1. Summary of Significant Accounting Policies

The City of Riverside (City) was incorporated on October 11, 1883 as a Charter City and operates under a Council-Manager form of Government. The more significant accounting policies reflected in the financial statements are summarized as follows:

A. Reporting Entity

These financial statements present the City and its component units, entities for which the City is financially accountable. Blended component units are legally separate entities, but in substance are part of the City's operations and their data is combined with that of the City's. The City has no component units that meet the criteria for discrete presentation. All of the City's component units have a June 30 year end.

Blended Component Units

Riverside Redevelopment Agency (Redevelopment Agency) was established in 1967 by the City. The Redevelopment Agency's primary purpose was to eliminate blighted areas in the City by encouraging commercial development. City Council members served as the Redevelopment Agency's directors and had full accountability for fiscal matters. On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 that provided for the dissolution of all redevelopment agencies in the State of California. In accordance with the timeline set forth in the bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

Riverside Housing Authority (Housing Authority) was established in 2006 by the City. The Housing Authority's primary purpose is to provide safe and sanitary housing accommodations for persons with low or moderate income. City Council members serve as the Housing Authority's commissioners and have full accountability for fiscal matters.

Riverside Public Financing Authority (Public Financing Authority) was organized in December 1987 by the City and the Redevelopment Agency. The purpose of the Public Financing Authority is to provide financing for public capital improvements to the City or the Redevelopment Agency. City Council members serve as the Public Financing Authority's directors and have full accountability for fiscal matters.

Riverside Municipal Improvements Corporation (Municipal Improvements Corporation) was created in 1978 and operates under provisions of the Nonprofit Public Benefit Corporation Law of the State of California. The Municipal Improvements Corporation's primary purpose is to provide financing assistance by obtaining land, property and equipment on behalf of the City. Three members of the City Council serve as the Municipal Improvements Corporation's directors and have full accountability for fiscal matters.

Fiduciary Component Unit

Successor Agency to the Redevelopment Agency of the City of Riverside (Successor Agency) is a separate legal entity, which was formed to hold the assets and liabilities of the former Redevelopment Agency pursuant to City Council actions taken on March 15, 2011 and January 10, 2012. The activity of the Successor Agency is overseen by an Oversight Board comprised of individuals appointed by various government agencies and the City of Riverside as Successor Agency of the former Redevelopment Agency. The nature and significance of the relationship between the City and the Successor Agency is such that it would be misleading to exclude the Successor Agency from the City's financial statements. The Successor Agency is presented herein in the City's fiduciary funds as a private-purpose trust fund.

Complete financial statements are prepared for the Riverside Public Financing Authority and the Successor Agency to the Redevelopment Agency of the City of Riverside, which can be obtained from the City's Finance Department, 3900 Main Street, Riverside, California, 92522 or online at www.riversideca.gov.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City and its component units. Interfund activity has been removed from these statements except for utility charges, as this would distort the presentation of function costs and program revenues. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues.

Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Indirect expenses are allocated to the various functions based on a proportionate utilization of the services rendered. Such allocations consist of charges for accounting, human resources, information technology and other similar support services.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide, proprietary and private-purpose trust fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Agency funds report only assets and liabilities, therefore have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied on the property. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. An allowance for doubtful accounts is maintained for the utility and other miscellaneous receivables.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for revenue associated with neglected property abatement which is eleven (11) months and except for grant revenue, including reimbursements received from Transportation Uniform Mitigation Fees, which is (6) months and sales tax revenue which is seven (7) months, as described below. Grant revenue is recognized if received within six (6) months of year end to enable the matching of revenue with applicable expenditures. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

In 2004, the State temporarily began to exchange 25% of sales taxes for an equal amount of property taxes to securitize a short-term State bond issue. The State bond issue will remain outstanding for an uncertain number of years, but is currently estimated not to exceed eight (8) years. These in-lieu sales taxes will be paid to the City by the State on a different calendar than sales taxes, which are paid monthly, three months in arrears. The vast majority of the in-lieu amount will be paid during the applicable fiscal year; however, the final payment of the in-lieu sales taxes will not be paid until the January following the end of the applicable fiscal year. The City has budgeted this final payment in the current fiscal year and will continue this practice during this temporary period, effectively extending the availability period to seven (7) months for the in-lieu sales taxes and thus provide consistency in the reporting of sales tax revenue.

Property taxes, special assessments, sales taxes, franchise taxes, licenses, charges for services, amounts due from other governments and interest associated with the current fiscal period are all considered to be susceptible to accrual. Other revenue items such as fines and permits are considered to be measurable and available only when the government receives cash, and are therefore not susceptible to accrual.

The government reports the following major governmental funds:

The General fund is the government’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Redevelopment Agency’s debt service fund accounts for the resources accumulated and payments made for principal and interest on long-term obligation debt of the Redevelopment Agency through dissolution, January 31, 2012.

The Capital Outlay fund accounts for the construction and installation of street and highway capital improvements for the City, including improvements funded by the ½ % sales tax approved by Riverside County in 1988.

The Redevelopment Agency's capital project fund accounts for the acquisition, relocation, demolition and sale of land for those portions of the City designated to be in need of redevelopment activities through dissolution, January 31, 2012.

The government reports the following major proprietary funds:

The Electric fund accounts for the activities of the City's electric distribution operations.

The Water fund accounts for the activities of the City's water distribution operations.

The Sewer fund accounts for the activities of the City's sewer systems.

Additionally, the government reports the following fund types:

Internal service funds account for self-insurance, central stores and central garage on a cost reimbursement basis.

Fiduciary funds include private-purpose trust and agency funds. The private-purpose trust fund accounts for assets and activities of the dissolved Redevelopment Agency, which is accounted for in the Successor Agency Trust. The agency fund is used to account for special assessments that service no-commitment debt.

The permanent fund is a governmental fund that is used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's Library programs. Non-expendable net assets on the Statement of Net Assets includes $1 million of permanent fund principal which are considered nonexpendable net assets.

Pronouncements regarding accounting and financial reporting issued by the Financial Accounting Standards Board prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish 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 a proprietary fund's principal ongoing operations. The sewer fund also recognizes as operating revenue the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of 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.

D. Cash and Investments

The City values its cash and investments in accordance with the provisions of Government Accounting Standards Board (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 statement of net assets/balance sheet 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. All highly liquid investments (including restricted assets) with a maturity of 90 days or less when purchased are considered cash equivalents. Cash and investments held on behalf of proprietary funds by the City Treasurer are considered highly liquid and are classified as cash equivalents for the purpose of presentation in the Statement of Cash Flows.

E. Restricted Cash and Investments

Certain proceeds of Enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants. Additionally, unspent proceeds received from the City's landfill capping surcharge are also recorded as restricted assets.

F. Land and Improvements Held for Resale

Land and improvements held for resale were generally acquired for future development projects. The properties are carried at the lower of cost or net realizable value. In the current fiscal year, certain properties that were previously held for resale were transferred to the City upon dissolution of the former Redevelopment Agency and are accounted for as capital assets.

G. Inventory

Supplies are valued at cost using the average-cost method. Costs are charged to user departments when consumed rather than when purchased.

H. Prepaid Items

Payments to vendors for services benefiting future periods are recorded as prepaid items and expenditures are recognized when items are consumed.

I. Capital Assets and Nuclear Fuel

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, right of way, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government 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. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Costs include: labor; materials; interest during construction; allocated indirect charges such as engineering, construction and transportation equipment, retirement plan contributions and other fringe benefits. Donated capital assets are recorded at estimated fair market value at the date of donation. 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. Donated intangible assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets other than land are depreciated using the straight-line method.

Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed for proprietary funds. For the year ended June 30, 2012, business-type activities capitalized net interest costs of $5,992 in the government-wide and fund financial statements. Total interest expense incurred by the business-type activities (and the enterprise funds on the proprietary funds statements) before capitalization was $52,137.

Nuclear Fuel

The City amortizes the cost of nuclear fuel to expense using the "as burned" method. In accordance with the Nuclear Waste Disposal Act of 1982, the City is charged one dollar per megawatt-hour of energy generated by the City's share of San Onofre Nuclear Generating Station's Units 2 and 3 to provide for estimated future storage and disposal of spent fuel. The City pays this fee to its operating agent, Southern California Edison Company, on a quarterly basis.

J. Compensated Absences

City employees receive 10 to 25 vacation days a 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.

City employees generally 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. The General, Housing and Community Development Special Revenue, Electric and Water funds have been primarily used to liquidate such balances.

The liability associated with these benefits is reported in the government-wide statements. Vacation and sick leave of proprietary funds is recorded as an expense and as a liability of those funds as the benefits accrue to employees.

K. Derivative Instruments

The City's derivative instruments are accounted for in accordance with Government Accounting Standards Board (GASB) Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments" (GASB 53), which requires the City to report its derivative instruments at fair value. Changes in fair value for effective hedges that are achieved with derivative instruments are reported as deferrals in the statements of net assets.

The City uses derivative instruments to hedge its exposure to changing interest rates through the use of interest rate swaps. The City had debt that was layered with "synthetic fixed rate" swaps, which was refunded in 2008 and 2011. At the time of the refunding, hedge accounting ceased to be applied. The balance of the deferral account for each swap was included in the net carrying amount of the new bonds. The swaps were also employed as a hedge against the new debt. Hedge accounting was applied to that portion of the hedging relationship, which was determined to be effective. The negative fair value of the interest rate swaps related to the new hedging relationship has been recorded and deferred on the statement of net assets. See Note 9 for further discussion related to the City's interest rate swaps.

Various transactions permitted in the Utility's Power Resources Risk Management Policies may be considered derivatives, including energy and/or gas transactions for swaps, options, forward arrangements and congestion revenue rights. The City has determined that all of its contracts including congestion revenue rights fall under the scope of "normal purchases and normal sales" and are exempt from GASB 53.

L. Long-Term Obligations

Long-Term Debt

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are classified as deferred charges and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, government fund types recognize bond issuance costs as expenditures during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses.

Decommissioning

Federal regulations require the Electric Utility to provide for the future decommissioning of its ownership share of the nuclear units at San Onofre. The Electric Utility established a trust account to accumulate resources for the decommissioning of the nuclear power plant and restoration of the beachfront at San Onofre. Each year the Electric Utility recognizes an expense in the amount of the contribution to the trust account. The funding will occur over the useful life of the generating plant.

Amounts held in the trust account are classified as restricted assets in the accompanying balance sheet. To date, the Electric Utility has set aside $71,709 in cash and investments with the trustee as Riverside's estimated share of the decommissioning cost of San Onofre. Based on a cost estimate completed by Southern California Edison and approved by the California Public Utilities Commission, the Electric Utility plans to set aside approximately $1,600 per year to fund this obligation. The plant site easement at San Onofre terminates May 2024. The plant must be decommissioned and the site restored by the time the easement terminates.

M. Claims and Judgments Payable

Claims and judgments payable are recognized when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Such claims, including an estimate for claims incurred but not reported at year end, are recorded as liabilities in the appropriate internal service fund.

N. Fund Equity

In the fund financial statements, governmental fund balance is made up of the following components:

- Nonspendable fund balance is the portion of fund balance that cannot be spent due to form. Examples include inventories, prepaid amounts, long-term loans, notes receivable, and property held for resale, unless the proceeds are restricted, committed or assigned. Also, amounts that must be maintained intact legally or contractually, such as the principal of a permanent fund are reported within the nonspendable category.
- Restricted fund balance is the portion of fund balance that is subject to externally enforceable limitations by law, enabling legislation or limitations imposed by creditors or grantors.

- Committed fund balance is the portion of fund balance that is subject to self-imposed constraints due to formal action of the City Council. No amounts have been reported within this category of fund balance.
- Assigned fund balance is the portion of fund balance that is constrained by the City's intent to utilize fund balance for a specific purpose. On February 22, 2011, the City Council approved a policy whereby the authority to assign fund balance was delegated to the City's chief financial officer.
- Unassigned fund balance is the residual classification that includes all spendable amounts in the General Fund not contained in other classifications.

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) fund balances are available, the City's policy is to use restricted amounts before unrestricted amounts. Within unrestricted resources, committed resources are used first followed by assigned resources, and finally unassigned resources.

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted resources are used first to fund appropriations.

P. Interfund Transactions

Interfund transactions are accounted for as revenues and expenditures or expenses. Transactions, which constitute reimbursements, are eliminated in the reimbursed fund and accounted for as expenditures or expenses in the fund to which the transaction is applicable.

During the year, transactions occur between individual funds for goods provided or services rendered. Related receivables and payables are classified as "due from/to other funds" on the accompanying fund level statements. The noncurrent portion of long-term interfund loans receivable are reported as interfund receivables/payables and, for governmental fund types, are equally offset by a fund balance reserve to indicate that the receivable does not constitute available expendable financial resources. Interfund payables also include accrued interest, which has been offset by deferred revenue.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Q. Deferred Revenue

Governmental and proprietary funds report unearned revenue on the statement of net assets. Unearned revenues arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to meeting all eligibility requirements. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenue is recognized. Deferred revenues arise in governmental funds when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period.

R. Property Tax Calendar

Under California law, general property taxes are assessed for up to 1% of the property's assessed value. General property taxes are collected by the counties along with other special district taxes and assessments and voter approved debt. General property tax revenues are collected and pooled by the county throughout the fiscal year and then allocated and paid to the county, cities and school districts based on complex formulas prescribed by State statutes.

Property taxes are calculated on assessed values as of January 1 for the ensuing fiscal year. On July 1 of the fiscal year the levy is placed and a lien is attached to the property. Property taxes are due in two installments. The first installment is due November 1 and is delinquent on December 10. The second installment is due February 1 and is delinquent on April 10. Property taxes receivable represent current and prior years' uncollected tax levies, adjusted for uncollectable amounts.

S. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures. Specifically, the City has made certain estimates and assumptions relating to the revenues due and expenditures incurred through fiscal year end, collectability of its receivables, the valuation of property held for resale, the useful lives of capital assets, and the ultimate outcome of claims and judgments. Actual results may differ from those estimates and assumptions.

For the year ended June 30, 2012 (amounts expressed in thousands)

T. Dissolution of Riverside Redevelopment Agency

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 that provided for the dissolution of all redevelopment agencies in the State of California. The bill provided that upon dissolution of the Redevelopment Agency, either the city or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. On March 15, 2011, the City Council elected to become the Successor Agency for the former Redevelopment Agency in accordance with the bill as part of City resolution number 22184.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

Successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The City's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. In the event that the California Department of Finance ultimately maintains that the obligations are not enforceable, the City's legal counsel believes that it is likely that a legal determination will be made at a later date by an appropriate judicial authority that will resolve this issue favorably to the City and confirm the obligations as enforceable.

In accordance with the timeline set forth in the bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

Prior to that date, the final seven months of the activity of the redevelopment agency continued to be reported in the governmental funds of the City. After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City.

The transfer of the assets and liabilities of the former redevelopment agency as of February 1, 2012 (effectively the same date as January 31, 2012) from governmental funds of the City to fiduciary funds was reported in the governmental funds as an extraordinary loss in the governmental fund financial statements. The receipt of these assets and liabilities as of January 31, 2012 was reported in the private-purpose trust fund as an extraordinary loss.

Because of the different measurement focus of the governmental funds (current financial resources measurement focus) and the measurement focus of the trust funds (economic resources measurement focus), the extraordinary loss recognized in the governmental funds was not the same amount as the extraordinary loss that was recognized in the fiduciary fund financial statements.

The difference between the extraordinary loss related to the transfer of assets and liabilities recognized in the fund financial statements and the extraordinary loss recognized in the fiduciary fund financial statements is reconciled as follows:

Extraordinary loss reported in governmental funds related to transfer of assets and liabilities to Successor Agency upon dissolution:	$ 130,174
Capital assets (net of accumulated depreciation) reported in the government-wide financial statements	185
Issuance costs reported in the government-wide financial statements	5,312

For the year ended June 30, 2012 (amounts expressed in thousands)

Revenues reported in the government-wide financial statements	45,436
Accrued bond interest reported in the government-wide financial statements	(6,249)
Long-term debt reported in the government-wide financial statements	(272,880)
Net decrease to net assets of the Successor Agency Trust as a result of initial transfers (equal to amount of extraordinary gain reported in the government-wide financial statements of the City)	($98,022)

2. Legal Compliance - Budgets

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all departments within the general, special revenue and capital project funds. Formal budgets are not employed for debt service funds because debt indenture provisions specify payments. The permanent fund is not budgeted.

During the period December through February of each fiscal year, department heads prepare estimates of required appropriations for the following fiscal year. These estimates are compiled into a proposed operating budget that includes a summary of proposed expenditures and financial resources and historical data for the preceding fiscal year. The operating budget is presented by the City Manager to the City Council for review. Public hearings are conducted to obtain citizen comments. The City Council generally adopts the budget during one of its June meetings. The City Manager is legally authorized to transfer budgeted amounts between divisions and accounts within the same department. Transfer of appropriations between departments or funds and increased appropriations must be authorized by the City Council. Expenditures may not legally exceed budgeted appropriations at the departmental level within a fund. All appropriations shall lapse at the end of the fiscal year to the extent they have not been expended or lawfully encumbered, except for appropriations for capital projects which shall continue to their completion.

3. Cash and Investments

Cash and investments at fiscal year-end consist of the following:

Investments	$ 435,966
Investments at fiscal agent	480,979
	916,945
Cash on hand and deposits with financial institutions	168
Non-negotiable certificates of deposit	21,814
	$ 938,927

The amounts are reflected in the government-wide statement of net assets:

Cash and investments	$ 350,887
Restricted cash and cash equivalents	41,142
Restricted cash and investments at fiscal agent	455,141
Total per statement of net assets	847,170
Fiduciary fund cash and investments	91,757
	$ 938,927

The City follows the practice of pooling cash and investments of all funds except for funds required to be held by outside fiscal agents under the provisions of bond indentures, which are administered by outside agencies.

Interest income earned on pooled cash and investments is allocated monthly to funds based on the beginning and month-end balances. Interest income from cash and investments held at fiscal agents is credited directly to the related account. Bank deposits are covered by federal depository insurance for the first $250 or by collateral held in the pledging bank’s trust department in the name of the City.

Authorized Investments

Under provisions of the City's investment policy, and in accordance with California Government Code Section 53601, the City Treasurer may invest or deposit in the following types of investments:

	Max Maturity	Max % of Portfolio
Securities of the U.S. Gov’t. and its sponsored agencies	5 Years	100%
Repurchase Agreements	1 Year	100%
Reverse Repurchase Agreements	90 Days	20%

For the year ended June 30, 2012 (amounts expressed in thousands)

Negotiable Certificates of Deposit	5 Years	30%
Bankers Acceptances	180 Days	40%
Commercial Paper of “prime” quality	270 Days	25%
Local Agency Investment Fund (State Pool)	N/A	100%
Mutual Funds	N/A	20%
Medium-Term Corporate Notes	5 Years	30%
Local Agency Bonds	N/A	N/A

Investments in Medium Term Corporate Notes may be invested in securities rated A or better by Moody’s or Standard and Poor’s rating services and no more than 15% of the market value of the portfolio may be invested in one corporation.

The City’s investment policy provides two exceptions to the above; one is for investments authorized by debt agreements (described below) and the other for funds reserved in the San Onofre Nuclear Generating Station Decommissioning Account for which the five-year maturity limitation may be extended to the term of the operating license.

Investments Authorized by Debt Agreements

Provisions of debt agreements, rather than the general provisions of the California Government Code or the City’s investment policy, govern investments of debt proceeds held by bond fiscal agents. Permitted investments are specified in related trust agreements and include the following:

Securities of the U.S. Government and its sponsored agencies
Bankers’ Acceptances rated in the single highest classification
Commercial Paper rated in the single highest classification
Investments in money market funds rated in the single highest classification
Municipal obligations rated Aaa/AAA or general obligations of states with ratings of at least A2/A or higher by both Moody’s and S&P
Investment Agreements

No maximum percentage of the related debt issue or maximum investment in one issuer is specified.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City’s investment policy requires that the interest rate risk exposure be managed by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City’s investments (including investments held by fiscal agent) to market interest rate fluctuations is provided by the following table that shows the distribution of the City’s investments by maturity:

		Remaining Maturity (in Months)			
Investment Type	Total	12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Money Market Funds	$ 74,700	$ 74,700	$ -	$ -	$ -
Federal Agency Securities	193,919	23,587	44,643	125,689	-
Corp Medium Term Notes	59,818	10,128	20,765	28,925	-
State Investment Pool	99,647	99,647	-	-	-
Negotiable CDs	7,882	249	4,931	2,702	-
Held by Fiscal Agent					
Money Market Funds	22,229	22,229	-	-	-
Banker’s Acceptance	274	274	-	-	-
State Investment Pool	31,913	31,913	-	-	-
Investment Contracts	343,725	158,604	148,754	25,606	10,761
Commercial Paper	3,733	3,733	-	-	-
Fed Agency Securities	55,921	4,676	4,187	47,058	-
Corp Med Term Notes	23,184	3,070	-	20,114	-
Total	$916,945	$432,810	$223,280	$250,094	$10,761

The City assumes that callable investments will not be called.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

For the year ended June 30, 2012 (amounts expressed in thousands)

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

Investment Type	Total	AAA	AA	A	Unrated
		Ratings as of Year End			
Money Market Funds	$ 74,700	$ 1,816	$43,249	$29,635	$ -
Federal Agency Securities	193,919	193,919	-	-	-
Corp Medium Term Notes	59,818	-	49,101	10,717	-
State Investment Pool	99,647	-	-	-	99,647
Negotiable CDs	7,882	-	-	-	7,882
Held by Fiscal Agent					
Money Market Funds	22,229	15,572	-	-	6,657
Banker's Acceptance	274	-	274	-	-
State Investment Pool	31,913	-	-	-	31,913
Investment Contracts	343,725	-	-	-	343,725
Commercial Paper	3,733	-	-	3,733	-
Fed Agency Securities	55,921	55,921	-	-	-
Corp Med Term Notes	23,184	-	17,552	5,632	-
Total	$916,945	$267,228	$110,176	$49,717	$489,824

Concentration on Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stated above. Investments in any one issuer (other than U.S. Treasury securities, money market funds, and external investment pools) that represent 5% or more of total City investments are as follows:

Issuer	Investment Type	Reported Amount
Trinity Funding	Investment Contract	$195,144
Deutsche Bank Securities Inc.	Investment Contract	$141,213

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City's investment policy requires that a third party bank trust department hold all securities owned by the City. All trades are settled on a delivery vs. payment basis through the City's safekeeping agent. The City has no deposits with financial institutions; bank balances are swept daily into a money market account.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

4. Capital Lease Receivable

The former Redevelopment Agency had a direct financing lease arrangement with the State of California (the State) for a twelve-story office building, which was transferred to the Successor Agency. The lease term is for thirty years and the State takes ownership of the facility at the conclusion of that term. The lease calls for semi-annual payments not less than the debt service owed on the related lease revenue bonds issued by the former Redevelopment Agency for the purchase and renovation of the building. The future minimum lease payments to be received are as follows:

2013	$ 2,443
2014	2,473
2015	2,507
2016	2,533
2017	2,561
Thereafter	21,666
Total Due	34,183
Less: amount applicable to interest	(11,638)
Total capital lease receivable	$22,545

For the year ended June 30, 2012 (amounts expressed in thousands)

5. Capital Assets

The following is a summary of changes in the capital assets during the fiscal year ended June 30, 2012.

Governmental activities:	Beginning Balance	Additions	Deletions/ Transfers	Ending Balance
Capital assets, not depreciated:				
Land	$ 290,692	$ 32,387	$ (1,019)	$ 322,060
Construction in progress	23,562	31,868	(28,764)	26,666
Total capital assets not depreciated	314,254	64,255	(29,783)	348,726
Capital assets being depreciated:				
Buildings	165,101	3,998	-	169,099
Improvements other than buildings	202,911	25,010	(370)	227,551
Machinery and equipment	74,503	6,564	(2,189)	78,878
Infrastructure	849,090	27,422	-	876,512
Total capital assets being depreciated	1,291,605	62,994	(2,559)	1,352,040
Less accumulated depreciation for:				
Buildings	(41,782)	(4,189)	-	(45,971)
Improvements other than buildings	(48,310)	(9,208)	203	(57,315)
Machinery and equipment	(54,749)	(6,038)	1,973	(58,814)
Infrastructure	(246,702)	(20,159)	-	(266,861)
Total accumulated depreciation	(391,543)	(39,594)	2,176	(428,961)
Total capital assets being depreciated, net	900,062	23,400	(383)	923,079
Governmental activities capital assets, net	$1,214,316	$87,655	$(30,166)	$1,271,805

Business type activities:	Beginning Balance	Additions	Deletions/ Transfers	Ending Balance
Capital assets, not depreciated:				
Land	$ 34,905	$ 144	$ (125)	$ 34,924
Intangibles, non-depreciable	16,128	-	-	16,128
Improvements, non-depreciable[1]	-	-	14,641	14,641
Construction in progress	102,771	119,582	(95,410)	126,943
Total capital assets not depreciated	153,804	119,726	(80,894)	192,636
Capital assets being depreciated:				
Buildings	241,742	4,867	(1)	246,608
Improvements other than buildings	1,497,956	88,373	(85,525)	1,500,804
Intangibles, depreciable	137	508	-	645
Machinery and equipment	66,200	2,831	(1,965)	67,066
Total capital assets being Depreciated	1,806,035	96,579	(87,491)	1,815,123
Less accumulated depreciation for:				
Buildings	(97,163)	(5,767)	-	(102,930)
Improvements other than buildings	(492,059)	(37,704)	70,884	(458,879)
Intangibles, depreciable	(137)	(9)	-	(146)
Machinery and equipment	(37,086)	(5,602)	1,849	(40,839)
Total accumulated depreciation	(626,445)	(49,082)	72,733	(602,794)
Total capital assets being depreciated, net	1,179,590	47,497	(14,758)	1,212,329
Nuclear fuel, at amortized cost	4,878	4,907	(953)	8,832
Business type activities capital assets, net	$1,338,272	$172,130	$(96,605)	$1,413,797

[1]The San Onofre Nuclear Generating Station (SONGS) Units 2 and 3 were taken offline in January 2012 and remain offline for extensive inspections, testing and analysis resulting from excessive wear of tubes in the steam generators. It is anticipated that Unit 2 could restart months in advance of Unit 3. Due to the uncertainty of the restart date for Unit 3, the capital assets of Unit 3 are reclassified from a depreciable to a non-depreciable plant asset until it is restored to service. Unit 2 will remain classified as a depreciable plant asset since it is anticipated that it could be restored to service in the coming months. See footnote 16 for additional information.

Estimated useful lives used to compute depreciation are as follows:

Buildings and Improvements	30-50 years
Improvements other than Buildings	20-99 years
Intangibles - Depreciating	3-5 years
Machinery and Equipment	3-15 years
Infrastructure	20-100 years

For the year ended June 30, 2012 (amounts expressed in thousands)

Depreciation expense was charged to various functions as follows:

Governmental activities:	
General government	$ 4,571
Public safety	3,997
Highways and streets, including depreciation of general infrastructure assets	21,699
Culture and recreation	9,327
Total depreciation expense – governmental activities	$39,594

Business type activities:	
Electric	$27,482
Water	11,824
Sewer	6,600
Refuse	1,106
Special Transportation	615
Airport	645
Public Parking	810
Total depreciation expense – business type activities	$49,082

6. Long-Term Obligations

Changes in Long-Term Obligations: Below is a summary of changes in long-term obligations during the fiscal year:

Governmental Activities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Redevelopment Agency bonds	$305,195	$ -	$ 305,195	$ -	$ -
General Obligation Bonds	16,845	-	738	16,107	780
Pension Obligation Bonds	132,095	30,940	35,555	127,480	36,415
Certificates of Participation	207,246	-	4,543	202,703	4,920
Capital leases	6,670	-	1,450	5,220	1,248
Notes Payable	7,749	-	7,749	-	-
Loan Payable	-	4,000	-	4,000	-
Commercial Loan	1,100	-	1,100	-	-
Compensated Absences	21,153	4,954	4,433	21,674	4,500
Claims liability	26,615	12,286	11,359	27,542	11,750
Net OPEB Obligation	7,808	3,084	759	10,133	-
Total	$732,476	$55,264	$372,881	$414,859	$59,613

Business-type activities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	$1,071,554	$ -	$29,816	$1,041,739	$29,505
Loan Payable	45,569	-	1,428	44,141	1,481
Notes Payable	31,178	-	1,498	29,680	1,543
Capital Leases	1,720	-	388	1,332	409
Landfill Capping	6,915	-	220	6,695	200
Arbitrage Liability	102	88	-	190	-
Water Stock Acquisition Rights	947	-	-	947	150
Net OPEB Obligation	5,625	2,705	667	7,663	-
Total	$1,163,610	$2,793	$ 34,017	$1,132,387	$33,288

The following debt has been issued for the purpose of generating capital resources for use in acquiring or constructing municipal facilities or infrastructure projects.

Long-Term Obligations at June 30, 2012:

Revenue Bonds:	Principal Outstanding
Electric	
$75,405 2003 Electric Revenue Bonds; 2.0% to 5.0%, due in annual installments from $1,035 to $8,535 through October 1, 2013.	$15,415
$27,500 2004 Electric Revenue Bonds; Series A fixed rate bonds, 4.0% to 5.5%, due in annual installments from $2,615 to $3,695 through October 1, 2014.	9,845
$141,840 2008 Electric Refunding/Revenue Bonds; Series A and C. The bonds were issued at a variable rate; however the City entered into an agreement to convert to a fixed rate of 3.1% for the Series A bonds and 3.2% for the C bonds. For information on the swap agreements see note 9. Bonds are due in annual installments from $1,325 to $8,560 through October 1, 2035.	139,640

For the year ended June 30, 2012 (amounts expressed in thousands)

$209,740 2008 Electric Revenue Bonds; Series D fixed rate bonds, 3.6% to 5.0%, due in annual installments from $125 to $24,960 through October 1, 2038.	209,740
$34,920 2009 Electric Refunding/Revenue Bonds; Series A fixed rate bonds, 0.35% to 5.0%, due in annual installments from $450 to $6,105 through October 1, 2018. The bonds refunded the 1998 series and partially refunded the 2001 series.	24,335
$140,380 2010 Electric Revenue Bonds; Series A and B fixed rate bonds, 3% to 4.9%, due in annual installments from $2,300 to $33,725 through October 1, 2040.	140,380
$56,450 2011 Electric Revenue Refunding Bonds; Series A. The bonds were issued at a variable rate; however the City entered into an agreement to convert to a fixed rate of 3.2%. For information on the swap agreements see note 9. Bonds are due in annual installments from $725 to $5,175 through October 1, 2035.	55,125
Subtotal	594,480
Add: Unamortized bond premium	8,639
Less: Unamortized deferred bond refunding costs	(12,877)
	$590,242

Water

$20,000 2001 Water Revenue Bonds; 2.6% to 5.0%, due in annual installments from $345 to $585 through October 1, 2031 (partially advance refunded in 2005 and 2009, with final maturity in 2014).	$ 1,000
$58,235 2008 Water Revenue Bonds; Series B fixed rate bonds, 4.0% to 5.0%, due in annual installments from $1,210 to $7,505 through October 1, 2038.	58,235
$31,895 2009 Water Refunding/Revenue Bonds; Series A fixed rate bonds, 0.65% to 5.0%, due in annual installments from $500 to $3,835 through October 1, 2020. The bonds refunded the 1998 series and partially refunded the 2001 series.	28,095
$67,790 2009 Water Revenue Bonds; Series B fixed rate bonds, 3.33% to 4.13%, due in annual installments from $2,475 to $4,985 through October 1, 2039.	67,790
$59,000 2011 Water Refunding/Revenue Bonds; Series A. The bonds were issued at a variable rate; however the City entered into an agreement to convert to a fixed rate of 3.2%. For information on the swap agreements see note 9. Bonds are due in annual installments from $800 to $3,950 through October 1, 2035.	58,200
Subtotal	213,320
Add: Unamortized bond premium	4,341
Less: Unamortized deferred bond refunding costs	(9,237)
	$208,424

Sewer

$240,910 2009 Sewer Revenue Bonds; Series A & B fixed rate bonds, 3.65% to 5.0%, due in annual installments from $5,555 to $13,350 through August 1, 2039.	$240,910
Add: Unamortized bond premium	2,163
	$243,073
Total Revenue Bonds	$1,041,739

Remaining revenue bond debt service payments will be made from revenues of the Electric, Water and Sewer Enterprise funds. Annual debt service requirements to maturity are as follows:

	Electric Utility Fund			Water Utility Fund		
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total
2013	$ 18,050	$ 25,455	$ 43,505	$ 4,695	$ 8,678	$ 13,373
2014	14,685	24,543	39,228	4,870	8,487	13,357
2015	20,480	23,745	44,225	5,015	8,276	13,291
2016	15,415	23,113	38,528	5,260	8,046	13,306
2017	12,745	22,620	35,365	5,180	7,814	12,994
2018-2022	70,800	105,832	176,632	29,315	35,597	64,912
2023-2027	78,415	91,074	169,489	35,270	29,439	64,709
2028-2032	110,365	71,403	181,768	42,730	21,747	64,477
2033-2037	127,900	46,144	174,044	51,960	12,229	64,189
2038-2041	125,625	12,823	138,448	29,025	1,647	30,672
Premium	8,639	-	8,639	4,341	-	4,341
Refunding Costs	(12,877)	-	(12,877)	(9,237)	-	(9,237)
Total	$590,242	$446,752	$1,036,994	$ 208,424	$141,960	$350,384

For the year ended June 30, 2012 (amounts expressed in thousands)

	Sewer Utility Fund		
Fiscal Year	Principal	Interest	Total
2013	$ 6,760	$ 10,712	$ 17,472
2014	7,035	10,436	17,471
2015	7,325	10,149	17,474
2016	7,660	9,811	17,471
2017	8,055	9,418	17,473
2018-2022	37,565	42,179	79,744
2023-2027	33,390	34,930	68,320
2028-2032	41,935	26,377	68,312
2033-2037	52,935	15,376	68,311
2038-2040	38,250	2,741	40,991
Premium	2,163	-	2,163
Total	$243,073	$172,129	$415,202

General Obligation Bonds:	Principal Outstanding
$20,000 Fire Facility Projects, Election of 2003 General Obligation Bond; 3.0% to 5.5%, due in annual installments from $410 to $1,740 through August 1, 2024.	$15,915
Add: Unamortized bond premium	192
Total General Obligation Bonds	$16,107

Remaining general obligation bond debt service payments will be made from unrestricted revenues of the General fund. Annual debt service requirements to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2013	$ 780	$ 737	$ 1,517
2014	840	706	1,546
2015	900	671	1,571
2016	965	634	1,599
2017	1,040	592	1,632
2018-2022	6,450	2,152	8,602
2023-2025	4,940	417	5,357
Premium	192	-	192
Total	$16,107	$5,909	$22,016

Pension Obligation Bonds:	Principal Outstanding
$89,540 California Statewide Community Development Authority (Public Safety) 2004 Taxable Pension Obligation Bond; 2.65% to 5.896%, due in annual installments from $1,125 to $10,715 through June 1, 2023.	$ 73,935
$30,000 2005 Taxable Pension Obligation Bonds Series A; 3.85% to 4.78%, due in annual installments $630 to $3,860 through June 1,2020.	22,605
$30,940 2012 Taxable Pension Obligation Refunding Bond Anticipation Notes; rate at June 30, 2012 was 0.75%, $30,940 due June 1, 2013.	30,940
Total Pension Obligation Bonds	$127,480

Remaining pension obligation bond debt service payments will be made from unrestricted revenues of the General fund. Annual debt service requirements to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2013	$ 36,415	$ 5,589	$ 42,004
2014	6,230	5,080	11,310
2015	7,050	4,759	11,809
2016	7,930	4,391	12,321
2017	8,880	3,971	12,851
2018-2022	50,260	11,677	61,937
2023	10,715	632	11,347
Total	$127,480	$36,099	$163,579

Certificates of Participation:	Principal Outstanding
$53,185 2003 Riverside Public Financing Authority Certificates of Participation; 2.0% to 5.0%, due in annual installments from $755 to $2,830 through September 1, 2033.	$44,025

For the year ended June 30, 2012 (amounts expressed in thousands)

$19,945 2006 Galleria at Tyler Public Improvements Certificates of Participation; 4.0% to 5.0%, due in annual installments from $435 to $1,270 through September 1, 2036.	19,510
$128,300 2008 Riverside Renaissance Certificates of Participation; issued at a variable rate; however the City entered into an agreement to convert to a fixed rate of 3.4%. For information on the swap agreement see note 9. Due in annual installments from $2,900 to $7,200 through March 1, 2037.	122,400
$20,660 2010 Recovery Zone Facility Hotel Project Certificates of Participation; 4.0% to 5.5%, due in annual installments from $415 to $1,410 through March 1, 2040.	20,660
Subtotal	206,595
Add: Unamortized bond premium	683
Less: Unamortized deferred bond refunding costs	(4,575)
Total Certificates of Participation	$202,703

Remaining certificates of participation debt service payments will be made from unrestricted revenues of the Debt Service funds. Annual debt service requirements to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2013	$ 4,920	$ 8,155	$ 13,075
2014	5,085	7,979	13,064
2015	5,680	7,785	13,465
2016	5,990	7,560	13,550
2017	6,200	7,332	13,532
2018-2022	34,835	32,849	67,684
2023-2027	40,750	25,340	66,090
2028-2032	48,695	16,544	65,239
2033-2037	50,420	6,254	56,674
2038-2040	4,020	450	4,470
Premium	683	-	683
Refunding Costs	(4,575)	-	(4,575)
Total	$202,703	$120,248	$322,951

Loan Payable – Governmental Activities:	Principal Outstanding
In March 2012 the City entered into a financing arrangement in the amount of $4,000 with Pinnacle Public Finance, Inc. for the construction of Ryan Bonaminio Park at the Tequesquite Arroyo. The debt will be paid with resources from the General Fund in semi-annual debt service payments of approximately $468 per year over a 10 year period, which includes interest at an annualized rate of 3.05%.	$4,000

Loan Payable – Electric Fund:	Principal Outstanding
The City entered into the Clearwater Power Plant Purchase and Sale Agreement dated March 3, 2010 with the City of Corona for the acquisition of Clearwater Cogeneration Facility (Clearwater) located in Corona. The total purchase price for Clearwater is $46,569, and will be funded through a series of semi-annual payments ranging from $1,158 to $2,664 through 2013, and $182 to $413 in 2014 and 2015. In addition, two payments of $36,406 and $7,367 are due in 2013 and 2015, respectively, and will be funded primarily from bond proceeds.	$44,141

Notes payable – Enterprise Funds:	Principal Outstanding
Sewer fund loan from State of California for Cogeneration project, 2.336%, payable in net annual installments of $339, beginning January 29, 2003 through January 29, 2021	$2,761
Sewer fund loan from State of California for Headworks project, 1.803%, payable in net annual installments of $477, beginning November 6, 1999 through November 6, 2018	3,118
Public parking fund loan from City National Bank for Fox Entertainment Plaza project, 3.85%, payable in net annual installments of $1,747, beginning June 16, 2011	

For the year ended June 30, 2012 (amounts expressed in thousands)

through December 16, 2031	23,801
Total notes payable – Enterprise Funds	$29,680

Remaining notes payable debt service payments will be made from unrestricted revenues of the Sewer fund. Annual debt service requirements to maturity are as follows:

		Sewer Fund	
Fiscal Year	Principal	Interest	Total
2013	$ 705	$ 112	$ 817
2014	718	99	817
2015	731	86	817
2016	745	72	817
2017	759	58	817
2018-2021	2,221	92	2,313
Total	$5,879	$519	$6,398

		Public Parking Fund	
Fiscal Year	Principal	Interest	Total
2013	$ 838	$ 909	$ 1,747
2014	871	876	1,747
2015	905	842	1,747
2016	940	807	1,747
2017	977	770	1,747
2018-2022	5,483	3,251	8,734
2023-2027	6,634	2,100	8,734
2028-2032	7,153	707	7,860
Total	$23,801	$10,262	$34,063

Contracts – Enterprise Funds:	Principal Outstanding
Water stock acquisition rights payable on demand to various water companies	$947

Capital Leases:

The City leases various equipment through capital leasing arrangements in the governmental and proprietary fund types. These activities are recorded for both governmental and business-type activities in the government-wide financial statements. The assets and related obligations under leases in governmental funds are not recorded in the fund statements. For proprietary funds, the assets and their related liabilities are reported directly in the fund. Amortization applicable to proprietary assets acquired through capital lease arrangements is included with depreciation for financial statement presentation.

The assets acquired through capital leases are as follows:

Asset	Governmental Activities	Business-Type Activities
Buildings and improvements	$1,103	$ -
Equipment	5,595	2,763
Subtotal	6,698	2,763
Less: Accumulated depreciation	(2,580)	(859)
Total	$4,118	$1,904

The future minimum lease obligations as of June 30, 2012 were as follows:

Years Ending June 30,	Governmental Activities	Business-type Activities
2013	$1,425	$ 442
2014	1,190	442
2015	1,098	428
2016	1,099	65
2017	670	-
Thereafter	74	-
Copiers	188	29
Total Minimum lease payments	5,744	1,406
Less: Amount representing interest (rates ranging from 2.5% to 9%)	(524)	(74)
Total capital lease payable	$5,220	$1,332

The following are legally required debt service cash reserves. These amounts, at a minimum, are held by the City or fiscal agents at June 30, 2012:

Governmental long-term obligations:	
Certificates of Participation	$13,778
Total	$13,778
Enterprise funds:	
Electric	$22,332
Water	535
Sewer	20,142
Total	$43,009

For the year ended June 30, 2012 (amounts expressed in thousands)

The City has a number of debt issuances outstanding that are collateralized by the pledging of certain revenues. The amount and term of the remainder of these commitments are indicated in the debt service to maturity tables presented in the accompanying notes. The purposes for which the proceeds of the related debt issuances were utilized are disclosed in the debt descriptions in the accompanying notes. For the current year, debt service payments as a percentage of the pledged gross revenue (or net of certain expenses where so required by the debt agreement) are indicated in the table below. The debt service coverage ratios also approximate the relationship of debt service to pledged revenue for the remainder of the term of the commitment.

Description of Pledged Revenue	Annual Amount of Pledged Revenue (net of expenses, where required)	Annual Debt Service Payments (of all debt secured by this revenue)	Debt Service Coverage Ratio for FYE 6/30/12
Electric revenues	118,222	52,804	2.24
Water revenues	38,248	13,580	2.82
Sewer revenues	12,930	6,163	2.10

There are also a number of limitations and restrictions contained in Assessment Bond indentures. The City believes they are in compliance with all significant limitations and restrictions.

Defeasance of Debt:

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old debt issues. Accordingly, the trust account assets and liability for the defeased debt issues are not included in the City's financial statements.

At June 30, 2012, the following amounts are considered defeased:

1993 Sewer Revenue Bonds $4,745

Landfill Capping:

State and Federal laws and regulations require the City to place a final cover on all active landfills when closed and to perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. To comply with these laws and regulations, the City is funding the costs of closure and "final capping" of the Tequesquite landfill located in the City. This area, comprised of approximately 120 acres, operated as a "Class II Sanitary Landfill" until its closure in 1985. During its operation, the landfill did not accept hazardous waste and no clean up and abatement or cease and desist orders have been issued to the City. The capacity used at June 30, 2012 was 100%.

The estimated costs as determined by an independent consultant and updated by the City's Engineering Department are associated with flood control upgrades, remediation of possible ground water contamination and control of methane gas. All potential costs have been recognized in the financial statements. There is the potential for these estimates to change due to inflation, deflation, technology, or change in laws or regulations. To fund the cost, the City imposed a landfill capping surcharge on customers effective August 1, 1988. The minimum unamortized estimated cost is recorded as a deferred charge in the accompanying financial statements of the Refuse fund and is being amortized on a straight-line basis over the remaining post closure period, currently 21 years.

7. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Property insurance coverage has a limit of $1,000,000, with a deductible of $50. Earthquake and flood insurance coverage has a limit of $25,000, with a deductible of 5% for earthquake and $100 for flood. Workers' compensation insurance coverage has a limit of $25,000, with a self-insured retention of $3,000 per occurrence. The City carries commercial insurance in the amount of $20,000 for general and auto liability claims greater than $3,000. There were no claims settled in the last three fiscal years that exceed insurance coverage. Internal service funds have been established to account for and finance the uninsured risks of loss.

All funds of the City participate in the Risk Management program and make payments to the Internal Service Funds based on actuarial estimates of the amounts needed to fund prior and current year claims and incidents that have been incurred but not reported. Interfund premiums are accounted for as quasi - external transactions and are therefore recorded as revenues of the Internal Service funds in the fund financial statements.

For the year ended June 30, 2012 (amounts expressed in thousands)

Changes in the self-insurance trust fund's claims liability amounts are:

Unpaid Claims, June 30, 2010	$25,541
Incurred claims (including IBNR's)	10,576
Claim payments and adjustments	(9,502)
Unpaid Claims, June 30, 2011	26,615
Incurred claims (including IBNR's)	12,286
Claim payments and adjustments	(11,359)
Unpaid Claims, June 30, 2012	$27,542

8. Other Long-Term Obligations

Changes in Long-Term Obligations: Below is a summary of changes in long-term obligations during the fiscal year for the former Redevelopment Agency, which is accounted for in the Successor Agency Trust (a fiduciary fund):

Successor Agency Trust:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Redevelopment Agency bonds	$ -	$264,591	$ 206	$264,385	$ 7,575
Notes Payable	-	7,189	-	7,189	960
Commercial Loan	-	1,100	-	1,100	1,100
Total	$ -	$272,880	$ 206	$272,674	$9,635

Redevelopment Agency Bonds:	Principal Outstanding
$13,285 1991 Public Financing Authority Revenue Bonds, Series A, Multiple Project Areas; $1,470 serial revenue bonds 7.15% to 7.6%, due in annual installments from $100 to $145 through February 1, 2003; and $4,175 term bonds, 8.0%, due in annual installments from $155 to $450 through February 1, 2018 (portion not refunded).	$ 115
$17,025 1999 University Corridor/Sycamore Canyon Merged Project Area, Tax Allocation Bonds, Series A; $6,205 serial bonds, 3.4% to 4.7% due in annual installments from $40 to $570 through August 1, 2014; $4,810 term bonds at 4.75% due August 1, 2021; and $6,010 term bonds at 5.0% due August 1, 2027.	12,455
$6,055 1999 University Corridor/Sycamore Canyon Merged Project Area, Subordinate Tax Allocation Bonds, Series B; $1,900 serial bonds, 4.5% to 5.5% due in annual installments from $35 to $190 through Sept. 1, 2013; $1,135 term bonds at 5.5% due Sept. 1, 2018; and $3,020 term bonds at 5.625% due Sept. 1, 2027.	4,525
$20,395 1999 Casa Blanca Project Area, Tax Allocation Bonds, Series A; $8,925 serial bonds, 3.4% to 4.7% due in annual installments from $455 to $780 through Aug. 1, 2014; $2,565 term bonds at 4.75% due Aug. 1, 2017; $4,035 term bonds at 4.75% due Aug. 1, 2021; and $4,870 term bonds at 5% due Aug. 1, 2025.	13,710
$4,550 Arlington Redevelopment Project, 2004 Tax Allocation Bonds, Series A; $420 term bonds at 3.8% due Aug. 1, 2014; $615 term bonds at 4.6% due Aug. 1, 2024; $3,515 term bonds at 4.7% due Aug. 1, 2034.	4,270
$2,975 Arlington Redevelopment Project Area, 2004 Tax Allocation Bonds; Series B: 5.5% due in annual installments from $85 to $235 through August 1, 2024.	2,265
$26,255 State of California Department of General Services Project, 2003 Lease Revenue Refunding Bonds, Series A; 2% to 5% due in annual installments from $545 to $2,230 through October 1, 2024.	19,805
$4,810 State of California Department of General Services Project, 2003 Lease Revenue Refunding Bonds, Series B; $310 serial bonds 1.20% to 1.42% through October 1, 2004; $620 term bonds at 3.090% due Oct. 1, 2008; $1,110 term bonds at 4.340% due Oct. 1, 2014 and $2,770 term bonds at 5.480% due Oct. 1, 2024.	3,360
$40,435 Downtown/Airport Merged Project Area, 2003 Tax Allocation and Refunding Bonds; $32,720 serial bonds 2.0% to 5.25% due in annual installments from $1,220 to $1,955 through August 1, 2023; and $7,715 term bonds at 5.0% due in annual installments from $195 to $2,060 through August 2034.	29,830

$24,115 2005 Housing Set-Aside Tax Allocation Bonds; $17,025 serial bonds 3.0% to 4.625% due in annual

For the year ended June 30, 2012 (amounts expressed in thousands)

installments from $505 to $1,165 through August 1, 2025; $2,425 term bonds at 5.0% due August 1, 2028; and $4,665 term bonds at 4.85% due August 1, 2034.	19,870
$8,340 Downtown/Airport Merged Project Area and Casa Blanca Project Area 2007 Tax Allocation Bonds, Tax Exempt, Series A, serial bonds 4.0% to 4.25% due in annual installments from $20 to $590,000 through Aug. 1, 2025; $4,980 term bonds at 4.5% due Aug. 1, 2029; $410 term bonds at 4.375% due Aug. 1, 2037.	8,260
$1,465 California Statewide Communities Development Authority 2005 Taxable Revenue Bonds, Series A (CRA/ERAF Loan Program); 3.87% to 5.01% due in annual installments of $105 to $180 through August 1, 2015.	520
$14,850 Downtown/Airport Merged Project Area and Casa Blanca Project Area 2007 Tax Allocation Bonds, Taxable, Series B, $4,050 term bonds at 5.2% due August 1, 2017; $10,800 term bonds at 5.8% due August 1, 2028.	13,380
$89,205 University Corridor/Sycamore Canyon Merged Project Area, Arlington Project Area, Hunter Park/Northside Project Area, Magnolia Center Project Area, and La Sierra/Arlanza Project Area 2007 Tax Allocation Bonds, Tax-Exempt, Series C, serial bonds 4.0% to 5.0% due in annual installments from $50 to $3,210 through August 1, 2025; $17,955 term bonds at 4.5% due August 1, 2030; $47,775 term bonds at 5.0% due August 1, 2037.	88,170
$43,875 University Corridor/Sycamore Canyon Merged Project Area, Arlington Project Area, Hunter Park/Northside Project Area, Magnolia Center Project Area, and La Sierra/Arlanza Project Area 2007 Tax Allocation Bonds, Taxable, Series D, $15,740 term bonds due August 1, 2017; $28,135 term bonds due August 1, 2032.	37,810
Subtotal	258,345
Add: Unamortized bond premium	5,704
Add: Unamortized deferred bond refunding costs	336
Total Redevelopment Agency Bonds	$264,385

Remaining debt service will be paid by the Successor Agency Trust from future property tax revenues. Annual debt service requirements to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2013	$ 7,575	$ 12,750	$ 20,325
2014	7,930	12,408	20,338
2015	8,310	12,047	20,357
2016	8,520	11,665	20,185
2017	8,905	11,256	20,161
2018-2022	54,585	48,646	103,231
2023-2027	63,035	32,971	96,006
2028-2032	49,025	18,606	67,631
2033-2037	43,685	7,122	50,807
2038	6,775	169	6,944
Premium	5,704	-	5,704
Refunding Costs	336	-	336
Total	$264,385	$167,640	$432,025

Notes Payable – Successor Agency:	Principal Outstanding
These notes payable have been issued to promote development and expansion within the City's redevelopment areas.	
Pepsi Cola Bottling Company of Los Angeles, 10.5%, payable in net annual installments of $341, subject to recording of completion.	$2,987
HUD Section 108 loan for University Village, 5.36% to 7.66%, payable in semi-annual installments beginning August 1, 1996 of $272 to $425 through August 1, 2015	1,445
HUD Section 108 loan for Mission Village Project, 6.15% to 6.72%, payable in semi-annual installments beginning August 1, 1999 of $110 to $420 through August 1, 2018	2,430

For the year ended June 30, 2012 (amounts expressed in thousands)

Note payable to California Housing Finance Agency, interest at 3%, payable in annual installments of $88 through 2013, for housing projects.	327
Total notes payable – Successor Agency	$ 7,189

Remaining debt service will be paid by the Successor Agency Trust from future property tax revenues. Annual debt service requirements to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2013	$ 960	$ 444	$ 1,404
2014	681	400	1,081
2015	739	377	1,116
2016	778	350	1,128
2017	407	329	736
2018-2022	1,096	1,448	2,544
2023-2027	471	1,238	1,709
2028-2032	777	933	1,710
2033-2037	1,280	430	1,710
Total	$ 7,189	$5,949	$13,138

Commercial Loan – Successor Agency:

The Successor Agency has a $20,000 commercial loan with City National Bank, which is being used to purchase, rehabilitate and resell foreclosed homes. As of June 30, 2012, the Agency had borrowed $1,100. The interest rate is based on "prime" less 75 basis points, which was 2.5% as of June 30, 2012. Interest is paid monthly. Principal is due in full on July 1, 2012.

For the current year, debt service payments as a percentage of the pledged gross revenue (or net of certain expenses where so required by the debt agreement) are indicated in the table below. The debt service coverage ratios for the Successor Agency also approximate the relationship of debt service to pledged revenue for the remainder of the term of the commitment.

Description of Pledged Revenue	Annual Amount of Pledged Revenue (net of expenses, where required)	Annual Debt Service Payments (of all debt secured by this revenue)	Debt Service Coverage Ratio for FYE 6/30/12
Property Taxes:			
Non-Housing	$38,874	$15,311	2.54
Housing	8,247	2,768	2.98

Assessment Districts and Community Facilities Districts Bonds
(Not obligations of the City)

As of June 30, 2012, the City has several series of Assessment District and Community Facility District Bonds outstanding in the amount of $48,360. Bonds were issued for improvements in certain districts and are long-term obligations of the property owners. The City Treasurer acts as an agent for the property owners in collecting the assessments, forwarding the collections to bondholders and initiating foreclosure proceedings, if applicable. Since the debt does not constitute an obligation of the City, it is not reflected as a long-term obligation of the City and is not reflected in the accompanying basic financial statements.

Conduit Debt Obligations

Industrial Development Revenue Bonds of $7,000 are not included in the accompanying financial statements. These bonds are special obligations of a third party and is payable solely from and secured by a pledge of the receipts received from a loan and certain other reserve funds and related monies. The bonds are not payable from any other revenues or assets of the City. Neither the faith and credit nor the taxing power of the City, the State of California or any political subdivision thereof is pledged to the payment of the principal and interest on the bonds.

9. Derivative Instruments

Interest Rate Swaps

The City has five cash flow hedging derivative instruments, which are pay-fixed swaps. These swaps were employed as a hedge against debt that was refunded in 2008 and 2011. At the time of the refunding, hedge accounting ceased to be applied. The balance of the deferral account for each swap is included in the net carrying amount of the new bonds. The swaps were also employed as a hedge against the new debt. Hedge accounting was applied to that portion of the hedging relationship, which was determined to be effective.

For the year ended June 30, 2012 (amounts expressed in thousands)

The following is a summary of the derivative activity for the year ended June 30, 2012:

	Notional Amount	Fair Value as of 6/30/12	Change in Fair Value for Fiscal Year
Governmental Activities			
2008 Renaissance Certificates of Participation	128,300	(29,972)	(15,150)
Business-Type Activities			
2008 Electric Refunding/Revenue Bonds Series A	84,515	(14,985)	(7,957)
2008 Electric Refunding/Revenue Bonds Series C	57,325	(11,584)	(6,476)
2011 Electric Refunding/Revenue Bonds Series A	56,450	(11,554)	(6,474)
2011 Water Refunding/Revenue Bonds Series A	59,000	(12,768)	(7,320)

Objective: In order to lower borrowing costs as compared to fixed-rate bonds, the City entered into interest rate swap agreements in connection with its $141,840 2008 Electric Revenue Bonds (Series A and C), $56,450 2011 Electric Revenue Bonds and $59,000 2011 Water Revenue Bonds. Also, in 2008, the City entered into an additional interest rate swap agreement in connection with its $128,300 2008 Certificates of Participation.

Terms: Per the existing swap agreements, the City pays a 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 for the Electric and Water swaps. For the COP swap, the City again pays a fixed payment and receives a variable payment computed as 63.00% of the LIBOR one month index plus 7 basis points. The swaps have notional amounts equal to the principal amounts stated above. The notional value of the swaps and the principal amounts of the associated debt decline by $975 to $7,200 until the debt is completely retired in fiscal year 2037.

The bonds and the related swap agreements for the 2008A Electric Revenue Bonds mature on October 1, 2029, 2008C Electric and 2011A Electric and 2011A Water Revenue/Refunding Bonds mature on October 1, 2035. The 2008 Certificates of Participation mature on March 1, 2037.

As of June 30, 2012 rates were as follows:

	Terms	2011 Water Refunding/ Revenue Bonds Series A Rates	2011 Electric Refunding/ Revenue Bonds Series A Rates
Interest rate swap:			
Fixed payment to counterparty	Fixed	3.20000%	3.20100%
Variable payment from counterparty	62.68 LIBOR + 12 bps	(0.26684%)	(0.26627%)
Net interest rate swap payments		2.93316%	2.93473%
Variable-rate bond coupon payments		0.21969%	0.13270%
Synthetic interest rate on bonds		3.15285%	3.06743%

	Terms	2008 Electric Refunding/ Revenue Bonds Series C Rates	2008 Electric Refunding/ Revenue Bonds Series A Rates
Interest rate swap:			
Fixed payment to counterparty	Fixed	3.20400%	3.11100%
Variable payment from counterparty	62.68 LIBOR + 12 bps	(0.51505%)	(0.51321%)
Net interest rate swap payments		2.68895%	2.59779%
Variable-rate bond coupon payments		0.46955%	0.47253%
Synthetic interest rate on bonds		3.15850%	3.07032%

	Terms	COP 2008 Bonds Rates
Interest rate swap:		
Fixed payment to counterparty	Fixed	3.36200%
Variable payment from counterparty	63.00 LIBOR + 7 bps	(0.4932%)
Net interest rate swap payments		2.86880%
Variable-rate bond coupon payments		0.50543%
Synthetic interest rate on bonds		3.37423%

Fair Value: As of June 30, 2012, in connection with all swap arrangements, the transactions had a total negative fair value of <$80,863>. Because the coupons on the City'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.

For the year ended June 30, 2012 (amounts expressed in thousands)

Credit risk: As of June 30, 2012, the City was not exposed to credit risk because the swap had a negative fair value. The swap counterparties, Bank of America, J.P. Morgan Chase & Co. and Merrill Lynch were rated A, A and A- respectively by Standard & Poor's. To mitigate the potential for credit risk, the swap agreements require the fair value of the swap to be collateralized by the counterparty with U.S. Government securities if the counterparties' rating decreases to negotiated trigger points. Collateral would be posted with a third-party custodian. At June 30, 2012, there is no requirement for collateral posting for any of the outstanding swaps.

Basis risk: As noted above, the swaps expose the City to basis risk should the relationship between LIBOR and the variable interest rate, 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 City if either counterparty's credit quality falls below "BBB-" as issued by Standard and Poor's. The City 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 City 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, 2012, the debt service requirements of the variable-rate debt and net swap payments assuming current interest rates remain the same, for their term are summarized in the following table. 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**
2013	$ 6,675	$ 1,466	$ 10,416	$ 18,557
2014	6,900	1,440	10,222	18,562
2015	8,975	1,408	9,984	20,367
2016	16,700	1,352	9,576	27,628
2017	15,700	1,289	9,136	26,125
2018-2022	68,925	5,646	40,243	114,814
2023-2027	76,485	4,119	29,840	110,444
2028-2032	88,105	2,435	18,546	109,086
2033-2037	86,900	752	5,493	93,145
Total	$375,365	$19,907	$143,456	$538,728

10. Economic Contingency

A portion of unassigned fund balance within the General Fund is set aside for future economic contingencies. The amount that has been set aside is equal to approximately 15% of General Fund expenditures.

11. Interfund Assets, Liabilities and Transfers

Due From/To Other Funds: These balances resulted from expenditures being incurred prior to receipt of the related revenue source.

The following table shows amounts receivable/payable between funds within the City at June 30, 2012:

Receivable Fund	Payable Fund	Amount
General	Nonmajor Governmental Funds	$ 1,436
	Capital Outlay Fund	14,503
	Nonmajor Enterprise Funds	348
		16,287
Electric	Central Stores *	2,277
Water	Central Stores *	976
Total		$19,540

* Internal service fund

For the year ended June 30, 2012 (amounts expressed in thousands)

Advances To/From Other Funds: These balances consist of advances used to fund capital projects in advance of related financing/assessments and for other long-term borrowing purposes.

The following table shows amounts advanced from funds within the City to other funds within the City at June 30, 2012:

Receivable Fund	Payable Fund	Amount
General	Electric	$12,003
	Water	5,164
	Sewer	3,304
	Nonmajor Governmental Funds	549
	Nonmajor Enterprise Funds	2,220
	Self-Insurance Trust *	217
	Central Stores *	227
	Central Garage *	1,022
		24,706
Self-Insurance Trust *	Nonmajor Enterprise Funds	1,068
	General	349
	Nonmajor Governmental Funds	4,072
		5,489
Sewer	Nonmajor Governmental Funds	7,946
Total		$38,141

In addition, the following advances to the former Redevelopment Agency are accounted for in the Private-Purpose Trust Fund of the Successor Agency:

Receivable Fund	Amount
General	$ 693
Nonmajor Governmental Funds	39,142
Electric	5,558
Sewer	4,250
Self-Insurance Trust *	5,461
Total	$55,104

Transfers In/Out: Transfers are used to (1) move revenues to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, (3) return properties to the Redevelopment Agency, (4) use unrestricted revenues collected in the General fund to finance various programs accounted for in the other funds in accordance with budgetary operations.

The following table shows amounts transferred to/from funds within the City as of June 30, 2012:

Transfer In Fund	Transfer Out Fund	Amount
General	Electric	$33,533
	Water	6,258
	Redevelopment Capital Project	472
	Nonmajor Governmental Funds	3
		40,266
Redevelopment Debt Service	Redevelopment Capital Project	40,365
	Nonmajor Governmental Funds	3,176
		43,541
Nonmajor Governmental Funds	General Fund	6,958
	Redevelopment Capital Project	962
	Nonmajor Governmental Funds	7,941
	Nonmajor Enterprise Funds	763
		16,624
Redevelopment Capital Projects	General Fund	76,334
	Redevelopment Debt Service	20,094
		96,428
Total		$196,859

In addition, the Public Parking Fund transferred a capital asset with an original carrying value of $125 to the City. The difference in interfund transfers at the fund level is due to the difference in measurement focus and basis of accounting between governmental funds and proprietary funds.

12. Deficit Fund Balances/Net Assets

Deficit fund balance/net assets exist in the Special Capital Improvement Fund ($963), Self-Insurance Internal Service Trust Fund ($14,901) and Successor Agency Private-Purpose Trust Fund ($194,543). The deficit in the fund Self-Insurance Internal Service Trust Fund will be primarily reduced based on a rate increase implemented in the subsequent fiscal year.

Management's analysis shows that continuing cost control together with the rate increase will eliminate these deficits over the next few years. The deficit in the Successor Agency Trust Fund will be reduced over the years as the related debt is paid-off with funds received from the Redevelopment Property Tax Trust Fund (RPTTF), which is administered by the County Auditor-Controller.

13. Litigation

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

The City continues to participate in key FERC dockets impacting the City's Electric Utility, such as the California Independent System Operator's (ISO) Market Redesign and Technology Upgrade (MRTU).

The Water Utility is also a plaintiff in a lawsuit against the manufacturers and distributors of methyl tertiary-butyl ether (MTBE) and its by-products, and of fuel containing these chemicals, arising out of the threat to the Water Utility wells of contamination with those chemicals from leaking underground storage tanks.

The defendants removed this lawsuit to federal court and then transferred the case to the Judicial Panel on Multidistrict Litigation, New York, where it was consolidated with all other pending MTBE water contamination litigation cases in the country. Although the City has tentatively settled with a number of the defendants, the settlement has not been approved by the court and no trial date for the remainder of the case.

14. City Employees Retirement Plan

(A) Plan Description. The City of Riverside contributes to the California Public Employees Retirement System (CalPERS), an agent multiple employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. PERS issues a publicly available financial report that includes financial statements and required supplementary information for the cost sharing plans that are administered by PERS. Benefit provisions and all other requirements are established by state statute and City ordinance. Copies of CalPERS annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

(B) Funding Policy. For each of the fiscal years shown on the following page, the City has contributed at the actuarially determined rate provided by PERS' actuaries. Participants are required to contribute 8% (9% for safety employees) of their annual covered salary. The City has a multiple tier retirement plan with benefits varying by plan. The City pays the employees' contribution to CalPERS for both miscellaneous and safety employees hired on or before specific dates as follows:

Safety (Police):

- 1st Tier (RPOA, RPOA Supervisory & RPAA) - The retirement formula is 3% at age 50 for employees hired before February 17, 2012. The City pays the employee share (9%) of contributions on their behalf and for their account.
- 2nd Tier (RPOA only) - The retirement formula is 3% at age 50 and new employees hired on or after February 17, 2012 pay their share (9%) of contributions.

Safety (Fire):

- 1st Tier - The retirement formula is 3% at age 50 for employees hired before June 11, 2011. The City pays the employee share (9%) of contributions on their behalf and for their account.
- 2nd Tier - The retirement formula is 3% at age 55 and new employees hired on or after June 11, 2011 pay their share (9%) of contributions.

Miscellaneous:

- 1st Tier - The retirement formula is 2.7% at age 55. The City 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 and new employees hired on or after October 19, 2011 pay their share (8%) of contributions.

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

(C) Annual Pension Cost. The required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases of

For the year ended June 30, 2012 (amounts expressed in thousands)

3.25% per year compounded annually, attributable to inflation, and (c) 3.0% expected long term inflation. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments (smoothed market value). All changes in the unfunded actuarial accrued liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methodology are amortized separately as a level percentage of pay over a closed 20-year period. All gains or losses are tracked and amortized over a rolling 30-year period with the exception of special gains and losses in fiscal years 2008-2009, 2009-2010 and 2010-2011. Each of these years' gains or losses has been isolated and amortized over fixed and declining 30 year periods (as opposed to the current rolling 30 year amortization).

Three-year trend information for CalPERS:

Fiscal Year June 30,	Plan	Annual Pension Cost (APC)	% of APC Contributed	Net Pension Obligation (Asset)
2010	Misc	$16,463	93.8%	$ (56,529)
2010	Safety	13,949	89.0%	(84,369)
2011	Misc	16,888	92.4%	(55,253)
2011	Safety	14,956	86.7%	(82,379)
2012	Misc	21,661	92.8%	(53,694)
2012	Safety	18,542	86.6%	(79,890)

A total of $133,584 of net pension assets is included as a deferred charge in the Government-wide Statement of Net Assets. The deferred charge relating to the net pension assets is amortized in accordance with the method used by CalPERS for calculating actuarial gains and losses over a 19-year period.

Determination of Net Pension Asset as of June 30, 2012:

	Misc	Safety
Annual required contribution	$ 20,102	$ 16,053
Interest on net pension asset	(4,282)	(6,384)
Adjustment to annual required contribution	5,841	8,873
Annual pension cost	21,661	18,542
Less contributions made	(20,102)	(16,053)
Decrease in net pension asset	1,559	2,489
Net pension asset, beginning of year	(55,253)	(82,379)
Net pension asset, end of year	$(53,694)	(79,890)

Schedule of funding for CalPERS:

Plan	Actuarial Valuation Date	Entry Age Normal Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Unfunded/ (Overfunded) Actuarial Accrued Liability (UAAL)	% Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
Misc.	6/30/08	$828,351	$779,481	$ 48,870	94.1	$110,870	44.1
Misc.	6/30/09	921,349	810,929	110,420	88.0	110,318	100.1
Misc.	6/30/10*	952,499	846,368	106,131	88.9	106,590	99.6
Safety	6/30/08	608,192	570,661	37,531	93.8	63,966	58.7
Safety	6/30/09	660,742	595,018	65,724	90.1	63,924	102.8
Safety	6/30/10*	685,213	621,107	64,106	90.6	61,778	103.8

* Information presented is for the most recent valuation date available.

15. Other Post-Employment 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 post-employment benefit (OPEB) under GASB 45.

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

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

The City's annual OPEB cost (expense) is reported based on the annual required contribution of the employer (ARC), 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 ARC for the year ended June 30, 2012 was $5,821, which consisted of normal cost of $3,276 and UAAL amortization of $2,545. The ARC as a percentage of payroll was 3.9% for the year ended June 30, 2012.

For the year ended June 30, 2012 (amounts expressed in thousands)

As of June 30, 2011, the most recent actuarial valuation date, the OPEB plan was 0.0% funded. The actuarial accrued liability for benefits was $56 million, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $56 million.

Determination of the Net OPEB Obligation as of June 30, 2012:

Annual required contribution	$ 5,821
Interest on net OPEB obligation	578
Amortization of net OPEB obligation	(610)
Annual benefit pension cost	5,789
Less contributions made	(1,426)
Increase in net OPEB obligation	4,363
Net OPEB liability, beginning of year	13,433
Net OPEB liability, end of year	$17,796

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The method used by the actuary was the entry age normal cost method. The actuarial assumptions included (a) discount rate of 4.30%, (b) 2.75% inflation, (c) projected salary increases of 3.25% annually and (d) healthcare cost trend rates ranging from 4.5% to 8.0%.

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the city and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Three-year trend information:

Fiscal Year June 30,	ARC	Actual Contributions	% of ARC Contributed
2010	$5,291	$1,440	27%
2011	5,617	1,734	31%
2012	5,821	1,426	24%

Fiscal Year June 30,	Annual OPEB Cost	% of OPEB Cost Contributed	Net OPEB Obligation
2010	$5,101	28%	9,853
2011	5,314	33%	13,433
2012	5,789	25%	17,796

Fiscal Year June 30,	UAAL	Covered Payroll	UAAL as a % of Covered Payroll
2010	$54,869	$144,621	38%
2011	54,869	149,321	37%
2012	56,060	148,607	38%

16. Commitments and Contingencies

A. Long-Term Electric Utility Commitments

Intermountain Power Agency

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

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

Southern California Public Power Authority

On November 1, 1980, the City of Riverside joined with the Imperial Irrigation District and the cities of Los Angeles, Anaheim, Vernon, Azusa, Banning, Colton, Burbank, Glendale and Pasadena to create the Southern California Public Power Authority (SCPPA) by a Joint Powers Agreement under the laws of the State of California. As of July 2001, the City of Cerritos was admitted as a member. The primary purpose of SCPPA is to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. SCPPA is governed by a Board of Directors, which consists of one representative for each of the members. During the 2011-12 and 2010-11 fiscal years, the Electric Utility paid approximately $20,855 and $18,725, respectively, to SCPPA under various take-or-pay contracts. These payments are reflected as a component of production and purchased power or transmission expense in the financial statements.

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

Project	Percent Share	Entitlement
Palo Verde Nuclear Generating Station (PV)	5.40%	12.3MW
Southern Transmission System (STS)	10.20%	244.0MW
Hoover Dam Uprating (Hoover)	31.90%	30.0MW
Mead – Phoenix Transmission (MPP)	4.00%	18.0MW
Mead – Adelanto Transmission (MAT)	13.50%	118.0MW

Terms of Take or Pay Commitments

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

Outstanding debts associated with the take-or-pay obligations have variable interest rates for the Palo Verde Nuclear Generating Station Project and the remaining projects have fixed interest rates which range from 1.25 percent to 6.13 percent. The schedule below details the amount of principal and interest that is due and payable by the Electric Utility as part of the take-or-pay contract for each project in the fiscal year indicated.

Fiscal Year	IPA	SCPPA PV	SCPPA STS	SCPPA Hoover	SCPPA MPP	SCPPA MAT	Total
2013	$ 17,514	$ 672	$ 8,191	$ 717	$ 318	$ 3,090	$ 30,502
2014	22,693	676	8,213	719	274	3,117	35,692
2015	21,114	680	8,242	718	265	3,004	34,023
2016	23,975	683	8,093	718	257	2,901	36,627
2017	14,046	687	8,001	717	258	2,905	26,614
Thereafter	104,377	-	63,175	-	772	8,719	177,043
Total	$203,719	$ 3,398	$103,915	$ 3,589	$ 2,144	$23,736	$340,501

Final maturities of outstanding debt associated with take-or-pay obligations and related contract expirations are as follows:

Project	Final Maturity	Contract Expiration
Palo Verde Nuclear Generating Station	2017	2030
Southern Transmission System	2027	2027
Hoover Dam Uprating	2017	2017
Mead – Phoenix Transmission	2020	2030
Mead – Adelanto Transmission	2020	2030

In addition to debt service, Riverside's entitlements require the payment of fuel costs, operating and maintenance, administrative and general and other miscellaneous costs associated with the generation and transmission facilities discussed above. These costs do not have a similar structured payment schedule as debt service and vary each year. The costs incurred for the year ended June 30, 2012 and 2011, are as follows (in thousands):

Fiscal Year	IPA	PV	STS	MAT	MPT	Hoover	Total
2011	$29,530	$2,792	$2,460	$ 298	$ 43	$ 100	$35,223
2012	$22,555	$2,843	$2,677	$ 300	$ 40	$ 102	$28,517

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

B. Other Commitments

Power Purchase Agreements:

The Electric Utility executed two firm power purchase agreements with Bonneville Power Administration (BPA). The first agreement with BPA was for the purchase of firm capacity (23 megawatts in the summer months and 16 megawatts in the winter months) beginning February 1, 1991, for a period of 20 years. This agreement terminated on March 3, 2011. The second BPA agreement is for the purchase of capacity (50 megawatts during the summer months and 13 megawatts during the winter months) beginning April 30, 1996, for 20 years. Effective May 1, 1998, these summer and winter capacity amounts increased to 60 megawatts and 15 megawatts, respectively, for the remainder of the second agreement.

For the year ended June 30, 2012 (amounts expressed in thousands)

On April 12, 2011, the California Renewable Energy Resources Act (SBX1-2) was passed by the State Legislature and signed by the Governor. SBX1-2 revised the amount of statewide retail electricity sales from renewable resources in the State Renewable Energy Resources Program to 33% by December 31, 2020 in three stages: average of 20% of retail sales during 2011-2012; 25% of retail sales by December 31, 2016; and 33% of retail sales by December 31, 2020. The Riverside Public Utilities Board and City Council approved the enforcement program required by SBX1-2 on November 18, 2011 and December 13, 2011, respectively. The Utility met SBX1-2 Stage 1 requirement for 2011 requiring an average of 20% of retail sales coming from renewable resources. The Utility does not anticipate it will have significant difficulty in meeting the remaining requirements of SBX1-2.

The contracts in the following table were executed as part of compliance with this standard. The Utility also has an agreement with Bonneville Power Administration for the purchase of energy credits that add to the total renewable portfolio.

Long-term renewable power purchase agreements:

Supplier	Type	Maximum Contract	Contract Expiration	Estimated Annual Cost for 2013
Wintec	Wind	1.3MW	12/30/2018	$ 205
Salton Sea Power	Geothermal	46.0MW	5/31/2020	21,176
Total		54.0MW		$21,381

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

On August 23, 2005, the City Council approved an amendment to the Power Purchase Agreement between Salton Sea and the City. The agreement increases the amount of renewable energy available to the City from the current 20 MW to 46 MW effective June 1, 2009 through May 31, 2020, at the same price under the current contract until 2013, with escalation thereafter based on an inflationary type index. Similar to other renewable power purchase agreements, the City is only obligated for purchases of energy delivered to the City.

On November 10, 2006, the City of Riverside entered into a second Renewable Power Purchase Agreement with Wintec Energy, Ltd for wind generation capacity of up to 8 MW. The contract term is for 15 years, with additional capacity available upon completion of Wintec's Facility II Wind Turbine Project. The developer is encountering challenges in finding suitable wind turbines to complete the project and the project is expected to continue to be delayed.

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

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

Construction Commitments:

As of June 30, 2012, the Sewer, Electric and Water Utilities had approximately $225 million, $13.3 million and $8.6 million, respectively, in major construction commitments related to unfinished capital projects. The Capital Outlay Fund also had major construction commitments of approximately $33.7 million related to the renovation and expansion of the Riverside Convention Center. These construction commitments are expected to be funded primarily with bond proceeds.

C. Jointly-Owned Utility Project - SONGS

Pursuant to a settlement agreement with SCE, dated August 4, 1972, the City was granted the right to acquire a 1.79 percent ownership interest in San Onofre Nuclear Generating Station (SONGS), Units 2 and 3, equating to 19.2 MW and 19.3 MW respectively, of the available capacity. In the settlement agreement, SCE agreed to provide the necessary transmission service to deliver the output of SONGS to Riverside. SCE and the City entered into the SONGS Participation Agreement that sets forth the terms and conditions under which the City, through the Electric Utility, participates in the ownership and output of SONGS. Other participants in this project include SCE, 75.05 percent; San Diego Gas & Electric Company, 20.00 percent; and the City of Anaheim, 3.16 percent. In 2006, Anaheim sought and received approval to transfer its 3.16 percent to SCE for a total of 78.21 percent ownership. The Amended and Restated Operating Agreement was updated to reflect the change in ownership. Maintenance and operation of SONGS remain the responsibility of SCE, as operating agent for the City.

The original operating license for SONGS units 2 and 3 was set to expire in 2013; however, this was subsequently extended due to a construction recapture provision, and now expires February 16, 2022 and November 15, 2022 for Units 2 and 3 respectively. It has been reported that SCE is pursuing a license extension from the Nuclear Regulatory Commission ("NRC") to continue operations through 2042. To date, no final ruling on this extension request has been made.

There are no separate financial statements for the jointly-owned utility plant since each participant's interests in the utility plant and operating expenses are included in their respective financial statements. The Electric Utility's 1.79 percent share of the capitalized construction costs for SONGS totaled \$164,945 and \$159,907 and accumulated depreciation totaled \$135,664 and \$133,260 for fiscal years ended June 30, 2012 and 2011, respectively. Capital assets are depreciated through 2022, to include the construction recapture extension period. The Electric Utility sets aside approximately \$1,600 per year to fund decommissioning costs. The Electric Utility's portion of current and long-term debt associated with SONGS is included in the accompanying financial statements.

<u>Recent Developments</u>

In fiscal years 2010 and 2011, SCE completed the replacement of four steam generators at SONGS Units 2 and 3. The total cost of the project was \$758,000 of which approximately \$13,600 represented the Electric Utility's share. On January 31, 2012, a water leak was detected in one of the heat transfer tubes in Unit 3 steam generators which required Unit 3 to be taken offline. During this same timeframe, Unit 2 was offline for a planned maintenance and refueling outage. During inspections of Unit 2 in February 2012, similar unexpected wear was observed in some Unit 2 heat transfer tubes albeit much less extensive than Unit 3 tube wear. Both Units 2 and 3 remain offline for extensive inspections, testing and analysis of the steam generators.

In March 2012, the NRC issued a Confirmatory Action Letter that required NRC permission to restart Units 2 and 3 and further outlined actions that SCE must complete before permission to restart either Unit may be considered. SCE is continuing to evaluate repairs and mitigation plans. Each Unit will be restarted only when the repairs and appropriate mitigation plans are completed in accordance with the NRC's letter and SCE is satisfied that it is safe to do so.

On August 3, 2012, SCE declared an "operating impairment", as defined in the Operating Agreement, for SONGS Units 2 and 3 and provided formal notification to the co-owners that the impairment resulted from excessive wear of the tubes in the steam generators. To date, SCE does not have a cost estimate and schedule for completing Restoration Work that will return both Units to service. SCE understands that the tube-to-tube contact arose from excessive vibration of the tubes in certain areas of the steam generators. Because Unit 2 experienced considerably less tube-to-tube wear, it is currently anticipated that Unit 2 could restart months in advance of Unit 3 and would only be able to operate at reduced power levels and with mid-cycle outages to provide assurance of safe operation.

On October 4, 2012, SCE submitted its response to the NRC Confirmatory Action Letter, along with its restart plan for SONGS Unit 2. The response and restart plans are being submitted simultaneously to provide the NRC with all the relevant information needed to evaluate the full spectrum of repairs, corrective actions and additional safety measures proposed to restart safe operations at the plant. SONGS Unit 3 will remain offline while the utility continues to study the potential solutions that are unique to this unit. The unit cannot be restarted until all plans have been approved by the NRC.

17. Water Utility Revenue Transfer

Section 1304 of the Riverside City Charter requires the City's water enterprise (the "Water Utility") to transfer, in monthly installments, an amount not to exceed 11.5% of the gross operating revenues of the Water Utility

("Water Revenue Transfer"). This requirement has been in the City Charter since 1907, when the City's charter was approved and adopted by the electorate. On November 5, 1996, California voters approved Proposition 218. Proposition 218 added Articles XIIIC and XIIID to the State Constitution, which affect the ability of local governments to levy and collect both existing and future taxes, assessments, and property-related fees and charges.

After Proposition 218 was enacted in 1996, appellate court cases and an Attorney General's opinion initially indicated that fees and charges levied for water and wastewater services would not be considered property-related fees and charges levied for water and wastewater services would not be considered property-related fees and charges, and thus not subject to the requirements of Article XIIID. However, recent cases have held that certain types of water and wastewater charges could be subject to the requirements of Article XIIID under certain circumstances. This means that the revenues derived from these charges may, in certain circumstances, not exceed the cost to the City of providing the related services.

A claim has been filed with the City regarding the legality of including the Water Revenue Transfer as a cost of providing the related services. If a court were to conclude that the Water Revenue Transfer is not a cost of providing the service of the Water Utility, then the Water Utility might be required to revise its rates and charges to eliminate the revenues needed to pay the Water Revenue Transfers, and the Water Utility could be required to rebate to its customers the amount of any rates and charges in excess of the cost of service. In such an event, the Water Utility most likely would require the City to return the challenged Water Revenue Transfer and the Water Utility would be prohibited from making any future Water Revenue Transfers. In that situation, the City would prepare a cost study calculating the Water Utility's cost impact on the City, and the City would assess the Water Uitlity for such costs. It is unclear if such costs would equal the current Water Revenue Transfer.

18. Subsequent Events

San Onofre Nuclear Generating Station:

On August 3, 2012, SCE, as Operating Agent, declared an Operating Impairment and provided formal notification to the co-owners regarding the impairment for SONGS Units 2 and 3 resulting from excessive wear of the tubes in the steam generators for both units. SCE does not yet have a cost estimate and schedule for completing Restoration Work that will return both units to service. SCE understands that the tube-to-tube contact arose from excessive vibration of the tubes in certain areas of the steam generators Because Unit 2 experienced considerably less tube-to-tube wear, it is currently anticipated that Unit 2 could restart months in advance of Unit 3 and would only be able to operate at reduced power levels and with mid-cycle outages to provide assurance of safe operation.

2012A Lease Revenue Refunding Bonds:

On August 15, 2012, the City issued the Series 2012A Lease Revenue Refunding Bonds in the amount of $41,240. The bonds were issued to refinance the 2003 Certificates of Participation. Interest on the bonds is payable semi-annually on May 1 and November 1 of each year, commencing May 1, 2013. The rate of interest varies from 2% to 5% per annum depending on maturity date. Principal is payable in annual installments ranging from $1,295 to $2,840 commencing November 1, 2013 and ending November 1, 2033.

Convention Center Financing:

On July 19, 2012, the City secured financing in the amount of $41,650 with BBVA Compass Bank for the renovation and expansion of the Riverside Convention Center. The financing consists of a variable rate lease-leaseback financing that will have a swap transaction layered over the variable rate financing resulting in a "synthetic fixed" rate of 3.24% for 20 of the 22 years of the financing. The financing consist of an initial 21-month variable rate interest only period during construction in which the required interest payments are made from the borrowed proceeds. At the end of that term, the swap begins and the interest rate "swaps" to fixed for the remaining 20-year amortization with principal and interest due on the first of each month, with equal payments each year of approximately $2,850.

VOIP Capital Lease:

In August 2012, the City entered into a lease purchase agreement in the amount of $1,650 with Pinnacle Public Finance, Inc., for the financing of the City's voice over IP (VOIP) phone system for City Hall and various satellite locations. The lease requires semi-annual debt service payments totaling $186 over a 10-year term at an interest rate of 2.38%, which is payable on February 1 and August 1 of each year, commencing February 1, 2013.