

A graphic featuring the word "Water" in a white, sans-serif font. The text is centered within a dark blue square. Behind the text, there is a stylized, light blue wave or splash shape that extends to the left and slightly upwards.

# Water

## Judi Castaneda

Customer Service Representative II  
and a customer-owner of Riverside  
Public Utilities.







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Sacramento

Walnut Creek

Oakland

LA/Century City

San Diego

Seattle

### Independent Auditor's Report

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

#### Report on 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 fiscal year ended June 30, 2014, and the related notes to the financial statements, as listed in the table of contents.

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

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

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our 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 opinion.

#### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Utility of the City, as of June 30, 2014, and the changes in financial position and cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

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

*Prior Year Comparative Financial Statements*

The financial statements of the Water Utility as of June 30, 2013, were audited by other auditors whose report dated October 25, 2013, expressed an unmodified opinion on those statements.

*Required Supplementary Information*

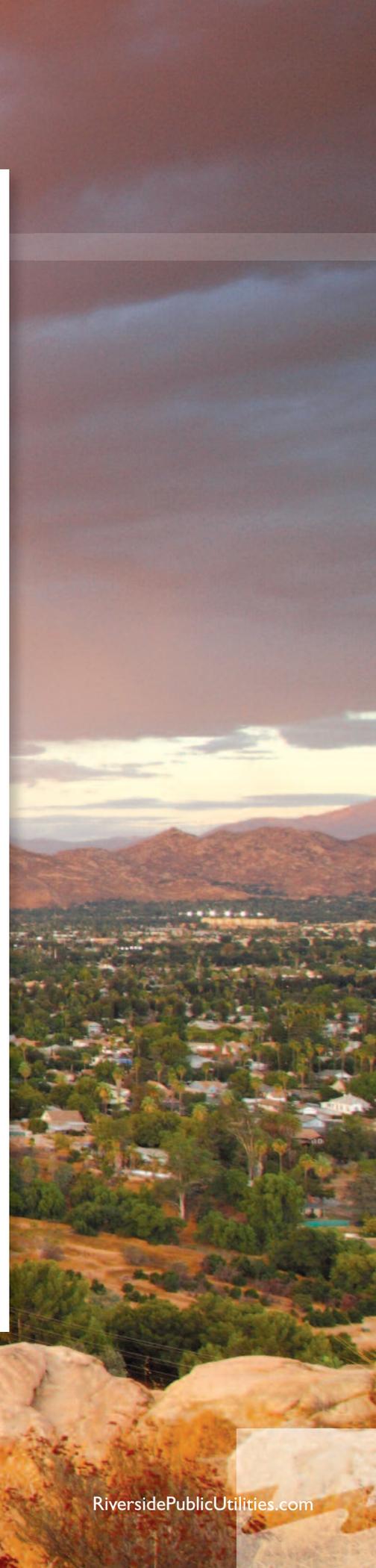
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the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

*Other Information*

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

*Macias Gini & O'Connell LLP*

Newport Beach, California  
December 8, 2014



# Water

## MANAGEMENT'S DISCUSSION AND ANALYSIS



As management of Riverside Public Utilities, a department of the City of Riverside (the City), we offer the readers this narrative overview and analysis of the 2013-14 financial report for the period ended June 30, 2014 and 2013 for Riverside's Water Utility (the Utility), an enterprise fund of the City. We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, which begin on page 87 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

## FINANCIAL HIGHLIGHTS

- Retail sales, net of uncollectibles/recovery, were \$62,762 and \$61,837 for the fiscal years ended June 30, 2014 and 2013, respectively. The increase in sales was primarily due to an increase in retail consumption as a result of dryer weather patterns and a slight increase in customers.
- The net position for fiscal years 2014 and 2013 was \$332,730 and \$322,699, respectively. Of this amount, \$78,570 and \$69,996 represent unrestricted net position, which if necessary, would cover 153% and 141% of annual operating expenses, respectively.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the Utility's financial statements. The Notes to the Financial Statements can be found on pages 93-108 of this report.

## UTILITY FINANCIAL ANALYSIS

### CONDENSED STATEMENTS OF NET POSITION

	2014	2013	2012
Current and other assets	\$ 128,267	\$ 134,052	\$ 134,732
Capital assets	442,845	422,278	409,675
Deferred outflows of resources	11,156	11,165	15,851
Total assets and deferred outflows of resources	582,268	567,495	560,258
Long-term debt outstanding	202,968	208,438	213,763
Other liabilities	39,903	26,358	32,556
Deferred inflows of resources	6,667	10,000	-
Total liabilities and deferred inflows of resources	249,538	244,796	246,319
Net investment in capital assets	245,731	244,937	243,997
Restricted	8,429	7,766	8,083
Unrestricted	78,570	69,996	61,859
Total net position	\$ 332,730	\$ 322,699	\$ 313,939

### ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

**2014 compared to 2013** The Utility's total assets and deferred outflows of resources were \$582,268, reflecting a net increase of \$14,773 (2.6%), mainly due to the following:

- Current and other assets, comprised of restricted and unrestricted assets, decreased by \$5,785. This change reflects the use of \$14,518 in bond proceeds to fund capital projects and a decrease in other receivables of \$3,333 for the first of three payments received from the general fund on the City's lawsuit settlement, offset by an increase in cash and cash equivalents of \$13,551 due to positive operating results. Additional information on the City's lawsuit settlement can be found in the "Transfers" section.
- Capital assets increased by \$20,567 primarily due to \$5,426 in completed transmission and distribution system assets, \$9,488 in purchase of land, and \$5,653 increase in construction in progress. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.

**2013 compared to 2012** Total assets and deferred outflows of resources were \$567,495 reflecting an increase of \$7,237 (1.3%). This increase was primarily due to \$8,586 of completed capital assets for transmission and distribution systems and \$4,534 increase in intangibles for water rights. These increases were offset by a decrease of \$4,177 in deferred changes in derivative values.

### LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

**2014 compared to 2013** The Utility's total liabilities and deferred inflows of resources were \$249,538, a net increase of \$4,742 (1.9%), mainly due to the following:

- Long-term debt outstanding decreased by \$5,470 primarily due to principal payments.
- Other liabilities increased by \$13,545 primarily due to a note payable of \$9,482 for the purchase of land and an increase of \$2,823 in accounts payable and other accruals.
- Deferred inflows of resources decreased by \$3,333 reflecting the recognition of the transfer-in from the general fund for the first of three payments on the City's lawsuit settlement.

**2013 compared to 2012** The Utility's total liabilities and deferred inflows of resources were \$244,796, a decrease of \$1,523 (0.6%), primarily due to decreases of \$4,884 in the negative fair value of the Utility's derivative instruments, \$1,304 in accounts

payable and other accruals, and \$5,325 in long-term debt outstanding mostly due to principal payments offset by an increase in deferred inflows of resources of \$10,000 from the City's lawsuit settlement.

## NET POSITION

**2014 compared to 2013** The Utility's total net position, which represents the difference between the Utility's total assets and deferred outflows of resources less total liabilities and deferred inflows of resources, totaled \$332,730, an increase of \$10,031 (3.1%).

- The largest portion of the Utility's total net position, which is its investment in capital assets of \$245,731 (73.9%), had an increase of \$794 from prior year. Investment in capital assets reflects the Utility's investment in treatment, pumping, source of supply, transmission and distribution facilities, less any related outstanding debt used to acquire these assets. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.
- The restricted portion of net position totaled \$8,429 (2.5%), a slight increase from prior year. Restricted net position is subject to internal and 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 \$78,570 (23.6%) an increase of \$8,574 (12.2%) from prior year, primarily attributable to positive operating results. Unrestricted net position may be used to meet the Utility's ongoing operational needs and obligations to customers and creditors.

**2013 compared to 2012** The Utility's total net position increased by \$8,760 (2.8%) to \$322,699. Net investment in capital assets increased by \$940 while the restricted portion decreased by \$317 from prior year. The unrestricted portion increased by \$8,137, primarily attributable to positive operating results.

## CONDENSED STATEMENTS OF CHANGES IN NET POSITION

	2014	2013	2012
<b>Revenues:</b>			
Retail sales, net	\$ 62,762	\$ 61,837	\$ 59,620
Other revenues	6,276	7,310	6,543
Investment income	1,049	503	1,428
Capital contributions	3,534	4,282	7,440
<b>Total revenues</b>	<b>73,621</b>	<b>73,932</b>	<b>75,031</b>
<b>Expenses:</b>			
Operations and maintenance	33,104	32,186	31,633
Purchased energy	5,430	4,832	4,600
Depreciation	12,799	12,698	11,824
Interest expenses and fiscal charges	8,599	8,877	8,510
<b>Total expenses</b>	<b>59,932</b>	<b>58,593</b>	<b>56,567</b>
<b>Transfers:</b>			
Transfers in from the City's general fund	3,333	-	-
Transfers to the City's general fund	(6,991)	(6,579)	(6,258)
<b>Total transfers</b>	<b>(3,658)</b>	<b>(6,579)</b>	<b>(6,258)</b>
<b>Changes in net position</b>	<b>10,031</b>	<b>8,760</b>	<b>12,206</b>
Net position, July 1	322,699	313,939	301,733
Net position, June 30	\$ 332,730	\$ 322,699	\$ 313,939

# I OWN IT

## Riverside Public Utilities

Customer-owned since 1895

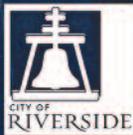


### Tony Garcia

is a finder of flowers,  
a trimmer of trees,  
and a groomer of grass.

He's the owner of  
Speedy Landscape Services and,  
along with the Garcia family,  
he's a customer-owner of  
Riverside Public Utilities.

WATER | ENERGY | LIFE

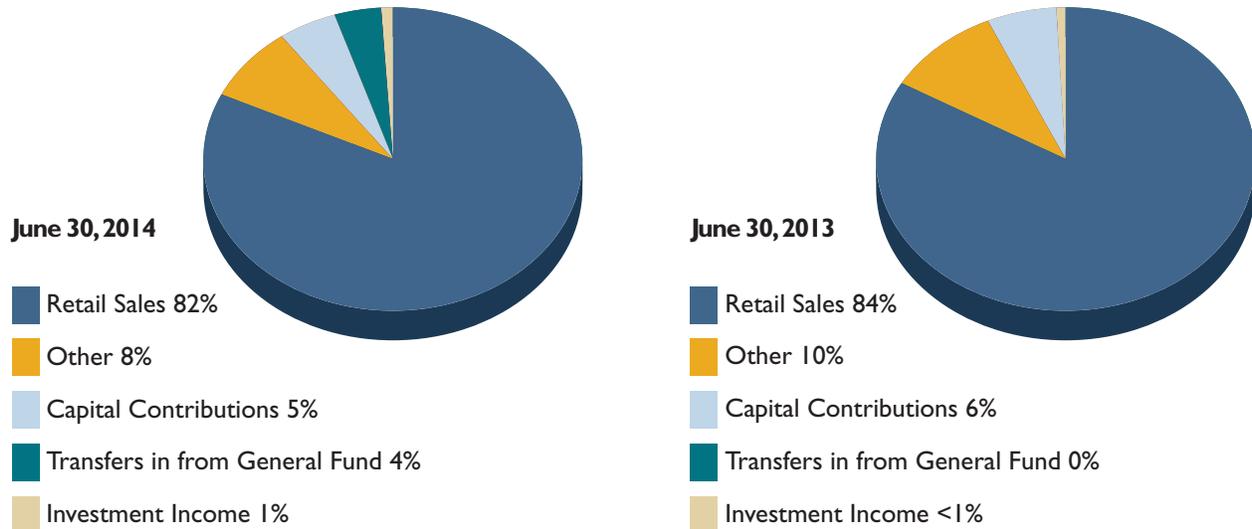


CITY OF RIVERSIDE  
PUBLIC UTILITIES

[RiversidePublicUtilities.com](http://RiversidePublicUtilities.com)

## UTILITY FINANCIAL ANALYSIS (CONTINUED)

### REVENUES BY SOURCES



**2014 compared to 2013** Total revenues of \$73,621, excluding transfers in, was consistent with prior year.

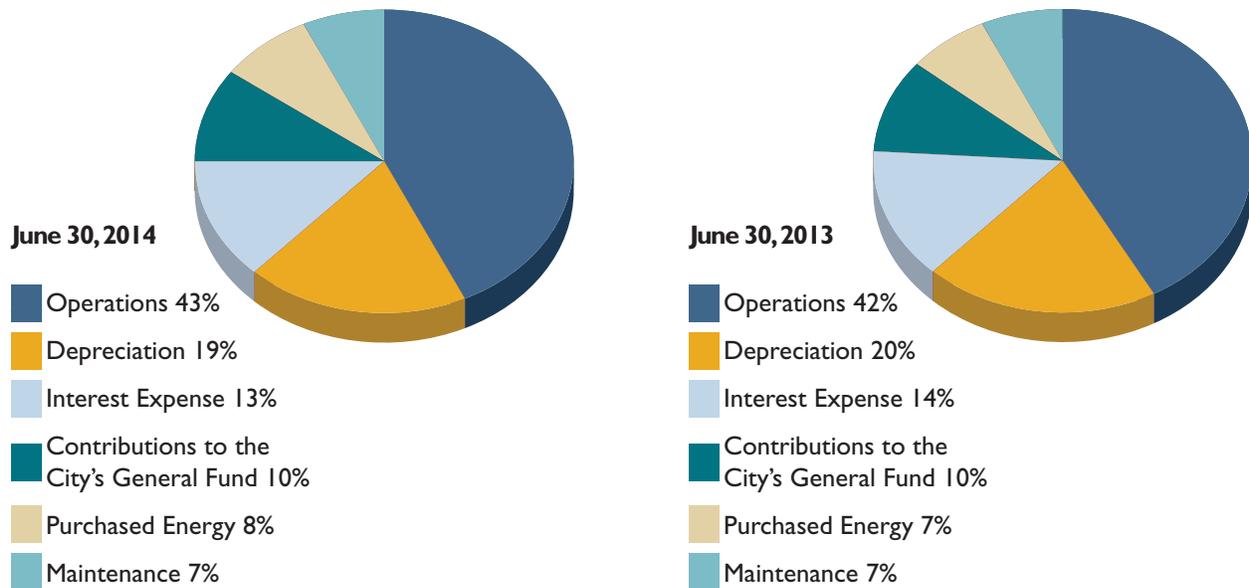
- Retail sales (residential, commercial, industrial, and others), net of uncollectibles/recovery, totaled \$62,762, an increase of \$925 (1.5%) over prior fiscal year. Retail sales continue to be the primary revenue source for the Utility accounting for 82% of total revenues. The increase in sales was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

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

- Retail sales (residential, commercial, industrial, and others), net of uncollectibles/recovery, totaled \$61,837, an increase of \$2,217 (3.7%) over the prior fiscal year. Retail sales represented 84% of total revenues. The increase represented a 4.1% increase in retail consumption.
- Other revenues of \$7,310 increased by \$767 (11.7%), primarily due to an increase in water conveyance revenue.
- Investment income of \$503 decreased by \$925 (64.8%), due to lower cash balances from the use of bond proceeds for capital projects and lower overall interest rates in the fiscal year.
- Capital contributions of \$4,282 decreased by \$3,158 (42.4%), primarily due to the completed phases in the relocation of Water facilities related to the construction of HOV lanes project funded by RCTC.

## UTILITY FINANCIAL ANALYSIS (CONTINUED)

### EXPENSES BY SOURCES



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

**2013 compared to 2012** Total expenses were \$58,593, reflecting an increase of \$2,026 (3.6%) due to an increase in building occupancy costs associated with relocation to new facilities and an increase in depreciation related to completion of system expansion and improvements during the fiscal year.

### TRANSFERS

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

Pursuant to the City's Charter, the Utility may transfer up to 11.5 percent of prior year's gross operating revenues, including adjustments, to the City's general fund. The City uses these funds to help provide needed public services to the residents of the City, including police, fire, parks, libraries and other benefits. The Utility transferred \$6,991 and \$6,579 for 2014 and 2013, respectively to the City's general fund. This represents a \$412 and \$321 increase, respectively year over year primarily due to increased retail sales.

In April 2013, the City settled a lawsuit challenging the transfer of Utility monies to the general fund. Under the settlement agreement, the general fund agreed to pay \$10,000 over a three year period beginning fiscal year 2013-14. As of June 30, 2014, the Utility received the first of three payments in the amount of \$3,333.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### CAPITAL ASSETS

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

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

	2014	2013	2012
Source of supply	\$ 34,603	\$ 32,793	\$ 33,888
Pumping	19,518	18,960	17,871
Treatment	33,989	35,172	36,355
Transmission and distribution	304,439	299,939	289,285
General	2,986	3,233	4,069
Land	20,484	10,996	10,996
Intangible	10,998	11,010	6,519
Construction in progress	15,828	10,175	10,692
<b>Total capital assets</b>	<b>\$ 442,845</b>	<b>\$ 422,278</b>	<b>\$ 409,675</b>

The Utility continues to make significant progress in replacing its aging infrastructure since the adoption of the SAFE W.A.T.E.R. (Water Available to Everyone in Riverside) Plan. Since implementation, the Utility has invested approximately \$209 million in infrastructure improvements.

**2014 compared to 2013** The Utility's investment in capital assets was \$442,845, an increase of \$20,567 (4.9%). The increase (net of accumulated depreciation) resulted mainly from the following significant capital projects:

- \$12,961 for system expansion and improvements, facilities rehabilitation, and reservoir construction.
- \$8,183 for continued pipeline replacement programs.
- \$9,488 in land acquisition.

**2013 compared to 2012** Investment in capital assets (net of accumulated depreciation) for the Utility increased by \$12,603 (3.1%), to a total of \$422,278. Major capital projects included \$13,483 for system expansion and improvements, including facilities rehabilitation; \$7,693 for continued pipeline replacement programs; and \$3,081 for relocation of Water facilities related to the construction of HOV lanes project funded by RCTC.

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

### DEBT ADMINISTRATION

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

	2014	2013	2012
Revenue bonds	\$ 203,755	\$ 208,115	\$ 213,320
Unamortized bond premium	3,436	3,888	4,341
Contracts payable	942	945	947
Less: Current portion	(5,165)	(4,510)	(4,845)
<b>Total</b>	<b>\$ 202,968</b>	<b>\$ 208,438</b>	<b>\$ 213,763</b>

The Utility's bond indentures require a minimum debt service coverage ratio, as defined by the bond covenants, of 1.25. The Utility's debt service coverage ratio was 2.56, 2.61, and 2.82 at June 30, 2014, 2013, and 2012, respectively. The debt is backed by the revenues of the Utility.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)**

The Utility's long-term debt decreased by \$5,470 (2.6%) and \$5,325 (2.5%) for 2014 and 2013, respectively primarily due to principal payments.

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

### **CREDIT RATINGS**

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

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

In March 2014, Standard & Poor's affirmed its "A-1+" short-term rating on the 2011A Variable Rate Water Refunding Revenue Bonds and its "AAA" long-term rating on the Utility's outstanding debt.

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

### **REGULATORY AND LEGISLATIVE FACTORS**

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

The State of California has experienced unprecedented drought conditions over the last three years with nearly 80% of the state being classified as having Extreme Drought Conditions. In July 2014, the City implemented Stage Two of the Water Conservation Ordinance in reaction to the state's ongoing water supply concerns which calls for customers to cut back consumption by 15% by primarily reducing irrigation for outdoor landscape. The Utility is very fortunate as a water provider in California in that the Utility owns, operates and maintains its own water supply and is not typically dependent on imported water from outside sources. The Utility currently has sufficient water supplies to meet customer needs even during severe drought conditions; however, the aquifers the Utility draws from are experiencing historic low levels. The Utility has responded by continuing to offer a wide variety of water conservation programs for its customers in an effort to conserve its water resources. In addition, the Utility has increased its drought messaging to its customers, increased community educational awareness and leveraged funding from Metropolitan Water District (MWD) to dramatically increase incentive levels for water conservation programs such as turf removal.

### **SACRAMENTO-SAN JOAQUIN RIVER DELTA**

Under certain emergency conditions or a prolonged interruption of water supply, the challenges faced at the state level could impact the Utility.

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

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

In November 2009, the California legislature enacted a comprehensive set of laws aimed at improving the state's water supply reliability and restoring the Delta ecosystem. The package was revised in June 2014, which includes four policy bills and a \$7.5 billion



**Elizabeth Pia**

Customer Service Representative II  
and a customer-owner of Riverside  
Public Utilities.

## REGULATORY AND LEGISLATIVE FACTORS (CONTINUED)

general obligation bond known as Proposition 1 targeted for the November 2014 ballot. One of the bills enacted, SB X7-7, requires a statewide 20% reduction in urban per-capita water use by 2020. Urban water retail suppliers determine baseline water use and set reduction targets to achieve a 10% cumulative urban per capita water use reduction by December 31, 2015 and 20% by December 31, 2020, respectively. Further, SB X7-7 requires agricultural water suppliers to plan and develop efficient water management plans by December 31, 2012 with updates by December 31, 2015 and every 5 years thereafter. After January 2021, failure to meet the targets establishes a violation of law for administrative or judicial proceedings.

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

### SANTA ANA SUCKER FISH

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

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

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

### WATER STANDARDS

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

In 2007, CalEPA set a drinking water standard for perchlorate at 6 ppb, which is equal to its Public Health Goal (PHG). During this time, the Utility employed treatment technologies to remove perchlorate to below the drinking water standard. In 2012, the CalEPA issued a revised PHG for perchlorate set at 1 ppb. Drinking water standards are required to be established as feasibly close to the PHG while taking into consideration technological and economical factors. CalEPA is currently reevaluating its 6 ppb perchlorate standard and is expected to release it in late 2014. A reduction in the perchlorate standard will impact the Utility's water supply costs.

In addition to the above mentioned contaminants, there are several other water quality regulations that may impact the Utility's water supply costs due to the proposed levels and grouping of contaminants. In particular, the USEPA is developing a regulation that would group contaminants into one lower standard. Depending on the grouping, the Utility would have to employ treatment

for a group of chemicals rather than individual chemicals. This may increase treatment costs as combining chemicals would create a treatment requirement which did not exist when the chemicals were regulated individually. The Utility will continue to monitor the progress of the proposed standard changes and will advocate for standards that protect human health and are based on the best available science.

## CLEAN WATER ACT

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

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

## REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the 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](http://www.RiversidePublicUtilities.com).

A photograph showing a water filtration basin at the J.W. North Water Treatment Plant. The image features several large, parallel, light-colored cylindrical pipes or filters. Each pipe is equipped with a series of blue and red valves or caps along its length. The background shows a dark, industrial structure, possibly a building or part of the treatment facility.

*Water filtration basin at  
J.W. North Water Treatment Plant.*



Water

FINANCIAL STATEMENTS



*Water wise landscaping  
at a commercial building*

## STATEMENTS OF NET POSITION

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	June 30, 2014	June 30, 2013
	(in thousands)	
UTILITY PLANT:		
Utility plant, net of accumulated depreciation (Note 3)	\$ 442,845	\$ 422,278
RESTRICTED ASSETS:		
Cash and investments at fiscal agent (Note 2)	10,554	25,072
OTHER NON-CURRENT ASSETS:		
Net pension asset	4,926	5,143
Other non-current receivables	3,333	6,670
Regulatory assets	943	1,523
Total other non-current assets	9,202	13,336
Total non-current assets	462,601	460,686
CURRENT ASSETS:		
Unrestricted assets:		
Cash and cash equivalents (Note 2)	86,181	73,081
Accounts receivable, less allowance for doubtful accounts 2014 \$132; 2013 \$118	9,664	10,238
Accrued interest receivable	429	384
Advances to other funds	392	756
Prepaid expenses	17	19
Other receivables	3,333	3,330
Total unrestricted current assets	100,016	87,808
Restricted assets:		
Cash and cash equivalents (Note 2)	5,930	5,479
Water Conservation Programs - cash and cash equivalents (Note 2)	2,437	2,229
Water Conservation Programs receivable	128	128
Total restricted current assets	8,495	7,836
Total current assets	108,511	95,644
Total assets	571,112	556,330
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred changes in derivative values	2,941	2,437
Deferred loss on refunding	8,215	8,728
Total deferred outflows of resources	11,156	11,165
Total assets and deferred outflows of resources	\$ 582,268	\$ 567,495

See accompanying notes to the financial statements

## STATEMENTS OF NET POSITION

NET POSITION, LIABILITIES, AND DEFERRED INFLOWS OF RESOURCES	June 30, 2014	June 30, 2013
	(in thousands)	
<b>NET POSITION:</b>		
Net investment in capital assets	\$ 245,731	\$ 244,937
Restricted for:		
Debt service (Note 5)	5,930	5,479
Water Conservation Programs	2,499	2,287
Unrestricted	78,570	69,996
Total net position	<u>332,730</u>	<u>322,699</u>
<b>LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4)</b>	<u>202,968</u>	<u>208,438</u>
<b>OTHER NON-CURRENT LIABILITIES:</b>		
Advances from other funds - pension obligation (Note 4)	4,855	5,069
Postemployment benefits payable (Note 4)	2,422	2,083
Compensated absences (Note 4)	333	201
Derivative instrument (Note 4)	8,083	7,884
Note payable (Note 4)	9,482	-
Total other non-current liabilities	<u>25,175</u>	<u>15,237</u>
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:</b>		
Accounts payable and other accruals	1,290	207
Accrued interest payable	1,801	1,845
Water Conservation Programs payable	66	70
Current portion of long-term obligations (Note 4)	5,015	4,360
Total current liabilities payable from restricted assets	<u>8,172</u>	<u>6,482</u>
<b>CURRENT LIABILITIES:</b>		
Accounts payable and other accruals	5,471	3,731
Current portion of long-term obligations (Note 4)	150	150
Customer deposits	935	758
Total current liabilities	<u>6,556</u>	<u>4,639</u>
Total liabilities	<u>242,871</u>	<u>234,796</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
Deferred regulatory charges	6,667	10,000
Total deferred inflows of resources	<u>6,667</u>	<u>10,000</u>
Total net position, liabilities and deferred inflows of resources	<u>\$ 582,268</u>	<u>\$ 567,495</u>

See accompanying notes to the financial statements

# STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	For the Fiscal Years Ended June 30,	
	2014	2013
	(in thousands)	
<b>OPERATING REVENUES:</b>		
Residential sales	\$ 40,687	\$ 40,313
Commercial sales	20,227	19,891
Other sales	1,946	1,808
Water conveyance revenue	2,356	3,050
Water Conservation Programs	1,047	1,047
Other operating revenue	2,428	2,380
Total operating revenues before uncollectibles	68,691	68,489
Estimated uncollectibles, net of bad debt recovery	(98)	(175)
Total operating revenues, net of uncollectibles	68,593	68,314
<b>OPERATING EXPENSES:</b>		
Operations	27,600	26,474
Maintenance	4,668	4,633
Purchased energy	5,430	4,832
Water Conservation Programs	836	1,079
Depreciation	12,799	12,698
Total operating expenses	51,333	49,716
Operating income	17,260	18,598
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
Investment income	1,049	503
Interest expense and fiscal charges	(8,599)	(8,877)
Gain (loss) on sale of assets	(253)	191
Other	698	642
Total non-operating revenues (expenses)	(7,105)	(7,541)
Income before contributions and transfers	10,155	11,057
Capital contributions	3,534	4,282
Transfers in from the City's general fund	3,333	-
Transfers out - contributions to the City's general fund	(6,991)	(6,579)
Total capital contributions and transfers	(124)	(2,297)
Increase in net position	10,031	8,760
NET POSITION, BEGINNING OF YEAR	322,699	313,939
NET POSITION, END OF YEAR	\$ 332,730	\$ 322,699

See accompanying notes to the financial statements

# STATEMENTS OF CASH FLOWS

For the Fiscal Years  
Ended June 30,  
2014                      2013  
(in thousands)

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers and users	\$ 69,567	\$ 67,918
Cash paid to suppliers and employees	(34,922)	(38,111)
Other receipts	698	642
Net cash provided by operating activities	35,343	30,449
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
Transfers out - contributions to the City's general fund	(6,991)	(6,579)
Transfers in from the City's general fund	3,333	-
Cash received on advances to other funds	364	220
Payment on advances to other funds - pension obligation	(214)	(187)
Net cash used by non-capital financing activities	(3,508)	(6,546)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of utility plant	(22,648)	(24,934)
Proceeds from the sale of utility plant	126	270
Principal paid on long-term obligations	(4,363)	(5,207)
Interest paid on long-term obligations	(8,848)	(8,861)
Bond issuance costs	(19)	(65)
Capital contributions	2,154	6,561
Net cash used by capital and related financing activities	(33,598)	(32,236)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from investment securities	-	535
Income from investments	1,004	399
Net cash provided by investing activities	1,004	934
Net decrease in cash and cash equivalents	(759)	(7,399)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (including \$32,780 and \$49,333 at June 30, 2013 and June 30, 2012, respectively, reported in restricted accounts)</b>		
	105,861	113,260
<b>CASH AND CASH EQUIVALENTS, END OF YEAR (including \$18,921 and \$32,780 at June 30, 2014 and June 30, 2013, respectively, reported in restricted accounts)</b>		
	\$ 105,102	\$ 105,861
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income	\$ 17,260	\$ 18,598
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	12,799	12,698
Amortization of net pension asset	217	184
Increase in allowance for uncollectible accounts	14	7
Decrease (increase) in accounts receivable	684	(612)
Decrease in prepaid expenses	2	4
Increase (decrease) in accounts payable and other accruals	3,025	(1,505)
Increase in postemployment benefits payable	339	439
Increase (decrease) increase in compensated absences	132	(15)
Decrease in Water Conservation Programs payable	(4)	(25)
Increase in customer deposits	177	34
Other receipts	698	642
Net cash provided by operating activities	\$ 35,343	\$ 30,449
<b>SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:</b>		
Capital contributions - capital assets	1,256	185
Purchase of land with note payable	9,482	-

See accompanying notes to the financial statements

# Water

## NOTES TO THE FINANCIAL STATEMENTS



## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### BASIS OF ACCOUNTING

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

The 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 Utility are charges to customers for water sales and services. Operating expenses for the 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.

### USE OF ESTIMATES

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

### REVENUE RECOGNITION

The Utility customers are billed monthly. Unbilled water service charges, including the Water Conservation Programs, are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled \$3,397 at June 30, 2014, and \$3,528 at June 30, 2013.

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

### UTILITY PLANT AND DEPRECIATION

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

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

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

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

### RESTRICTED ASSETS

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

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

### CASH AND INVESTMENTS

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

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

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

City-wide information concerning cash and investments as of June 30, 2014, including authorized investments, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and investments may be found in the notes to the City's "Comprehensive Annual Financial Report."

### CASH AND INVESTMENTS AT FISCAL AGENTS

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

### DERIVATIVES

The Utility accounts for derivative instruments using GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). This Statement requires the Utility to report its derivative instruments at fair value. Changes in fair value for effective hedges are to be reported as deferred 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 Utility has determined that its interest rate swaps associated with variable rate obligations are derivative instruments under GASB 53. See Note 4 Long-Term Obligations for further discussion related to the Utility's interest rate swaps.

## BOND 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 Utility's portion of these deposits as of June 30, 2014 and 2013 was \$935 and \$758, respectively.

## COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due to employees at June 30, 2014 and 2013. The Utility treats compensated absences due to employees as an expense and a liability of which a current portion is included in accounts payable and other accruals in the accompanying Statements of Net Position. The amount accrued for compensated absences was \$1,682 at June 30, 2014, and \$1,478 at June 30, 2013.

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

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

## INSURANCE PROGRAMS

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

City-wide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risks for the year ended June 30, 2014, may be found in the notes to the City's "Comprehensive Annual Financial Report."

Although the ultimate amount of losses incurred through June 30, 2014 is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. Premiums paid to the City by the Utility were \$515 and \$598 for the years ended June 30, 2014 and 2013, respectively. Any losses above the City's reserves would be covered through increased rates charged to the Utility in future years.

## EMPLOYEE RETIREMENT PLAN

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

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

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

1st Tier – The retirement formula is 2.7% at age 55. The Utility pays the employee share (8%) of contributions on their behalf and for their account except for general Service Employees International Union (SEIU) employees, which contributed 2% in fiscal year 2014, with the City paying the remaining 6% of the employee share.

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

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

The Utility is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The total Utility's contribution to PERS for the years ended June 30, 2014 and 2013 was \$3,028 and \$3,066, respectively. The employer portion of PERS funding for the years ended June 30, 2014 and 2013 was 18.31 percent and 18.28 percent, respectively, of annual covered payroll.

City-wide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the fiscal year ended June 30, 2014, and recent trend information may be found in the notes to the City's "Comprehensive Annual Financial Report."

### PENSION OBLIGATION BONDS AND NET PENSION ASSET

The Utility is obligated to pay its share of the City's pension obligation bonds, which the City issued in 2005. The Utility's proportional share of the outstanding principal amount of the bonds was \$4,855 and \$5,069 as of June 30, 2014 and 2013, respectively, and is shown on the Statements of Net Position as Advances from other funds-pension obligation. The bond proceeds were deposited with PERS to fund the unfunded actuarial accrued liability for non-safety employees. The net pension asset will be amortized over 19 years in accordance with the method used by PERS for calculating actuarial gains and losses. The balance in the net pension asset as of June 30, 2014 and 2013 was \$4,926 and \$5,143, respectively. For more discussion relating to the City's issue, see the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2014.

### OTHER POSTEMPLOYMENT BENEFITS

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

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

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

The Utility's annual OPEB cost (expense) is reported based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability (or funding excess) (UAAL) over a period

not to exceed thirty years. The Utility's OPEB liability including Water Conservation Programs as of June 30, 2014 and 2013 was \$2,446 and \$2,103, respectively.

City-wide information concerning the description of the plan, funding policy and annual OPEB cost, funding status and funding progress, and actuarial methods and assumptions for the year ended June 30, 2014 can be found in the notes to the City's "Comprehensive Annual Financial Report."

## DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

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

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

## REGULATORY ASSETS AND DEFERRED REGULATORY CHARGES

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

## NET POSITION

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

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

**Restricted** – this component 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 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, 2014 and 2013, \$6,991 and \$6,579, respectively was transferred representing 11.5 percent.

In April 2013, the City settled a lawsuit challenging its century-old practice of transferring Utility monies to the general fund. Under the settlement agreement, the general fund agreed to pay \$10,000 over a three year period beginning in fiscal year 2013-14. The settlement has been reflected as a receivable and a corresponding deferred regulatory charge under deferred inflows of resources on the Statements of Net Position. As of June 30, 2014, the Utility received the first of three payments in the amount of \$3,333.

# I OWN IT

## Riverside Public Utilities

Customer-owned since 1895

### Dr. Raelene Fulford

is uncanny with cavities,  
first-rate in flossing,  
and great with gums.

She's a dentist at  
Dental Associates of Riverside  
and a customer-owner of  
Riverside Public Utilities.

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

### CASH AND CASH EQUIVALENTS

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

### BUDGET AND BUDGETARY ACCOUNTING

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

### RECLASSIFICATIONS

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

## NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2014 and 2013, consist of the following (in thousands):

	<b>June 30, 2014</b>	<b>June 30, 2013</b>
	Fair Value	
Equity interest in City Treasurer's investment pool	\$ 94,548	\$ 80,789
Cash and investments at fiscal agent	10,554	25,072
Total cash and investments	<b>\$ 105,102</b>	<b>\$ 105,861</b>

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

	<b>June 30, 2014</b>	<b>June 30, 2013</b>
Unrestricted cash and cash equivalents	\$ 86,181	\$ 73,081
Restricted cash and cash equivalents	8,367	7,708
Restricted cash and investments at fiscal agent	10,554	25,072
Total cash and investments	<b>\$ 105,102</b>	<b>\$ 105,861</b>

The investment types in the tables below related to the Utility's investments in the City Treasurer's investment pool represent the 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)

Cash and investments distribution by maturities as of June 30, 2014 and 2013, are as follows:

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

Investment Type	June 30, 2013 Fair Value	Remaining Maturity (In Months)		
		12 Months or less	13 to 24 Months	25 to 60 Months
Held by fiscal agent				
Commercial paper <sup>1</sup>	\$ 25,072	\$ 25,072	\$ -	\$ -
City Treasurer's investment pool <sup>2</sup>				
Money market funds	11,562	11,562	-	-
Federal agency securities	36,742	6,325	3,489	26,928
Corp medium term notes	11,469	1,970	3,414	6,085
State investment pool	18,822	18,822	-	-
Negotiable certificate of deposit	2,194	977	706	511
<b>Total</b>	<b>\$ 105,861</b>	<b>\$ 64,728</b>	<b>\$ 7,609</b>	<b>\$ 33,524</b>

Presented below is the actual rating as of June 30, 2014 and 2013 for each investment type:

Investment Type	June 30, 2014 Fair Value	Rating as of Year End				
		AAA	AA	A	A-1	Unrated
Held by fiscal agent						
Commercial paper <sup>1</sup>	\$ 10,554	\$ -	\$ -	\$ -	\$ 10,554	\$ -
City Treasurer's investment pool <sup>2</sup>						
Money market funds	1,785	256	311	1,218	-	-
Federal agency securities	19,245	19,245	-	-	-	-
US Treasury notes/bonds	33,407	33,407	-	-	-	-
Corp medium term notes	13,174	-	10,694	2,480	-	-
State investment pool	24,006	-	-	-	-	24,006
Negotiable certificate of deposit	2,931	-	-	-	-	2,931
<b>Total</b>	<b>\$ 105,102</b>	<b>\$ 52,908</b>	<b>\$ 11,005</b>	<b>\$ 3,698</b>	<b>\$ 10,554</b>	<b>\$ 26,937</b>

Investment Type	Rating as of Year End					
	June 30, 2013 Fair Value	AAA	AA	A	A-1	Unrated
Held by fiscal agent						
Commercial paper <sup>1</sup>	\$ 25,072	\$ -	\$ 25,072	\$ -	\$ -	\$ -
City Treasurer's investment pool <sup>2</sup>						
Money market funds	11,562	491	243	10,828	-	-
Federal agency securities	36,742	36,742	-	-	-	-
Corp medium term notes	11,469	-	9,468	2,001	-	-
State investment pool	18,822	-	-	-	-	18,822
Negotiable certificate of deposit	2,194	-	-	-	-	2,194
<b>Total</b>	<b>\$ 105,861</b>	<b>\$ 37,233</b>	<b>\$ 34,783</b>	<b>\$ 12,829</b>	<b>\$ -</b>	<b>\$ 21,016</b>

<sup>1</sup> Amounts related to bond construction proceeds are invested in specific maturities but are available for construction of capital assets as funding is needed.

<sup>2</sup> Additional information on investment types and credit risk may be found in the City's "Comprehensive Annual Financial Report."

### NOTE 3. UTILITY PLANT

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2014 and 2013 (in thousands):

	Balance As of 6/30/2012	Additions	Retirements/ Transfers	Balance As of 6/30/2013	Additions	Retirements/ Transfers	Balance As of 6/30/2014
Source of supply	\$ 48,304	\$ 464	\$ (2,514)	\$ 46,254	\$ 2,812	\$ -	\$ 49,066
Pumping	26,869	1,715	(34)	28,550	1,197	-	29,747
Treatment	43,697	-	-	43,697	-	-	43,697
Transmission and distribution	408,661	20,696	(3,806)	425,551	13,428	(458)	438,521
General	14,041	162	(209)	13,994	625	(250)	14,369
Intangible	353	-	-	353	33	-	386
Depreciable utility plant	541,925	23,037	(6,563)	558,399	18,095	(708)	575,786
Less accumulated depreciation							
Source of supply	(14,416)	(963)	1,918	(13,461)	(1,002)	-	(14,463)
Pumping	(8,998)	(626)	34	(9,590)	(639)	-	(10,229)
Treatment	(7,342)	(1,183)	-	(8,525)	(1,183)	-	(9,708)
Transmission and distribution	(119,376)	(8,894)	2,658	(125,612)	(9,069)	599	(134,082)
General	(9,972)	(989)	200	(10,761)	(862)	240	(11,383)
Intangible	(141)	(43)	-	(184)	(45)	-	(229)
Accumulated depreciation	(160,245)	(12,698)	4,810	(168,133)	(12,800)	839	(180,094)
Net depreciable utility plant	381,680	10,339	(1,753)	390,266	5,295	131	395,692
Land	10,996	-	-	10,996	9,488	-	20,484
Intangible, non-amortizable	6,307	3,951	583	10,841	-	-	10,841
Construction in progress	10,692	25,001	(25,518)	10,175	22,733	(17,080)	15,828
Nondepreciable utility plant	27,995	28,952	(24,935)	32,012	32,221	(17,080)	47,153
<b>Total utility plant</b>	<b>\$ 409,675</b>	<b>\$ 39,291</b>	<b>\$ (26,688)</b>	<b>\$ 422,278</b>	<b>\$ 37,516</b>	<b>\$ (16,949)</b>	<b>\$ 442,845</b>

## NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2014 and 2013 (in thousands):

	Balance As of 6/30/2012			Balance As of 6/30/2013			Balance As of 6/30/2014		Due Within One Year
	Balance	Additions	Reductions	Balance	Additions	Reductions	Balance		
Revenue bonds	\$ 217,661	\$ -	\$ (5,658)	\$ 212,003	\$ -	\$ (4,812)	\$ 207,191		\$ 5,015
Advances from other funds - pension obligation	5,164	92	(187)	5,069	-	(214)	4,855		-
Postemployment benefits payable	1,644	439	-	2,083	339	-	2,422		-
Water stock acquisition rights	947	-	(2)	945	-	(3)	942		150
Compensated absences	1,428	1,288	(1,238)	1,478	1,388	(1,184)	1,682		1,349
Note payable	-	-	-	-	9,482	-	9,482		-
<b>Total long-term obligations</b>	<b>\$ 226,844</b>	<b>\$ 1,819</b>	<b>\$ (7,085)</b>	<b>\$ 221,578</b>	<b>\$ 11,209</b>	<b>\$ (6,213)</b>	<b>\$ 226,574</b>		<b>\$ 6,514</b>

## NOTE PAYABLE

On September 30, 2013, the Utility entered into a Purchase and Sale Agreement and a Well Relocation Agreement with Hillwood Enterprises, L.P. (Hillwood) for their development of a logistic center located in the City of San Bernardino. In order to construct the logistic center, Hillwood purchased 27.21 acres of land owned by a private entity and conveyed it to the Utility for a purchase price of \$9,482. Under a 55-year Ground Lease Agreement entered into on May 20, 2014, the land was leased back to Hillwood including 22.56 acres of existing land owned by the Utility. The Utility has two active wells located on the leased site that will be relocated by Hillwood under the terms of the Well Relocation Agreement with an estimated cost of \$6,100. The land purchase and the cost of the well relocation will be paid by the Utility through credits against future rent payments for the first 15 years under terms of the Ground Lease Agreement. Rent will commence the earlier of when Hillwood starts construction of the logistic center, which is contingent upon the completion of the well relocation, or May 20, 2016. As of June 30, 2014, the well relocation is not completed and it is not anticipated that rent will commence in fiscal year 2015. Estimated annual rent credits to be applied for the land purchase, at an interest rate of 1.65%, are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2015	\$ -	\$ -	\$ -
2016	40	156	196
2017	483	152	635
2018	492	144	636
2019	512	136	648
2020-2024	2,900	543	3,443
2025-2029	3,522	279	3,801
2030-2031	1,533	26	1,559
<b>Total</b>	<b>\$ 9,482</b>	<b>\$ 1,436</b>	<b>\$ 10,918</b>



*Construction crew installing recycled water purple pipeline.*

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

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

### CONTRACTS PAYABLE

	June 30, 2014	June 30, 2013
<b>Water Stock Acquisitions:</b> Payable on demand to various water companies	\$ 942	\$ 945
Total contracts payable	<u>942</u>	<u>945</u>

### REVENUE BONDS PAYABLE

<b>\$58,235 2008 Water Revenue Series B Bonds:</b> fixed rate bonds due in annual principal installments from \$1,210 to \$7,505 from October 1, 2016 through October 1, 2038, interest from 4.0 to 5.0 percent	58,235	58,235
<b>\$31,895 2009 Water Refunding/Revenue Series A Bonds:</b> fixed rate bonds due in annual principal installments from \$2,360 to \$4,335 through October 1, 2020, interest from 3.0 to 5.0 percent	21,205	24,715
<b>\$67,790 2009 Water Revenue Series B Bonds:</b> 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
<b>\$59,000 2011 Water Revenue/Refunding Series A Bonds:</b> variable rate bonds due in annual principal installments from \$600 to \$3,950 through October 1, 2035. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 30, 2014 was 3.1 percent)	56,525	57,375
Total water revenue bonds payable	<u>203,755</u>	<u>208,115</u>
Total water revenue bonds and contracts payable	<u>204,697</u>	<u>209,060</u>
Unamortized bond premium	3,436	3,888
Total water revenue bonds and contracts payable, net of bond premium	<u>208,133</u>	<u>212,948</u>
Less current portion	(5,165)	(4,510)
Total long-term water revenue bonds and contracts payable	<u>\$ 202,968</u>	<u>\$ 208,438</u>

Revenue bonds annual debt service requirements, including contracts payable, to maturity, as of June 30, 2014, are as follows (in thousands):

	2015	2016	2017	2018	2019	2020-2024	2025-2029	2030-2034	2035-2039	2040	TOTAL
Principal	\$ 5,165	\$ 5,410	\$ 5,330	\$ 5,565	\$ 5,785	\$ 31,772	\$ 38,055	\$ 46,200	\$ 56,430	\$ 4,985	\$204,697
Interest	8,381	8,152	7,920	7,683	7,457	33,776	26,563	18,174	7,625	104	125,835
Total	\$ 13,546	\$ 13,562	\$ 13,250	\$ 13,248	\$ 13,242	\$ 65,548	\$ 64,618	\$ 64,374	\$ 64,055	\$ 5,089	\$330,532

The Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants of 1.25. The Utility's debt service coverage ratio was 2.56 and 2.61 at June 30, 2014 and 2013, respectively. The debt (revenue bonds) is backed by the revenues of the Utility.

### INTEREST RATE SWAPS ON REVENUE BONDS

The Utility has one cash flow hedging derivative instrument, which is a pay-fixed swap. The swap was employed as a hedge against debt that was refunded in 2008 and 2011. At the time of the refunding, hedge accounting ceased to be applied. The balance of the deferral account for the swap is included as part of the deferred loss on refunding associated with the new bonds. The swap was also employed as a hedge against the new debt. Hedge accounting was applied to that portion of the hedging

relationship, which was determined to be effective. The negative fair value of the interest rate swaps related to the new hedging relationship has been recorded and deferred on the Statements of Net Position.

A summary of the derivative activity for the year ended June 30, 2014 is as follows:

	<b>Notional Amount</b>	<b>Fair Value as of 6/30/2014</b>	<b>Change in Fair Value for Fiscal Year</b>
2011 Water Refunding/Revenue Bonds Series A	\$ 56,525	\$ (8,083)	\$ (199)

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

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

The bonds and the related swap agreement for the 2011 Water Refunding/Revenue Series A Bonds mature on October 1, 2035. As of June 30, 2014, rates were as follows:

Interest rate swap:

	<b>Terms</b>	<b>Rates</b>
Fixed payment to counterparty	Fixed	3.20000%
Variable payment from counterparty	62.68 LIBOR + 12bps	(0.24900%)
Net interest rate swap payments		2.95100%
Variable-rate bond coupon payments		0.16488%
Synthetic interest on bonds		3.11588%

**Fair value:** As of June 30, 2014, in connection with the swap agreement, the transactions had a total negative fair value of (\$8,083). Because the coupons on the Utility’s variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was developed by a pricing service using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

**Credit risk:** As of June 30, 2014, the Utility was not exposed to credit risk because the swap had a negative fair value. The swap counterparty, J.P. Morgan Chase & Co. was rated A by Standard & Poor's (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, 2014, there is no requirement for collateral posting for the outstanding swap.

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

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

**Swap payments and associated debt:** As of June 30, 2014, 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.



# I OWN IT

## Riverside Public Utilities

Customer-owned since 1895

### Jack B. Clarke, Jr.

is a connoisseur of counsel,  
an ace in argumentation,  
and a commander of contracts.

He's an attorney at  
Best Best & Krieger  
and a customer-owner of  
Riverside Public Utilities.

WATER | ENERGY | LIFE



[RiversidePublicUtilities.com](http://RiversidePublicUtilities.com)

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

Fiscal Year Ending June 30,	Variable-Rate Bonds			
	Principal	Interest	Interest Rate Swaps, Net	Total
2015	\$ 875	\$ 92	\$ 1,642	\$ 2,609
2016	925	90	1,615	2,630
2017	600	89	1,597	2,286
2018	1,700	86	1,547	3,333
2019	1,475	84	1,504	3,063
2020-2024	12,700	359	6,418	19,477
2025-2029	14,200	244	4,369	18,813
2030-2034	16,275	117	2,103	18,495
2035-2036	7,775	7	116	7,898
Total	\$ 56,525	\$ 1,168	\$ 20,911	\$ 78,604

## NOTE 5. RESTRICTED NET POSITION

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

## NOTE 6. LITIGATION

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

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

## NOTE 7. CONSTRUCTION COMMITMENTS

As of June 30, 2014, the Utility had major commitments (encumbrances) of approximately \$4,701 with respect to unfinished capital projects of which \$1,524 is expected to be funded by bonds, \$2,299 to be funded by rates, and \$878 to be funded by other sources.

## NOTE 8. ACCOUNTING CHANGE

Effective July 1, 2012, the accompanying financial statements reflect the implementation of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63), and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). Significant impacts of GASB 63 include changing the title of Balance Sheets to Statements of Net Position, changing the title of equity section to net position and reformatting the Statements of Net Position to add separate sections for deferred outflows of resources and deferred inflows of resources. Significant impacts of GASB 65 include reclassifying as deferred outflows of resources and deferred inflows of resources certain balances that were previously reported as assets and liabilities.

# Water

## KEY HISTORICAL OPERATING DATA

*Linden Reservoir Roof Replacement Project.*

## KEY HISTORICAL OPERATING DATA

FISCAL YEAR	2013/14	2012/13	2011/12	2010/11	2009/10
<b>WATER SUPPLY (ACRE FEET)</b>					
Pumping	72,647	72,480	69,564	66,492	69,676
Percentage pumped <sup>1</sup>	100.00%	100.00%	100.00%	100.00%	100.00%
System peak day (gallons)	90,020,000	95,390,000	88,370,000	90,556,000	98,017,000
<b>WATER USE</b>					
Number of meters as of year end					
Residential	58,958	58,756	58,506	58,460	58,372
Commercial/Industrial	5,527	5,508	5,504	5,482	5,451
Other	344	327	357	407	408
Total	64,829	64,591	64,367	64,349	64,231
*CCF sales					
Residential	17,432,384	17,061,832	16,288,918	15,698,321	16,321,425
Commercial/Industrial	10,292,548	10,045,813	9,703,162	9,219,913	9,344,085
Other	960,694	869,807	893,971	826,165	871,396
Subtotal	28,685,626	27,977,452	26,886,051	25,744,399	26,536,906
Wholesale	201,678	208,726	176,091	158,040	150,365
Total	28,887,304	28,186,178	27,062,142	25,902,439	26,687,271

\*(CCF equals 100 cubic feet)

### WATER FACTS

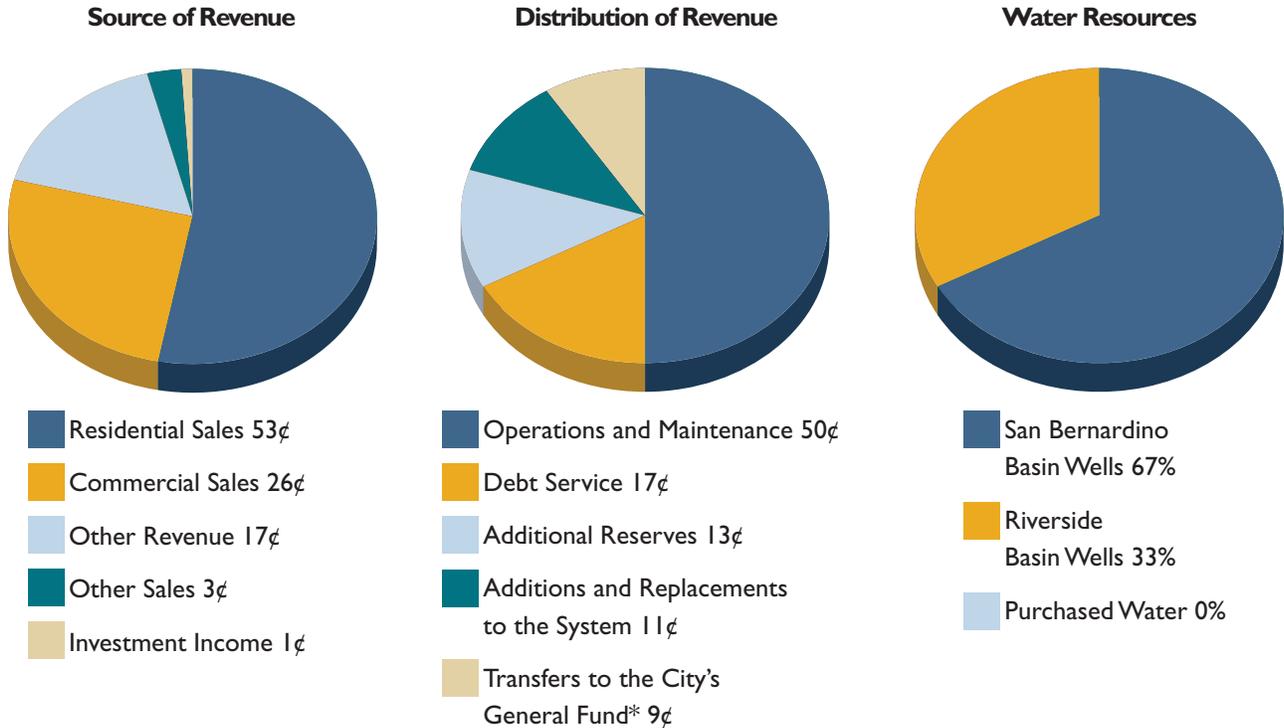
Average annual CCF per residential customer	296	291	280	270	281
Average price (\$/CCF) per residential customer	\$2.33	\$2.36	\$2.37	\$2.28	\$2.05
Debt service coverage ratio (DSC) <sup>2</sup>	2.56	2.61	2.82	3.49	2.08
Employees <sup>3</sup>	182	181	181	180	178

<sup>1</sup> No purchased water.

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

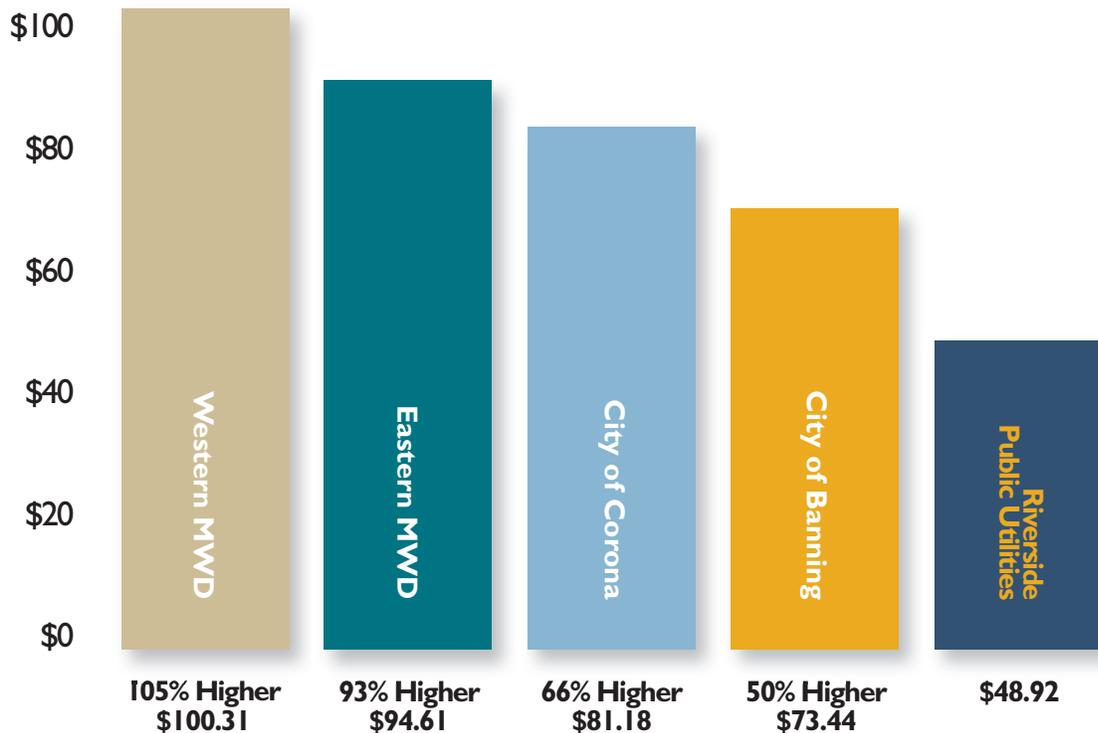
<sup>3</sup> Approved positions.

## 2013/2014 WATER REVENUE AND RESOURCES

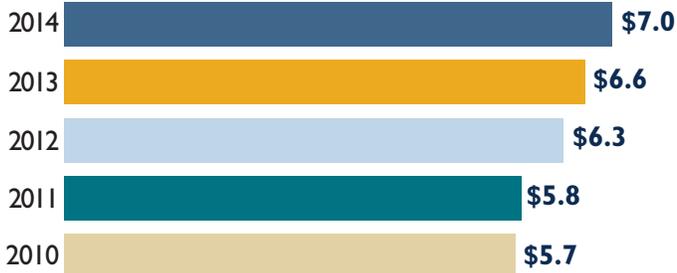


\* Based on transfer of 11.5% of fiscal year 2012/2013 gross operating revenues including adjustments.

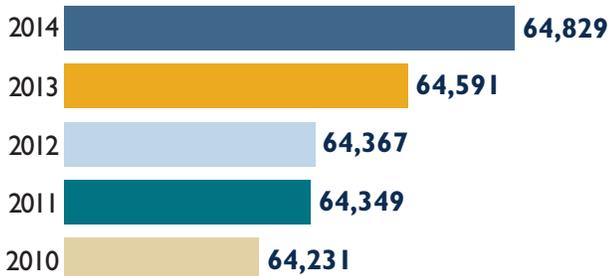
## RESIDENTIAL WATER RATE COMPARISON - 25 CCF PER MONTH (AS OF JUNE 30, 2014)



### GENERAL FUND TRANSFER (IN MILLIONS)



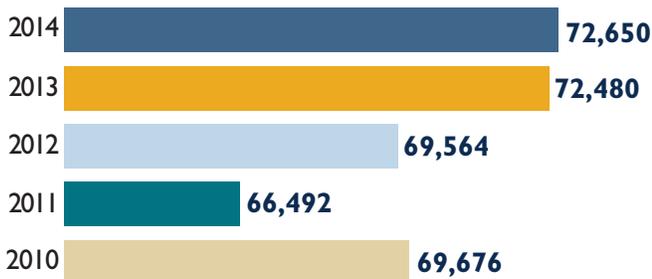
### NUMBER OF METERS AT YEAR END



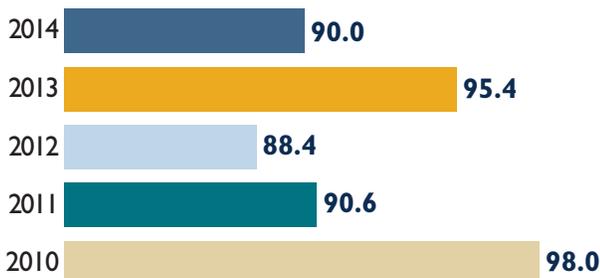
### TOTAL OPERATING REVENUE (IN MILLIONS)



### PRODUCTION (IN ACRE FEET)



### PEAK DAY DEMAND (IN MILLION GALLONS)



## WATER FACTS AND SYSTEM DATA

Established	1913
Service Area Population	313,975
Service Area Size (square miles)	74.20
System Data:	
Smallest pipeline	2.0"
Largest pipeline	72.0"
Miles of pipeline	1,000
Number of domestic wells	54
Number of active reservoirs	15
Total reservoir capacity (gallons)	108,500,000
Number of treatment plants	6
Number of treatment vessels	84
Miles of canal	14
Number of fire hydrants	7,754
Daily average production (gallons)	63,597,627
2013-2014 Peak day (gallons)	90,020,000
07/07/2013, 99 degrees	
Historical peak (gallons)	118,782,000
08/09/2005, 99 degrees	

### Bond Ratings

Fitch Ratings	AA+
Moody's	Aa2
Standard & Poor's	AAA