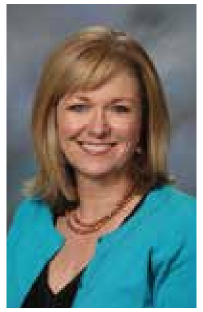
# WE POWER YOUR FUTURE

ANNUAL REPORT 2014

CITY OF ROSEVILLE CALIFORNIA

Roseville Electric Utility

# DIRECTOR'S MESSAGE



Roseville Electric Utility is owned by the people we serve – our customers. The money customers send us each month doesn't go to investors on Wall Street. It stays right here on Main Street. And Vernon Street. And Cirby Way.

Each day, during the course of interacting with customers, employees, elected officials and other stakeholders, I see the many specific ways Roseville Electric Utility is delivering on its mission to improve the quality of life of our community with reliable electricity, competitive prices, exceptional service and a culture of safety.

Seeing our employees go the extra distance to help their neighbors makes me proud to be a City of Roseville electric utility employee. Typically, these outreach efforts are self-organized — employees saw a need and responded, without any special encouragement from their manager.

By performing these private acts of service, our employees demonstrate the values that guide their lives — community, service, empathy, charity and selflessness. I'm proud to work alongside such charitable and civic-minded employees.

This year, I would like to share a few stories from stakeholders who are benefitting from the kindness of Roseville Electric Utility employees and the strategic investments of the City of Roseville, through its electric utility.

Collaboration for the greater good is a core value of ours. As the city and the community work together to revitalize Vernon Street and plan for Roseville growth, we see time and again that when we work together, the community thrives.

The electricity businesses, our community and broader society, are going through separate, yet dramatic sets of changes. Those changes, which include increasing demand for renewable energy, such as rooftop solar, are redefining the community's expectations of Roseville Electric Utility and the relationship between the utility and its customer-owners. Roseville Electric Utility is actively engaged in addressing our industry's challenges, and our society's.

We are well-prepared to work through the important issues of the day because we have a 102-year history of constructively working alongside you, our customer-owners. If it matters to you, it matters to us. We make decisions that reward you, not a small group of investors who may live in another state or country.

The price we charge for electricity is significantly lower than many other utilities in California. You don't live in those other communities — you live here. So while we are pleased our product is priced competitively, we remain alert for ways to operate even more efficiently and nimbly and thus increase our value to you.

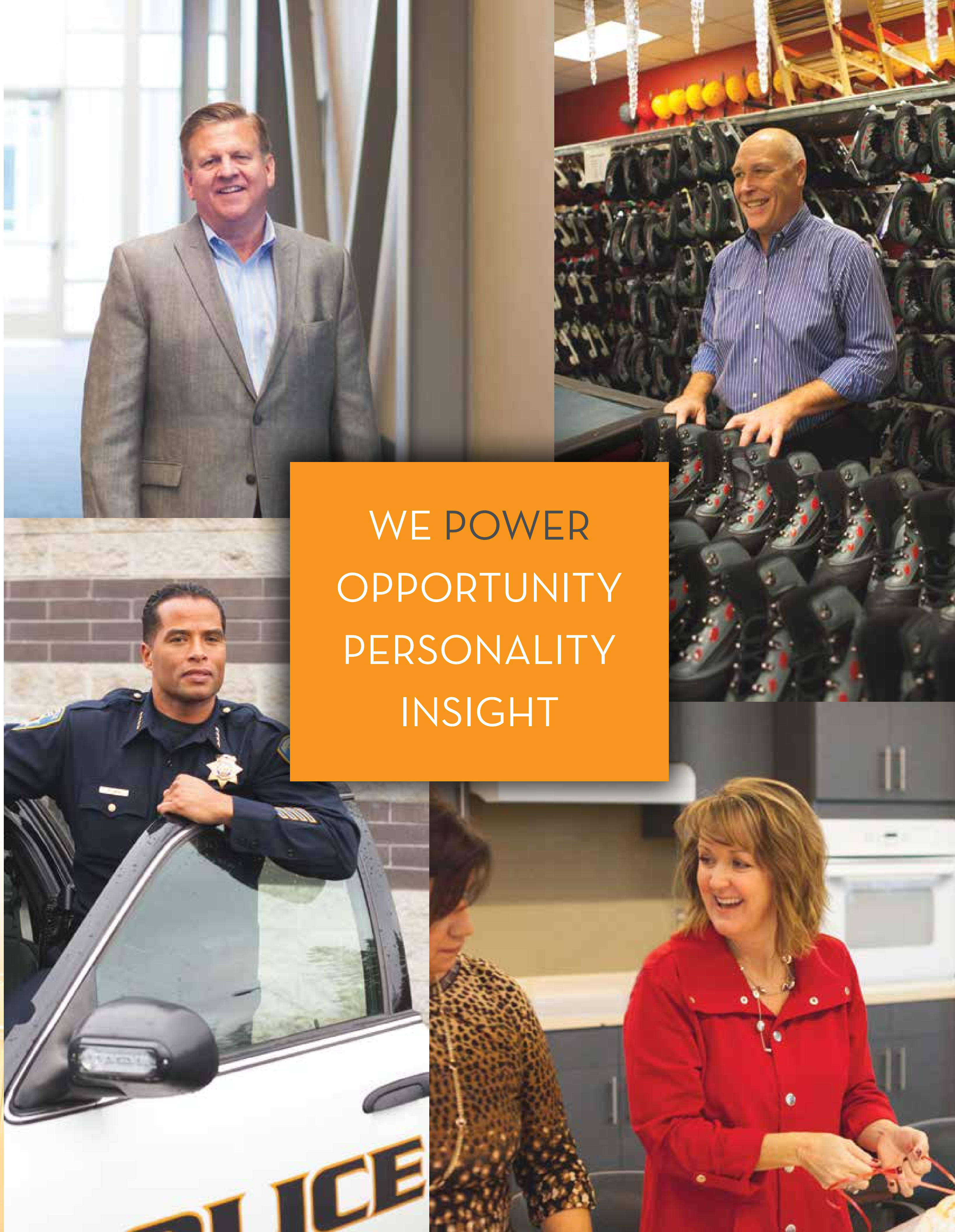
Our recently adopted five-year strategic plan emphasizes the need to make Roseville Electric Utility an employer of choice in Northern California. No one can predict exactly how our industry will evolve in the coming years. Success in any endeavor requires an engaged and committed workforce, one that comes to work each day eager to solve problems, think outside traditional boundaries, and make Roseville an even better place to live.

In my career, I have found those closest to the work have the best ideas about preventing problems or fixing them when they arise. One way we plan to become an employer of choice is by investing in employees and creating a workplace where they can advance as far as their talents and passions can take them.

By doing that, we are taking important steps to deliver on our mission, create value for you, position Roseville Electric Utility for success well into the future and fulfill our deeply held personal commitment to Roseville residents and businesses.

Sincerely,

**Michelle Bertolino**
Roseville Electric Utility Director



# WE POWER OPPORTUNITY


**FACT**

In Fiscal Year 2014, 884 Roseville business customers received incentives for installing more energy-efficient equipment at their businesses. Those incentives totaled $501,000. Every dollar a local business owner doesn't spend on electricity is another dollar he or she can invest in new products or hiring new employees.

Nearly 200 high-paying technology jobs will be created over the next three years because Quest Technology, a managed technology services provider, chose to create a Service Delivery Center in Roseville.

And Tim Burke, founder and chief executive at Quest, said Roseville Electric Utility's prices, availability of power, high reliability and well-designed infrastructure were the reasons he chose Roseville over competing sites in Texas, Virginia and California.

"Power quality, the cost of electricity, and the availability of power all are critical to our Roseville site," he said. "Also, we were impressed by the way Roseville designed its electric network, with redundant feeders which accommodate our needs as a power-sensitive customer."

By locating in Roseville, Quest will be saving 10 to 20 percent on its annual electric bill compared to other potential sites. "We have a large power requirement, and we're getting an excellent price from Roseville Electric Utility," Burke added.

Quest has spent the past 12 months turning an empty building on the Hewlett Packard campus into a 120,000 square-foot Service Delivery Center. When it opens in early 2015, Quest will provide its customers with data center services, business resumption services, high-availability space, and power services. Quest's largest customers are health-care and financial-services companies who depend upon a steady and reliable source of electricity to both store their data and operate their business remotely in case there are interruptions in their home markets.

Quest's Roseville site will have huge power needs, Burke noted, both to run the equipment and to cool the building for optimal performance. Quest's SDC will feature about 10,000 servers and storage capability of 2 petabytes – enough data to fill some 450,000 DVDs. Stacked on top of one another, those DVDs would create a tower nearly 1,700 feet tall – 500 feet taller than the Empire State Building!

Beyond electric requirements, Burke also considered social conditions when choosing its Service Delivery Center site. He said Quest wanted to locate its new facility in the right kind of community – one with quality schools, an educated workforce, and a positive sense of community. He said he found that in Roseville.

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"To recruit Fortune 500 customers from the Western U.S., we need to be located in a vibrant community," the Quest founder told us. "It was essential that we operate in a business-friendly environment with top-notch schools, modern cultural features, and great shopping venues. We were looking for big-city amenities in a community that had not lost its sense of self. Roseville provides it all."

"It's almost a cliché, but it's true that everyone in Roseville – the city itself, Roseville Electric Utility and Roseville Environmental Utilities – worked as a one-stop shop," Burke noted. "By working together so productively and efficiently, we saved hundreds of thousands of dollars in permitting fees."

"Everyone at Roseville Electric Utility understood our needs and worked very hard to deliver," Burke said. "We are excited to be opening our Service Delivery Center and feel fortunate it's in Roseville."

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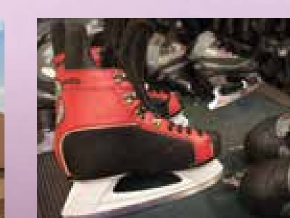
Of course, we're very pleased Quest chose Roseville as the site for its new Service Delivery Center. Roseville Electric Utility works hard to attract new businesses. But we also work with existing businesses to keep them here and help them expand. Here's how we do that at the Sacramento region's premier ice rink and an iconic local printing services manufacturer:

**Lowering** Skatetown Ice Arena's annual electric bill by over $100,000 with a variety of incentives to automate the building's controls and install more energy-efficient equipment. "By automating all of Skatetown's mechanical systems, our equipment only runs when it is needed," commented Scott Slavensky, Skatetown's owner. "That reduces wear and tear on the equipment, which lowers repair costs and extends the life of our equipment. Roseville Electric Utility's incentives were crucial to our decision to make all the efficiency upgrades we have made over the years. People come to Skatetown, an ice skating rink, throughout the year. Hockey teams practice at our facility during summer. It takes a lot of electricity to make ice in summer - when the outside temperature is 100 degrees. The efficiency upgrades we have made means we can make that ice for less, which helps keep ice time affordable for everyone."

**Helping** keep Harris & Bruno competitive with cash incentives to replace older equipment with new, more efficient equipment. The printing services manufacturer, headquartered in Roseville since 1993, has received about $50,000 in incentives in recent years to replace about $1 million of older equipment. "We operate in very competitive markets around the world, like the U.S., Germany, France, Italy, the United Kingdom, and Japan, so every little bit helps," Nick Bruno, President of Harris & Bruno, said. "The new equipment uses less electricity than the older equipment. But the real value for my company is the new equipment has increased our productivity by about 25%. We're making more and better parts faster, with less waste. That's just good business." Harris & Bruno, which employs about 110 people at its Roseville headquarters, uses about $125,000 of electricity per year. "Roseville Electric Utility provides us with really high-quality power, and that's important because we use a lot of power-sensitive equipment in our manufacturing process," Bruno said.

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## SOURCES OF POWER SUPPLY

FISCAL YEAR ENDING JUNE 30, 2014

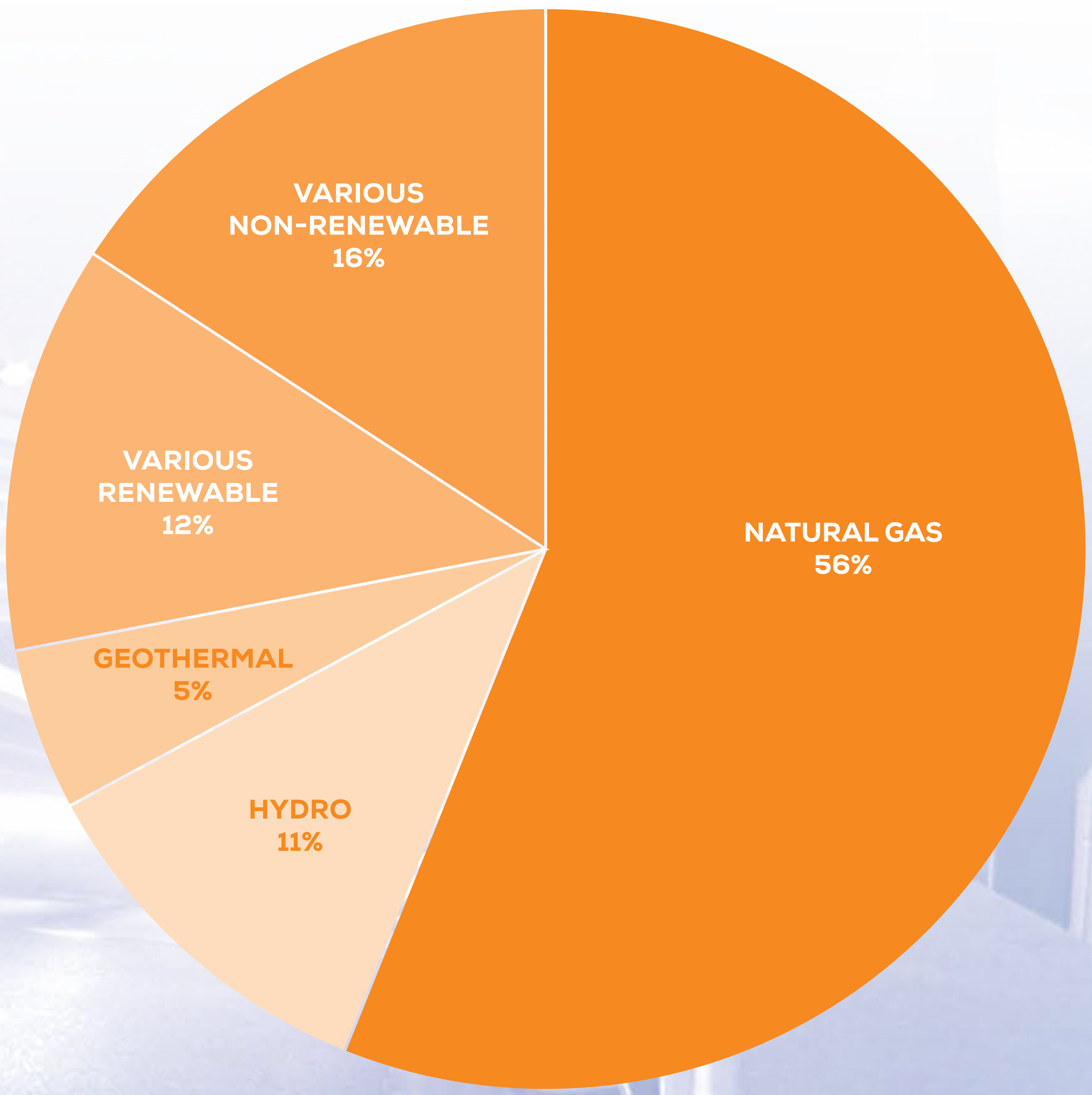
| Source | Type | Area | Capacity Available (MW)[1] | Estimated Power (GWh)[2] | % of Total |
|---|---|---|---|---|---|
| ROSEVILLE ENERGY PARK[3] | Natural Gas | Local | 155 | 686 | 56% |
| ROSEVILLE POWER PLANT 2[4] | Natural Gas | Local | 48 | 1 | 0% |
| WESTERN AREA POWER ADMINISTRATION[5] | Hydro | Western | 62 | 106 | 9% |
| NCPA | | | | | |
| GEOTHERMAL PROJECT | Geothermal | ISO | 8 | 66 | 5% |
| HYDROELECTRIC PROJECT | Hydro | ISO | 29 | 23 | 2% |
| STEAM INJECTED GAS TURBINE GENERATOR PROJECT | Natural Gas | ISO | 20 | 2 | 0% |
| OPEN MARKET PURCHASES[6] | | | 30 | | |
| RENEWABLE PURCHASES | Various | Various | | 148 | 12% |
| NON-RENEWABLE PURCHASES | Various | Various | | 198 | 16% |
| TOTAL | | | 352 | 1229* | 100%* |
| PEAK DEMAND (MW) | | | 340 | | |
| CAPACITY RESERVE PERCENT | | | 3% | | |

* Numbers may not total due to rounding.
1 Capacity available for system peak.
2 One gigawatt-hour (GWh) equals one million kilowatt-hours (kWh).
3 Includes slight de-rating for summer (ambient temperatures).
4 Roseville purchased RPP2 from NCPA in September 2010.
5 Includes reserve capacity.
6 Capacity includes long-term and seasonal purchases only, but the City also acquires capacity on a short-term basis as needed. Quantity of energy is net of a long-term sale.



## SOURCES OF POWER SUPPLY

FISCAL YEAR ENDING JUNE 30, 2014

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# WE POWER PERSONALITY

**FACT**

In Fiscal Year 2014, Roseville Electric Utility employees donated about $20,000 from their paychecks to the REACH Program, benefitting non-profits like the Placer Food Bank, the Society for the Prevention of Cruelty to Animals (SPCA), the Shriners Hospital, the American Cancer Society and the Make-A-Wish Foundation. In addition, when Roseville Electric Utility employees go to their break rooms, they have the opportunity to buy snacks and soft drinks from the REACH Snack Fund, which raised an additional $1,400 last year. Over the last decade, Roseville Electric Utility employees have contributed over $200,000 to the REACH Program.

Crime in Roseville is down and the quality of life is up, Roseville Police Chief Daniel Hahn said, thanks in part to the City's Charter which allows Roseville Electric Utility to provide funding to support the city's police and fire departments as well as its parks, recreation, and libraries. In addition, Roseville Electric Utility customers pay for streetlight and traffic signal operations throughout town.

"Criminals prefer to work in the dark, so better-quality lighting is one way to prevent crime," the chief said. "A lifetime spent in law enforcement has shown me that investing in preventing crime and improving a community's amenities is preferable to investigating crimes and trying suspects."

All Roseville residents benefit from better safety and a higher quality of life, the chief continued. That's why Roseville Electric Utility contributes 4 percent of annual revenue as allowed in the Charter to support the city's police and fire departments and the city's parks, recreation, and libraries. In 2014, that contribution amounted to $6 million.

"Better lighting means joggers can go for an evening run without worrying about injuries or their safety," Hahn pointed out. "Brighter lighting means shoppers can park at Westfield's Galleria Mall or browse the shops on Vernon Street without fear they or their vehicles will be attacked."

"Improved lighting is a huge part of the Vernon Street revitalization plan," Chief Hahn commented. "When people feel safe, good things happen in our community."

"Having great parks, recreation facilities, and libraries means we are providing Roseville youth with opportunities to participate in healthy activities, which lessens the chance they will get in trouble," Chief Hahn noted.

"Keeping our youth positively and productively engaged is an important factor in a community's vitality. In my experience, it's always easier and less expensive to prevent problems from developing in a community than it is to fix them once they take root."

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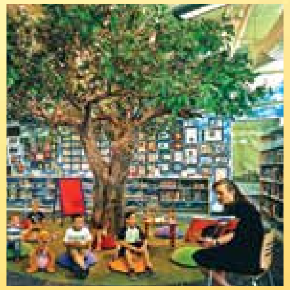
Roseville Electric Utility employees also made significant contributions to helping others in their community, including:

**Buying and Wrapping** about $1,000 of Christmas presents for residents of the Roseville Care Center. "We are so blessed to have Roseville Electric Utility employees in the community," said Myla Sumabat, activity director for the Roseville Care Center. "They are so generous and thoughtful. For about 30 years, employees have been Christmas angels to our residents, buying presents the residents request, in the color and size they specified. The employees take the time to shop for the gifts, wrap them, and place them under our Christmas tree. They really go above and beyond! The holidays can be hard on our residents – many don't get visitors. But it means so much for them to have a Christmas gift to open – a perfect gift from a perfect stranger. The thoughtfulness of Roseville Electric Utility employees is huge – we can't thank them enough."

**Raising over $3,000** for the Placer Breast Cancer Endowment Foundation, helping the group reach its capital campaign goal a year early. "Tens of thousands of Roseville women will develop breast cancer during their lifetimes," said Mary Lathrop, financial administrator of the Placer Breast Cancer Endowment Foundation. "That means thousands of other people in our community – parents, sisters, brothers, daughters, sons, cousins – also will be affected by this terrible disease. We're really happy that Roseville Electric Utility employees are raising cancer-research awareness that stays in our community. It speaks volumes about the community spirit of those employees. We are thrilled to be in partnership with them. I can't say enough good things about those employees – they are showing their love for their neighbors who are fighting breast cancer."

**Contributing** about $20,000 from their paychecks to the REACH (Roseville Employees Annual Charitable Hearts) Program, which funds various non-profits. "Roseville may look affluent, but we're like every other community in America: We have homeless people, we have students on the free and reduced-meal program, we have families who are one paycheck away from disaster," said Vicki Philpott, executive assistant to Roseville's City Manager and REACH campaign chair since 2003. "Roseville Electric Utility employees do much more than what is seen. When they learn of a community need, they jump right in to help. Their generosity makes Roseville a better place to live. Among city departments, they are true leaders when it comes to charitable giving. Since the REACH program's inception Roseville Electric Utility employees have donated over a quarter of a million dollars in caring for their community."

**Making Improvements** to the Carnegie Library Museum, including providing and installing electrical equipment for a new Americans with Disabilities Act-compliant elevator, large clock, upgrading the lighting and making other enhancements to make it easier for the public to access the 102-year-old building that houses Roseville's history. "We have a great sense of history in our community, and the support we have received from Roseville Electric Utility and its employees is the gift that keeps on giving," said Phoebe Astill, a fifth-generation Rosevillian and curator of the library. "We were very excited about the improvements – they make the museum more accessible to a wider range of visitors."



# CUSTOMERS, SALES, AND PEAK DEMAND

FISCAL YEARS ENDING JUNE 30

| | 2010 | 2011 | %Chg | 2012 | % Chg | 2013 | % Chg | 2014 | % Chg |
|---|---|---|---|---|---|---|---|---|---|
| **CUSTOMERS**[1] | | | | | | | | | |
| RESIDENTIAL | 46,400 | 47,021 | 1.34% | 47,611 | 1.25% | 48,387 | 1.63% | 49,013 | 1.29% |
| COMMERCIAL | 6,411 | 6,436 | 0.41% | 6,505 | 1.06% | 6,561 | 0.86% | 6,666 | 1.60% |
| TOTAL | 52,811 | 53,457 | 1.22% | 54,115 | 1.23% | 54,948 | 1.54% | 55,679 | 1.33% |
| **ENERGY SALES (MWh)** | | | | | | | | | |
| RESIDENTIAL | 433,494 | 422,949 | -2.43% | 440,311 | 4.10% | 443,489 | 0.72% | 434,594 | -2.01% |
| COMMERCIAL | 714,619 | 742,613 | -4.13% | 752,001 | 1.26% | 750,694 | -0.17% | 748,218 | -0.33% |
| TOTAL | 1,208,112 | 1,165,562 | -3.52% | 1,192,312 | 2.30% | 1,194,183 | 0.16% | 1,182,812 | -0.95% |
| **SALES REVENUES ($000s)** | | | | | | | | | |
| RESIDENTIAL | 56,262 | 61,003 | 8.43% | 65,464 | 7.31% | 66,189 | 1.11% | 66,728 | 0.81% |
| COMMERCIAL | 79,817 | 85,538 | 7.17% | 88,223 | 3.14% | 89,172 | 1.08% | 92,347 | 3.56% |
| TOTAL | 136,079 | 146,541 | 7.69% | 153,687 | 4.88% | 155,361 | 1.09% | 159,075 | 2.39% |
| **PEAK DEMAND (MW)** | 323.7 | 331.4 | 2.37% | 312 | -5.85% | 330 | 5.77% | 339.8 | 2.97% |

Revenues listed are as billed.
1 Customer counts reports as fiscal year average annual values.
Note: Number may not total due to rounding.

# FISCAL YEAR 2014 TEN LARGEST CUSTOMERS

| RANK | Business Type | kWh | Percent Total kWh |
|---|---|---|---|
| 1 | Manufacturing | 101,330,000 | 8.57% |
| 2 | Admin/Office/R&D | 42,085,000 | 3.56% |
| 3 | Medical Care | 28,144,547 | 2.38% |
| 4 | Government and Utilities | 26,161,000 | 2.21% |
| 5 | Medical Care | 22,611,659 | 1.91% |
| 6 | Retail and Property Management | 18,250,004 | 1.54% |
| 7 | Telecommunications | 12,013,326 | 1.02% |
| 8 | Retail | 10,209,220 | 0.86% |
| 9 | Grocery | 10,203,300 | 0.86% |
| 10 | Grocery | 9,580,400 | 0.81% |
| TOTAL | | 280,558,456 | 23.72% |

# ELECTRIC RATE COMPARISON WITH PG&E[1]

(CENTS/KWH)

| Customer Type | Roseville Electric Rates | PG&E Rates | %Difference |
|---|---|---|---|
| RESIDENTIAL | 15.35 | 20.94 | 36% |
| COMMERCIAL | 14.29 | 19.24 | 35% |
| INDUSTRIAL | 11.72 | 14.96 | 27% |

1 Based on estimated average annual rates as of July 1, 2014.

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# WE POWER INSIGHT


FACT

Last year, 35,000 people (including 5,600 students) visited the Roseville Utility Exploration Center. Since it opened in 2008, more than 300,000 people have visited the award-winning Exploration Center to learn in an experiential way about energy efficiency, waste minimization, recycling, and water quality. In addition to the familiar 3 R's (Reduce, Reuse and Recycle), Exploration Center instructors emphasize a 4th R – Rethink how a citizen's lifestyle affects the community and the planet.

Angie Maxson has been bringing her 2nd grade students to the Roseville Utility Exploration Center (RUEC) each year since the center opened in 2008. And she brings her students a lot farther than most. Angie teaches at the Nevada City School of the Arts, a K-8 charter school located about 60 miles northeast of Roseville.

Angie said there's nothing remotely like the Utility Exploration Center near her school. In fact, there's nothing like it anywhere.

The Exploration Center's interactive exhibits and talented interpretive specialists provide students engaging interactive instruction in energy, water and waste. Among other things, students can see how much heat an incandescent light bulb gives off as well as how shade trees and insulation help lower a home's electricity costs.

"I love the RUEC," Angie said. "It's spectacular. My students really love the hands-on learning they get there. It's so important for young people to get a holistic appreciation of their environment and their impact on it."

The 4,000-square-foot center was built and is maintained exclusively with funds from Roseville Electric Utility and Roseville Environmental Utilities.

When students learn experientially by interacting with exhibits, they have a greater degree of ownership, Angie continued: "They decide to own issues, and the more issues they decide to own today, the more they can offer us later, when they become adults. My students leave the Utility Exploration Center talking about ways they can cut energy waste, use water more efficiently, and reduce the amount of waste generated in the home."

"After the 'Power Patrol' module at the RUEC, students went home better informed about how they could reduce wasted electricity. The 'Energy Vampires' segment was so great because the information was packaged so that second graders could totally get it. Second graders relate to vampires, not kilowatt-hours. My students immediately began attacking Energy Vampires with power strips!"

Visits to the Utility Exploration Center give Angie's students a better appreciation about how energy and water use, the environment, and consumer behavior all fit together. Angie recounted that after one class trip where the students found out how much energy and water were used in a daily shower, her students went around timing the length of showers taken by their family members.

"It says so much about Roseville Electric Utility and Roseville Environmental Utilities that they would make such a significant investment in energy and environmental education," Angie concluded. "They really are a cut above. And admission is so affordable for students. I so appreciate the Utility Exploration Center's commitment to a fun and rigorous instruction in energy, water, waste and the environment."

Roseville Electric Utility and its employees are investing in education in their community in other ways, including:

**Partnering** with American River College, the Sacramento Employment Training Agency (SETA), and other California utilities to retrain veterans for careers in the utility industry. 2014 was the second year Roseville Electric Utility participated in this program, called Power Pathways. "Roseville Electric Utility provided our students with invaluable hands-on training in the critical skill of pole-climbing," commented William Walker, workforce development manager at the SETA. "Veterans have important personal qualities that transfer well into the utility industry: commitment to teamwork, dedication to working safely, personal responsibility, and a willingness to take care of expensive equipment. These qualities are vital for success as utility employees. We build on those qualities and help veterans focus on the next chapter of their lives. SETA really values Roseville Electric Utility's commitment to retraining veterans. They are a very good partner, and we are glad to have them at the table."


**INDEPENDENT AUDITORS' REPORT**

Public Utilities Commission
Electric Department
City of Roseville, California

***Report on Financial Statements***

We have audited the accompanying financial statements of the City of Roseville Electric Enterprise Fund as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the Table of Contents.

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

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

***Auditor's Responsibility***

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

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

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

***Opinions***

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

***Other Matters***

As discussed in Note 1, the financial statements present only the City of Roseville Electric Enterprise Fund and do not purport to, and do not, present fairly the financial position of the City of Roseville as of June 30, 2014, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Roseville Electric Enterprise Fund's basic financial statements as a whole. The Introductory and Statistical Section on pages 1 to 20 and Supplemental Information on pages 70 to 72 are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Maze & Associates

Pleasant Hill, California
December 22, 2014

# CITY OF ROSEVILLE ELECTRIC ENTERPRISE FUND PROPRIETARY FUND

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDING JUNE 30, 2014

| | |
|---|---|
| **OPERATING REVENUES** | |
| Residential sales | $66,728,040 |
| Commercial and industrial sales | 92,347,044 |
| Other sales | 601,925 |
| Other operating revenues | 2,325,447 |
| **Total Operating Revenues** | **162,002,456** |
| **OPERATING EXPENSES[1]** | |
| Production and purchased power | 88,581,532 |
| Transmission | 3,211,357 |
| Distribution–operations | 4,870,256 |
| Distribution–maintenance | 5,630,066 |
| Customer accounts, service and informational | 2,181,307 |
| Public benefits and administrative and general | 14,469,926 |
| Payment in lieu of taxes (franchise transfer) | 6,310,781 |
| Depreciation | 21,575,915 |
| **Total Operating Expenses** | **146,831,140** |
| **Operating Income (Loss)** | **15,171,316** |
| **NON-OPERATING REVENUES (EXPENSES)** | |
| Increase in value of certain NCPA projects and reserves | (581,878) |
| Investment income | 603,420 |
| Interest expense and fiscal charges | (10,006,251) |
| Cost of issuance | (470,617) |
| Gain (Loss) from sale of property | (322,855) |
| Amortization | 587,496 |
| **Total non-operating revenues (expenses)** | **(10,190,683)** |
| **Income before capital contributions and transfers** | **4,980,633** |
| Contributions and transfers: | |
| Capital contributions–connection/impact fees | 1,344,711 |
| Contributions in aid of construction | 3,208,753 |
| Capital contributions from developers | 5,264,240 |
| Transfers in - contributions from the city | 32,029,511 |
| Transfers out to City [2] | (896,153) |
| Total contributions and transfers | 40,951,062 |
| **CHANGE IN NET POSITION** | **45,931,695** |
| **NET POSITION, BEGINNING** | **254,862,793** |
| **NET POSITION, ENDING** | **$300,794,489** |

See accompanying notes to financial statements

1 Includes operating expenses reflected by the City as transfers related to rent payments, meter reading, billing, customer service, pension and benefits, other indirect costs transfer, and payment in lieu of taxes or franchise fee.
2 Certain transfers to the City are reported as operating expenses as noted above.

# CITY OF ROSEVILLE ELECTRIC ENTERPRISE FUND PROPRIETARY FUND

STATEMENT OF NET POSITION JUNE 30, 2014

## ASSETS

| CURRENT ASSETS | |
|---|---|
| Cash and investments in City Treasury (Note 3) | $67,472,970 |
| Restricted cash and investments with fiscal agent (Note 3) | 16,575,625 |
| Receivables | |
| Accounts, net of allowance for doubtful accounts | 24,486,958 |
| Accrued interest | 177,959 |
| Due from other government agencies | 119,076 |
| Prepaids (Note 1E) | 2,317,831 |
| Inventories (Note 1F) | 9,320,847 |
| Developer permit fees receivable | 26,908 |
| **Total Current Assets** | **120,498,174** |

| NON-CURRENT ASSETS | |
|---|---|
| Land and construction in progress | 23,467,392 |
| Other capital assets | 603,471,264 |
| Less: accumulated depreciation | (192,636,614) |
| **Total Capital Assets** (Note 2) | **434,302,042** |
| | |
| Notes receivable from NCPA (Note 6B) | 31,546 |
| Investment in NCPA reserves (Note 6A) | 2,804,039 |
| Derivative at fair value–asset (Note 11A) | 123,855 |
| **Total Non-Current Assets** | **437,261,482** |
| **Total Assets** | **557,759,656** |

| DEFERRED OUTFLOWS OF RESOURCES | |
|---|---|
| Deferred amount on refunding (Note 4J) | 4,069,833 |
| Accumulated decrease in fair value of hedging derivatives (Note 1G) | 20,527,949 |
| **Total Deferred Outflows of Resources** | **24,597,782** |

## LIABILITIES

| CURRENT LIABILITIES | |
|---|---|
| Accounts payable and accrued payroll | 8,829,393 |
| Accrued liabilities | 906,405 |
| Current portion of compensated absences (Note 1I) | 1,160,092 |
| Current portion of long-term debt (Note 4A) | 6,085,000 |
| Interest payable | 1,934,518 |
| Customer deposits (Note 1H) | 1,846,833 |
| Unearned revenue (Note 1J) | 1,672,694 |
| **Total current liabilities** | **22,434,935** |

| LONG-TERM LIABILITIES | |
|---|---|
| Certificates of participation and revenue bonds, due in more than one year (Note 4A) | 228,415,000 |
| Compensated absences (Note 1I) | 2,040,257 |
| Unamortized bond premiums | 8,020,953 |
| Derivative at fair value–liability (Note 4I and 11A) | 20,527,949 |
| **Total Long-term Liabilities** | **259,004,159** |
| **Total Liabilities** | **281,439,094** |

| DEFERRED INFLOWS OF RESOURCES | |
|---|---|
| Accumulated increase in fair value of hedging derivatives (Note 1G) | 123,855 |

## NET POSITION (Note 8)

| | |
|---|---|
| Net investment in capital assets | 191,781,089 |
| Invested in NCPA projects and reserve | 15,201,656 |
| Restricted for debt service | 16,493,250 |
| Unrestricted | 77,318,494 |
| **Total Net Position** | **$300,794,489** |

See accompanying notes to financial statements

# CITY OF ROSEVILLE ELECTRIC ENTERPRISE FUND PROPRIETARY FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDING JUNE 30, 2014

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Receipts from customers | $158,915,549 |
| Payments to suppliers | (108,026,790) |
| Payments to employees | (19,930,620) |
| Other receipts | 2,722,773 |
| **Net Cash Provided by Operating Activities** | **33,680,912** |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | |
| Transfers (in) | 1,287,874 |
| Transfers (out) | (896,153) |
| **Cash Flows from Noncapital Financing Activities** | **391,721** |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | |
| Capital contributions | 3,208,753 |
| Acquisition and construction of capital assets, net | (8,557,290) |
| Proceeds from sale of capital assets | 39,279 |
| Change in restricted assets | 23,858 |
| Issuance of debt | 48,780,000 |
| Issuance costs | (470,617) |
| Debt issuance premium | 5,899,513 |
| Principal payments on capital debt | (57,920,000) |
| Interest paid on capital debt | (11,897,784) |
| Connection fees | 1,344,711 |
| **Cash Flows from Capital and Related Financing Activities** | **(19,549,578)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Interest and dividends | 634,537 |
| Receipts from sale of (payment to acquire) equity instrument, net | 45,992 |
| **Cash Flows from Investing Activities** | **680,529** |
| Net increase (decrease) in cash and cash equivalents | 15,203,584 |
| Cash and investments at beginning of period | 52,269,386 |
| Cash and investments at end of period | $67,472,970 |

| | |
|---|---|
| **NONCASH TRANSACTIONS** | |
| Contribution of capital assets from developers | $5,264,238 |
| Amortization of bond premium | $854,897 |
| Retirement of capital assets | ($362,134) |
| Amortization of bond discount | ($12,139) |
| Capital assets transferred from the city | 30,741,639 |
| Amortization of deferred amount on refunding | ($255,262) |

| | |
|---|---|
| **RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | |
| Operating income (loss) | $15,171,316 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 21,575,915 |
| Retirement of capital assets | 362,134 |
| Change in assets and liabilities: | |
| Receivables, net | (1,954,706) |
| Inventories | (1,288,021) |
| Prepaids | 154,522 |
| Accounts and other payables | (1,143,806) |
| Unearned revenue | 803,557 |
| **Cash Flows from Noncapital Financial Activities** | **$33,680,912** |

See accompanying notes to financial statements

# NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. General

The City of Roseville Electric Enterprise Fund (Electric Fund) is a fund of the City of Roseville (the City) that owns and operates the electric systems and provides these services to the businesses and residents of the City. The Electric Fund is under the policy control of the City Council. The accompanying financial statements only reflect the activity of the Electric Fund as it does not have any component units. The Electric Fund is an integral part of the City and its financial statements are included in the basic financial statements of the City.

### B. Basis of Presentation

The Financial Statements of the Electric Fund are prepared in conformity with accounting principles generally accepted in the United States of America (U.S.A.). The Governmental Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

The accounting records of the Electric Fund are also substantially in conformity with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC).

### C. Basis of Accounting

The Electric Fund is accounted for as an enterprise fund (proprietary fund type). A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The activities of enterprise funds closely resemble those of the private sector in which the purpose is to conserve and add to economic resources. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges.

The financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

The Electric Fund may fund programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

### D. Joint Powers Authorities

The Electric Fund records its equity in the general operating reserve of the Northern California Power Agency (NCPA), and its net equity in those projects in which it participates, as discussed in Note 6. The Electric Fund's share of individual project obligations has been netted against its share of the related project assets, as reported by NCPA, because the Electric Fund does not actively manage these projects and does not expect to become directly liable for any of the obligations of these projects. Amounts paid to the Transmission Agency of Northern California (TANC) are expensed currently because the Electric Fund's estimated equity, if any, in TANC is not material. Amounts paid to the California Joint Powers Risk Management and the Local Agency Workers Compensation Excess Joint Powers Authority are charged currently to insurance expense, as discussed in Note 7.

### E. Prepaids

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in the financial statements.

### F. Inventories

Valued at cost, using the weighted-average method and consist primarily of merchandise held for internal consumption.

### G. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Electric Fund only has two items that qualify for reporting in this category. The deferred charge on refunding reported in the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The accumulated decrease in the fair value of hedging derivatives is equal to the fair value of the associated derivative instrument liability so long as the instrument is deemed effective under the provisions of GASB Statement No. 53.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Electric Fund only has one item that qualifies for reporting in this category. The accumulated increase in the fair value of hedging derivatives is equal to the fair value of the associated derivative instrument asset so long as the instrument is deemed effective under the provisions of GASB Statement No. 53.

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

### H. Deposits from Customers

Deposits from Customers may be required by the Electric Fund from commercial and residential customers when they establish their account as specified in section 14.04.030 of the City of Roseville Municipal Code. Significant customer deposits may be held in the form of certificates of deposit in the Electric Fund's name with the interest paid to the customer.

### I. Compensated Absences

Compensated Absences including accumulated unpaid vacation, sick pay and other employee benefits are accounted for as expenses in the year earned.

Changes in compensated absences payable consist of the following:

| | |
|---|---|
| **Beginning Balance** | **$3,067,734** |
| **Additions** | **731,178** |
| **Payments** | **(598,563)** |
| **Ending Balance** | **$3,200,349** |
| **Current Portion** | **$1,160,092** |

### J. Revenue Recognition

Revenues are recognized based on cycle billings rendered to customers. All residential and commercial utility customers are billed once per month. There are twenty-three billing cycles per month which include all types of customers, based on their location within the City. Revenues for services provided but not billed at the end of a fiscal year are accrued.

Contributions of cash or assets to proprietary funds from state and federal agencies, developers and others are recorded as revenue when earned.

### K. Classification of Revenues

Operating revenues consist mainly of electric sales. Operating revenues are used to finance the cost of operations, including the cost of delivering and providing services, maintenance and recurring capital replacement. All other revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### L. Allocation and Capitalization of Operating Overhead Expenses and General and Administrative Costs

The allocation of operating overhead expenses and general and administrative costs to capital projects, as well as FERC distribution and maintenance operating expenses, was based on a comprehensive analysis and study prepared by the City's staff. This analysis and allocation process is conducted annually in conformance with the generally accepted electric utility accounting practices within the Uniform System of Accounts (USOA) prescribed by FERC and utility accounting guides published by the American Public Power Association (APPA) regarding job costing and utility accounting.

The process of allocating and capitalizing operating overhead expenses and general and administrative costs was implemented to allow the Electric Fund Financial Statements to reflect a chart of accounts consistent with industry standards, provide more accurate operation and maintenance costs, and track the total actual costs of electric capital assets.

### M. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# NOTE 2—CAPITAL ASSETS

### A. Policies

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed.

Capital assets with limited useful lives are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation is provided using the straight-line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The Electric Fund has assigned the useful lives and capitalization thresholds listed below to capital assets:

| | Useful Lives | Capitalization Thresholds |
|---|---|---|
| Buildings | 20-40 years | $10,000 |
| Improvements | 40 years | 10,000 |
| Equipment | 3-12 years | 5,000 |
| Plants and Substations | 10-120 years | 10,000 |
| Distribution System | 7-100 years | 10,000 |
| Electric Generation | 10-40 years | 10,000 |

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.



Capital assets at June 30, 2014, comprise:

| | Balance at June 30, 2013 | Additions | Retirements | Transfers | Balance at June 30, 2014 |
|---|---|---|---|---|---|
| **Capital assets, not being depreciated:** | | | | | |
| Land | $4,373,682 | | | | $4,373,682 |
| Landscaping (modified) | 550,000 | | | | 550,000 |
| Construction in progress | 10,165,930 | $7,591,445 | | ($786,335) | 18,543,710 |
| **Total capital assets not being depreciated** | 15,089,612 | 7,591,445 | | (786,335) | 23,467,392 |
| **Capital assets, being depreciated:** | | | | | |
| Buildings | 13,457,985 | | | | 13,457,985 |
| Improvements | 2,472,564 | | | | 2,472,564 |
| Equipment | 3,760,951 | 129,457 | (11,552) | 55,077 | 3,933,933 |
| Traffic signals | | | | 46,933,631 | 46,933,631 |
| Plant and substations | 66,692,101 | | (14,713) | 82,368 | 67,029,756 |
| Distribution | 259.084,097 | 5,953,182 | (485,076) | 2,951,669 | 267,503,872 |
| Generation | 202,009,888 | 129,635 | | | 202,139,523 |
| **Total capital assets being depreciated** | 547,747,586 | 6,212,274 | (511,341) | 50,022,745 | 603,471,264 |
| **Less accumulated depreciation for:** | | | | | |
| Buildings | (3,832,274) | (335,634) | | | (4,167,908) |
| Improvements | (621,526) | (91,256) | | | (712,782) |
| Equipment | (2,711,165) | (201,689) | 11,552 | (45,135) | (2,946,437) |
| Traffic Signals | | (3,231,436) | | (20,022,306) | (23,253,742) |
| Plant and substations | (18,543,838) | (1,700,046) | 14,714 | | (20,229,170) |
| Distribution | (68,297,096) | (5,339,796) | 140,751 | | (73,496,141) |
| Generation | (57,154,376) | (10,676,058) | | | (67,830,434) |
| **Total accumulated depreciation** | (151,160,275) | (21,575,915) | 167,017 | (20,067,441) | (192,636,614) |
| **Net capital assets being depreciated** | 396,587,311 | (15,363,641) | (344,324) | 29,955,304 | 410,834,650 |
| **Capital assets, net** | $411,676,923 | ($7,772,196) | ($344,324) | $30,741,639 | $434,302,042 |

The Traffic Signal Program, which was previously reported as part of the City's Traffic Signal Special Revenue Fund, has been recategorized and is now reported with the Electric Fund. As a result of the recategorization, capital assets with a net book value of $26,911,325 previously reported in the City's Governmental Activities on the Statement of Net Position were transferred to the Electric Fund.

During fiscal year 2014, with City also transferred construction in progress related to the Enterprise Asset Management System in the amount of $3,820,370 and equipment with a net book value of $9,944 to the Electric Fund.

# NOTE 3—CASH AND INVESTMENTS

The City pools cash from all sources and all funds, except certain specific investments within funds and cash with fiscal agents, so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time.

The City and its fiscal agents invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called securities instruments, or by an electronic entry registering the owner in the records of the institution issuing the security, called the book entry system. Individual investments are generally made by the City's fiscal agents as required under its debt issues. In order to maximize security, the City employs the Trust Department of a bank as the custodian of all City managed investments, regardless of their form.

The City's investments of the Electric Fund are carried at fair value instead of cost, as required by generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

### A. Classification

Cash and investments of the Electric Fund are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of City debt instruments or other agreements.

| | |
|---|---|
| Cash and investments | $67,472,970 |
| Non-current investments and special funds | 16,575,625 |
| Total cash and investments | $84,048,595 |

Cash and investments with original maturities of three months or less are treated as cash and equivalents for purpose of preparing the statement of cash flows. Also, the Electric Fund's portion of the City's overall cash and investment pool is treated as cash and equivalents since these amounts are in substance demand deposits.

Cash and investments as of June 30, 2014, consist of the following:

| | |
|---|---|
| City of Roseville pooled cash and investments | $67,472,470 |
| Cash on hand | 500 |
| Investments | 16,575,625 |
| Total Cash and Investments | $84,048,595 |

### B. Investments Authorized by the California Government Code and the City's Investment Policy

**The City's Investment Policy and the California Government Code allow the City to invest in the following, provided the credit ratings of the issuers are acceptable to the City; and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code or the City's Investment Policy where it is more restrictive:**

| Authorized Investment Type | Maximum Maturity | Minimum Credit Quality | Maximum Percentage Allowed | Maximum Investment in One Issuer |
|---|---|---|---|---|
| U.S. Treasury Obligations (A) | 5 Years | None | None | None |
| U.S. Agency Securities (A) | 5 Years | None | None | None |
| Mortgage Pass-Through Securities | 5 Years | None | 20% | None |
| Forward Delivery Agreements | N/A | A | None | None |
| Local Agency Bonds | 5 Years | None | None | None |
| Repurchase Agreements | 30 days | None | None | None |
| Bankers' Acceptances | 180 days | None | 40% | 30% |
| Commercial Paper | 270 days | A-1 | 25% | 10% (B) |
| Medium-Term Notes | 5 Years | A | 30% | None |
| Collateralized Time Deposits | 5 Years | None | 30% | None |
| Negotiable Certificates of Deposit | 5 Years | A | 30% | None |
| Local Agency Investment Fund (LAIF) | N/A | None | None | $50 million/account |
| Insured Saving Accounts | N/A | None | None | None |
| Money Market Mutual Funds | N/A | None | 20% | 10% |
| Shares in a California Common Law Trust | N/A | None | None | None |
| Interest Rate Swaps (C) | N/A | None | None | None |

(A) In specified fund accounts where liquidity is not the primary investment objective, the maximum maturity can be up to ten years with granted express authority by the City Council. Such investments cannot be made less than three months following the approval of extended investment terms. All longer-term investments must be Federal Treasury or Agency securities. The specified fund accounts are:

- Citizens Benefit Permanent Fund
- Roseville Aquatics Complex Maintenance Permanent Fund
- Endowment Private-purpose Trust Fund
- All future trust and/or endowment funds established by the City with no anticipated use of principal

(B) Eligible Commercial Paper may not represent more than 10% of the outstanding paper of an issuing corporation.

(C) Interest rate swaps may only be used in conjunction with enterprise fund debt or investments, not the General Fund.

# NOTE 3—CASH AND INVESTMENTS (CONTINUED)

### C. Investments Authorized by Debt Agreements

The City must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City resolutions, bond indentures, or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

| Authorized Investment Type | Maximum Maturity | Minimum Credit Quality |
|---|---|---|
| U.S. Treasury Obligations | N/A | None |
| Federal Housing Admin debentures | N/A | None |
| U.S. Agency Securities | N/A | None |
| Certificates of Deposit | 30 days | A-1 |
| Time Deposits | 30 days | A-1 |
| Bankers' Acceptances | 30 days | A-1 |
| Insured FDIC Deposits | N/A | None |
| Money Market Funds | N/A | Aam-G |
| State Obligations | N/A | A-1+/-AAA |
| Pre-refunded Municipal Obligations | N/A | AAA |
| Repurchase Agreements | N/A | A |
| Investment Agreements | N/A | AA |
| California Asset Management Program (CAMP) | N/A | None |
| Local Agency Investment Fund (LAIF) | N/A | None |

### D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City also manages its interest rate risk by holding most investments to maturity, thus reversing unrealized market gains and losses.

Information about the sensitivity of the fair values of the investments to market interest rate fluctuations is provided by the following table that shows the distribution of the investments by maturity or earliest call date:

| | Remaining Maturity | | |
|---|---|---|---|
| | 12 Months or Less | More Than 60 Months | Total |
| Guaranteed Investment Contract | | $2,150,737 | $2,150,737 |
| California Asset Management Program | $13,732,418 | | 13,732,418 |
| Money Market Mutual Funds | | | |
| (U.S. Securities) | 692,470 | | 692,470 |
| Total Investments | $14,424,888 | $2,150,737 | $16,575,625 |

### E. Credit Risk

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. Presented below is the actual rating as of June 30, 2014 for each investment type as provided by Standard and Poor's investment rating system:

| | AAAm | Total |
|---|---|---|
| Investments: | | |
| California Asset Management Program | $13,732,418 | $13,732,418 |
| Money Market Mutual Funds | | |
| (U.S. Securities) | 692,470 | 692,470 |
| Subtotal | $14,424,888 | $14,424,888 |
| Not rated: | | |
| Guaranteed Investment Contract | | 2,150,737 |
| Total Investments | | $16,575,625 |

# NOTE 4—LONG-TERM DEBT

### A. Composition and Changes

The Electric Fund generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt. The Electric Fund's debt issues and transactions are summarized below and discussed in detail thereafter.

Long-term debt activity for the year ended June 30, 2014, is as follows:

| | Original Issue Amount | Balance June 30, 2012 | Additions | Retirements | Balance June 30, 2014 | Current Portion |
|---|---|---|---|---|---|---|
| Certificates of Participation: | | | | | | |
| 2004 Electric System Revenue, | | | | | | |
| 3.00%-5.25%, due 2/1/34 | $39,940,000 | $37,430,000 | | $19,110,000 | $18,320,000 | |
| Less: deferred bond discount | (728,254) | (509,778) | | (267,028) | (242,750) | |
| 2005 Electric System Revenue, Series A | | | | | | |
| 3.00%-5.00%, due 2/1/23 | 52,900,000 | 40,165,000 | | 36,415,000 | 3,750,000 | 3,750,000 |
| Add: deferred bond premium cost | 3,528,055 | 2,617,590 | | 2,503,781 | 113,809 | |
| 2009 Electric System Revenue Refunding | | | | | | |
| 2.00%-5.25%, due 2/1/24 | 27,010,000 | 20,835,000 | | 1,545,000 | 19,290,000 | 1,600,000 |
| Add: deferred bond premium cost | 396,611 | 290,847 | | 26,441 | 264,406 | |
| 2012 Electric System Revenue | | | | | | |
| variable rate, due 2/1/35 | 90,000,000 | 90,000,000 | | | 90,000,000 | |
| Total Certificates of Participation | 213,046,412 | 190,828,659 | | 59,333,194 | 131,495,465 | 5,350,000 |
| Revenue Bonds: | | | | | | |
| 2010 Electric System Revenue Refunding | | | | | | |
| 2.00%-5.00%, due 2/1/37 | 55,845,000 | 55,210,000 | | 355,000 | 54,855.000 | 375,000 |
| Add: deferred bond premium cost | 2,764,207 | 2,457,073 | | 102,378 | 2,354,695 | |
| 2013 Electric System Revenue Refunding | | | | | | |
| 2.00%-5.00%, due 2/1/29 | 48,780,000 | | $48,780,000 | 495,000 | 48,285,000 | 360,000 |
| Add: deferred bond premium cost | 5,899,513 | | 5,899,513 | 368,720 | 5,530,793 | |
| Total Revenue Bonds | 113,288,720 | 57,667,073 | 54,679,513 | 1,321,098 | 111,025,488 | 735,000 |
| Total | $326,335,132 | $248,495,732 | $54,679,513 | $60,654,292 | $242,520,953 | $6,085,000 |

### B. 2004 Electric System Revenue Certificates of Participation

On July 1, 2004, the City issued $39,940,000 of Certificates of Participation to finance capital improvements to the City's Electric System. The COPs are repayable from net revenue of the Electric Utility System. The COPs bear interest at 3.00% - 5.25% and are due semi-annually on February 1 and August 1 of each year beginning February 1, 2005. Principal payments are due annually on February 1 through February 2034. The COPs were partially refunded by the 2013 Electric System Revenue Refunding Bonds as discussed in Note 4G below.

### C. 2005 Electric System Revenue Certificates of Participation, Series A

On May 26, 2005, the City issued Certificates of Participation Series A in the original principal amount of $52,900,000 to finance certain Electric System improvements, primarily including construction of the Roseville Energy Park.

The Series A COPs bear interest at 3.00%-5.00% and are due semi-annually on February 1 and August 1 of each year. Principal payments are due annually beginning February 1, 2008 through 2023. The COPs were partially refunded by the 2013 Electric System Revenue Refunding Bonds as discussed in Note 4G below.

### D. 2009 Electric System Revenue Refunding Certificates of Participation

On November 24, 2009, the City issued Certificates of Participation (COPs) in the original principal amount of $27,010,000.

The COPs were issued to refinance the remaining outstanding balance of the 2002 Electric System Revenue Certificates of Participation.

The COPs bear interest at 2.00%-5.25% and are due semi-annually on February 1 and August 1 of each year. Principal payments are due annually beginning February 1, 2010 through 2024.

### E. 2010 Electric System Revenue Refunding Bonds

On October 21, 2010, the City issued Revenue Bonds in the original principal amount of $55,845,000.

The Bonds were issued to refinance the remaining outstanding balance of the 2008 Electric System Revenue Refunding Certificates of Participation Series B.

The Revenue Bonds bear interest at 2.00%-5.00% and are due semi-annually on February 1 and August 1 of each year. Principal payments are due annually beginning February 1, 2012 through 2037.

# NOTE 4—LONG-TERM DEBT (CONTINUED)

**F. 2012 Electric System Revenue Refunding Certificates of Participation**

On November 7, 2012 the City issued Certificates of Participation (COPs) in the original principal amount of $90,000,000. The COPs were issued to refund and retire the outstanding balance of the 2008A Electric System Revenue COPs. The refunding did not change the total debt service payments and there was no economic gain or loss (difference between the present values of the debt service payments on the old and new debt). The 2008A COPs were called on November 7, 2012 with the termination of the letter of credit.

The COPs were issued as variable rate securities with interest calculated monthly equal to the LIBOR Index Rate. The LIBOR Index Rate is defined in the Trust Agreement to mean a per annum rate of interest established on each Computation Date (monthly) and effective on each related LIBOR Index Reset Date equal to the sum of (a) the Applicable Spread (initially 0.625%, but adjustable based on the credit rating of the Roseville Finance Authority's long-term unenhanced debt secured or evidenced by a parity obligation) plus (b) the product of the LIBOR Index multiplied by the Applicable Factor (initially 70.5%). The LIBOR Index is defined as the London interbank offered rate for U.S. dollar deposits for a one -month period, as reported on Reuters Screen LIBOR01 Page or any successor thereto, which will be that one -month LIBOR rate in effect two London Business Days prior to the LIBOR Index Reset Date, adjusted for any reserve requirement and any subsequent costs arising from a change in government regulation. The interest rate of the COPs cannot exceed 12% per year and may be converted by the City into a daily rate, weekly rate, commercial paper rate or index rate, subject to certain conditions defined in the Trust agreement. The interest rate at June 30, 2014 was 0.731%.

The City originally entered into a 27-year interest rate swap agreement for the entire amount of the 2008A COPs, and the interest rate swap agreement remains outstanding after the refunding, but the notional amount of the swap is based on the notional amount of the 2008A COPs. The combination of the variable rate COPs and a floating rate swap creates synthetic fixed-rate debt for the City. The synthetic fixed rate for the COPs was 3.966% at June 30, 2014. The COPs are subject to mandatory prepayment annually beginning February 1, 2023 through 2035.



**G. 2013 Electric System Revenue Refunding Bonds**

On November 14, 2013, the Roseville Finance Authority issued the Electric System Revenue Refunding Bonds, Series 2013, in the principal amount of $48,780,000 to refund a portion of each of the 2004 Electric System Revenue and 2005 Electric System Revenue, Series A, Certificates of Participation. The Bonds bear interest at 2.00%-5.00% and are due semi-annually on February 1 and August 1 of each year. The Bonds are repayable by a pledge of net revenue from the Electric System. Principal payments are due annually beginning February 1, 2014 through 2029. The refunding resulted in an overall debt service savings of $5,176,832. The net present value of the debt service savings is called an economic gain and amounted to $4,301,054. The refunded portion of the 2004 COPs were called in February 2014. The balance of the defeased portion of the 2005 COPs was $32,790,000 at June 30, 2014.

**H. Electric System Pledged Revenues**

As of June 30, 2014, the total principal and interest remaining to be paid on the 2004 Electric System Revenue COP's, 2012 Electric System Revenue Refunding COPs, 2005 Electric System Revenue COP's, 2009 Electric System Revenue Refunding COP's, 2010 Electric System Revenue Refunding Revenue Bonds, and the 2013 Electric System Revenue Refunding Bonds was $380,409,689. As disclosed in the official statements, all net revenues of the Electric System are expected to provide coverage over debt service of 110% over the lives of the Bonds. For fiscal year 2014, net revenues amount to $36,509,391 which represents coverage of 237% over the $15,414,845 in debt service.

# NOTE 4—LONG-TERM DEBT (CONTINUED)

**I. Interest Rate Swap Agreements**

The City entered into interest swap agreements in connection with the 2008 Electric Revenue Certificates of Participation, Series A.

These transactions allow the City to create synthetic fixed rates on the COPs, protecting it against increases in short-term interest rates. The terms, fair value and credit risk of the swap agreements are disclosed below.

**Terms:** The terms, including the counterparty credit ratings of the outstanding swaps, as of June 30, 2014, are included below. The swap agreements contain scheduled reductions to the outstanding notional amount that are expected to follow scheduled reductions in the associated bond issue.

| Related Bond Issue | Notional Amount | Effective Date | Counterparty | Credit Rating | Fixed Rate Paid | Variable Rate Received | Termination Date |
|---|---|---|---|---|---|---|---|
| 2012 Electric System Refunding COP (based on notional amount of 2008 Electric System Revenue COP, Series A) | $36,000,000 | 5/13/2008 | Bank of America, N.A. | A | 3.364% | 70.5% of 1m LIBOR | 2/1/2035 |
| 2012 Electric System Refunding COP (based on notional amount of 2008 Electric System Revenue COP, Series A) | 54,000,000 | 5/13/2008 | Morgan Stanley Capital Services Inc. | A- | 3.321% | 70.5% of 1m LIBOR | 2/1/2035 |
| | $90,000,000 | | | | | | |

Based on the swap agreements, the City owes interest calculated at a fixed rate to the counterparty of the swap. In return, the counterparty owes the City interest based on the variable rate that approximates the rate required by the associated COPs. Debt principal is not exchanged; it is only the basis on which the swap receipts and payments are calculated.

**Fair value** Fair value of the swaps takes into consideration the prevailing interest rate environment, the specific terms and conditions of each transaction and any upfront payments that may have been received. Fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by each swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps. As of June 30, 2014, the fair values of the swaps were not in favor of the City as follows:

| | Fair Value | |
|---|---|---|
| Related Bond Issue | 2014 | 2013 |
| 2012 Electric System Refunding COP (based on notional amount of 2008 Electric System Revenue COP, Series A) | | |
| Bank of America, N.A. | ($5,892,566) | ($5,503,837) |
| Morgan Stanley Capital Services Inc. | (8,548,074) | (7,952,467) |
| | ($14,440,640) | ($13,456,304) |

**Credit risk** Since the fair values of the swaps are negative, the City is not currently exposed to credit risk. The fair values may increase if interest rates increase in the future. Should interest rates increase to the point where the fair values become positive, the City would be exposed to credit risk on the outstanding swaps. The City will be exposed to interest rate risk only if a counterparty to a swap defaults or if the swap is terminated.

**Basis risk** Basis risk is the risk that the interest rate paid by the City on the underlying variable rate bonds to the bondholders temporarily differs from the variable swap rates received from the applicable counterparty. The City bears basis risk on the swaps. The swaps have basis risk since the City receives a percentage of the LIBOR Index to offset the actual variable bond rates the City pays on the underlying COPs and Bonds. The City is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

A portion of this basis risk is tax risk. The City is exposed to tax risk when the relationship between the taxable LIBOR based swaps and tax-exempt variable rate bonds changes as a result of a reduction in federal and state income tax rates. Should the relationship between LIBOR and the underlying tax-exempt variable rate bonds converge the City is exposed to this basis risk.

# NOTE 4—LONG-TERM DEBT (CONTINUED)

**Termination risk** The City may terminate if the other party fails to perform under the terms of the contract. The City will be exposed to variable rates if the counterparty to the swap contract defaults or if the swap contract is terminated. A termination of the swap contract may also result in the City's making or receiving a termination payment based on market interest rates at the time of the termination. If at the time of termination the 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** Using rates as of June 30, 2014, debt service requirements of the Electric Fund's outstanding variable-rate debt and net swap payments are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary. These payments below are included in the Debt Service Requirements at Note 4K:

| For the Year Ending June 30 | Variable-Rate Bonds Principal | Interest | Interest Rate Swaps, Net | Total |
|---|---|---|---|---|
| 2015 | | $657,900 | $2,907,682 | $3,565,582 |
| 2016 | | 657,900 | 2,907,682 | 3,565,582 |
| 2017 | | 657,900 | 2,907,682 | 3,565,582 |
| 2018 | | 657,900 | 2,907,682 | 3,565,582 |
| 2019 | | 657,900 | 2,907,682 | 3,565,582 |
| 2020-2024 | $10,575,000 | 3,221,655 | 14,238,556 | 28,035,211 |
| 2025-2029 | 32,000,000 | 2,355,404 | 10,410,041 | 44,765,445 |
| 2030-2034 | 38,750,000 | 1,070,398 | 4,730,772 | 44,551,170 |
| 2035 | 8,675,000 | 36,992 | 163,490 | 8,875,482 |
| | $90,000,000 | $9,973,949 | $44,081,269 | $144,055,218 |

**J. Bond Issuance Costs, Original Issue Discounts and Premiums, and Deferred Charge on Refunding**

For proprietary fund types, bond premiums and discounts are deferred 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. Any differences between proprietary refunded debt and the debt issued to refund it is amortized over the remaining life of either the refunded debt or the refunding debt, whichever is shorter.

With the implementation of Governmental Accounting Standards Board (GASB) Statement No. 65, the balance of deferred charge on refunding is to be reported as an asset or liability, as applicable. Another provision of GASB Statement No. 65 requires that bond issuance costs, other than prepaid insurance, be expensed in the year incurred.

**K. Debt Service Requirements**

Annual debt service requirements are shown below for all long-term debt:

| For the Year Ending June 30 | Principal | Interest |
|---|---|---|
| 2015 | $6,085,000 | $10,464,125 |
| 2016 | 6,220,000 | 10,198,575 |
| 2017 | 6,465,000 | 9,953,875 |
| 2018 | 6,725,000 | 9,695,275 |
| 2019 | 6,995,000 | 9,426,275 |
| 2020-2024 | 40,810,000 | 41,659,467 |
| 2025-2029 | 51,900,000 | 31,331,195 |
| 2030-2034 | 64,170,000 | 18,839,170 |
| 2035-2037 | 45,130,000 | 4,341,732 |
| | $234,500,000 | $145,909,689 |

| Reconciliation of long-term debt | | |
|---|---|---|
| Less deferred bond discount | (242,750) | |
| Add deferred bond premium | 8,263,703 | |
| Net long-term debt | $242,520,953 | |

# NOTE 5–PENSION PLAN AND OTHER POSTEMPLOYMENT HEALTH CARE BENEFITS

**A. CalPERS Miscellaneous Employees Plan**

Substantially all City employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in both the Safety and Miscellaneous Employee Plans. Benefit provisions under this Plan are established by State statute and City resolution. Benefits are based on years of credited service; one year of credited service is equal to one year of full time employment. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts. Electric Fund employees, which includes the IBEW Electrical Workers, participate in the City's Miscellaneous Plan. The Miscellaneous Plan's provisions and benefits in effect at June 30, 2014, are summarized as follows:

| | Miscellaneous | |
|---|---|---|
| **Hire Date** | **Prior to January 1, 2013** | **After January 1, 2013** |
| Benefit vesting Schedule | 5 years' service | 5 years' service |
| Benefit payments | monthly for life | monthly for life |
| Retirement age | 50 - 55 | 52 -67 |
| Monthly benefits, as a % of annual salary | 2.0%-2.7% | 1.0%-2.5% |
| Required employee contribution rates | 8% | 6.25% |
| Required employer contribution rates | 21.752% | 20.230% |

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the City must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liability. The City uses the actuarially determined percentages of payroll to calculate and pay contributions to CALPERS. This results in no net pension obligations or unpaid contributions. The City paid 100% of the contributions required by CALPERS, for the years ended June 30, 2014, 2013 and 2012. Actuarial required contributions, as well as the Annual Pension Costs for the years ended June 30, 2014, 2013 and 2012 amounted to $19,855,778, $18,063,140 and $18,065,353, respectively. The Electric Enterprise Funds' share of the Annual Pension Costs was $2,950,573, $2,602,215 and $2,746,450, respectively. The City does not have a net pension obligation since it pays these actuarially required contributions monthly.

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.50% is assumed, including inflation at 2.75%. Annual salary increases are assumed to vary by duration of service. Changes in the liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and ten percent of the net balance is amortized annually.

The 2.7% at age 55 Plan's actuarial value for the City (which differs from market value) and funding progress over the past three years are set forth below at their actuarial valuation date of June 30:

**Miscellaneous Plan (2.7% @ 55):**

| | Actuarial | | | | | |
|---|---|---|---|---|---|---|
| **Valuation Date** | **Entry Age Accrued Liability** | **Value of Asset** | **Unfunded (Overfunded) Liability** | **Funded Ratio** | **Annual Covered Payroll** | **Unfunded (Overfunded) as % of Payroll** |
| 2011 | $403,899,989 | $281,366,830 | $122,533,159 | 69.7% | $62,355,851 | 196.506% |
| 2012 | 429,218,174 | 302,337,115 | 126,881,059 | 70.4% | 63,780,598 | 198.934% |
| 2013 | 459,668,557 | 292,797,486 | 166,871,071 | 63.7% | 65,672,293 | 245.097% |

Actuarial trend data is not yet available for the 2% at age 62 Plan.

Audited annual financial statements and ten-year trend information are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

# NOTE 5–PENSION PLAN AND OTHER POSTEMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)

**B. Postemployment Health Care Benefits**

The City provides medical benefits to substantially all retirees under the City of Roseville Other Post Employment Benefit Plan, a sole employer defined benefit healthcare plan. The City is responsible for establishing and amending the funding policy of the Plan. The Plan does not issue separate financial statements. As of June 30, 2014, there were 525 participants receiving these health care benefits.

By Council resolution and through agreements with its labor units, the City provides certain health care benefits for retired employees under third-party insurance plans. A summary of eligibility and benefits offered are shown below:

| | | | | | |
|---|---|---|---|---|---|
| ☐ Eligibility | • Service or disability retirement from City (or 5 years' City service if hired after January 1, 2004) | | | | |
| ☐ Benefit | Hired before January 1, 2004 (a)<br>• City paid premium, subject to the following caps: | | Hired after January 1, 2004 (a)<br>• 100/90 formula, subject to vesting schedule: | | |
| | Group | 2014 | CalPERS Service | Vesting | |
| | Management/Confidential | $1,248 | 10 to 20 years | 50% to 100% | |
| | Stationary Engineers Local 39 | 1,284 | | | |
| | Roseville Police Association | 1,248 | • 100/90 formula rates: | | |
| | Roseville Police Officers Association | 1,248 | | 2013 | 2014 |
| | Roseville Firefighters Association | 1,248 | Single | $622.00 | $642.00 |
| | International Brotherhood of Electrical Workers | 1,248 | Two-Party | 1,183.00 | 1,218.00 |
| | | | Family | 1,515.00 | 1,559.00 |
| | (a) January 1, 2005, for Police Officers Association and Local 39 | | • Five years' City service Required | | |
| ☐ Dental, Vision, and Life | • None | | | | |
| ☐ Surviving Spouse Continuation | • Retiree medical benefit continues to surviving spouse if retiree elects CalPERS survivor annuity. | | | | |



**Funding Policy and Actuarial Assumptions**

The annual required contribution (ARC) was determined as part of a June 30, 2013, actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 6.50% investment rate of return, (b) 3.25% projected annual salary increase, (c) 3.00% of general inflation increase, and (d) a healthcare trend of declining annual increases ranging from 8.50% to 8.90% in 2014 to 5.00% for years starting 2021. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least biannually as results are compared to past expectations and new estimates are made about the future. The City's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll, on a closed basis, using a 28 year amortization period with 28 years remaining.

**Trend Information**

The following table provides three years of historical information of the Annual OPEB Cost for the City:

| Fiscal Year | Annual OPEB Cost (AOC) | Actual Contribution | Percentage of AOC Contributed | Net OPEB Obligation |
|---|---|---|---|---|
| 6/30/12 | $15,104,848 | $4,972,333 | 33% | $25,541,730 |
| 6/30/13 | 15,317,140 | 7,612,084 | 50% | 33,246,786 |
| 6/30/14 | 13,586,139 | 7,469,613 | 55% | 39,363,312 |

**Schedule of Funding Progress**

| Actuarial Valuation Date | Actuarial Value of Assets (A) | Entry Age Actuarial Accrued Liability (B) | Overfunded (Underfunded) Actuarial Accrued Liability (A–B) | Funded Ratio (A/B) | Covered Payroll (C) | Overfunded (Underfunded) Actuarial Liability as Percentage of Covered Payroll [(A–B)/C] |
|---|---|---|---|---|---|---|
| 6/30/09 | $0 | $180,097,000 | ($180,097,000) | 0.00% | $82,912,000 | -217.21% |
| 6/30/11 | 34,626,000 | 176,733,000 | (142,107,000) | 19.59% | 74,535,000 | -190.66% |
| 6/30/13 | 41,493,000 | 184,532,000 | (143,039,000) | 22.49% | 86,402,000 | -165.55% |

# NOTE 5–PENSION PLAN AND OTHER POSTEMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)

### Funding Progress and Funded Status

During the fiscal year ended June 30, 2014, the City has recorded a Net OPEB Obligation in the Post Retirement Internal Service Fund, representing the difference between the ARC and actual contributions, as presented below:

| | |
|---|---|
| Annual required contribution | $14,522,000 |
| Interest on net OPEB obligation | 2,161,041 |
| Adjustment to annual required contribution | (3,096,902) |
| Annual OPEB cost | 13,586,139 |
| Contributions: | |
| Pay-as-you-go premiums | (5,369,613) |
| Contribution to the Trust | (2,100,000) |
| Change in net OPEB obligation | 6,116,526 |
| Net OPEB obligation at June 30, 2013 | 33,246,786 |
| Net OPEB Obligation at June 30, 2014 | $39,363,312 |
| Percentage of annual OPEB cost contributed | 55% |



### Investments Authorized for the Retiree Health Plan Trust

The authorized investments for the Retiree Health Plan Trust were established pursuant to the Trust Agreement. The City, as trustee, has elected to invest the Trust assets in up to six months of cash, cash equivalent and/or money market funds for near term Trust benefits and expenses. All remaining assets will be invested in longer-term securities and shall be diversified with the intent to minimize the risk of long-term investment losses. Consequently, the total portfolio will be constructed and maintained to provide diversification with regard to the concentration of holdings in individual issues, issuers, countries, governments or industries. To achieve the Trust's investment objectives and the best balance between risk and return for optimal diversification, assets will be invested in accordance with the targets for each asset class as follows to attempt to achieve a long-term average total annual rate of return that is equal to or greater than the Trust's actuarial discount rate as described above.

| | Asset Weightings | |
|---|---|---|
| | Range | Target |
| Domestic Equity | 18%-38% | 28% |
| International Equity | 7%-27% | 17% |
| REITs | 0%-10% | 2.50% |
| Inflation Hedge | 0%-10% | 2.50% |
| Fixed Income | 35%-75% | 50% |
| Cash Equivalent | 0%-20% | 0% |

### Retiree Health Plan Assets

At June 30, 2014 the Plan reported assets available for benefits of $50,240,757. The composition of these assets at June 30, 2014 is shown below. For actuarial purposes, the value of the Plan's assets was determined to be fair value.

| | |
|---|---|
| Domestic Equity | $32,162,524 |
| Fixed Income Securities | 17,465,479 |
| Miscellaneous (EQUUS) | 448,440 |
| Cash Equivalent | 164,314 |
| Assets available for benefits at June 30, 2014 | $50,240,757 |

# NOTE 6–NORTHERN CALIFORNIA POWER AGENCY (NCPA)

**A. General**

The City participates in joint ventures through Joint Powers Authorities (JPAs) established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these JPAs exercise full powers and authorities within the scope of the related Joint Powers Agreement, including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Obligations and liabilities of the JPAs are not those of the City.

Each JPA is governed by a board consisting of representatives from each member agency. Each board controls the operations of its respective JPA, including selection of management and approval of operating budgets, independent of any influence by member agencies beyond their representation on the Board.

The City is a member of NCPA, a joint powers agency which operates under a joint powers agreement among fifteen public agencies. The purpose of NCPA is to use the combined strength of its members to purchase, generate, sell and interchange electric energy and capacity through the acquisition and use of electrical generation and transmission facilities, and to optimize the use of those facilities and the member's position in the industry. Each agency member has agreed to fund a pro rata share of certain assessments by NCPA and certain members have entered into take or pay power supply contracts with NCPA. While NCPA is governed by its members, none of its obligations are those of its members unless expressly assumed by them.

The City receives no income from NCPA, and does not participate in all of its projects. Further, NCPA does not measure or determine the City's equity in NCPA as a whole. NCPA reports only the City's share of its General Operating Reserve, comprised of cash and investments, and the City's share of those Projects in which the City is a participant. These amounts are reflected in the Electric Fund financial statements as Investment in NCPA Reserve.

During the year ended June 30, 2014, the City incurred expenses totaling $7,095,703 for purchased power and assessments and prepaid assets paid to NCPA.

The City's interest in certain NCPA Projects and Reserve, as computed by NCPA using unaudited information, is set forth below.

| | June 30, 2014 |
|---|---|
| **General Operating Reserve (including advances)** | **$1,504,523** |
| **Associated Member Services (including advances)** | **86,155** |
| **Purchased Power and Transmission** | **13,916** |
| **Undivided equity interest, at cost, in certain NCPA Power Projects:** | |
| **Geothermal Projects** | **416,729** |
| **Calaveras Hydroelectric Project** | **730,338** |
| **Combustion Turbine Project No. 2** | **52,378** |
| | **$2,804,039** |

The General Operating Reserve (GOR) is an additional operating reserve for non-budgeted items that are contingent or non-specific. Deposits to the GOR include items such as the City's portion of funds which resulted from the settlement with third parties of issues with financial consequences and reconciliations of prior years' budgets for programs. It is recognized that all the funds credited to the City are linked to the collection of revenue from the City's ratepayers, or to the settlement of disputes relating to electric power supply and that the money was collected from the City's ratepayers to pay power bills. Additionally, the NCPA Commission identified and approved the funding of specific reserves for working capital, accumulated employees post-retirement medical benefits, and billed property taxes for the geothermal project. The Commission also identified a number of contingent liabilities that may or may not be realized, the cost of which in most cases is difficult to estimate at this time. One such contingent liability is the steam field depletion which will require funding to cover debt service and operational costs in excess of the expected value of the electric power. The General Operating Reserve is intended to minimize the number and amount of individual reserves needed for each project, protect NCPA's financial condition and maintain its credit worthiness. These funds are available on demand, but the City maintains funds with NCPA as a reserve against these contingencies identified by NCPA.

Members of NCPA may participate in an individual project of NCPA without obligation for any other project. Member assessments collected for one project may not be used to finance other projects of NCPA without the member's permission.

# NOTE 6–NORTHERN CALIFORNIA POWER AGENCY (NCPA) (CONTINUED)

**B. Projects**

**Geothermal Projects**

NCPA's Geothermal Project has experienced a greater than originally anticipated decline in steam production from geothermal wells on its leasehold property. NCPA will continue to monitor the wells while pursuing alternatives for improving and extending reservoir performance, including supplemental water reinjection, plant equipment modifications, and changes in operating methodology. NCPA, along with other steam field operators, has observed a substantial increase in steam production in the vicinity of reinjection wells and is attempting to increase water reinjection at strategic locations. NCPA, together with other steam developers and the Lake County Sanitation District, has completed the construction of a wastewater pipeline project that greatly increased the amount of water available for reinjection.

Based on an internal assessment of the melded costs of power from the Geothermal Project and all other resources available to the members, NCPA believes its members will continue to be able to operate their electric utilities on a competitive basis, when compared to local investor owned utility rates, while meeting all electric system obligations including those to NCPA. In March 2009, NCPA issued $35,610,000 Geothermal Project Number 3 Revenue Bonds (2009 Series A). The proceeds were used to finance and operate the two NCPA 110 MW geothermal steam powered generating plants, Plant Number 1 and Plant Number 2. In 2012, NCPA issued $12,910,000 in bonds for Plant Number 1 turbine upgrades. The City is obligated to pay its contractual share of 7.883% of the operating costs and debt service until it is fully satisfied, regardless of resulting cost or availability of energy. At June 30, 2014, the book value of this Project's plant, equipment and other assets was $90,622,396, while its long-term debt totaled $41,480,868 and other liabilities totaled $43,854,698. The City's share of the Project's long-term debt amounted to $3,269,937 at that date.

On October 28, 2004, NCPA approved a resolution to finance the expansion and remodeling of the NCPA main office building located in Roseville. The expansion is included as part of the Geothermal Projects funded by the bonds mentioned above. The City will recover its 7.883% share of the cost of the expansion which was $204,958, with a 5% return on the investment over a ten year period. As of June 30, 2014, the City was owed $31,546.

**Calaveras Hydroelectric Project**

In July 1981, NCPA agreed with Calaveras County Water District to purchase the output of the North Fork Stanislaus River Hydroelectric Development Project and to finance its construction. Debt service payments to NCPA began in February 1990 when the project was declared substantially complete and power was delivered to the participants. Under its power purchase agreement with NCPA, the City is obligated to pay 12% of this Project's debt service and operating costs. In January 2012, NCPA refunded the outstanding Revenue Bonds with the $83,785,000 2012 Hydroelectric Project Number One Revenue Bonds. At June 30, 2014, the book value of this Project's plant, equipment and other assets was $398,311,438, deferred outflows of resources totaled $66,942,706, while its long-term debt totaled $416,877,291, and other liabilities totaled $42,290,706. The City's share of the Project's long-term debt amounted to $50,025,275 at that date.

**Combustion Turbine Project No. 2 (Steam Injected Gas Turbine Project)**

The City is a participant in a 49.8 megawatt Steam Injected Gas Turbine project which was built under turnkey contract near the City of Lodi and declared substantially complete on April 23, 1996. In October 1992, NCPA issued $152,320,000 of Multiple Capital Facilities Revenue Bonds to finance this project. In January 2010, NCPA refinanced the outstanding Capital Facilities Revenue Bonds by the issuance of the $55,120,000 Capital Facilities Revenue Bonds Series A (2010 Refunding Series A). Under the NCPA power purchase agreement, the City is obligated to pay 36.50% of the debt service and operating costs for the Lodi unit.

The City's participation in procurement of natural gas for fuel for existing and new combustion turbine units was approved in 1993. Although there is currently no additional debt financing, the City and NCPA have committed to long-term payments for gas transmission pipeline capacity, and entered a purchase contract for natural gas. The City is obligated to pay 17.9218% of the natural gas purchase contract.

At June 30, 2014, the book value of this Project's plant, equipment and other assets was $49,259,010, deferred outflows of resources totaled $2,642,954, while its long-term debt totaled $49,470,778 and other liabilities totaled $2,287,684. The City's share of the Project's long-term debt amounted to $18,056,834 at that date.

**C. NCPA Financial Information**

NCPA's financial statements can be obtained from NCPA, 651 Commerce Drive, Roseville, CA 95678.

# NOTE 7-RISK MANAGEMENT

The Electric Fund, as a Fund of the City, is included in the City's risk management program. The City manages risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters by participating in the public entity risk pools described below and by retaining certain risks.

Public entity risk pools are formally organized and separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, those entities exercise full powers and authorities within the scope of the related Joint Powers Agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Each risk pool is governed by a board consisting of representatives from member agencies. Each board controls the operations of the respective risk pool, including selection of management and approval of operating budgets, independent of any influence by member agencies beyond their representation on that board. Obligations and liabilities of these risk pools are not the City's responsibility.

The contributions made to the risk pools below equal the ratio of the respective member payrolls to the total payrolls of all entities participating in the same layer of each program, in each program year. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

**A. Risk Coverage**

**General Liability, Property, and Boiler and Machinery**

The City is a member of the California Joint Powers Risk Management Authority (CJPRMA) which covers general liability claims, property, and boiler and machinery losses. Once the City's self-insured retention or deductible is met, CJPRMA becomes responsible for payment of all claims up to the limit. Financial statements for the risk pool may be obtained from CJPRMA, 3201 Doolan Road, Suite 285, Livermore, CA 94551.

**General Liability Coverage**

The City has a self-insured retention (SIR) of $500,000 per claim with coverage up to a $40,000,000 limit. The City's premium was $429,658.

**Property Coverage**

CJPRMA has purchased commercial insurance against property damage. The City has a self-insured retention (SIR) of $25,000 per claim with coverage up to a $300,000,000 limit. The City's premium for coverage is $249,319.

**Boiler and Machinery Coverage**

CJPRMA has purchased commercial insurance against boiler and machinery damage. The City has a self-insured retention (SIR) of $5,000 per claim with coverage up to a $21,250,000 limit. The annual premium paid was $31,170.

**Roseville Energy Park Property Coverage**

The City purchased commercial property insurance specifically to cover the Roseville Energy Park. The City has a self-insured retention of $250,000 per claim up to a $200,000,000 limit. The City's premium for coverage is $407,008

**Fiduciary Coverage**

The City purchased fiduciary insurance specifically to cover the OPEB Trust. The self-insured retention is $15,000 per claim up to a $3,000,000 limit. The City's premium for coverage is $27,864.

**Workers' Compensation**

The City is also a member of the Local Agency Workers' Compensation Excess Joint Powers Authority (LAWCX), which covers workers' compensation claims up to $5,000,000 and has excess coverage through CSAC-EIA up to the statutory limit. The City has a self-insured retention (SIR) of $350,000 per claim. The City's premium of $555,181 was for current year coverage plus $3,874 towards a 97/98 assessment and $26,837 towards a 98/99 assessment. The total premium charged to the City was $585,892.

Financial statements for the risk pool may be obtained from LAWCX, 1750 Creekside Oaks Drive, Suite 200, Sacramento, CA 95833.

# NOTE 7-RISK MANAGEMENT (CONTINUED)

**B. Insurance Internal Service Funds**

The Governmental Accounting Standards Board (GASB) requires municipalities to record their liability for uninsured claims and to reflect the current portion of this liability as an expenditure in their financial statements. As discussed above, the City has coverage for such claims, but it has retained the risk for the deductible or uninsured portion of these claims.

The change in the City-wide Workers' Compensation Internal Service Fund's claims liability, including claims incurred but not reported is based on an independent actuarial study prepared annually and was computed as follows for the years ended June 30:

| | 2014 | 2013 |
|---|---|---|
| Claims liability, beginning of year | $7,703,704 | $6,309,143 |
| Current year claims | 3,024,000 | 2,363,000 |
| Change in prior year claims | (163,705) | 127,859 |
| Claims paid, current year claims | (495,516) | (331,860) |
| Claims paid, prior year claims | (1,144,676) | (764,438) |
| Claims liability, end of year | $8,923,807 | $7,703,704 |
| Current claims liabilities | $1,070,857 | $924,444 |

The City-wide liability for uninsured general liability claims, including claims incurred but not reported is reported in the City-wide General Liability Internal Service Fund. The liability is based on an independent actuarial study prepared annually and was computed as follows for the years ended June 30:

| | 2014 | 2013 |
|---|---|---|
| Claims liability, beginning of year | $1,892,605 | $1,555,904 |
| Current year claims | 802,000 | 1,119,000 |
| Change in prior year claims | 192,129 | 2,549,950 |
| Claims paid, current year claims | (33,104) | (105,869) |
| Claims paid, prior year claims | (1,028,101) | (3,226,380) |
| Claims liability, end of year | $1,825,529 | $1,892,605 |
| Current claims liabilities | $529,403 | $548,855 |

# NOTE 8-NET POSITION

Net position is the excess of all the Electric Fund's assets and deferred outflows of resources over all its liabilities and deferred inflows of resources. Net position is divided into the captions below:

*Net Investment in Capital Assets* describes the portion of net position which is represented by the current net book value of the Electric Fund's capital assets, less the outstanding balance of any debt issued to finance these assets.

*Invested in NCPA projects and reserve* describes the portion of net position which is represented by the current net book value of the Electric Fund's investment in NCPA.

*Restricted* describes the portion of net position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Electric Fund cannot unilaterally alter.

*Unrestricted* describes the portion of net position which is not restricted to use.



# NOTE 9–CONTINGENT LIABILITIES

### NCPA and Western Area Power Administration

Under the terms of its NCPA joint venture agreement, the City is contingently liable for a portion of the bonded indebtedness issued by these agencies under take or pay or similar agreements, as discussed in Note 6. The City's estimated share of such debt outstanding at June 30, 2014, was $71,352,046. Under certain circumstances, the City may also be responsible for a portion of the costs of operating these entities. Under certain circumstances, such as default or bankruptcy of other participants, the City may also be liable to pay a portion of the debt of these joint ventures on behalf of the other participants.

In addition, the City has a long-term obligation to the United States Department of Energy, Western Area Power Administration, for 4.5817% of the output of the Central Valley Project, California. This contract, also known as the Western Base Resource, obligates the City to make payments on a "take-or-pay" basis through December 31, 2024. The City expects to pay approximately $3.5 million annually for the term of this contract. The City receives approximately 153,000 MWh of energy per year under average hydro and storage conditions.

### Federal and State Grant Programs

The City participates in Federal and State grant programs. These programs have been audited by the City's independent accountants in accordance with the provisions of the federal Single Audit Act as amended and applicable State requirements. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

### Litigation

The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney there is no pending litigation, other than disclosed above, which is likely to have a material adverse effect on the financial position of the City.

### Other Commitments

The Electric Fund had the following outstanding significant commitments at June 30, 2014:

| Projects | Amounts (in millions) |
|---|---|
| REP long-term service agreement | $34.5 |
| Net power purchase contracts | 30.9 |
| Natural Gas Forward Obligations | 120.4 |

# NOTE 10–GAS SUPPLY ACQUISITION AND RESALE

The City operates certain electrical generating plants which provide power for sale to the public and needs reliable, economic supplies of natural gas to generate the needed electricity. In pursuit of that objective the City and its component unit, the former City of Roseville Redevelopment Agency, formed the Roseville Natural Gas Financing Authority for the purpose of acquiring, financing and supplying natural gas to the City. Summarized below are various agreements entered into by the Authority to achieve its purpose.

**A. Prepaid Gas Agreement**

Pursuant to an Agreement for the Purchase and Sale of Natural Gas dated January 24, 2007, the Authority used a portion of the proceeds of its $209,350,000 of Gas Revenue Bonds, Series 2007 (the Bonds) to prepay Merrill Lynch Commodities, Inc. (Gas Supplier) for a twenty year supply of natural gas. Commencing January 1, 2008, and continuing through December 31, 2027, the Gas Supplier is obligated to deliver daily contract quantities of natural gas on a firm basis to the designated delivery point. Daily contract quantities vary from month to month but not from year to year. This commitment totals 2,352,000 MMBtus (millions of British thermal units) per year or 47,040,000 MMBtus for the twenty year contract period. The Authority has recorded a Prepaid Natural Gas asset which is to be amortized as daily contract quantities are delivered.

The agreement provides for payments to be made by the Gas Supplier if it fails to deliver the daily contract quantities and may be terminated by the Authority in the event of non-performance by the Supplier. The Agreement will automatically terminate if there is a termination of the Commodity Swap (See Note 10 D below) which is not due to default by the Authority or if there is an event of default under the swap agreement entered into by the Gas Supplier and a third party. Upon early termination, whether due to the above or due to any other optional termination event as defined in the agreement, the Gas Supplier is required to make a termination payment to the Authority that is expected to be sufficient, together with other available funds, to redeem the Bonds. The Gas Supplier's commitments under this agreement are guaranteed by its parent company, Merrill Lynch & Co. Inc. under a guarantee agreement with the Authority.

**B. Funding Agreement**

Under certain conditions specified in a Funding and Assignment Agreement dated January 24, 2007 between the Authority and Gas Supplier, the Gas Supplier has agreed to advance funds to the Trustee to pay debt service when due or to redeem bonds in the event of early termination. Advances are required under covered swap deficiencies and covered termination deficiencies and optional advances may also be made. Advances are repayable by the responsible party causing the deficiency requiring an advance under this agreement. This agreement is coterminous with the Bonds. The Gas Supplier's commitment under this agreement is guaranteed by its parent company, Merrill Lynch & Co. Inc. under a guarantee agreement with the Authority.

There were no advances outstanding as of June 30, 2014.

**C. Supply Agreement**

Pursuant to a Natural Gas Supply Agreement dated February 1, 2007, the Authority has agreed to sell to the City a twenty year supply of natural gas. This Supply Agreement is coterminous with and provides for the delivery of natural gas in quantities which are matched to the Prepaid Gas Agreement, discussed above. For each MMBtu delivered (sold) to the City, the Authority will receive a variable revenue stream based on a first of the month index for the delivery location.

The Agreement terminates upon termination of the Prepaid Gas Agreement or upon the City's failure to make any required payment within two business days of the due date.

**D. Commodity Swap Agreement**

In order to have its gas price exposure consistent with prevailing market rates, the Authority entered into a natural gas Commodity Swap Agreement with JPMorgan Chase Bank (Counterparty). For the term of deliveries under the Prepaid Gas Agreement and the Supply Agreement, the Authority will pay an index price per MMBtu to the Counterparty, and the Counterparty will pay a fixed price to the Authority. The index price paid by the Authority is expected to approximate the price paid by the City under the Supply Agreement.

The monthly quantity and term of the Commodity Swap Agreement are matched to those of the Supply Agreement.

Detail of the commodity swap agreement is discussed in Note 11.

# NOTE 11–DERIVATIVE INSTRUMENTS

### A. Summary of Notional Amounts and Fair Values

The City enters into contracts to hedge its price exposures to natural gas, and to procure energy supplies. These contracts are evaluated pursuant to GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, to determine whether they meet the definition of derivative instruments, and, if so, whether they effectively hedge the expected cash flows associated with interest rate and energy exposures.

The City applies hedge accounting for derivatives that are deemed effective hedges. Under hedge accounting, the increase (decrease) in the fair value of a hedge is reported as a deferred cash flow hedge on the consolidated balance sheet. For the reporting period, all of the City's derivatives meet the effectiveness tests.

For energy derivatives, fair values are estimated by comparing contract prices to forward market prices quoted by third party market participants or provided in relevant industry publications.

The following is a summary of the fair values and notional amounts of derivative instruments outstanding as of June 30, 2014.

| | 2014 Change in Fair Value | | Fair Value, End of Fiscal Year 2014 | | Notional |
|---|---|---|---|---|---|
| | Classification | Amount | Classification | Amount | |
| **Effective Cash Flow Hedges** | | | | | |
| **Electric Fund** | | | | | |
| Pay Fixed SWAP, Natural Gas | Deferred Outflow | $16,760,440 | Derivative | ($6,087,309) | 8,687,000 mmBtu |
| Pay Fixed SWAP Natural Gas | Deferred Inflow | 123,855 | Derivative | $123,855 | 552,000 mmBtu |
| Receive Fixed SWAP, Electric | Deferred Inflow | (92,171) | Derivative | $0 | 36,600 mWh |
| **Roseville Natural Gas Financing Authority** | | | | | |
| Pay Fixed SWAP, Natural Gas | Deferred Inflow | ($1,185,338) | Derivative | $18,913,671 | 34,513,500 mmBtu |
| Receive Fixed SWAP, Natural Gas | Deferred Inflow | 6,154,442 | Derivative | 60,809,575 | 76,000-372,000 monthly mmBtu |
| | | | | $79,723,246 | |



### B. Objective and Terms of Hedging Derivative Instruments

The objectives and terms of the City's hedging derivative instruments that were outstanding at June 30, 2014, are summarized in the next table. The table is aggregated by the credit ratings of the City's counterparties. For counterparties having multiple ratings, the rating indicating the greatest degree of risk is used.

Objectives and terms of the City's hedging derivative instruments that were outstanding at June 30, 2014, are summarized in the table below:

| Type and Objective | Notional Amount | Effective Date | Maturity Date | Terms | Counterparty | Counterparty Rating |
|---|---|---|---|---|---|---|
| **Forward Contracts, Gas:** | | | | | | |
| Hedge Cash Flows on PG&E citygate Gas | 552,000 mmBtu | 7/1/2014 | 12/31/2014 | Pay $4.76; Receive NGI PG&E citygate price | J Aron & Company | BBB+ |
| Hedge Cash Flows on PG&E citygate Gas | 644,000 mmBtu | 7/1/2014 | 9/30/2014 | Pay $5.20; Receive NGI PG&E citygate price | J.P. Morgan Ventures Energy Corporation | A- |
| Hedge Cash Flows on PG&E citygate Gas | 4,287,500 mmBtu | 1/1/2015 | 12/31/2016 | Pay $4.92; Receive NGI PG&E citygate price | Macquarie Energy | A |
| Hedge Cash Flows on PG&E citygate Gas | 3,755,000 mmBtu | 7/1/2014 | 12/31/2015 | Pay $6.12; Receive NGI PG&E citygate price | Shell Energy North America | A- |

# NOTE 11–DERIVATIVE INSTRUMENTS (CONTINUED)

**C. Risks of Derivative Instruments**

**Credit risk**

Credit risk is the risk of loss due to a counterparty defaulting on its obligations. The City seeks to minimize credit risk by transacting with creditworthy counterparties. Interest rate swap counterparties are evaluated at the time of transaction execution. The procedure prohibits the City from executing energy hedge transactions with counterparties rated lower than BBB by Standard & Poor's or Fitch rating services, or Baa2 by Moody's. Subsequent to entering into transactions, the credit ratings of one or more counterparties may deteriorate. If so, the City's credit risk management policies increase the amount of collateral that the counterparty must post with the City when the counterparty owes the City, thereby reducing credit risk associated with the decline in the counterparty's credit worthiness.

**Termination risk**

Termination risk is the risk that a derivative will terminate prior to its scheduled maturity due to a contractual event. Contractual events include bankruptcy, illegality, default, and mergers in which the successor entity does not meet credit criteria. One aspect of termination risk is that the City would lose the hedging benefit of a derivative that becomes subject to a termination event. Another aspect of termination risk is that, if at the time of termination the mark-to-market value of the derivative was a liability to the City, the City could be required to pay that amount to the counterparty. Termination risk is associated with all of the City's derivatives up to the fair value amounts.



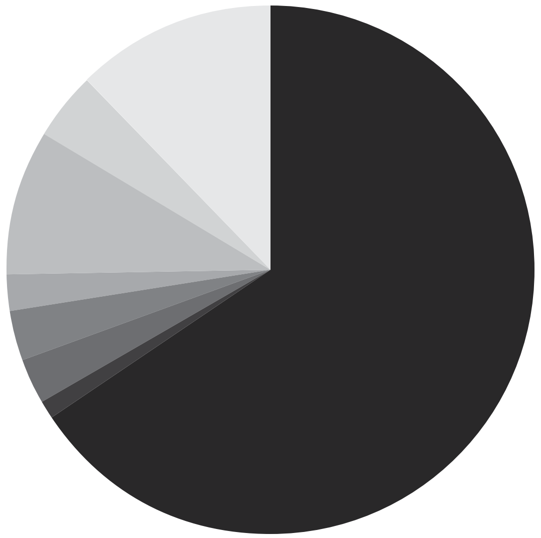
# NOTE 12–SUBSEQUENT EVENTS

**Electric System Revenue Refunding Bonds, Series 2014**

On July 24, 2014, the Roseville Finance Authority issued the Electric System Revenue Refunding Bonds, Series 2014 in the amount of $16,485,000 to refund the 2004 Electric System Revenue Certificates of Participation. The Bonds bear interest of 5%. Principal payments are due annually on February 1. Interest payments are due semi-annually on each August 1 and February 1, commencing on February 1, 2015 through February 1, 2034.

# CITY OF ROSEVILLE ELECTRIC ENTERPRISE FUND OPERATING EXPENSES

FOR THE YEAR ENDED JUNE 30, 2014



- Production and Purchased Power 60%
- Transmission Expenses 1%
- Distribution–Operations 4%
- Distribution–Maintenance 4%
- Customer Accounts, Service and Informational 1%
- Public Benefits and Administrative and General 10%
- Franchise Fee 4%
- Depreciation 15%

Source: City of Roseville Electric Department

| Description | Detail | 6/30/14 |
|---|---|---|
| PRODUCTION AND PURCHASED POWER | | |
| Purchased Power | $50,187,625 | |
| Electric Generation Operations | 38,393,907 | |
| **Total Production and Purchased Power** | | **$88,581,532** |
| **Transmission Expenses** | | **3,211,357** |
| DISTRIBUTION–OPERATIONS | | |
| Distribution Operation Supervision & Engineering | 1,388,517 | |
| Load Dispatching | 707,285 | |
| Station Expenses | 644,568 | |
| Overhead Line Expenses | 181,078 | |
| Underground Line Expenses | 567,265 | |
| Street Lighting | 472,034 | |
| Meter Expenses | 436,307 | |
| Customer Installation Expenses | 1,476 | |
| Miscellaneous Distribution Expenses | 192,766 | |
| Distribution Operations Rent | 278,960 | |
| **Total Distribution–Operations** | | **4,870,256** |
| DISTRIBUTION–MAINTENANCE | | |
| Supervision & Engineering | 27,402 | |
| Structures | 15,191 | |
| Station Equipment | 1,117,088 | |
| Overhead Lines | 1,349,485 | |
| Underground Lines | 504,653 | |
| Line Transformers | 40,112 | |
| Street Lights | 1,926,611 | |
| Meters | 536,621 | |
| Maintenance Miscellaneous–Distribution Plant | 76,903 | |
| **Total Distribution–Maintenance** | | **5,630,066** |
| CUSTOMER ACCOUNTS, SERVICE AND INFORMATIONAL | | |
| Supervision of Customer Accounts | 0 | |
| Meter Reading Expenses | 672,837 | |
| Customer Billing & Service Administration | 589,639 | |
| Uncollectible Accounts | 226,948 | |
| Supervision of Customer Service & Informational | 69,877 | |
| Customer Assistance, Informational & Inst. Advertising | 156,080 | |
| Customer Service & Information | 465,926 | |
| **Total Customer Account, Service and Informational** | | **2,181,307** |
| PUBLIC BENEFITS AND ADMINISTRATIVE AND GENERAL | | |
| Administrative & General Salaries | 2,217,920 | |
| Office Supplies | 730,369 | |
| Outside Service Employed | 326,276 | |
| Property Insurance | 98,468 | |
| Employee Pension and Benefits | 819,202 | |
| Regulatory Commission Expenses | 52,682 | |
| General Advertising Expenses | 185,181 | |
| General Rents and Transportation Expenses | 9,110 | |
| Misc. Administrative, City Indirects & Expenses Transferred | 4,864,795 | |
| Public Benefits Programs and Rebates | 5,165,923 | |
| **Public Benefits and Administrative and General** | | **14,469,926** |
| **Depreciation** | | **21,575,915** |
| **Franchise Fee** | | **6,310,781** |
| **Grand Total Operating Expenses** | | **$146,831,140** |

# CITY OF ROSEVILLE ELECTRIC DIVISION
# DISTRIBUTION CAPITAL ASSETS
## SUPPLEMENTAL INFORMATION

AS OF JUNE 30, 2014 — FISCAL YEAR ENDED 6/30/14

| Asset Description | Cost | Depreciation | Book Value |
|---|---|---|---|
| Miscellaneous Intangible Plant–Distribution | $1,427,125 | $1,427,125 | $0 |
| REP Structure & Improvements | 5,951,507 | 890,879 | 5,060,627 |
| REP Fuel Holders & Producers | 4,445,460 | 950,834 | 3,494,625 |
| REP Prime Movers & Generators | 136,020,522 | 43,569,718 | 92,450,804 |
| REP Accessory Electric Equipment | 11,119,586 | 3,566,336 | 7,553,250 |
| REP Miscellaneous Power Plant Equipment | 44,763,397 | 118,953,717 | 5,809,681 |
| Land & Land Rights | 4,923,682 | 0 | 4,923,682 |
| Structures & Improvements | 14,884,818 | 4,346,836 | 10,537,982 |
| Station Equipment & Substations | 68,061,416 | 20,732,413 | 47,329,003 |
| Poles, Towers, & Fixtures | 11,368,635 | 3,223,055 | 8,145,580 |
| Overhead Conductors & Devices | 1,947,666 | 1,118,953 | 828,713 |
| Underground Conduit | 20,498,681 | 1,723,821 | 18,774,860 |
| Underground Conductors & Devices | 178,044,235 | 46,774,168 | 131,270,068 |
| Line Transformers | 30,798,809 | 10,574,055 | 20,224,754 |
| Meters | 5,458,990 | 2,442,589 | 3,016,401 |
| Installations on Customer Premises | 1,919,322 | 551,805 | 1,367,517 |
| Street Lighting & Signal Systems | 61,692,314 | 29,439,034 | 32,253,280 |
| Office Furniture & Equipment | 610,799 | 479,818 | 130,981 |
| Tools, Shop & Garage Equipment | 27,422 | 19,472 | 7,950 |
| Laboratory Equipment | 422,277 | 418,111 | 4,166 |
| Power-operated Equipment | 14,512 | 3,678 | 10,834 |
| Communication Equipment | 2,159,596 | 630,964 | 1,528,632 |
| Miscellaneous Equipment | 307,272 | 190,736 | 116,536 |
| Other Tangible Property | 1,526,901 | 608,496 | 918,405 |
| **Distribution Capital Assets in Service** | **608,394,946** | **192,636,614** | **415,758,332** |
| **Work in Progress** | **18,543,710** | **0** | **18,543,710** |
| **Grand Total** | **$626,938,656** | **$192,636,614** | **$434,302,042** |



AS OF JUNE 30, 2014 — FISCAL YEAR ENDED 6/30/14

| Asset Description | Cost | Depreciation | Book Value |
|---|---|---|---|
| Distribution Capital Assets in Service by Voltage | | | |
| Power Plant | $202,313,340 | $67,878,919 | $134,434,421 |
| 60 kV System | 41,637,770 | 11,512,581 | 30,125,189 |
| 12 kV System | 186,048,725 | 53,377,994 | 132,670,731 |
| All Secondary Systems | 156,699,206 | 51,936,557 | 104,762,648 |
| Other | 21,695,905 | 7,930,563 | 13,765,342 |
| **Distribution Capital Assets in Service** | **$608,394,946** | **$192,636,614** | **$415,758,332** |

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CITY OF ROSEVILLE
CALIFORNIA

Roseville Electric Utility

roseville.ca.us/electric