888
Other[2]	51	53	53	53	79
Total	110,480	109,619	109,274	108,776	108,388
Millions of kilowatt-hours (kWh) sales					
Residential	722	727	730	726	711
Commercial	434	447	448	438	428
Industrial	973	999	996	982	995
Other	21	22	23	23	31
Subtotal	2,150	2,195	2,197	2,169	2,165
Wholesale[3]	0	0	1	0	2
Total	2,150	2,195	2,198	2,169	2,167

[1]As of June 30, 2019, Solar PV included in the Renewable Resources has been restated to include only CEC certified renewables.
Fiscal years 17/18, 16/17, 15/16, and 14/15 have been reduced by 8,100, 8,100, 8,600, and 8,300 mWh respectively.

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

[3]For fiscal years 15/16, 17/18, and 18/19, wholesale kWh was less than 1 millon kWh.

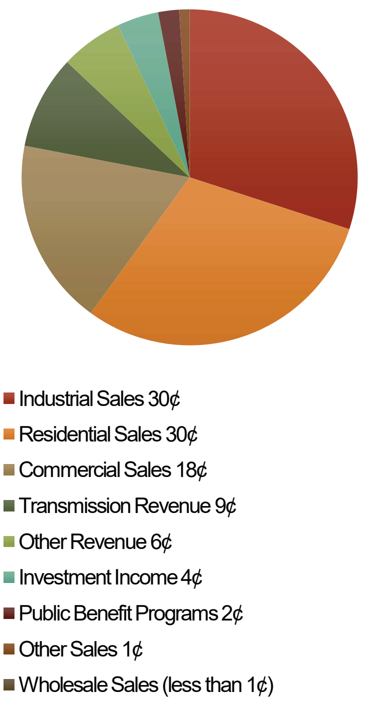
ELECTRIC FACTS					
Average annual kWh per residential customer	7,375	7,455	7,519	7,528	7,334
Average price (cents/kWh) per residential customer	$16.11	$15.91	$16.12	$16.12	$16.05
Debt service coverage ratio (DSC)[4,5]	2.23	2.71	2.95	2.87	2.32
Operating income as a percent of operating revenues	11.4%	15.3%	20.2%	20.2%	18.0%
Employees[6]	475	489	472	465	465

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

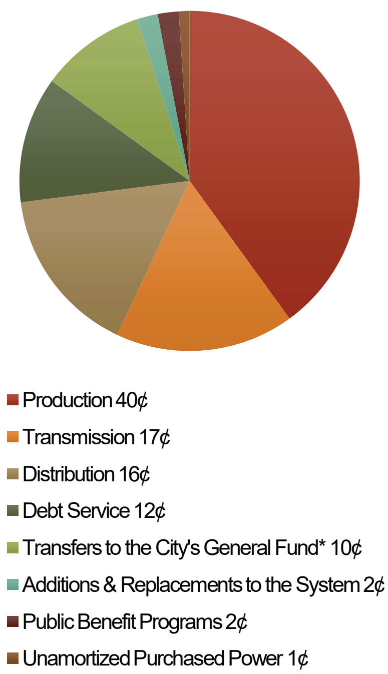
[5]Does not include GASB 68 - Accounting and Financial Reporting for Pension non-cash adjustments of ($1,323), $9,056, ($248), ($5,036), and ($2,594) for fiscal years 18/19 through FY 14/15, respectively.

2018/2019 ELECTRIC REVENUE AND RESOURCES

SOURCE OF REVENUE

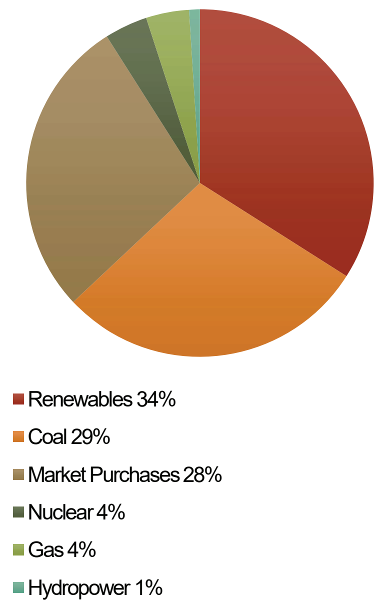


DISTRIBUTION OF REVENUE



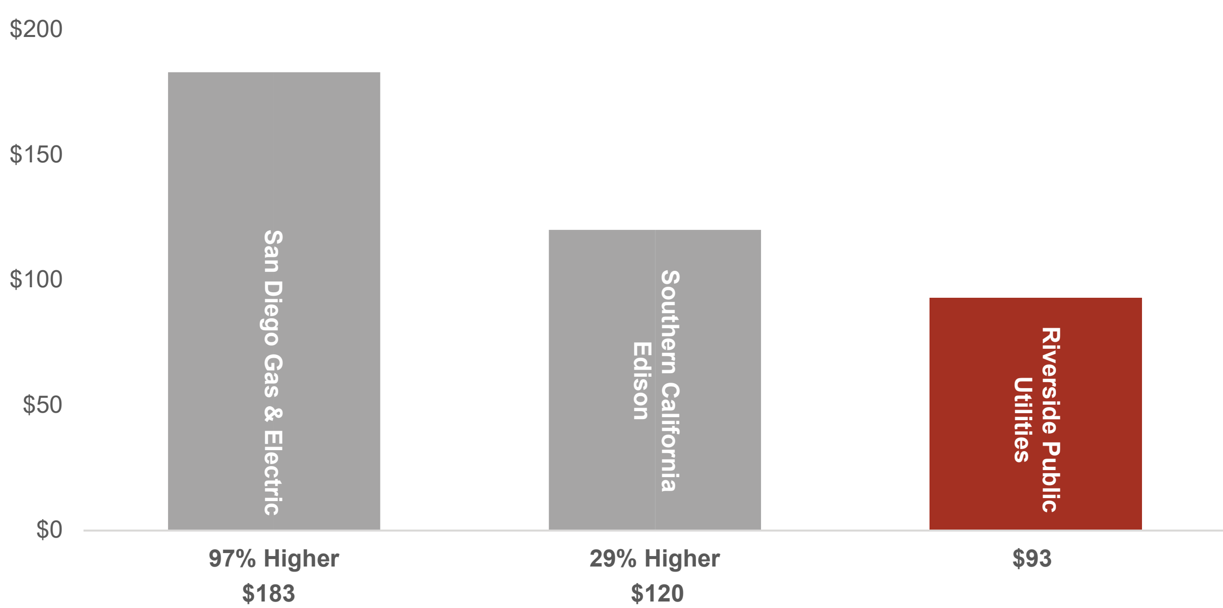
*Based on transfer of 11.5% of fiscal year 2017/2018 gross operating revenues including adjustments.

ENERGY RESOURCES*



*Energy Resources are based on calendar year 2018 as filed with the California Energy Commission

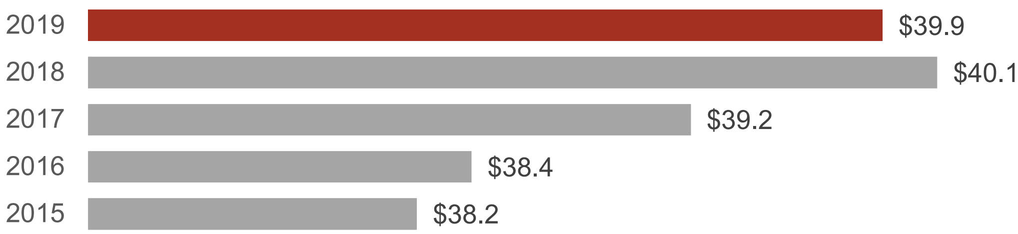
ELECTRIC RATE COMPARISON - 600 KWH PER MONTH (AS OF JUNE 30, 2019)



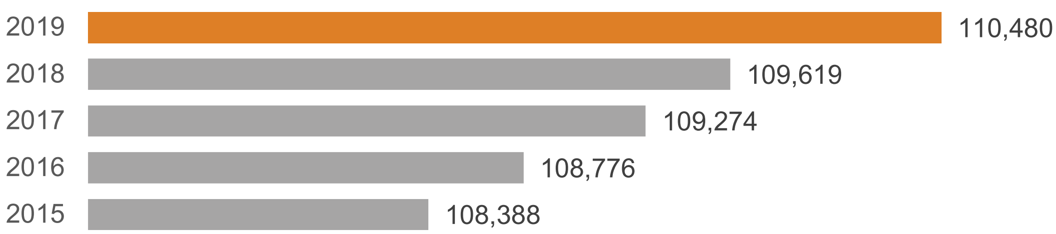
WATER ENERGY LIFE
CITY OF RIVERSIDE
PUBLIC UTILITIES

ELECTRIC KEY OPERATING INDICATORS

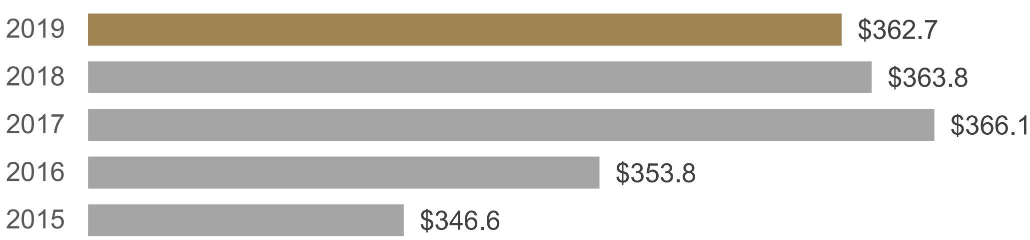
General Fund Transfer (In Millions)



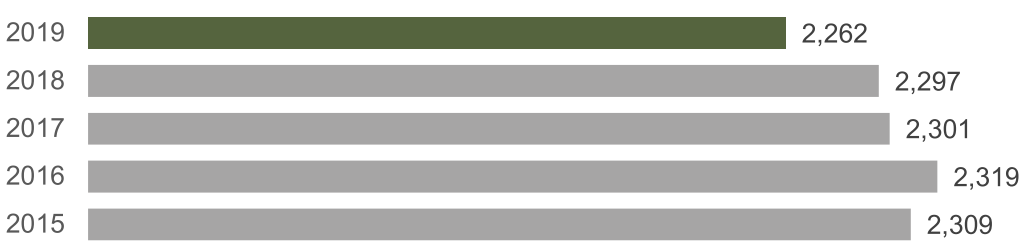
Number of Meters At Year End



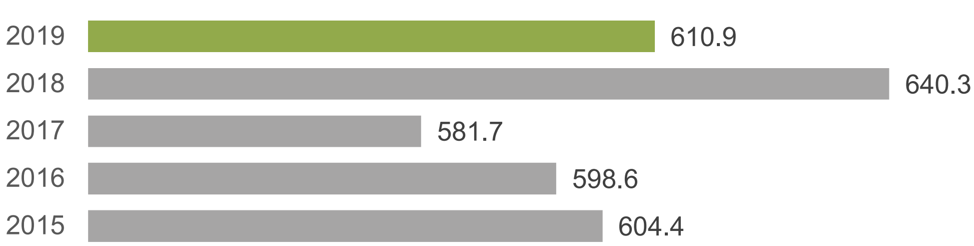
Total Operating Revenue (In Millions)



Production (In Million Kilowatt-Hours)[1]



Peak Day Demand (In Megawatts)



[1] As of June 30, 2019, Solar PV included in the Renewable Resources has been restated to include only CEC certified renewables.

ELECTRIC FACTS AND SYSTEM DATA

Established.. 1895

Service Area Population 328,042

City Service Area Size (square miles) 81.5

System Data

- Transmission Lines (circuit miles).. 99.2
- Distribution Lines (circuit miles) 1,348
- Number of Substations 14
- 2018-19 Peak Day (megawatts) 611
  - Highest Single Hourly Use:
  - 07/24/2018, 5pm, 104 degrees
- Historical Peak (megawatts) 640
  - Highest Single Hourly Use:
  - 08/31/2017, 3pm, 89.9 degrees

Bond Ratings

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


OUR WATER
RIVERSIDE PUBLIC UTILITIES

LSL
CPAs AND ADVISORS

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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 year ended June 30, 2019, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 opinions.

LSL
CPAs AND ADVISORS

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Water Utility of the City, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Water Utility and do not purport to, and do not present fairly the financial position of the City as of June 30, 2019, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Prior Year Comparative Financial Statements

The financial statements of the Water Utility as of June 30, 2018, were audited by other auditors whose report dated October 31, 2018, expressed an unmodified opinion on those statements.

Other Information

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

Lance, Soll & Lunghard, LLP

Brea, California
November 7, 2019

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 2018-19 financial report for the period ended June 30, 2019 and 2018 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 93 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

- During the fiscal year ended June 30, 2019, the Water Utility implemented Governmental Accounting Standards Board Statement No. 88 (GASB 88), Certain Disclosures Related To Debt, Including Direct Borrowings And Direct Placements. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. For further details, refer to Note 4.

- Operating expense reflects a non-cash pension accounting standard adjustment, which will continue to fluctuate based on yearly actuarial information provided by the California Public Employees' Retirement System. The adjustment was ($482) and $3,149 in June 30, 2019 and 2018, respectively.

- Retail sales, net of uncollectibles/recovery, were $57,605 and $58,216 for the fiscal years ended June 30, 2019 and 2018, respectively. The decrease in sales was primarily due to reduced consumption.

- Utility plant assets as of June 30, 2019 increased by $8,884 due to continued investment in water infrastructure system to provide safe, reliable water to Water Utility's customers.

- During the fiscal year ended June 30, 2018, the Water Utility implemented Governmental Accounting Standards Board Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* – a replacement of GASB Statements No. 45 as amended, and No. 57, and establishes new accounting and financial reporting requirements for Other Post-Employment Benefits (OPEB) plans. For more information, refer to the OPEB section below, Note 7 of the accompanying financial statements. As of July 1, 2017, the Water Utility restated beginning net position in the amount of $125 to record adjustments to the OPEB liability.

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 97 to 124 of this report.

WATER UTILITY FINANCIAL ANALYSIS

CONDENSED STATEMENTS OF NET POSITION

	2019	2018	2017
Current and other assets	$ 105,623	$ 73,599	$ 84,801
Capital assets	495,351	486,465	467,973
Deferred outflows of resources	16,786	18,913	24,097
Total assets and deferred outflows of resources	617,760	578,977	576,871
Long-term debt outstanding	250,026	205,020	204,514
Other liabilities	59,172	66,182	60,318
Deferred inflows of resources	5,861	2,697	6,621
Total liabilities and deferred inflows of resources	315,059	273,899	271,453
Net investment in capital assets	292,394	291,562	271,087
Restricted	8,949	8,167	8,079
Unrestricted	1,358	5,349	26,252
Total net position	$ 302,701 [1]	$ 305,078	$ 305,418

[1] Restated July 1, 2018, see Note 11 of the financial statements.

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

2019 compared to 2018 The Water Utility's total assets and deferred outflows of resources were $617,760, reflecting an increase of $38,783 (6.7%) primarily due to the following:

- Current and other assets, comprised of restricted and unrestricted assets, increased by $32,024. This change reflects an increase of $40,474 in restricted assets primarily due the $114,215 issuance of the 2019 Water Revenue Series A Bonds, which fully refunded the 2008 Water Revenue Series B Bonds, partially refunded the 2011 Water Revenue Series A Bonds, and finance capital projects for the Water Utility. The increase is offset by a decrease of $6,426 in unrestricted cash and cash equivalent due to a decrease in cash provided by operating activities, offset by use of bond proceeds to fund capital projects and a decrease of $1,218 in restricted cash and cash equivalents for the use of restricted reserves to purchase equipment.

- Capital assets increased by $8,886 primarily due to an increase of $13,462 for completed transmission and distribution system assets, net of current year depreciation, offset by a decrease of $4,577 in construction in progress. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.

- Deferred outflows of resources decreased by $2,127 primarily due to a decrease of $2,766 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. The decrease is primarily offset by an increase of $884 in deferred changes in derivative values.

2018 compared to 2017 Total assets and deferred outflows of resources were $578,977, reflecting an increase of $2,107 (0.4%) over prior year. Current and other assets, comprised of restricted and unrestricted assets, decreased by $11,202, primarily due to the decrease in unrestricted cash and cash equivalents to fund on-going capital projects. Capital assets increased by $18,492 primarily due to an increase of $9,996 in construction in progress and an increase of $8,496 for completed transmission and distribution system assets, net of current year depreciation. Deferred outflows of resources decreased by $5,184 primarily due to a decrease in deferred outflows related to pension and a decrease in deferred changes in derivative values, offset by an increase in deferred outflows related to note payable.

LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

2019 compared to 2018 The Water Utility's total liabilities and deferred inflows of resources were $315,059, an increase of $41,161 (15.0%) primarily due to the following:

- Long-term debt outstanding increased by $45,006 primarily due to due the issuance of the 2019 Water Revenue Series A Bonds, which was offset by fully refunding of the 2008 Water Revenue Series B Bonds and partially refunding of the 2011 Water Revenue Series A Bonds.

- Other liabilities decreased by $7,009 primarily due to a decrease of $8,143 in net pension liability. Additional information on note payable can be found in Note 4 of the accompanying financial statements.

- Deferred inflows of resources increased by $4,384 primarily due to an increase of $3,160 in deferred inflows related to pension and increase of $1,221 in the regulatory liability.

2018 compared to 2017 Total liabilities and deferred inflows of resources were $273,899, reflecting an increase of $2,446 (0.9%). The increase is primarily due to an increase of $7,760 in note payable and an increase of $1,121 in accounts payable and other accruals. The increase is offset by a decrease of $6,678 in long-term debt obligations primarily due to principal payments on revenue and pension obligation bonds.

NET POSITION

2019 compared to 2018 The Water Utility's total net position, which represents the difference between the Water Utility's total assets and deferred outflows of resources less total liabilities and deferred inflows of resources, totaled $302,701, a decrease of $2,377 (0.8%).

- The largest portion of the Water Utility's total net position, which is its investment in capital assets of $292,394 (96.6%), had an increase of $832 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 $8,949 (3%), reflecting an increase of $782 primarily due to an increase in restricted debt service reserve related to the 2019A Water Revenue Refunding Bonds issue. 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 $1,358 (0.4%), a decrease of $3,991 from prior year, primarily attributable to a decrease in cash provided by operating activities, offset by use of bond proceeds 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.

2018 compared to 2017 Total net position decreased by $340 (0.1%) to $305,078. The decrease was primarily due to a decrease of $20,903 in the unrestricted portion of net position mainly resulting from the use of unrestricted cash and cash equivalent to fund capital projects. This was offset by an increase of $20,475 in net investment in capital assets.

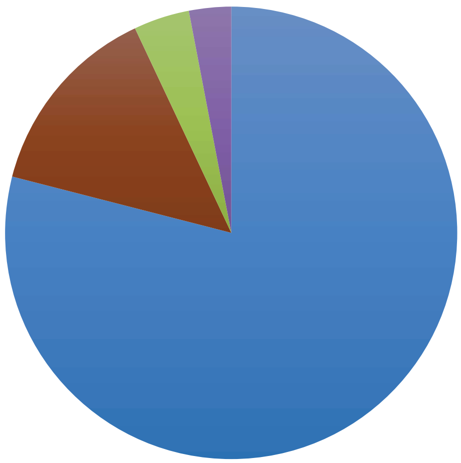
CONDENSED STATEMENTS OF CHANGES IN NET POSITION

	2019	2018	2017
Revenues:			
Retail sales, net	$ 57,605	$ 58,216	$ 54,596
Other revenues	10,530	11,463	9,930
Investment income	2,044	250	17
Capital contributions	3,119	4,181	3,525
Total revenues	73,298	74,110	68,068
Expenses:			
Operations and maintenance	39,217	38,976	34,070
Purchased energy	5,748	5,827	5,136
Depreciation	15,450	14,914	14,320
Interest expenses and fiscal charges	10,412	8,435	8,663
Total expenses	70,827	68,152	62,189
Transfers:			
Transfers to the City's general fund	(6,584)	(6,173)	(5,673)
Total transfers	(6,584)	(6,173)	(5,673)
Changes in net position	(4,113)	(215)	206
Net position, July 1, as previously reported	305,078	305,418	305,212
Less: Cumulative effect of change in accounting principle (1)	1,736	(125)	-
Net position, July 1, as restated	306,814	305,293	305,212
Net position, June 30	$ 302,701	$ 305,078	$ 305,418

(1) For the implementation of postemployment benefits other than pensions, GASB No. 75.

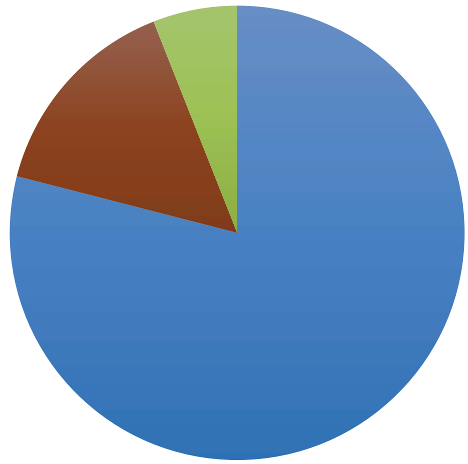
REVENUES BY SOURCES

June 30, 2019



- Retail Sales 79%
- Other 14%
- Capital Contributions 4%
- Investment Income 3%

June 30, 2018



- Retail Sales 79%
- Other 15%
- Capital Contributions 6%
- Investment Income <1%

2019 compared to 2018 The Water Utility's total revenues of $73,298 decreased by $812 (1.1%) primarily due to the following changes:

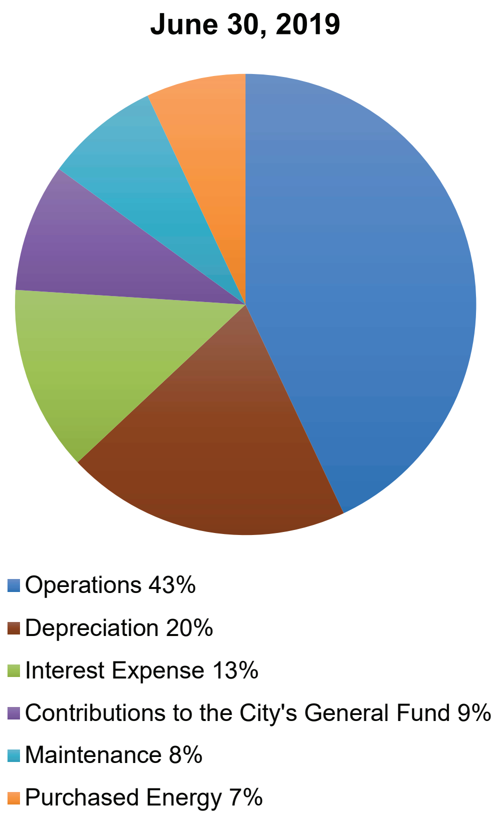
- Retail sales (residential, commercial, industrial, and others), net of uncollectibles/recovery, totaled $57,605, a decrease of $611 (1.0%) from prior fiscal year. Retail sales continue to be the primary revenue source for the Water Utility. The decrease was due to a 7.24% decrease in consumption.
- Other revenues of $10,530 decreased by $933 (8.1%) due to a decrease in water conveyance revenue from WMWD, which resulted from major repairs, two pipeline shutdowns, and significantly higher precipitation than the previous year.
- Capital contribution of $3,119 decreased by $1,062 (25.4%), primarily due to a decrease in contribution in aid of $477 and completion of water system expansion project for Riverwalk Vista Improvement project of $274.
- Investment income of $2,044 increased by $1,794 (718%) due to a fair value investment adjustment.

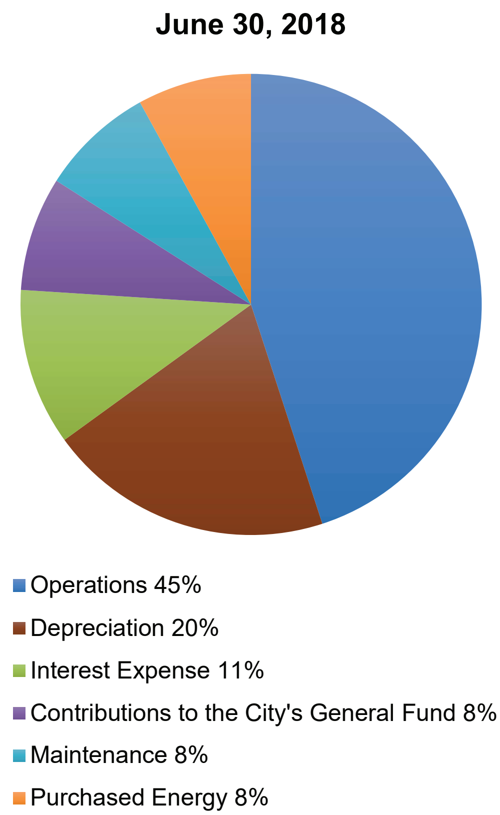
2018 compared to 2017 The Water Utility's total revenues of $74,110 increased by $6,042 (8.9%) primarily due to the following changes:

- Retail sales (residential, commercial, industrial, and others), net of uncollectibles/recovery, totaled $58,216, an increase of $3,620 (6.6%) from prior fiscal year. The increase was primarily due to a 9.7% increase in retail consumption as result of the lifting water conservation mandates.

- Other revenues of $11,463 increased by $1,533 (15.4%) primarily due to an increase of water conveyance revenue due to new contracts and liquidated damages from construction delays on certain water well projects.
- Capital contribution of $4,181 increased by $656 (18.6%) primarily from non-cash contribution for donated assets received.

EXPENSES BY SOURCES





2019 compared to 2018 The Water Utility's total expenses, excluding general fund transfer, were $70,827, an increase of $2,675 (3.9%). The increase was primarily due to an increase of $1,975 in interest and fiscal charges as a result of the 2019A Water Revenue Refunding Bonds issue, an increase in depreciation and an increase in general operations and maintenance costs.

2018 compared to 2017 The Water Utility's total expenses, excluding general fund transfer, were $68,152, an increase of $5,963 (9.6%). The increase was mainly due to non-cash pension expense adjustment of $3,149 as a result of pension accounting standards, an increase in production costs resulting from higher consumption and an increase in general operations and maintenance costs.

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 $6,584 and $6,173 for 2019 and 2018, respectively based on the gross operating revenue provisions in the City's Charter.

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:

	2019	2018	2017
Source of supply	$ 48,434	$ 46,565	$ 45,671
Pumping	19,213	19,690	19,814
Treatment	29,523	30,683	30,679
Transmission and distribution	341,198	328,656	320,660
General	3,944	2,664	3,145
Land	20,840	20,840	20,484
Intangible	12,807	13,398	13,547
Construction in progress	19,392	23,969	13,973
Total capital assets	$ 495,351	$ 486,465	$ 467,973

2019 compared to 2018 The Water Utility's investment in capital assets, net of accumulated depreciation, is $495,351 an increase of $8,886 (1.8%). The increase resulted mainly from an increase of $12,542 in system expansion and improvements, transmission mains replacement, distribution and meter replacements. The increase was offset by a decrease of $4,577 in the construction in progress.

2018 compared to 2017 Investment in capital assets, net of accumulated depreciation, increased by $18,492 (4.0%) to $486,465. Major projects included $14,476 for system expansion and improvements, meter replacements, and facilities rehabilitation and $10,813 for continued pipeline replacement programs.

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

DEBT ADMINISTRATION

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

	2019	2018	2017
Revenue bonds	$ 210,685	$ 182,885	$ 188,300
Unamortized bond premium	20,954	1,749	2,064
Pension obligation bonds	3,028	3,756	4,439
Contracts payable	937	937	937
Leased purchases	1,667	1,884	2,095
Note payable	19,044	20,322	12,927
Less: Current portion of revenue and pension obligation bonds	(6,289)	(6,513)	(6,248)
Total	$ 250,026	$ 205,020	$ 204,514

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 1.67, 2.14, and 2.04 at June 30, 2019, 2018, and 2017, respectively. The debt is backed by the revenues of the Water Utility. The prior years' debt service coverage ratio has been restated to exclude the non-cash pension related adjustment for required pension accounting standards. For additional information, see Note 4 of the accompanying financial statements and the Key Historical Operating Data section.

The Water Utility's long-term debt increased by $45,006 (22.0%) for 2019 primarily due the 2019A Water Revenue Refunding Bonds issue and increased by $506 (0.2%) for 2018.

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 S&P Global Ratings (S&P), Fitch Ratings (Fitch) and Moody's, respectively.

In January 2019, S&P assigned its "AAA" long-term rating on the 2019A Water Revenue Refunding Bonds and affirmed the "AAA" long-term rating on the existing Water revenue bonds.

In January 2019, Fitch assigned its "AA+" long-term rating on the 2019A Water Revenue Refunding Bonds and affirmed the AA+ rating on the outstanding Water revenue bonds.

In July 2019, Moody's affirmed its "Aa2" long-term rating on the Water Utility's outstanding revenue bonds.

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

REGULATORY, LEGISLATIVE FACTORS, AND RATES

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 in recent years resulting in severe impacts to California's water supplies and its ability to meet all of the demands for water in the State. The Water Utility is very fortunate as a water provider in California in that the Water Utility owns, operates and maintains its own water supply and is not typically dependent on imported water from outside sources. The Water Utility currently has sufficient water supplies to meet customer needs even during severe drought conditions; however, the aquifers the Water Utility draws from are experiencing historic low levels. The Water Utility has responded by continuing to offer a wide variety of water conservation programs for its customers in an effort to conserve its water resources.

The Water Utility continues to offer customers a wide variety of water conservation programs that help reduce their water usage and utility costs, and help the City meet State mandates and be more sustainable. These programs provide rebates for residents and businesses to help them save money by conserving water. In an effort to streamline and automate the rebate process, the City formed a partnership with Metropolitan Water District of Southern California to administer and process rebates for high-efficiency toilets, clothes washers, irrigation controllers and many other water-saving devices.

To further provide comprehensive resources and guidance as to how to implement water efficiency practices at residents and businesses, the Water Utility, in partnership with the City created the Street Park Turf Conversion and Demonstration Garden at the Janet Goeske Center. The Demonstration Garden allows residents and businesses to interact with water conservation materials and techniques that conserve water, elevate customer awareness, increase incentive program participation, provide educational opportunities and demonstrate water conservation best practices.

In addition, the Water Utility creates marketing campaigns to promote efficient water use and management for residents and businesses. These campaigns provide resources to explore water rebates, information on water quality, water efficiency tips and resources to assist individuals to create a water-efficient property.

The Water Utility's water conservation and efficiency programs have assisted the residents and business to save 53,259,096 gallons of water for the period of July 2018 and June 2019.

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

WATER CONSERVATOIN

On November 10, 2009, the Governor signed SBX7-7, which requires the State of California to achieve a (i) 10% reduction in urban per capita water use by December 31, 2015, and (ii) 20% reduction in urban per capita water use by December 31, 2020. Additionally, in May 31, 2018, the Governor signed long-term water-use efficiency bills AB 1668 and SB 606 into law to provide standards for indoor residential water use of 55 gallons per capita per day (GPCD) until 2025, 52.5 GPCD from 2025 to 2030, and 50 GPCD beginning in 2030. AB 1668 and SB 606 also provide for an outdoor allocation to be determined based on an analysis of the irrigable area within a water utilities service area, coupled with a water system loss component.

The City established its urban water use targets for 2015 and 2020, respectively, in accordance with the above law and bills. The 2015 and 2020 urban water use targets for the Water System's service area were recalculated in the 2015 Urban Water Management Plan to reflect the use of DWR Population Tool. They are 239 GPCD and 213 GPCD, respectively. The City intends to meet the conservation requirements of SBX7-7, AB 1668, and SB 606 through increased use of recycled water and implementation of additional conservation measures.

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 2011, the United States Environmental Protection Agency ("**USEPA**") announced plans to establish a federal drinking water standard for perchlorate. The timetable for completion of a federal Maximum Contaminant Level ("MCL") for perchlorate is unknown. Presently USEPA is requesting peer review of its draft Biologically Based Dose-Response Model to develop a perchlorate MCL goal. Once a MCL goal is established the USEPA will began the process of developing an MCL. The State of California MCL for perchlorate is 6 parts per billion ("ppb"). The MCL may be considered for possible revision as a result of the California Environmental Protection Agency's 2015 reduction in the perchlorate Public Health Goal from 6 ppb to 1 ppb. In addition, the California State Division of Drinking Water is currently evaluating lowering the perchlorate detection limit for reporting purposes from 4 pbb to as low as 0.5 ppb. A reduction in the perchlorate standard will impact the Water Utility's water supply costs.

In December 2016, the USEPA completed its third review of existing National Primary Drinking Water Regulations (NPDWR) (i.e., the Six-Year Review 3). The USEPA determined that 68 of the 76 NPDWR remain appropriate (i.e., do not need to be revised) and that eight NPDWRs are candidates for regulatory revision. These eight NPDWRs are included in the Stage 1 and the Stage 2 Disinfectants and Disinfection Byproducts Rules, the Surface Water Treatment Rule, the Interim Enhanced Surface Water Treatment Rule and the Long Term 1 Enhanced Surface Water Treatment Rule. The eight NPDWRs are chlorite, Cryptosporidium, Giardia lamblia, haloacetic acids (HAA5), heterotrophic bacteria, Legionella, total trihalomethanes (TTHM) and viruses. Any revision resulting in the lower of these standards may impact the Water Utility's water supply costs.

On December 14, 2017, the State Water Resources Control Board adopted an MCL for 1,2,3-Trichloropropane ("1,2,3-TCP) of 0.000005 mg/L or 5 parts per trillion (ppt). Water Quality Monitoring was initiated in 2018. To date six of the City's potable wells show detections of 1,2,3-TCP and exceed the MCL. These wells extract water from the same aquifers that are contaminated by other known anthropogenic chemicals and are currently being treated by existing GAC treatment facilities.

In May 2016, the USEPA issued a lifetime health advisory for Perfluorooctanoic acid (PFOA) and perfluorooctane sulfonate(PFOS) in drinking water, advising municipalities that they should notify their customers of the presence of levels over a combined level 70 ppt. CalEPA has adopted this value as a Response Level, in which DDW recommends removing the source form service or providing treatment when concentrations exceed the level. In August 2019, CalEPA established notification levels for PFOA and PFOS to 5.1 ppt and 6.5 ppt respectively. The City has detected PFOS and/or PFOA in 35 of its wells, many of which are already receiving treatment. However all detections have been below the response level, and at the City's compliance point, PFOS and PFOA levels are below the notification levels. The City does not anticipate levels exceeding the Response Level.

The Water Utility will continue to monitor the progress of the proposed standard changes and will advocate for standards that protect human health and are based on the best available science.

CLEAN WATER ACT

On March 25, 2014, USEPA and the Army Corps released a draft proposed rule revising the definition of "Waters of the United States." The proposed rule significantly expanded the scope of Federal jurisdiction in determining the waters of United States. In particular, the rule added jurisdiction over water conveyance systems, groundwater recharge, and recycled water systems. The proposed rule defined tributaries too broadly that it included canals and aqueducts. The inclusion of canals and aqueducts would make the transfer of water much more difficult and would increase permitting costs. The draft rule was made final on August 28, 2015. However on October 9, 2015, the United States Court of Appeals issued a Stay causing the USEPA and the Army Corps to resume using the prior regulations defining the term "Waters of the United States." On February 28, 2017, the President of the United States issued an Executive Order directing the EPA and Department of the Army to review and rescind or revise the 2015 Rule. In December 2018, revised language was issued that provided clarity in defining "waters of the US," in which tributaries are defined as having a perennial source of water, and no longer includes canals or aqueducts, among other things. On September 12, 2019, the EPA signed the repeal into law.

FIVE-YEAR WATER RATE PLAN

On May 22, 2018, the City Council approved a new five-year Water Rate Plan, with rate increases that become effective on July 1, 2018, 2019, 2020, 2021 and 2022 with annual reviews of the adopted rates by City Council. The system average rate increase effective July 1, 2018 was 4.50%, followed by system average rate increases of 5.75% in years two through four, and followed by system average rate increase of 6.50% in the final year of the rate plan. The Water Rate Plan included a redesign of water rates over a five-year period to better align with its cost of serving customers and its revenue requirement. The water rate restructuring was designed to provide financial stability and correct the imbalance of costs versus revenue recovery by increasing fixed cost recovery through monthly service charges to reflect the nature of underlying costs. Pursuant to City Council direction, the first annual review of rates will be conducted in December of 2019.

REQUESTS FOR INFORMATION

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

WATER UTILITY:
FINANCIAL STATEMENTS

STATEMENTS OF NET POSITION

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	June 30, 2019	June 30, 2018
	(in thousands)	
NON-CURRENT ASSETS:		
Utility plant:		
Utility plant, net of accumulated depreciation (Note 3)	$ 495,351	$ 486,465
Restricted assets:		
Cash and investments at fiscal agent (Note 2)	40,474	-
Other non-current assets:		
Regulatory assets	1,055	1,434
Other long-term assets	3,825	4,125
Total other non-current assets	4,880	5,559
Total non-current assets	540,705	492,024
CURRENT ASSETS:		
Unrestricted assets:		
Cash and cash equivalents (Note 2)	41,038	47,464
Accounts receivable, less allowance for doubtful accounts 2019 $172; 2018 $194	8,650	8,841
Accrued interest receivable	138	191
Advances to other funds of the City	139	131
Prepaid expenses	227	238
Other current assets	300	300
Total unrestricted current assets	50,492	57,165
Restricted assets:		
Cash and cash equivalents (Note 2)	7,233	8,451
Water Conservation Programs - cash and cash equivalents (Note 2)	2,442	2,315
Water Conservation Programs receivable	102	109
Total restricted current assets	9,777	10,875
Total current assets	60,269	68,040
Total assets	600,974	560,064
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflows related to pension (Note 6)	8,115	10,881
Changes in derivative values	2,753	1,869
Loss on refunding	5,918	6,163
Total deferred outflows of resources	16,786	18,913
Total assets and deferred outflows of resources	$ 617,760	$ 578,977

See accompanying notes to the financial statements

STATEMENTS OF NET POSITION

NET POSITION, LIABILITIES, AND DEFERRED INFLOWS OF RESOURCES	June 30, 2019	June 30, 2018
	(in thousands)	
NET POSITION:		
Net investment in capital assets	$ 292,394	$ 291,562
Restricted for:		
Debt service (Note 8)	6,710	6,186
Water Conservation Programs	2,239	1,981
Unrestricted	1,358	5,349
Total net position	302,701	305,078
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (Note 4)	250,026	205,020
OTHER NON-CURRENT LIABILITIES:		
Net other postemployment benefits liability (Note 7)	3,524	3,410
Net pension liability (Note 6)	30,737	38,880
Compensated absences (Note 5)	299	344
Derivative instrument (Note 4)	5,257	5,593
Regulatory liability	3,427	2,206
Total other non-current liabilities	43,244	50,433
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	2,733	1,542
Water Conservation Programs payable	4	71
Current portion of long-term obligations (Note 4)	6,356	6,574
Total current liabilities payable from restricted assets	9,093	8,187
CURRENT LIABILITIES:		
Accounts payable and other accruals	2,850	3,827
Current portion of long-term obligations (Note 4)	1,429	1,352
Unearned revenue	39	64
Customer deposits	789	813
Compensated absences (Note 5)	1,728	1,506
Total current liabilities	6,835	7,562
Total liabilities	309,198	271,202
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows related to pension (Note 6)	5,744	2,585
Deferred inflows related to other postemployment benefits (Note 7)	117	112
Total deferred inflows of resources	5,861	2,697
Total net position, liabilities and deferred inflows of resources	$ 617,760	$ 578,977

See accompanying notes to the financial statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	For the Fiscal Year Ended June 30	
	2019	2018
	(in thousands)	
OPERATING REVENUES:		
Residential sales	$ 35,408	$ 37,148
Commercial sales	20,539	19,317
Other sales	1,743	1,880
Water conveyance revenue	1,785	3,162
Water Conservation Programs	943	886
Other operating revenue	4,759	4,435
Total operating revenues before uncollectibles	65,177	66,828
Estimated uncollectibles, net of bad debt recovery	(85)	(129)
Total operating revenues, net of uncollectibles	65,092	66,699
OPERATING EXPENSES:		
Operations	32,616	32,286
Maintenance	5,851	5,775
Purchased energy	5,748	5,827
Water Conservation Programs	750	915
Depreciation	15,450	14,914
Total operating expenses	60,415	59,717
Operating income	4,677	6,982
NON-OPERATING REVENUES (EXPENSES):		
Investment income	2,044	250
Interest expense and fiscal charges	(10,412)	(8,435)
Gain on sale of assets	155	177
Other	2,888	2,803
Total non-operating revenues (expenses)	(5,325)	(5,205)
Income before capital contributions and transfers	(648)	1,777
Capital contributions	3,119	4,181
Transfers out - contributions to the City's general fund	(6,584)	(6,173)
Total capital contributions and transfers	(3,465)	(1,992)
Decrease in net position	(4,113)	(215)
NET POSITION, BEGINNING OF YEAR	305,078	305,418
RESTATEMENT OF NET POSITION (Note 11)	1,736	(125)
NET POSITION, BEGINNING OF YEAR, AS RESTATED	306,814	305,293
NET POSITION, END OF YEAR	$ 302,701	$ 305,078

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

		For the Fiscal Year Ended Ended June 30,	
		2019	2018
		(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers and users	$	65,239	$ 67,434
Cash paid to suppliers and employees		(46,190)	(40,520)
Other receipts		1,132	1,566
Net cash provided by operating activities		20,181	28,480
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Transfers out - contributions to the City's general fund		(6,584)	(6,173)
Payment on pension obligation bonds		(728)	(683)
Cash paid on advances to other funds of the City		(8)	(53)
Net cash used for non-capital financing activities		(7,320)	(6,909)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of utility plant		(21,670)	(27,824)
Proceeds from the sale of utility plant		183	177
Principal paid on long-term obligations		(5,841)	(5,626)
Interest paid on long-term obligations		(9,710)	(8,320)
Proceeds from revenue bonds, including premium		53,566	-
Revenue bond refunding cost		(760)	-
Bond issuance costs		(526)	-
Capital contributions		2,489	3,806
Net cash used provided (used) by capital and related financing activities		17,731	(37,787)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from investment securities		268	0
Income from investments		2,097	290
Net cash provided by investing activities		2,365	290
Net increase (decrease) in cash and cash equivalents		32,957	(15,926)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR **(including $10,766 and $10,653 at June 30, 2018 and June 30, 2017, respectively, reported in restricted accounts)**		58,230	74,156
CASH AND CASH EQUIVALENTS, END OF YEAR **(including $49,881 and $10,766 at June 30, 2019 and June 30, 2018 respectively, reported in restricted accounts)**	$	91,187	$ 58,230
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income	$	4,677	$ 6,982
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		15,450	14,914
(Decrease) increase in allowance for uncollectible accounts		(24)	58
Decrease in accounts receivable		223	607
Decrease (increase) in prepaid expenses		11	(74)
(Decrease) increase in accounts payable and other accruals		(976)	1,015
Increase in compensated absences		176	167
Decrease in unearned revenue		(25)	(121)
(Decrease) increase in Water Conservation Programs payable		(74)	23
(Decrease) Increase in customer deposits		(24)	61
Changes in net pension liability and related deferred outflows and inflows of resources		(480)	3,151
Changes in other postemployment benefits liability and related deferred outflows and inflows of resources		118	131
Other receipts		1,129	1,566
Net cash provided by operating activities	$	20,181	$ 28,480
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Capital contributions - capital assets		630	932
Reduction of note payable including interest, offset by rent credit		1,756	1,237
Well relocation with note payable		-	4,100
Principal balance of revenue bonds refunded		68,800	-

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

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations* (GASB 83). This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. This Statement establishes criteria for (1) determining the timing and pattern of liability recognition and a corresponding deferred outflow, (2) requires liability recognition when it is incurred and reasonably estimable, and (3) requires ARO measurement to be based on the best estimate of the current value of outlays expected to be incurred. If an ARO has been incurred but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain AROs, including obligations that may not have been previously reported. This Statement is effective for reporting period beginning after June 15, 2018.

In March of 2018, the GASB issued Statement No. 88, *Certain Disclosures Related To Debt, Including Direct Borrowings And Direct Placements* (GASB 88). The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows. This Statement is effective for reporting period beginning after June 15, 2018. For further details, refer to Note 4.

In June 2017, the GASB issued Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The Department is evaluating the impact of this standard.

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. Accordingly, 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 $3,050 at June 30, 2019, and $3,227 at June 30, 2018.

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

WATER UTILITY PLANT AND DEPRECIATION

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

Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed. For fiscal years ended June 30, 2019 and 2018, the Water Utility capitalized net interest costs of $811 and $550, respectively. Total interest expense incurred by the Water Utility was $11,373 and $8,496, respectively.

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

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

RESTRICTED ASSETS

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

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

CASH AND INVESTMENTS

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

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

City-wide information concerning cash and investments as of June 30, 2019, 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

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

Unrestricted designated cash reserve balances as of June 30, 2019 and 2018 were as follows: Property Reserve $5,060 and $5,000, Recycled Water Reserve $1,554 and $2,915, Customer Deposits $626 and $621, and Capital Repair and Replacement Reserve $2,276 and $2,249, respectively. The combined total for these reserves was $9,516 and $10,785 at June 30, 2019 and 2018, respectively and is included as a component of unrestricted cash and cash equivalents in the accompanying Statements of Net Position.

ADVANCES TO OTHER FUNDS OF THE CITY

Advances to other funds of the City have been recorded as a result of agreements between the Water Utility and the City. The balances as of June 30, 2019 and 2018 are $139 and $131, respectively.

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, 2019 and 2018 was $789 and $813, respectively.

COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due to employees at June 30, 2019 and 2018. 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 $2,027 at June 30, 2019, and $1,850 at June 30, 2018.

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, 2019, 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, 2019 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 $527 and $288 for the years ended June 30, 2019 and 2018, 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 6.

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

OPEB refers to the benefits, other than pensions, that the City provides as part of an employee's retirement benefits. The net OPEB obligation is defined as the liability of employers contributing to employees for benefits provided through a defined benefit OPEB plan that is administered through a trust. In order to improve the financial reporting of these benefits, the Water Utility has implemented GASB 75, which is explained in detail under New Accounting Pronouncements and in Note 7.

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, note payable and deferred outflows related to pension which include pension contributions subsequent to the measurement date, difference between actual and actuarial determined contribution, changes in assumptions and net differences between projected and actual earnings on pension plan investments.

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

REGULATORY ASSETS AND DEFERRED REGULATORY CHARGES

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

NET POSITION

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

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

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

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

CONTRIBUTIONS TO THE CITY'S GENERAL FUND

Pursuant to the City of Riverside Charter, the Water Utility may transfer up to 11.5 percent of prior year's gross operating revenues, including adjustments, to the City's general fund. In fiscal years ended June 30, 2019 and 2018, $6,584 and $6,173, 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.

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.

RECLASSIFICATIONS

Certain reclassifications have been made to prior year's financial statements to conform with the current year's presentation. Such reclassifications have no effect on the net position or the changes in net position.

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2019 and 2018, consist of the following (in thousands):

	June 30, 2019	June 30, 2018
	Fair Value	
Equity interest in City Treasurer's investment pool	$ 50,713	$ 58,230
Cash and investments at fiscal agent	40,474	-
Total cash and investments	$ 91,187	$ 58,230

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

	June 30, 2019	June 30, 2018
Unrestricted cash and cash equivalents	$ 41,038	$ 47,464
Restricted cash and cash equivalents	9,675	10,766
Restricted cash and investments at fiscal agent	40,474	-
Total cash and investments	$ 91,187	$ 58,230

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, 2019 and 2018:

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

Investment Type	June 30, 2019 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	$ 40,474	$ -	$ 40,474	$ -	$ -
City Treasurer's investment pool [1]					
Money market funds	395	-	395	-	-
Joint powers authority pools	9,457	-	9,457	-	-
Mortgage/Asset backed securities	1,311	-	1,311	-	-
US Treasury notes/bonds	22,251	-	22,251	-	-
Federal agency securities	1,014	-	1,014	-	-
Federal agency discount notes	997	-	997	-	-
Corp medium term notes	4,875	-	4,875	-	-
Supranational securities	130	-	130	-	-
Negotiable certificate of deposit	380	-	380	-	-
State investment pool	9,903	-	-	-	9,903
Total	$ 91,187	$ -	$ 81,284	$ -	$ 9,903

Investment Type	June 30, 2018 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	$ 13,730	$ -	$ 13,730	$ -	-
Federal agency securities	733	-	733	-	-
US Treasury notes/bonds	27,822	-	27,822	-	-
Corp medium term notes	3,311	-	3,311	-	-
State investment pool	11,951	-	-	-	11,951
Negotiable certificate of deposit	683	-	683	-	-
Total	$ 58,230	$ -	$ 46,279	$ -	$ 11,951

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

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

Cash and investments distribution by maturities as of June 30, 2019 and 2018, are as follows:

		Remaining Maturity (In Months)		
Investment Type	**June 30, 2019 Fair Value**	**12 Months or less**	**13 to 24 Months**	**25 to 60 Months**
Held by fiscal agent				
Money market funds	$ 40,474	$ 40,474	$ -	$ -
City Treasurer's investment pool [1]				
Money market funds	395	395	-	-
Joint powers authority pools	9,457	9,457	-	-
State investment pool	9,903	9,903	-	-
Mortgage/Asset backed securities	1,311	535	-	776
US Treasury notes/bonds	22,251	7,250	6,801	8,200
Federal agency securities	1,014	76	617	321
Federal agency discount notes	997	997	-	-
Corp medium term notes	4,875	1,466	406	3,003
Supranational securities	130	130	-	-
Negotiable certificate of deposit	380	76	152	152
Total	$ 91,187	$ 70,759	$ 7,976	$ 12,452

		Remaining Maturity (In Months)		
Investment Type	**June 30, 2018 Fair Value**	**12 Months or less**	**13 to 24 Months**	**25 to 60 Months**
City Treasurer's investment pool [1]				
Money market funds	$ 13,730	$ 13,730	$ -	$ -
Federal agency securities	733	-	-	733
US Treasury notes/bonds	27,822	3,759	13,000	11,063
Corp medium term notes	3,311	784	1,374	1,153
State investment pool	11,951	11,951	-	-
Negotiable certificate of deposit	683	412	91	180
Total	$ 58,230	$ 30,636	$ 14,465	$ 13,129

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

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

Presented below is the actual rating as of June 30, 2019 and 2018 for each investment type:

Investment Type	June 30, 2019 Fair Value	Rating as of Year End AAA	AA	A	Unrated
Held by fiscal agent					
Money market funds	$ 40,474	$ -	$ -	$ 40,474	$ -
City Treasurer's investment pool [1]					
Money market funds	395	-	-	393	2
State investment pool	9,903	-	-	-	9,903
Joint powers authority pools	9,457	-	9,457	-	-
Mortgage/Asset backed securities	1,311	1,311	-	-	-
US Treasury notes/bonds	22,251	22,251	-	-	-
Federal agency securities	1,014	938	76	-	-
Federal agency discount notes	997	-	-	-	997
Corp medium term notes	4,875	-	4,126	749	-
Supranational securities	130	130	-	-	-
Negotiable certificate of deposit	380	-	-	-	380
Total	$ 91,187	$ 24,630	$ 13,659	$ 41,616	$ 11,282

Investment Type	June 30, 2018 Fair Value	Rating as of Year End AAA	AA	A	Unrated
City Treasurer's investment pool [1]					
Money market funds	13,730	-	13,257	473	-
Federal agency securities	733	733	-	-	-
US Treasury notes/bonds	27,822	27,822	-	-	-
Corp medium term notes	3,311	-	3,311	-	-
State investment pool	11,951	-	-	-	11,951
Negotiable certificate of deposit	683	-	-	-	683
Total	$ 58,230	$ 28,555	$ 16,568	$ 473	$ 12,634

[1] Additional information on investment types, fair value measurement, interest rate risk 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, 2019 and 2018 (in thousands):

	Balance As of 6/30/2017	Additions	Retirements/ Transfers	Balance As of 6/30/2018	Additions	Retirements/ Transfers	Balance As of 6/30/2019
Source of supply	$ 63,060	2,380	-	$ 65,440	$ 3,446	$ -	$ 68,886
Pumping	32,047	557	-	32,604	213	-	32,817
Treatment	43,939	1,205	(644)	44,500	114	-	44,614
Transmission and distribution	482,453	18,357	(302)	500,508	23,274	(1,374)	522,408
General	15,945	61	(88)	15,918	1,753	(943)	16,728
Intangible	3,528	494	-	4,022	140	-	4,162
Depreciable utility plant	640,972	23,054	(1,034)	662,992	28,940	(2,317)	689,615
Less accumulated depreciation							
Source of supply	(17,389)	(1,486)	-	(18,875)	(1,577)	-	(20,452)
Pumping	(12,233)	(681)	-	(12,914)	(690)	-	(13,604)
Treatment	(13,260)	(1,201)	644	(13,817)	(1,275)	-	(15,092)
Transmission and distribution	(161,793)	(10,361)	302	(171,852)	(10,698)	1,345	(181,205)
General	(12,800)	(542)	88	(13,254)	(476)	943	(12,787)
Intangible	(822)	(643)	-	(1,465)	(733)	-	(2,198)
Accumulated depreciation	(218,297)	(14,914)	1,034	(232,177)	(15,449)	2,288	(245,338)
Net depreciable utility plant	422,675	8,140	-	430,815	13,491	(29)	444,277
Land	20,484	357	-	20,841	-	-	20,841
Intangible, non-amortizable	10,841	-	-	10,841	-	-	10,841
Construction in progress	13,973	32,135	(22,139)	23,969	23,315	(27,892)	19,392
Nondepreciable utility plant	45,298	32,492	(22,139)	55,651	23,315	(27,892)	51,074
Total utility plant	$ 467,973	$ 40,632	$ (22,139)	$ 486,466	$ 36,806	$ (27,921)	$ 495,351

NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2019 and 2018 (in thousands):

	Balance As of 6/30/2017	Additions	Reductions	Balance As of 6/30/2018	Additions	Reductions	Balance As of 6/30/2019	Due Within One Year
Revenue bonds	$190,364	$ -	$ (5,730)	$184,634	$ 135,106	$ (88,101)	$ 231,639	$ 5,520
Pension obligation bonds	4,439		(683)	3,756	-	(728)	3,028	619
Direct Borrowings:								
Leased purchases	2,305		(210)	2,095		(211)	1,884	217
Note payable	13,764	8,600	(840)	21,524		(1,201)	20,323	1,279
Contracts payable - Water stock acquisition rights	937	-	-	937	-	-	937	150
Total long-term obligations	$211,809	$ 8,600	$ (7,463)	$212,946	$ 135,106	$ (90,241)	$ 257,811	$ 7,785

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

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

CONTRACTS	June 30, 2019	June 30, 2018
Water Stock Acquisitions: Payable to various water companies	$ 937	$ 937
Total contracts payable	937	937
PENSION OBLIGATION BONDS PAYABLE		
$30,000 2005 Taxable Pension Obligation Bonds Series A: fixed rate bonds issued by the City due in annual installments from $630 to $3,860 through June 2020, interest from 3.9 to 4.8 percent. The Water Utility's proportional share of the outstanding debt is 10.7 percent.	284	697
$31,960 2017 Taxable Pension Obligation Bonds Series A: fixed rate bonds issued by the City due in annual installments from $2,910 to $3,580 through June 2027, interest from 1.3 to 3.1 percent. The Water utility's proportional share of the outstanding debt is 10.7 percent.	2,744	3,059
Total pension obligation bonds payable	3,028	3,756
REVENUE BONDS PAYABLE		
$58,235 2008 Water Revenue Series B Bonds: all outstanding bonds were refinanced with the 2019 series A Revenue/Refunding Bonds on February 26, 2019.	-	55,415
$31,895 2009 Water Refunding/Revenue Series A Bonds: fixed rate bonds due in annual principal installments from $2,270 to $2,360 through October 1, 2020, interest from 4.0 to 5.0 percent	4,630	7,255
$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 $2,375 to $3,950 through October 1, 2035. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 30, 2019 was 3.1 percent). Partially refunded $26,900 on April 1, 2019 with 2019A Electric Refunding Bonds.	24,050	52,425
$114,229 2019 Water Revenue Refunding Series A Bonds: fixed rate bonds due in annual principal installments from $1,680 to $8,455 through October 1, 2048, interest of 5.0 percent	114,215	-
Total water revenue bonds payable	210,685	182,885
Total water revenue bonds, pension obligation bonds and contracts payable	214,650	187,578
Unamortized bond premium	20,954	1,749
Total water revenue bonds, pension obligation bonds and contracts payable, including bond premium	235,604	189,327
Less current portion	(6,289)	(6,513)
Total long-term water revenue bonds, pension obligation bonds and contracts payable	$ 229,315	$ 182,814

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

For fiscal year ended June 30, 2018, the City restructured the presentation of the long term pension obligation bonds from advances from other funds to long term obligations. The Water Utility is obligated to pay its share of the City's pension obligation bonds, which the City issued in 2005 and refinanced a portion in May 2017. The Water Utility's proportional share of the outstanding principal amount of the bonds was $3,028 and $3,756 as of June 30, 2019 and 2018, respectively. 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, 2019.

Remaining pension obligation bond debt service payments will be made from revenues of the Water Fund. Annual debt service requirements to maturity as of June 30, 2019 are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2020	$ 619	$ 113	$ 732
2021	327	89	416
2022	334	68	402
2023	342	61	403
2024	351	52	403
2025-2029	1,055	112	1,167
Total	$ 3,028	$ 495	$ 3,523

All water revenue bonds are covenanted per the Amended and Restated Resolution No. 17664 (Water) Master Resolution that upon the occurrence and continuation of an event of default, the owners of 25% in aggregate amount of Bond Obligation may, by written notice to the City, declare the entire unpaid principal and accreted value of the bonds due and payable should the City fail to pay its debts as they become due or upon the entry of any decree or order of bankruptcy of the City.

$114,215 2019 Water Revenue/Refunding Bonds; Series A. The bonds were issued in February 2019 to fund short-term and long-term capital projects, refund the 2008 Water Revenue Bonds; Series B, and partially refund and partially unwind the swap on the 2011 Water Revenue Bonds; Series A. The refunding transactions resulted in a total net present value savings of $10,759. 5% due in annual installments from $1,680 to $8,455 through 10/1/2048.

Remaining revenue bond debt service payments will be made from revenues of the Electric Fund. Annual debt service requirements to maturity as of June 30, 2019 are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2020	$ 5,520	$ 9,920	$ 15,440
2021	6,335	9,083	15,418
2022	6,640	8,780	15,420
2023	6,915	8,478	15,393
2024	7,215	8,154	15,369
2025-2029	41,225	35,276	76,501
2030-2034	50,000	25,166	75,166
2035-2039	60,740	13,571	74,311
2040-2044	14,260	4,270	18,530
2045-2049	11,835	1,537	13,372
Premium	20,954	-	20,954
Total	$ 231,639	$ 124,235	$ 355,874

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, 2019 and 2018, 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) (1)	Annual Debt Service Payments	Debt Service Coverage Ratio
June 30, 2019	Water revenues	$ 25,269	$ 15,142	1.67
June 30, 2018	Water revenues	$ 30,317	$ 14,147	2.14

[1] Excludes GASB 68 Accounting and Financial Reporting for Pension non-cash adjustments of ($482) and $3,149 as expenses for June 30, 2019 and 2018 respectively.

LINE OF CREDIT

On February 1, 2019, the City entered into a subordinate line of credit agreement with U.S. Bank, National Association. The Subordinate Line of Credit is a tool approved through the Electric and Water Utility Five-Year Rate Plan to manage rate increases by enabling the Water Utility to reduce cash levels while maintaining compliance with the Riverside Public Utilities Cash Reserve Policy. Under the terms and conditions of the agreement, the City may borrow up to $25,000 for purposes of the capital or operating financial needs of the Water System. There were no borrowings against the line as of June 30, 2019.

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, 2019 is as follows:

	Notional Amount	Fair Value as of 6/30/2019	Change in Fair Value for Fiscal Year
2011 Water Refunding/Revenue Bonds Series A	$ 24,050	$ (5,257)	$ 336

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

Terms: Per the existing swap agreement, the Water Utility pays the counterparty a fixed payment and receives a variable payment computed as 62.68 percent of the London Interbank Offering Rate (“LIBOR”) one-month index plus 12 basis points. The swap has a notional amount equal to the principal amount stated above. The notional value of the swap and principal amount of the associated debt decline by $1,475 to $3,950 until the debt is completely retired in fiscal year 2036.

The bonds and the related swap agreement for the 2011 Water Refunding/Revenue Series A Bonds mature on October 1, 2035. As of June 30, 2019, rates were as follows:

Interest rate swap:	Terms	Rates
Fixed payment to counterparty	Fixed	3.20000%
Variable payment from counterparty	62.68 LIBOR + 12bps	(0.56232%)
Net interest rate swap payments		2.63768%
Variable-rate bond coupon payments		0.47722%
Synthetic interest on bonds		3.11490%

Fair value: As of June 30, 2019, in connection with the swap agreement, the transactions had a total negative fair value of ($5,257). 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, 2019, 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, 2019, 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, 2019, the debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are summarized as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30,	Variable-Rate Bonds Principal	Interest	Interest Rate Swaps, Net	Total
2020	$ -	$ 118	$ 652	$ 770
2021	-	118	652	770
2022	-	118	652	770
2023	-	118	652	770
2024	-	118	652	770
2025-2029	-	590	3,258	3,848
2030-2034	16,275	369	2,041	18,685
2035-2039	7,775	29	158	7,962
Total	$ 24,050	$ 1,578	$ 8,717	$ 34,345

NOTE PAYABLE

Note payable consists of several agreements with Hillwood Enterprises, L.P. and related entities (collectively Hillwood) for their development of logistic centers located in the City of San Bernardino. As a part of these agreements, the Water Utility leases land to Hillwood and also purchased land from Hillwood with a subsequent lease-back to the entity. In addition, the agreements require Hillwood to relocate wells located on the properties as well as terminate an existing lease. In consideration of the cost of the land purchase, well relocations and lease termination, the Water Utility will make payments to Hillwood in the form of a credit with Hillwood's rental payments to the Water Utility for the first 15 years of the leases. These agreements resulted in a total liability to the Water Utility of $20,323, as of June 30, 2019.

Estimated annual rent credits, which are adjusted annually based on Consumer Price Index (CPI), to be applied to the land purchase and well relocation agreements commencing in 2014 with an effective interest rate of 3.27 percent, are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2020	$ 753	$ 394	$ 1,147
2021	821	368	1,189
2022	891	340	1,231
2023	966	310	1,276
2024	1,045	277	1,322
2025-2029	6,561	795	7,356
2030-2034	1,334	20	1,354
Total	$ 12,371	$ 2,504	$ 14,875

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

Estimated annual rent credits, which are adjusted annually based on CPI, to be applied to the well relocation agreement commencing in 2018 with an effective interest rate of 3.00 percent, are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2020	$ 226	$ 117	$ 343
2021	233	110	343
2022	241	103	344
2023	248	95	343
2024	256	87	343
2025-2029	1,410	307	1,717
2030-2034	1,213	75	1,288
Total	$ 3,827	$ 894	$ 4,721

Annual rent credits to be applied for the lease termination agreement commencing in 2018, are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2020	$ 300	$ -	$ 300
2021	300	-	300
2022	300	-	300
2023	300	-	300
2024	300	-	300
2025-2029	1,500	-	1,500
2030-2034	1,125	-	1,125
Total	$ 4,125	$ -	$ 4,125

LEASE PURCHASE FINANCING

In fiscal year ended June 30, 2017, the Water Utility participated in the City's lease purchase financing program for the acquisition of water system heavy vehicles and equipment. The heavy vehicles and equipment lease financing is for a ten-year term of annual payments with an interest rate of 2.36 percent. Gross proceeds of $2,305 were received for the financing. Various heavy-duty equipment was purchased for $1,742 and for $36 for the years ended June 30, 2019 and 2018, respectively. It is anticipated that the remaining vehicles and equipment will be purchased in fiscal year ending June 30, 2020. The total liability with the current portion included in accounts payable and other accruals as of June 30, 2019 and 2018 was $1,884 and $2,095, respectively. The annual lease payments for the life of the lease are $260 annually through fiscal year ending June 30, 2027. As of June 30, 2019 total outstanding lease payments are $2,079, with $1,884 representing principal and $195 representing interest.

NOTE 5. COMPENSATED ABSENCES

A liability is recorded for unused vacation and similar compensatory leave balances since the employees' entitlement to these balances are attributable to services already rendered and it is probably that virtually all of these balances will be liquidated by either paid time-off or payments upon termination or retirement.

Below is a summary of changes in Compensated absences for the Water Utility during the fiscal year.

	Balance As of 6/30/2017	Additions	Reductions	Balance As of 6/30/2018	Additions	Reductions	Balance As of 6/30/2019	Due Within One Year
Compensated absences	1,682	1,538	(1,370)	1,850	1,754	(1,577)	2,027	1,728

NOTE 6. EMPLOYEE RETIREMENT PLAN

PLAN DESCRIPTION

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

FUNDING POLICY

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

- 1st Tier –
    - The retirement formula is 2.7 percent at age 55 for employees hired before October 19, 2011. Effective January 1, 2018 for unrepresented employees (Sr. Management, Management, Professional, Para-professional, Supervisory, Confidential, and Executive units), the employees were required to pay 2 percent of the employee contribution of their pensionable income, with the City contributing the other 6 percent. Effective January 1, 2019, employees will be required to pay an additional portion of their pensionable income. This portion is a three year increase of 2 percent (2019), 2 percent (2020) and 2 percent (2021). By 2021, employees will be contributing the entire 8 percent of their pensionable income.

    - The retirement formula is 2.7 percent at age 55 for SEIU employees hired before June 7, 2011. The employee is required to pay 6 percent of their pensionable income with the City contributing the other 2 percent. Effective January 1, 2019, employees will be required to pay an additional portion of their pensionable income. This portion is a two year increase of 1 percent (2019) and 1 percent (2020). By 2020, employees will be contributing the entire 8 percent of their pensionable income

- The retirement formula is 2.7 percent at age 55 for IBEW employees hired before October 19, 2011. Effective November 1, 2017 employees contributed 2 percent of their total pensionable income with the City paying the remaining 6 percent. Effective November 1, 2018, employees will be required to pay an additional portion of their pensionable income. This portion is a three year increase of 2 percent (2018), 2 percent (2019) and 2 percent (2020). By 2020, employees will be contributing the entire 8 percent of their pensionable income.

- 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

As of measurement date June 30, 2018 and 2017, the following employees, City-wide, were covered by the benefit terms of the Plan:

	Measurement Date	
	June 30, 2018	**June 30, 2017**
Inactive employees or beneficiaries currently receiving benefits	2,184	2,114
Inactive employees entitled to but not yet receiving benefits	1,375	1,325
Active employees	1,607	1,599

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 ended June 30, 2019, the net pension liability of the Plan is measured as of June 30, 2018, using an annual actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. For fiscal year ended June 30, 2018, the net pension liability of the Plan is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 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, 2018 and 2017 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous - Current Year	Miscellaneous - Prior Year
Valuation Date	June 30, 2017	June 30, 2016
Measurement Date	June 30, 2018	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount rate	7.15%	7.15%
Inflation	2.50%	2.75%
Projected salary increase	(1)	(1)
Mortality	(2)	(2)

(1) Depending on age, service and type of employment.
(2) The mortality table used was developed based on CalPERS specific data. The table includes 15 years of mortality improvements using the Society of Acutaries Scale 90% of scale MP 2016.

CHANGES IN ASSUMPTIONS

In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017.

DISCOUNT RATE

The discount rate used to measure the Plan's total pension liability was 7.15 percent for measurement date as of June 30, 2018 and 2017. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

LONG-TERM DISCOUNT RATE OF RETURN

The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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 of the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ 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 rounded 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 equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The expected real rates of return by asset class are as follows:

June 30, 2018 Measurement Date

Asset Class (1)	Current Target Allocation	Real Return Years 1 - 10 (2)	Real Return Years 11 + (3)
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Assets	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%

(1) In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

(2) An expected inflation of 2.00% used for this period.

(3) An expected inflation of 2.92% used for this period.

June 30, 2017 Measurement Date

Asset Class [1]	Current Target Allocation	Real Return Years 1 - 10 [2]	Real Return Years 11 + [3]
Global Equity	47.00%	4.90%	5.38%
Fixed Income	19.00%	0.80%	2.27%
Inflation Assets	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Assets	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%

(1) In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

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

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

CHANGES IN THE NET PENSION LIABILITY

The changes in the Water Utility's, including Water Conservation Programs, proportionate share of the net pension liability as of June 30, 2019 (measurement date June 30, 2018) and 2018 (measurement date June 30, 2017) for the Plan are as follows:

June 30, 2019	Net Pension Liabiltiy	Proportion of the Plan
Proportion - Reporting date June 30, 2019 (measurement date June 30, 2018)	$ 30,737	11.03%
Proportion - Reporting date June 30, 2018 (measurement date June 30, 2017)	38,880	11.44%
Change - Increase / (Decrease)	(8,143)	(0.41%)
June 30, 2018		
Proportion - Reporting date June 30, 2018 (measurement date June 30, 2017)	38,880	11.44%
Proportion - Reporting date June 30, 2017 (measurement date June 30, 2016)	34,465	11.14%
Change - Increase / (Decrease)	4,415	0.30%

For fiscal year 2019, the Water Utility net pension liability no longer includes its proportionate share of the City's Safety Plan which explains the percentage decrease.

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 7.15 percent, 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:

	Measurement Date					
		June 30, 2018			June 30, 2017	
	Discount Rate -1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)	Discount Rate -1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)
The Water Utility's proportionate share of the Plan's net pension liability	$ 51,290	$ 30,737	$ 13,837	$ 60,851	$ 38,880	$ 20,883

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, 2019 and 2018, the Water Utility, including Water Conservation Programs, recognized pension expense of $3,323 and $6,319, respectively. At June 30, 2019 and 2018, 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, 2019		June 30, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 3,805	$ -	$ 3,227	$ -
Changes in assumptions	3,876	(2,913)	6,075	-
Differences between expected and actual experience	-	(2,831)	-	(2,585)
Net differences between projected and actual earnings on plan investments	434	-	1,579	-
Total	$ 8,115	$ (5,744)	$ 10,881	$ (2,585)

$3,805 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, 2020.

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/ (Inflows) of Resources
2019	1,170
2020	(587)
2021	(1,715)
2022	(303)
2023	-
Total	$ (1,435)

NOTE 7. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

PLAN DESCRIPTION

The City's defined benefit OPEB plan, Retiree Health Plan, provides continuation of medical (including prescription drugs) and dental coverage benefits to retirees and surviving spouses in the form of an implied rate subsidy. The Retiree Health Benefits plan is a single employer defined benefit OPEB plan administered by the City. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

BENEFITS PROVIDED

Eligibility for continuation of coverage requires retirement from the City and CalPERS with at least 5 years of City service. The retiree is responsible for 100% of the premium cost for coverage, which is based on the blended experience of both the active and retired employees. 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 benefit to eligible retirees and beneficiaries. Retiree and spousal coverage terminates when the retiree becomes covered under another employer health plan, or when the retiree reaches Medicare eligibility age, which is currently age 65. However, retiree benefit continues to the surviving spouse if the retiree elects the CalPERS survivor annuity.

As of measurement date June 30, 2018, the following employees, City-wide, were covered by the benefit terms:

	Measurement Date	
	June 30, 2018	June 30, 2017
Inactive employees or beneficiaries currently receiving benefits	304	304
Inactive employees entitled to but not yet receiving benefits	-	-
Active employees	2,121	2,121

ACTUARIAL ASSUMPTIONS

The total OPEB liability was determined by actuarial valuation as of June 30, 2018 and 2017, using the following actuarial assumptions:

	Current Year	Prior Year
Valuation Date	June 30, 2017	June 30, 2016
Measurement Date	June 30, 2018	June 30, 2017
Funding Policy	Pay-as-you-go for implicit rate subsidy	Pay-as-you-go for implicit rate subsidy
Actuarial Assumptions:		
Discount rate (1)	3.50%	3.40%
Inflation rate	2.75%	2.75%
Salary inflation	3.00%	3.00%
Salary increases (2)	--	--
Mortality	CalPERS 2014 Experience Study	CalPERS 2014 Experience Study

(1) The discount rate is the average, rounded to 5 basis points, of the range of 3-20 year municipal bond rate indices: S&P Municipal Bond 20 Year High Grade Rate Index, Bond Buyer 20-Bond GO Index, and Fidelity GO AA 20 Year Bond Index.

(2) The benefits are not payroll related but the City's cost for each individual's projected City contribution is allocated over their lifetime as a level-percentage of pay. For cost method purposes the merit increases from the most recent CalPERS pension plan valuation will be used.

CHANGES OF ASSUMPTIONS

In 2018, the discount rate was changed from 3.4 percent to 3.5 percent.

SENSITIVITY OF TOTAL OPEB LIABILITY TO CHANGES IN HEALTHCARE COST TREND RATES

The following presents the Water Utility’s, including Water Conservation Programs, proportionate share of the City’s total OPEB liability, calculating using the healthcare trend rate of 6.00%/HMO and 6.50%/PPO for measurement date as of June 30, 2018 and June 30, 2017, as well as what the Water Utility’s total OPEB liability would be if it was calculated using a healthcare cost trend rate that is 1-percentage-point lower (5.00%/HMO and 5.50%/PPO) or 1-percentage-point higher (7.00%/HMO and 7.50%/PPO) than the current rate:

	June 30, 2018 - Measurement Date			June 30, 2017 - Measurement Date		
	1% Decrease	Current healthcare cost trend rates	1% Increase	1% Decrease	Current healthcare cost trend rates	1% Increase
The Water Utility's proportionate share of the City's total OPEB liability	$ 3,141	$ 3,524	$ 3,973	$ 3,065	$ 3,410	$ 3,813

SENSITIVITY OF TOTAL OPEB LIABILITY TO CHANGES IN DISCOUNT RATES

The following presents the Water Utility's, including Water Conservation Programs, proportionate share of the City's total OPEB liability, calculating using the discount rate of 3.50% and 3.40% for measurement date as of June 30, 2018 and 2017 respectively, as well as what the Water Utility's total OPEB 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, 2018 - Measurement Date			June 30, 2017 - Measurement Date		
	1% Decrease (2.50%)	Current Discount Rate (3.50%)	1% Increase (4.50%)	1% Decrease (2.40%)	Current Discount Rate (3.40%)	1% Increase (4.40%)
The Water Utility's proportionate share of the City's total OPEB liability	$ 3,817	$ 3,524	$ 3,256	$ 3,697	$ 3,410	$ 3,148

CHANGE IN TOTAL OPEB LIABILITY

For fiscal year ended June 30, 2019 and 2018, the Water Utility's, including Water Conservation Programs, recognized total OPEB expense of $118 and $265 respectively. The following table shows the change in the Water Utility's, including Water Conservation Programs, proportionate share of the City's total OPEB liability for the year ended June 30, 2019 (measurement date June 30, 2018) and the year ended June 30, 2018 (measurement date June 30, 2017):

June 30, 2019	Total OPEB Liability	Proportion to the City
Proportion - Reporting date June 30, 2019 (measurement date June 30, 2018)	$ 3,524	9.19%
Proportion - Reporting date June 30, 2018 (measurement date June 30, 2017)	3,410	9.30%
Change - Increase / (Decrease)	114	-0.11%

June 30, 2018	Total OPEB Liability	Proportion to the City
Proportion - Reporting date June 30, 2018 (measurement date June 30, 2017)	$ 3,410	9.30%
Proportion - Reporting date June 30, 2017 (measurement date June 30, 2016)	3,391	9.30%
Change - Increase / (Decrease)	19	0.00%

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES RELATED TO OPEB

At June 30, 2019, the Water Utility, including Water Conservation Programs, reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ -	$ (117)
Total	$ -	$ (117)

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30	Deferred Inflows of Resources
2019	$ (19)
2020	(19)
2021	(19)
2022	(19)
2023	(19)
Thereafter	(22)
Total	$ (117)

NOTE 8. 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 issues have no debt service reserve requirements (2009A & B, 2011A and 2019A).

NOTE 9. CONSTRUCTION COMMITMENTS

As of June 30, 2019, the Water Utility had major commitments (encumbrances) of approximately $949 with respect to unfinished capital projects, of which is $295 is expected to be funded by unrestricted cash reserves, $460 to be funded by bonds, and $194 to be funded by rates.

NOTE 10. 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. On May 24, 2018, the State trial court dismissed the action, with prejudice, for failure to join the federal Department of Defense, with instructions to refile the lawsuit in federal court and include the Department of Defense as a party. The City has appealed such dismissal, and no hearing has been set on the City's appeal.

NOTE 11. PRIOR PERIOD ADJUSTMENTS

A prior period adjustment of $1,736 was made to increase the Water Utility's, including Water Conservation Programs, net position. The adjustment was made to reflect the prior period costs related to pension. The restatement of beginning net position is as follows:

Net position at July 1, 2018, as previously stated	$	305,078
Pension related adjustments		1,736
Net position at July 1, 2018, as restated	$	306,814

WATER UTILITY:
KEY HISTORICAL OPERATING DATA

FISCAL YEAR	2018/19	2017/18	2016/17	2015/16	2014/15
WATER SUPPLY (ACRE FEET)					
Potable water production[1]	64,379	69,778	64,407	58,903	59,974
Percentage pumped[2]	100.00%	100.00%	100.00%	100.00%	100.00%
System peak day (gallons)[3]	90,200,000	83,000,000	81,000,000	75,000,000	74,000,000
WATER USE					
Number of meters as of year end					
Residential	59,456	59,601	59,453	59,137	58,922
Commercial/Industrial	5,045	5,705	5,640	5,619	5,594
Other	1302	334	335	338	355
Total	65,803	65,640	65,428	65,094	64,871
CCF* sales					
Residential	14,157,606	15,564,143	14,219,498	13,125,476	15,424,999
Commercial/Industrial	7,611,943	9,573,518	8,683,382	8,011,884	9,511,177
Other	2,384,761	900,596	844,041	764,125	895,876
Subtotal	24,154,310	26,038,257	23,746,921	21,901,485	25,832,052
Wholesale	1,673,411	1,476,117	1,593,808	627,978	175,438
Total	25,827,721	27,514,374	25,340,729	22,529,463	26,007,490

*(CCF equals 100 cubic feet)

WATER FACTS	2018/19	2017/18	2016/17	2015/16	2014/15
Average annual CCF per residential customer	238	261	240	223	262
Average price ($/CCF) per residential customer	$2.50	$2.39	$2.46	$2.44	$2.35
Debt service coverage ratio (DSC)[4,5]	1.67	2.14	2.04	1.80	2.15
Employees[6]	159	159	174	181	181

[1] Water pumping figures have been adjusted to include retail and w holesale potable w ater production.

[2] No purchased w ater.

[3] System peak day has been adjusted to reflect production for retail customers.

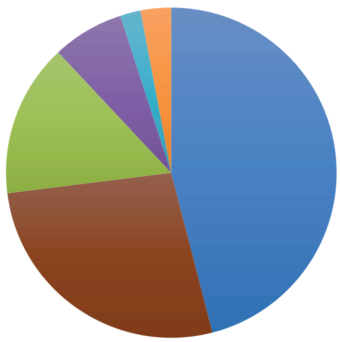
[4] Interest expense used to calculate DSC is net of federal subsidy on Build America Bonds.

[5] Does not include GASB 68 Accounting and Financial Reporting for Pension non-cash adjustments of ($482), $3,149, ($85), ($1,806), and ($941) for fiscal years 18/19 through FY 14/15, respectively.

[6] Approved positions.

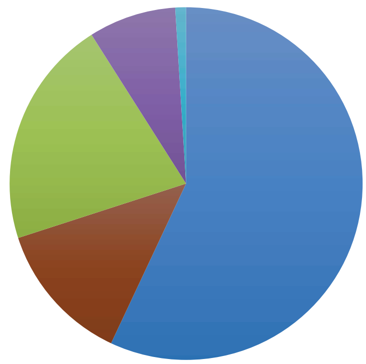
2018/2019 WATER REVENUE AND RESOURCES

SOURCE OF REVENUE



- Residential Sales 46¢
- Commercial Sales 27¢
- Other Revenue 15¢
- Use of Reserves 7¢
- Other Sales 2¢
- Investment Income 3¢

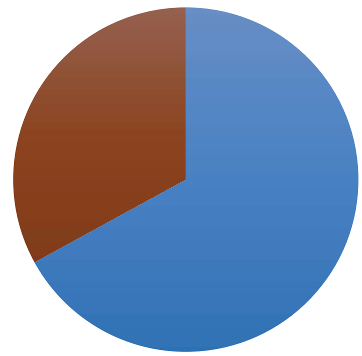
DISTRIBUTION OF REVENUE



- Operations and Maintenance 57¢
- Additions & Replacements to the System 13¢
- Debt Service 21¢
- Transfers to the City'S General Fund* 8¢
- Water Conservation 1¢

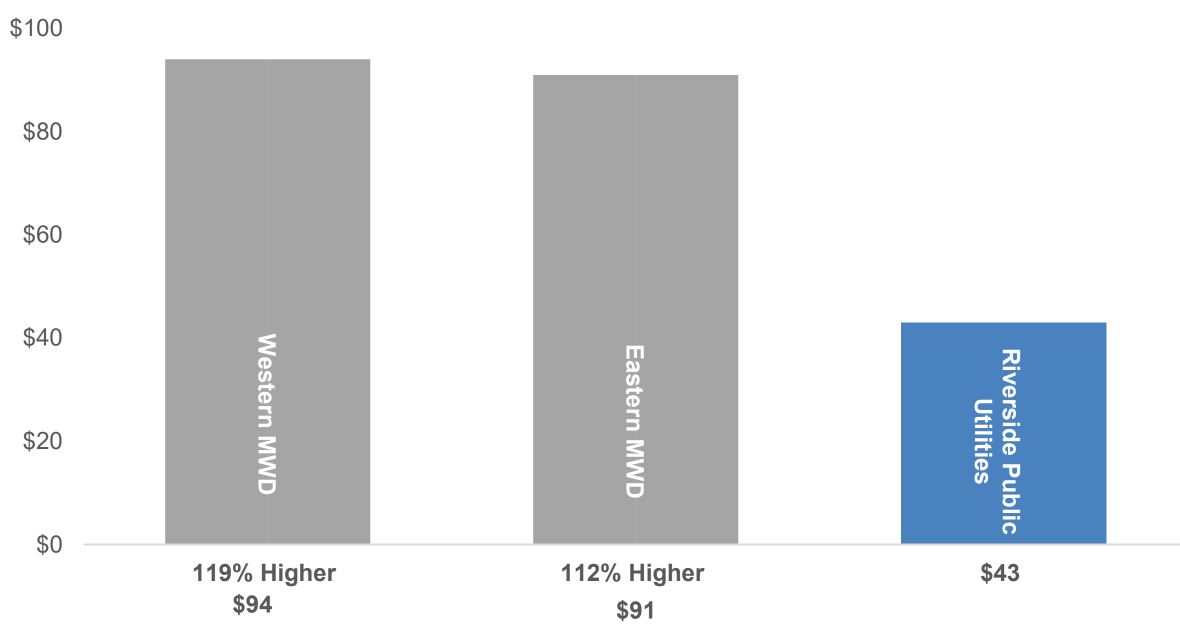
*Based on transfer of 11.5% of fiscal year 2016/2017 gross operating revenues including adjustments

WATER RESOURCES



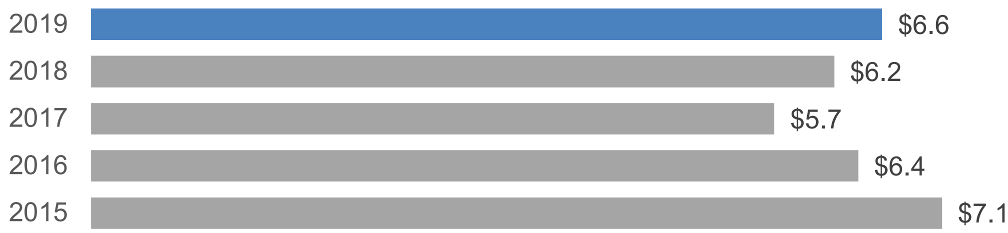
- San Bernardino Basin Wells 67%
- Riverside Basin Wells 33%
- Purchased Water 0%

RESIDENTIAL WATER RATE COMPARISON - 20 CCF PER MONTH (AS OF JUNE 30, 2019)

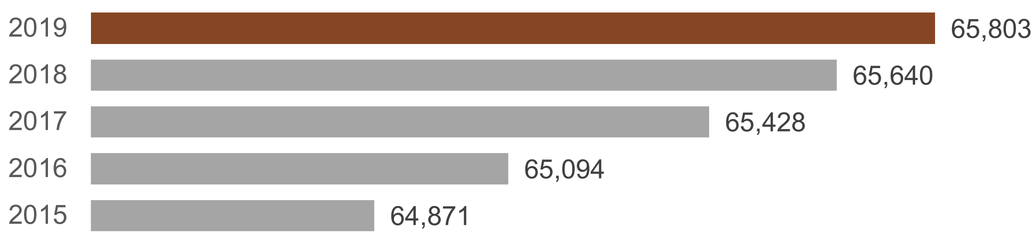


WATER KEY OPERATING INDICATORS

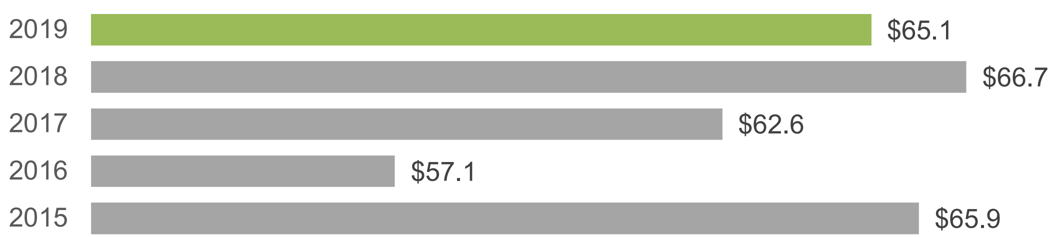
General Fund Transfer (In Millions)



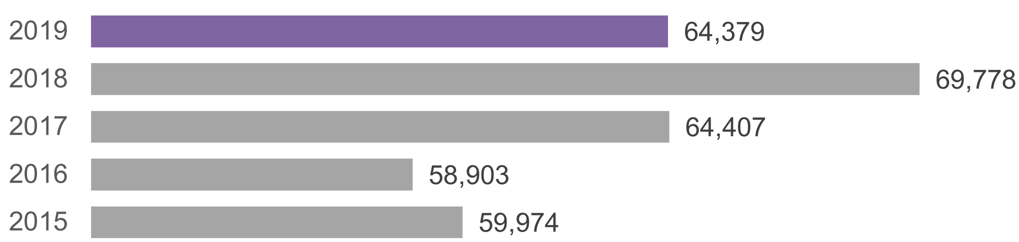
Number of Meters At Year End



Total Operating Revenue (In Millions)



Potable Water Production (In Acre Feet)



Peak Day Demand (In Millions of Gallons)

WATER FACTS AND SYSTEM DATA

Established	1913
Service Area Population	328,042
Service Area Size (square miles)	74.24

System Data

Smallest Pipeline	2.0"
Largest Pipeline	72.0"
Miles of Pipeline	1,005
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	8,192
Daily Average Production (gallons)	59,000,000
2018-2019 Peak Day (gallons)	90,200,000
06/07/18, 102 Degrees	
Historical Peak (gallons)	118,782,000
08/9/05, 99 Degrees	

Bond Ratings

Fitch Ratings	AA+
Moody's	Aa2
S&P Global Ratings	AAA

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RiversidePublicUtilities.com

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PUBLIC UTILITIES