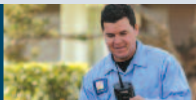
2013 WATER



MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

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Emphasis of Matter

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

Other Matters

Prior-Year Comparative Information

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

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Water Utility's basic financial statements. The accompanying information, such as the mission statement, fiscal message, and supplementary water information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Moss Adams LLP

Los Angeles, California
October 25, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS: WATER

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

FINANCIAL HIGHLIGHTS

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

UTILITY FINANCIAL ANALYSIS

CONDENSED STATEMENTS OF NET POSITION

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

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

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

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

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

LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

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

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

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

NET POSITION

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

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

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

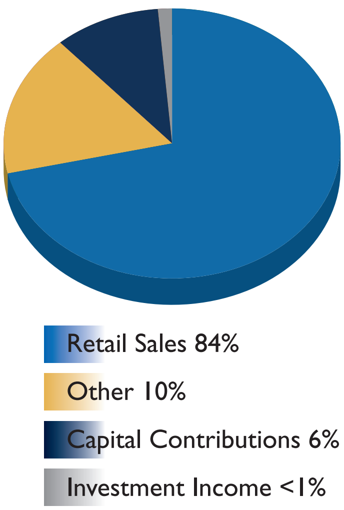
UTILITY FINANCIAL ANALYSIS (CONTINUED)

CONDENSED STATEMENTS OF CHANGES IN NET POSITION

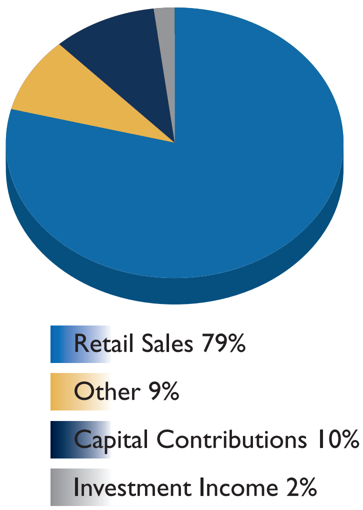
	2013	2012	2011
Revenues:			
Retail sales, net	$ 61,837	$ 59,620	$ 55,186
Other revenues	7,310	6,543	8,936
Investment income	503	1,428	2,635
Capital contributions	4,282	7,440	1,982
Total revenues	73,932	75,031	68,739
Expenses:			
Operations and maintenance	32,186	31,633	31,411
Purchased energy	4,832	4,600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

REVENUES BY SOURCES

June 30, 2013



June 30, 2012



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

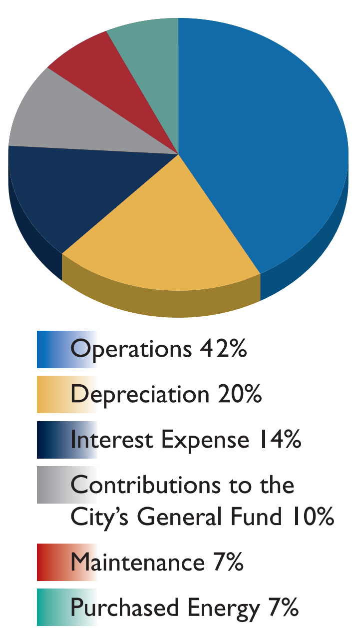
- Retail sales (residential, commercial, industrial, and others), net of reserve/recovery, totaled $61,837, an increase of $2,217 (3.7%) over the prior fiscal year. Retail sales continue to be the primary revenue source for the Utility making up 84% of total revenues. The increase in sales was primarily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

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

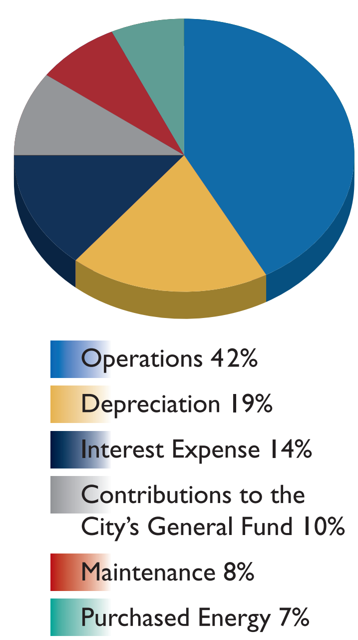
- Retail sales (residential, commercial, industrial, and others), net of reserve/recovery, totaled $59,620, an increase of $4,434 (8.0%) over the prior fiscal year. Retail sales represented 79% of total revenues. The increase in sales was primarily due to a full year rate increase of 10% that became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

EXPENSES BY SOURCES

June 30, 2013



June 30, 2012



UTILITY FINANCIAL ANALYSIS (CONTINUED)

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

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

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

TRANSFERS

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

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

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

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

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

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

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

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

DEBT ADMINISTRATION

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

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

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

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

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

CREDIT RATINGS

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

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

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

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

REGULATORY AND LEGISLATIVE FACTORS

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

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

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

SACRAMENTO-SAN JOAQUIN RIVER DELTA

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

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

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

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

SOUTHWESTERN WILLOW FLYCATCHER

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

SANTA ANA SUCKER FISH

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

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

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

CHROMIUM - 6

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

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

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

REQUESTS FOR INFORMATION

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

FINANCIAL STATEMENTS: WATER

STATEMENTS OF NET POSITION

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

See accompanying notes to the financial statements

STATEMENTS OF NET POSITION

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

See accompanying notes to the financial statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

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

See accompanying notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS: WATER

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

BASIS OF ACCOUNTING

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

USE OF ESTIMATES

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

REVENUE RECOGNITION

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

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

UTILITY PLANT AND DEPRECIATION

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RESTRICTED ASSETS

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

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

CASH AND INVESTMENTS

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

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

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

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

CASH AND INVESTMENTS AT FISCAL AGENTS

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

DERIVATIVES

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

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

BOND PREMIUMS/DISCOUNTS AND GAINS/LOSSES ON REFUNDING

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

CUSTOMER DEPOSITS

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

COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due to employees at June 30, 2013 and 2012. The Utility including the Conservation and Reclamation Programs, treats compensated absences due to employees as an expense and a liability of which a current portion is included in accounts payable and other accruals in the accompanying Statements of Net Position. The amount accrued for compensated absences was $1,479 at June 30, 2013, and $1,428 at June 30, 2012.

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

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

INSURANCE PROGRAMS

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

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

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

EMPLOYEE RETIREMENT PLAN

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

PENSION OBLIGATION BONDS AND NET PENSION ASSET

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

OTHER POSTEMPLOYMENT BENEFITS

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

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

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

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

City-wide information concerning the description of the plan, funding policy and annual OPEB cost, funding status and funding progress, and actuarial methods and assumptions for the year ended June 30, 2013 can be found in the notes to the City's "Comprehensive Annual Financial Report."

DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

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

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

REGULATORY ASSETS AND DEFERRED REGULATORY CHARGES

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

NET POSITION

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

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

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

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

CONTRIBUTIONS TO THE CITY'S GENERAL FUND

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

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

CASH AND CASH EQUIVALENTS

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

BUDGETS AND BUDGETARY ACCOUNTING

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

RECLASSIFICATIONS

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

PRIOR YEAR DATA

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

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

NOTE 2. CASH AND INVESTMENTS

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

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

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

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

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

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

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

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

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

NOTE 3. UTILITY PLANT

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

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

NOTE 4. LONG-TERM OBLIGATIONS

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

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

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

CONTRACTS PAYABLE

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

REVENUE BONDS PAYABLE

	June 30, 2013	June 30, 2012
$20,000 2001 Water Revenue Bonds: all outstanding bonds were called October 1, 2012	-	1,000
$58,235 2008 Water Revenue Series B Bonds: fixed rate bonds due in annual installments from $1,210 to $7,505 from October 1, 2016 through October 1, 2038, interest from 4.0 to 5.0 percent	58,235	58,235
$31,895 2009 Water Refunding/Revenue Series A Bonds: fixed rate bonds due in annual installments from $2,360 to $4,335 through October 1, 2020, interest from 3.0 to 5.0 percent	24,715	28,095
$67,790 2009 Water Revenue Series B Bonds: fixed rate, federally taxable, Build America Bonds due in annual installments from $2,475 to $4,985 from October 1, 2021 through October 1, 2039, interest from 3.3 to 4.1 percent	67,790	67,790
$59,000 2011 Water Revenue/Refunding Series A Bonds: variable rate bonds due in annual installments from $600 to $3,950 through October 1, 2035. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 30, 2013 was 3.1 percent)	57,375	58,200
Total water revenue bonds payable	208,115	213,320
Total water revenue bonds and contracts payable	209,060	214,267
Unamortized bond premium	3,888	4,341
Total water revenue bonds and contracts payable, net of bond premium	212,948	218,608
Less current portion	(4,510)	(4,845)
Total long-term water revenue bonds and contracts payable	$ 208,438	$ 213,763

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

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

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

INTEREST RATE SWAPS ON REVENUE BONDS

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

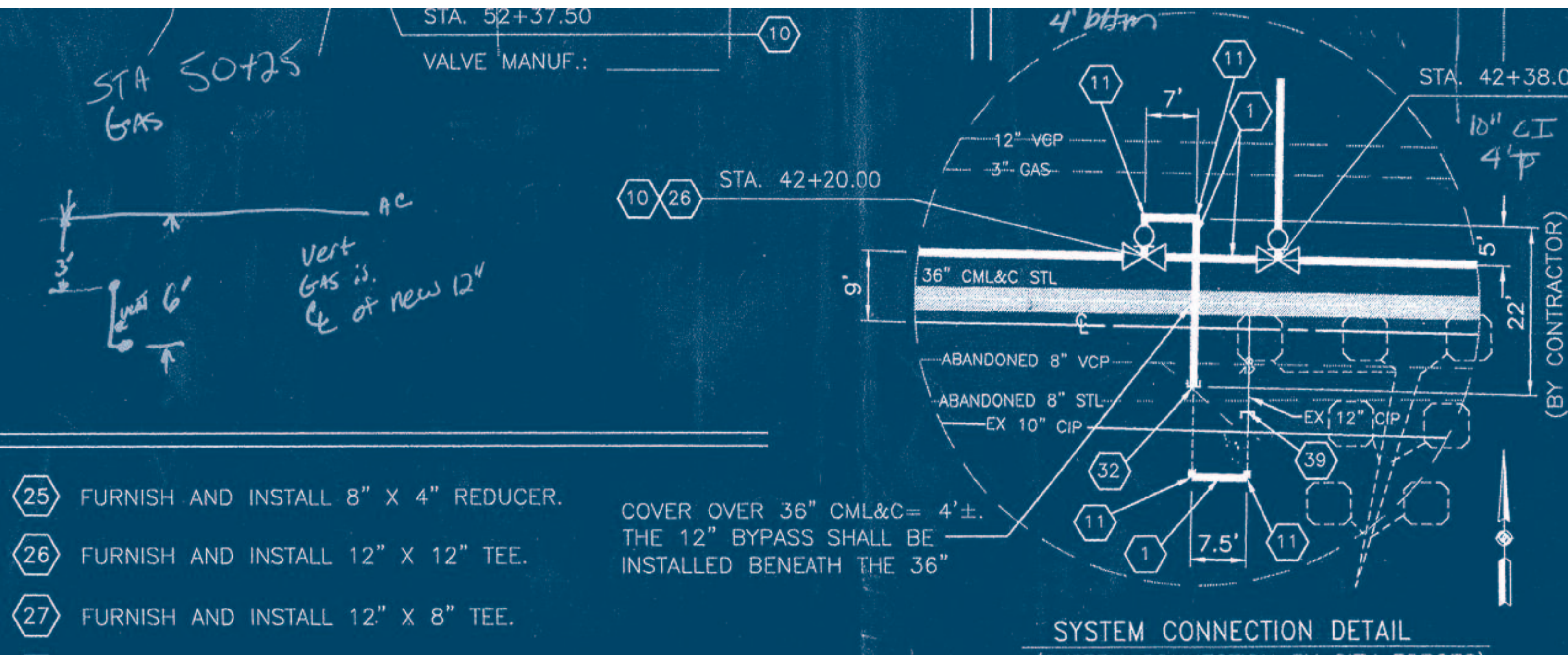
NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

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

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

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

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



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

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

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

Credit risk: As of June 30, 2013, the Utility was not exposed to credit risk because the swap had a negative fair value. The swap counterparty, J.P. Morgan Chase & Co. was rated A by Standard & Poor's. To mitigate the potential for credit risk, the swap agreement requires the fair value of the swap to be collateralized by the counterparty with U.S. Government securities if the counterparty's rating decreases to negotiated trigger points. Collateral would be posted with a third-party custodian. At June 30, 2013, there is no requirement for collateral posting for the outstanding swap.

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

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

Swap payments and associated debt: As of June 30, 2013, the debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are summarized as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

	Variable-Rate Bonds			
Fiscal Year Ending June 30,	**Principal**	**Interest**	**Interest Rate Swaps, Net**	**Total**
2014	$ 850	$ 115	$ 1,661	$ 2,626
2015	875	113	1,636	2,624
2016	925	112	1,609	2,646
2017	600	110	1,591	2,301
2018	1,700	107	1,541	3,348
2019-2023	11,450	470	6,766	18,686
2024-2028	14,525	331	4,769	19,625
2029-2033	14,975	179	2,573	17,727
2034-2036	11,475	24	345	11,844
Total	$ 57,375	$ 1,561	$ 22,491	$ 81,427

NOTE 5. RESTRICTED NET POSITION

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

NOTE 6. LITIGATION

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

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

NOTE 7. CONSTRUCTION COMMITMENTS

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

NOTE 8. ACCOUNTING CHANGE

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


CITY OF RIVERSIDE
2007

KEY HISTORICAL OPERATING DATA: WATER

KEY HISTORICAL OPERATING DATA

WATER SUPPLY (ACRE FEET)

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

WATER USE

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

*(CCF equals 100 cubic feet)

WATER FACTS

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

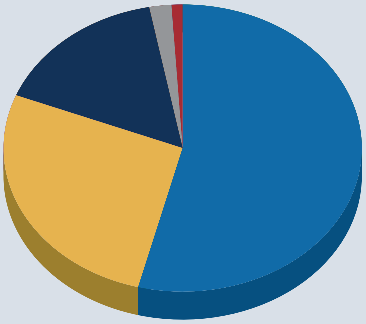
[1]No purchased water.

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

[3]Approved positions

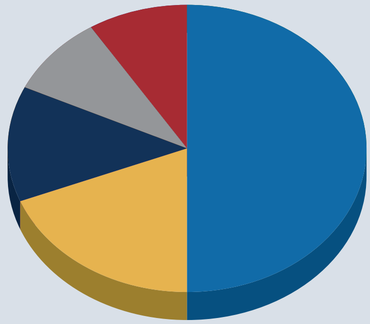
2012/2013 WATER REVENUE AND RESOURCES

Source of Revenue



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

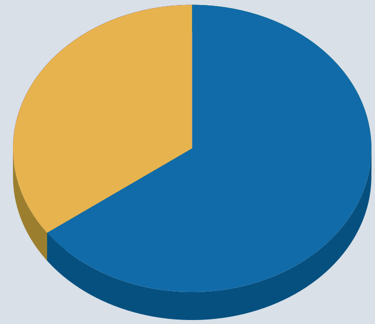
Distribution of Revenue



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

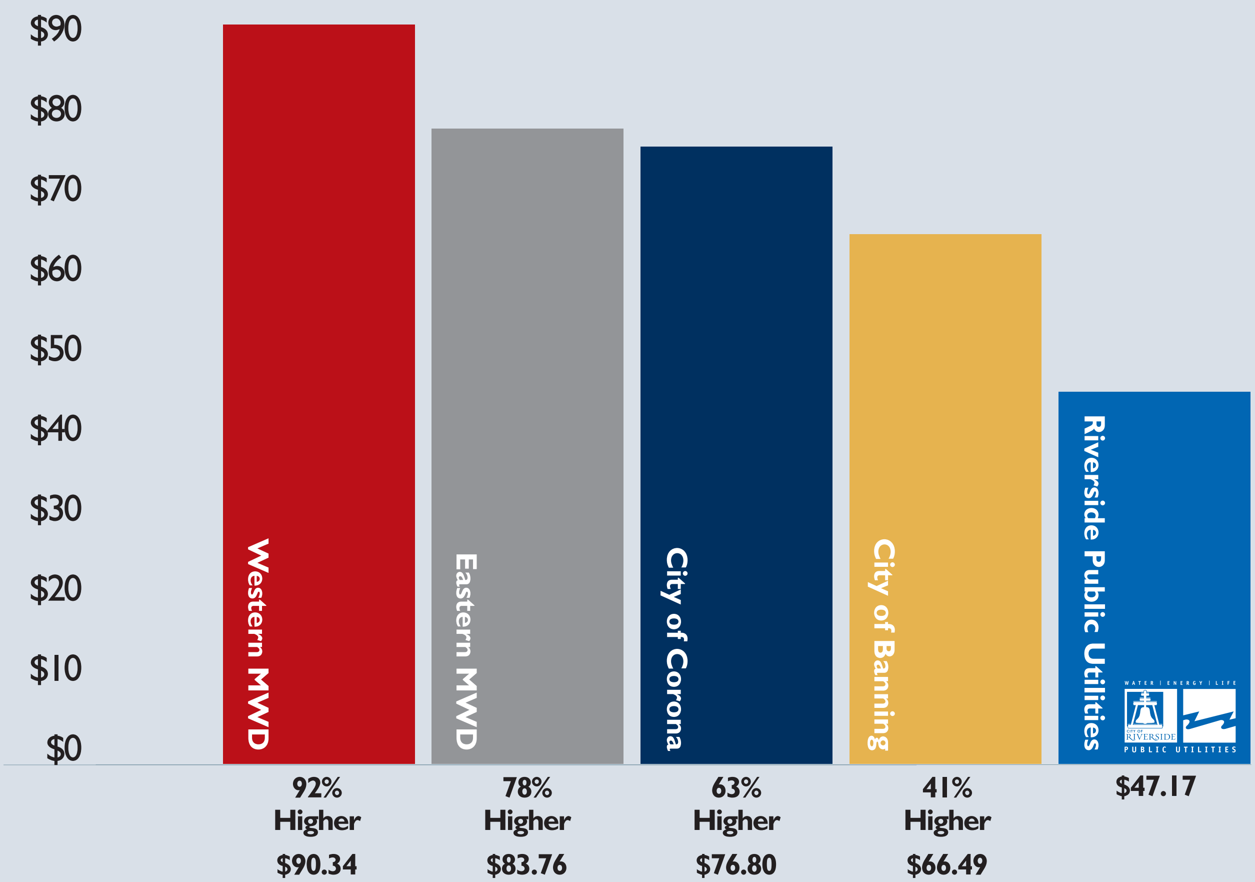
** Based on transfer of 11.5% of fiscal year 2011/2012 operating revenues (excludes wholesale sales and Conservation and Reclamation revenue)*

Water Resources

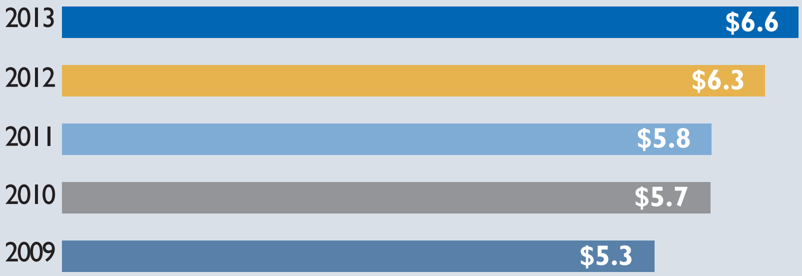


- San Bernardino Basin Wells 65%
- Riverside Basin Wells 35%
- Purchased Water 0%

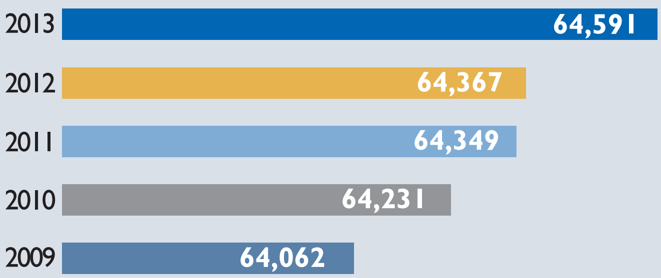
RESIDENTIAL WATER RATE COMPARISON – 24 CCF PER MONTH (AS OF JUNE 30, 2013)



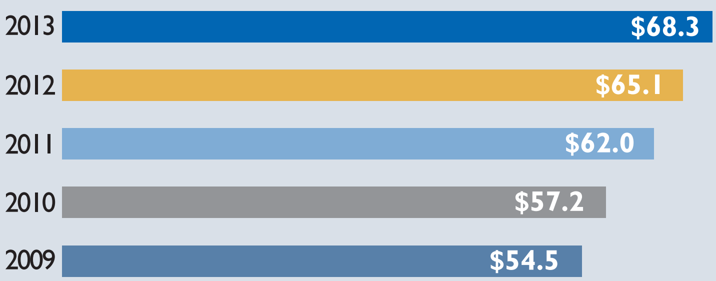
GENERAL FUND TRANSFER (IN MILLIONS)



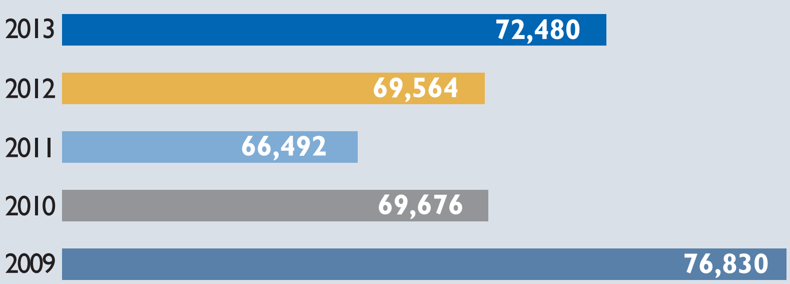
NUMBER OF METERS AT YEAR END



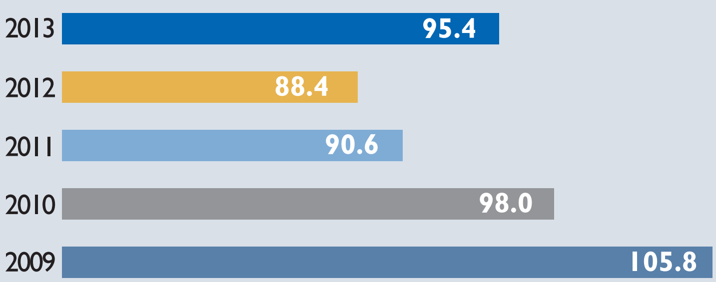
TOTAL OPERATING REVENUE (IN MILLIONS)



PRODUCTION (IN ACRE FEET)



PEAK DAY DEMAND (IN MILLION GALLONS)



WATER FACTS AND SYSTEM DATA

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

Bond Ratings

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