Play. Learning. Reliability. Life is Electric.

Roseville Electric Utility 2016 Annual Report


How to Prevent Pollution?

Director's Message

Operating a municipal electric utility means more than simply providing electricity to customers. For Roseville Electric Utility, it means taking pride and responsibility in being customer-owned and engaged in our community and with our customers. Our role goes beyond electric service and touches many aspects of our lives in Roseville, such as serving as an economic engine for business growth and development, supporting public services and recreational facilities, and promoting education in the community through city libraries and our Utility Exploration Center—all which help establish a great standard of living in Roseville.

Although our business environment continues to change in the wake of evolving customer expectations and regulatory and technological changes, we remain focused on aligning our services to meet the needs of our customers and community. At the forefront, this means getting the basics right — providing safe, reliable service at a fair and reasonable price. It also means introducing new services and programs to help customers make decisions that impact the way they use electricity and rely on the electric utility. Our 2016 annual report highlights a number of these efforts, including advancing a community solar pilot project and serving as an advisor to our customers through our Trusted Solar Advisor campaign.

"Although our business environment continues to change in the wake of evolving customer expectations and regulatory and technological changes, we remain focused on aligning our services to meet the needs of our customers and community."

As usual, this year's annual report identifies a host of figures important to the electric utility's operations, but overall it reflects that the electric utility is in a strong financial position. This strong financial position reflects our City Council's priorities, years of hard work and planning, and will allow the utility to operate with stability in a business environment with constant change. With 2016 behind us, we will continue to look forward to respond to industry changes and build upon the community values inherent to our business model. For Roseville Electric Utility, serving our customers and community truly means life is electric.

Sincerely,

Michelle Bertolino
Roseville Electric Utility Director

After a century of doing business one way, new technology, public policy and customer expectations are driving the change in the way utilities will provide electricity to its customers in the future. No one knows exactly how these changes will play out, but they are causing all of us to rethink the way we do business. New ideas and fresh approaches can create exciting new opportunities!

California is a leader in investigating new technology, including battery storage, which could accelerate the move to renewables from fossil fuels. Additionally, the electrification of transportation—electric vehicles—will have a significant impact on our utility as we evolve our distribution system to accommodate in-home and community charging stations for our customers.

One thing that's not changing is the critical importance of our employees. Through their hard work and diligence, our employees help power your world. However, a large number of our employees plan to retire in the next few years, increasing the importance of knowledge transfer.

We aspire to be a workplace of choice, a place that draws bright, dedicated and hard-working employees. Customers benefit from this, as the best and the brightest ensures you receive the highest value for your electric dollar.

Ten Largest Customers

Fiscal Year Ended June 30, 2016

Rank	Business Type	kWh	Percent Total kWh	Revenue	Percent Total Revenue
1	Manufacturing	106,000,000	8.91%	$10,854,119	6.62%
2	Admin/Office/R&D	40,310,000	3.39%	$4,175,086	2.55%
3	Medical Care	29,160,046	2.45%	$3,303,791	2.02%
4	Government and Utilities	26,265,320	2.21%	$2,793,606	1.70%
5	Medical Care	22,767,589	1.91%	$2,687,073	1.64%
6	Retail and Property Management	19,168,026	1.61%	$2,389,103	1.46%
7	Retail	12,675,285	1.07%	$1,421,243	0.87%
8	Grocery	10,547,920	0.89%	$1,374,437	0.84%
9	Grocery	9,508,400	0.80%	$1,087,264	0.66%
10	Telecommunications	8,900,239	0.75%	$1,059,995	0.65%
Total		23.98%			19.00%

Compare Our Rates

Electric Rate Comparison with PG&E[1]—Cents/kWh

Customer Type	Roseville Electric Rates	PG&E Rates	% Lower
Residential	15.24	19.64	-22%
Commercial	13.88	19.27	-28%
Industrial	11.06	14.74	-25%

[1] Based on estimated average annual rates as of June 30, 2016

Sources of Power Supply

Fiscal Year Ended June 30, 2016

Source	Type	Area	Capacity Available (MW)[1]	Estimated Power (GWh)[2]	% of Total
Roseville Energy Park[3]	Natural Gas	Local	155	533	43%
Roseville Power Plant 2[4]	Natural Gas	Local	48	2	0%
Western Area Power Administration[5]	Hydro	Western	45	102	8%
NCPA					
Geothermal Project	Geothermal	ISO	8	65	5%
Hydroelectric Project	Hydro	ISO	29	7	1%
Steam Injected Gas Turbine Generator Project	Natural Gas	ISO	20	1	0%
Open Market Purchases					
Renewable Purchases	Various	Various	24	305	25%
Non Renewable Purchases	Various	Various	50	221	18%
Total			**379**	**1,236***	**100%***
Peak Demand (MW)			331		
Capacity Reserve Percent[6]			15%		

Source: City of Roseville

1 Capacity in MW and available for System Peak.

2 One gigawatt-hour (GWh) equals one million kilowatt-hours (kWh).

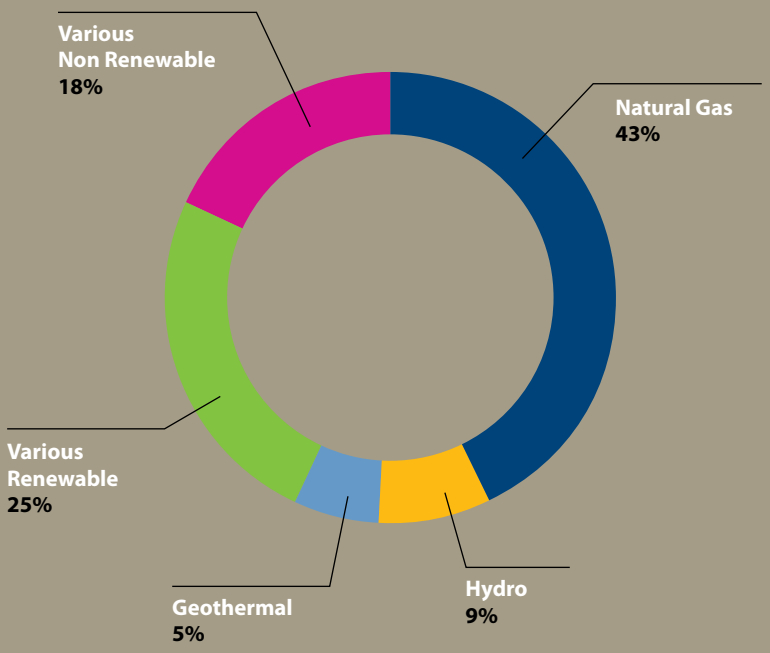
3 Includes slight de-rating for summer (ambient temperatures).

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 long-term sale.

* Numbers may not total due to rounding



Customer Sales and Peak Demand

Fiscal Years Ending June 30, 2016

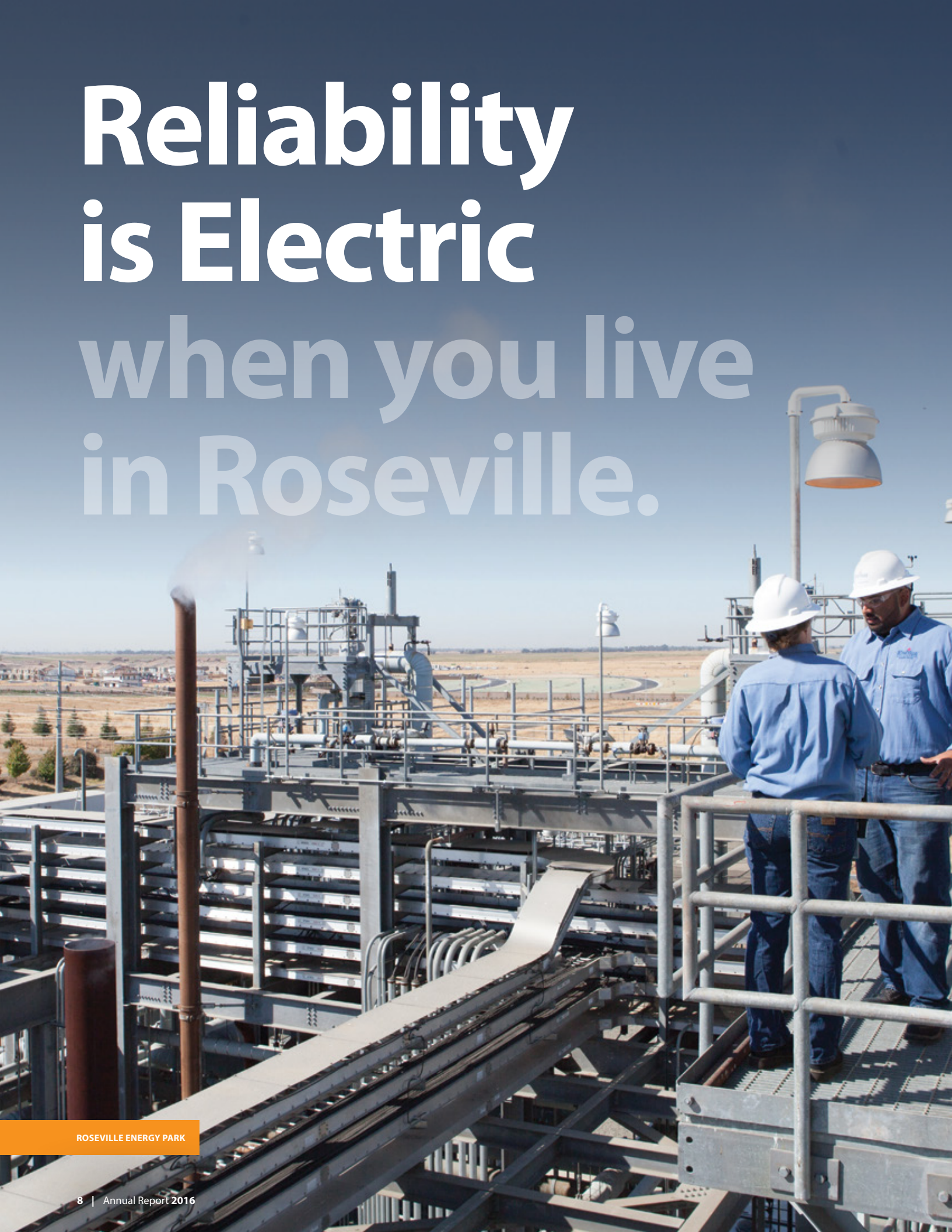
	2012	2013	% Chg	2014	% Chg	2015	% Chg	2016	% Chg
Customers[1]									
Residential	47,611	48,387	1.63%	49,013	1.29%	49,851	1.71%	50,784	1.87%
Commercial	6,505	6,561	0.86%	6,615	0.82%	6,673	0.88%	6,700	0.40%
Total	54,115	54,948	1.54%	55,628	1.24%	56,524	1.61%	57,484	1.70%
Energy Sales MWh									
Residential	440,311	443,489	0.72%	434,594	-2.01%	428,824	-1.33%	439,495	2.49%
Commercial	752,001	750,694	-0.17%	748,218	-0.33%	748,913	0.09%	750,482	0.21%
Total	1,192,312	1,194,183	0.16%	1,182,812	-0.95%	1,177,737	-0.43%	1,189,977	1.04%
Sales Revenues ($000s)									
Residential	65,464	66,189	1.11%	66,728	0.81%	67,660	1.40%	68,853	1.76%
Commercial	88,223	89,172	1.08%	92,347	3.56%	96,028	3.99%	95,078	-0.99%
Total	**153,687**	**155,361**	**1.09%**	**159,075**	**2.39%**	**163,688**	**2.90%**	**163,930**	**0.15%**
Peak Demand (MW)	**312.0**	**330.0**	**5.77%**	**339.8**	**2.97%**	**340.03**	**0.07%**	**331.29**	**-2.57%**

Revenues listed are as billed.

Note: Numbers may not total due to rounding.

1 Customer counts report as fiscal year average annual values.

Reliability is Electric when you live in Roseville.



ROSEVILLE ENERGY PARK

Reliability.

As an electricity provider, reliability is our first and most important job. Delivering electricity reliably keeps our vibrant business community humming and our homes and electronic gadgets powered.

Electric reliability is not static. Unlike graduating from high school or taking your first job, electric reliability is not a "one and done" milestone you simply check off and move on. Electric reliability is more of a journey.

Nothing shows our commitment to electric reliability better than the rebuilding of the Douglas Substation. And nobody tells that story better than the employees who are working on that project.

Electric Reliability at the Heart of What We Do

Delivering electricity to your home or business requires a complex network of equipment and wires, similar to highways and surface streets. And like real-world streets, our electric system needs to be maintained and expanded. We want to prevent "potholes" in our electric system.

Our electric distribution system's biggest project in 2016 was the rebuilding of the Douglas Substation. Originally built in the 1960s, the Douglas Substation has reliably served Roseville for decades. But, as the years passed and Roseville grew, that facility needed to be rebuilt.

That's why we're investing about $8 million to rebuild and expand that substation, so that new and existing businesses and residents can be assured of reliable electric service.

"The rebuild of the Douglas Substation will position us to handle new growth along the I-80 corridor," said Ozro Corulli, a power engineer. "We spent several years designing the new facility, and we expect to begin construction in early 2017."

"When the new substation is operating, it will allow us to serve new customers, back up other substations and provide additional operational flexibility," he added.

"We had some special challenges in designing the rebuild," commented his colleague, Vincent Bottoni, a power engineer, "The new, upgraded facility has to fit on the footprint of the existing two-acre facility and continue operating while we're building the new one."

"Really, this is a case of changing the tires on a car that is still moving," he said.

The Douglas Substation rebuild team took several steps in 2015 to compress the design and construction schedule, which helped keep the project on time and on budget.

In addition to the Douglas Substation rebuild, we replaced 23 protection systems on our distribution network. These systems act like the circuit breakers in your home, protecting people, property and equipment if there's a short circuit on the distribution system, which is what happens if a vehicle knocks down one of our utility poles.

We also installed 12 protection systems on our higher-voltage lines at the Berry Substation in 2015. Severe weather brought tree branches and debris into contact with these high-voltage lines. If we didn't have protection systems on those lines, Roseville could have had a prolonged power outage.

"We work hard to prevent overloading our electric system and protecting it from weather-related incidents that cause outages," said Mark Wilhelm, engineering manager. "We continually assess where we need to perform proactive maintenance on the system so our customers can keep receiving the reliable electricity they expect."

Our commitment to reliability won't stop with the Douglas Substation project, in coming years, Roseville Electric Utility expects to invest more than $10 million each year to build new facilities and rehabilitate existing ones.

Excellent Employees, Excellent Workplace, Excellent Value

Having a highly skilled, creative and energetic workforce is needed to maintain our outstanding service levels—our employees are as important as the circuits and wires we install.

We project a number of employees in key positions will be retiring in the next five to 10 years. Roseville Electric Utility is working to become a workplace of choice, hiring smart, and thoughtful employees where all can excel. Maintaining a positive workplace ensures customers receive the highest value for their electric dollar.

"We continually assess where we need to perform proactive maintenance on the system…"

Challenge Coin Program Recognizes Outstanding Performance

To help our workforce maintain a culture focused on providing great customer service, we looked internally to develop a special recognition program. Tom Pontes, line construction supervisor, proposed creating the Challenge Coin program to identify outstanding contributions by employees.

"I spent over a decade in the Air Force, and among the military services, challenge coins are a big deal," he said. In his office, he proudly displays several challenge coins he earned during his military career. "It's one military branch's way of recognizing outstanding work by another branch. When you 'get coined,' you know you've done something special, and it's all in the service of a common purpose."

As a Roseville Electric Utility employee, Tom was recognized for his work in restoring power in the rugged terrain blackened by the Valley Fire. He was part of a crew from Roseville that worked 16-hour days for three weeks in September 2015 to rebuild the electric lines that serve a water-treatment plant and electric generation facility to a community northwest of Roseville.

"We started the Challenge Coin as a way to recognize high achievers and hold them up as examples for the rest of the workforce," Tom said. "If we want to be a workplace of choice, we need to show employees what workplace excellence looks like."

Lupe: Focus on Safety Shows Management Cares About Employees

Guadalupe (Lupe) Oseguera, a mechanic at the Roseville Energy Park, received a challenge coin by performing specialized maintenance tasks on a variety of equipment that saved customers money as well as water and kept the plant operating at an optimal level during peak demand.

He also rebuilt equipment instead of ordering new equipment, resulting in further savings. The work Lupe was recognized for typically had been performed by specialized outside contractors. Now, Lupe is Roseville Electric Utility's specialized inside expert!

"At my prior job, at a different utility, employees didn't bother telling management anything because it would fall on deaf ears," Lupe said. "But here, managers encourage employees. Everyone has an open mind, and people can speak freely. Managers are willing to help, and they have an open-door policy. They're willing to get their hands dirty, if necessary, and they get me what I need."

Lupe said morale is much higher at Roseville Electric Utility compared to where he used to work. "It's a 180-degree change. Here, all meetings start with a safety minute, because people here have an honest concern for everyone's health."

David's Vigilance Saves Customers Money

David Siao, another outstanding employee, brought his passion for public service to Roseville Electric Utility.

Shortly after joining us, David uncovered an anomaly in the way the state calculated one aspect of our solar power program. He worked with his managers, and then with state officials, and ended up saving customers a significant sum of money.

"Public service is my passion," he said. "For me, there's no better feeling than providing excellent service to our customers."

David, who as a resource analyst ensures we comply with state regulatory issues, also enjoys Roseville Electric Utility's work environment.

"The employees I have met are really entrepreneurial, smart and motivated," David said. "It's a great atmosphere. Roseville Electric Utility is by far the most supportive, helpful and friendly place I have worked in my career. I could see me staying here for a long time."

Pranavachelvi Finds Better Work-Life Balance

Before coming to Roseville Electric Utility, Pranavachelvi (Pranava) Pirabarooban was working in a prestigious financial services firm, but the mother of two small children commuted 45 minutes each way to her job.

"I was looking to make a switch and I heard a lot of good things about working at Roseville Electric Utility, so I applied and I was hired," Pranava said.

"I have a diverse set of work tasks tied to customer electric usage, and I find myself stretched but in a good way," she said. What her friends told her after


makita

she had been hired, "You're really lucky to work there," was true, she added.

"I interact more with my manager here, and I like that. At my previous jobs, the company was so big it was hard to get to know anyone. Here, I feel like everyone knows everyone. I really like the smaller workplace. With two small children and a husband with a long commute, work-life balance is really important to me. When people talk about the City of Roseville, I feel proud to be part of it.

Efficiency Upgrades Help Local Businesses

A customer focused culture means helping local business owners accomplish their energy-service goals. When we help business customers lower their electric bills by upgrading their electric equipment, they can reinvest those saved dollars in the community, possibly by hiring new employees or expanding. In that way, customer service supports local economic development efforts which creates a vibrant local economy.

Last year, Roseville Electric Utility worked with several local businesses to lower their electric bill by installing high-efficiency lighting, advanced heating, ventilation and air conditioning (HVAC) systems, solar canopies and cool roofs.

"We wanted to become a more energy-efficient business," recalled Steve Ruckels, controller of the John L. Sullivan Automotive Group. "Our community values efficiency and the environment. We sell electric vehicles like Priuses, Volts and Bolts. So naturally we were interested in using electricity as wisely as possible."

Steve was excited about the significant financial benefits of the upgraded lighting and heating and air conditioning systems as well as the solar canopies and cool roofs at the Sullivan car lots. But he also was keen on how better-quality lighting helps his three dealerships sell cars after dark.

"One of the adjoining car lots made a big lighting upgrade and I could see it made quite a difference in the way the cars appear at night," he told us. "We sell cars from 8 a.m. to 10 p.m. seven days a week," Steve said. "We need those cars to look as appealing at 9 p.m. as they do at 9 a.m. We calculate our investment in energy efficiency will be paid back in five years. Anytime you can get that kind of return, you have to take it."

A few miles away, at the Westfield Galleria Mall, senior manager Jeff Richardson is delighted that a recent lighting upgrade project cut his electric bills by about $20,000 per month. But what he's really excited about is how the installation of high-efficiency LED lighting means the Galleria's maintenance staff doesn't have to spend time replacing the old bulbs, which cost $300 each.

"The old high-pressure sodium lights we used in our parking garages were getting harder and harder to find," he said. "And installing them meant putting a worker 30 feet up in the air in a bucket truck. The lights were always going out, and it was getting expensive and difficult to replace them."

But the LEDs Westfield Corporation installed at the Galleria have a 10-year estimated lifespan, at least twice the lifespan of the older lighting. "The lighting quality is so much better now. Customers tell us the brighter lighting has made them feel safer when they're in our parking garages."

Besides the financial incentives for lighting efficiency, the improvements are appreciated by customers too.

"First of all, we're very interested in operating sustainably. Our managers like it. Our customers like it. It makes sense on so many levels. We may even install solar panels before too long. Second, the safety of our customers and employees is critical," Jeff continued. "You can't over-estimate the importance of having a safe retail space. And third, this project will pay for itself in about three years."

Westfield Corporation manages 36 commercial properties across the U.S., and Jeff had high praise for Roseville Electric Utility.

"The lighting rebates here were higher than almost any other utility we work with," he said. "And their electric reliability is higher than almost any property we manage. Some of our malls have three or four power outages each month, but the Galleria rarely has any electric problems," Jeff said. "I had a pretty positive view of Roseville and its electric utility before the lighting upgrade, but now I'd be hard pressed to find better business partners anywhere than the City of Roseville and Roseville Electric Utility."

Solar Power Gets Even More Popular

Solar power has been so popular with customers—both residential and commercial—that we are embarking on a community solar pilot project we anticipate will be under construction in late 2017.

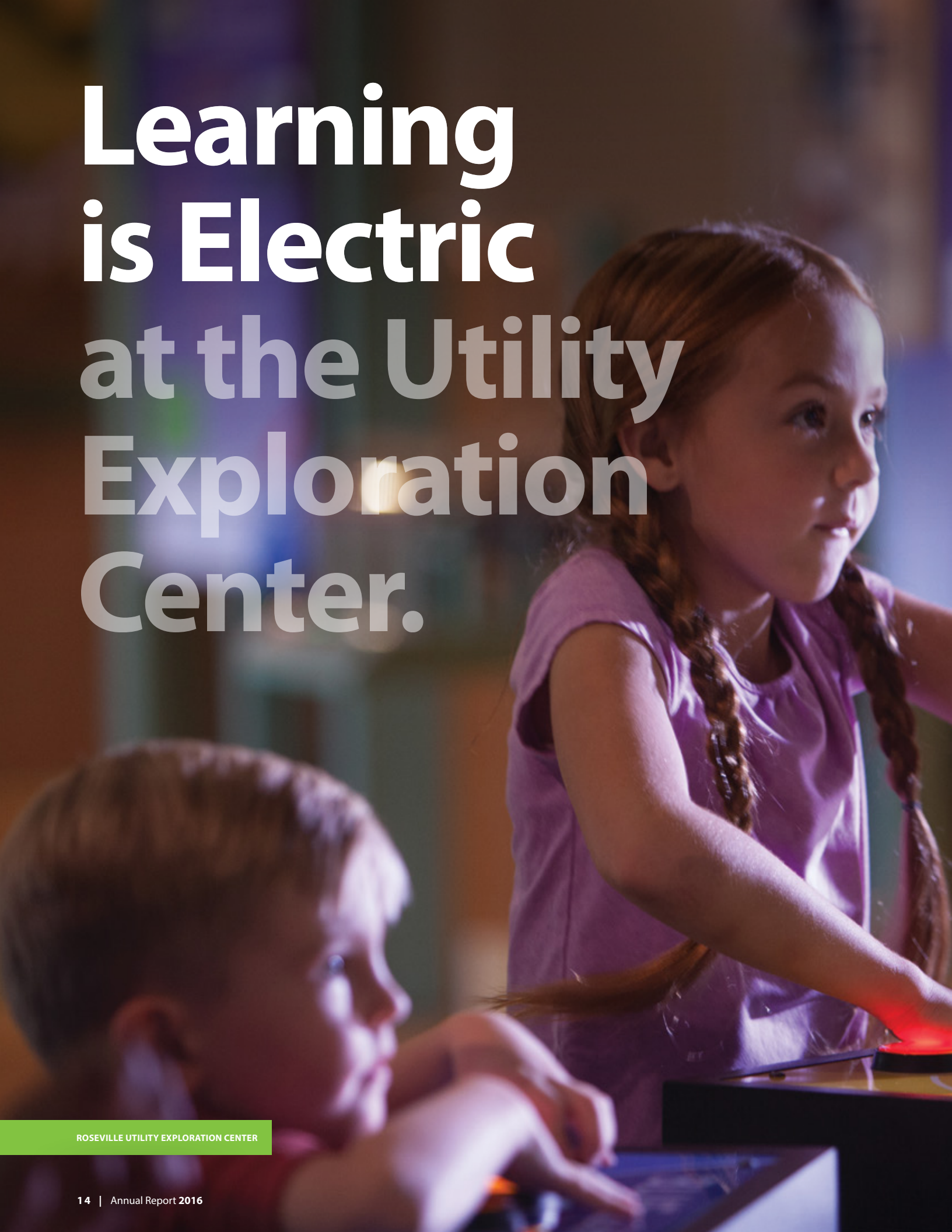
"Many of our customers have told us they want a more sustainable form of electricity, but in some cases they don't own their home or place of business, so a rooftop solar installation is not practical for them," said Mark Riffey, a senior retail electric analyst. "Or if they do own their home or business, perhaps the roof faces away from the sun, which would limit the effectiveness of a rooftop solar installation."

"We want to provide customers with the type of electric service they want."

While Mark manages the community solar project, his colleague, David Dominguez, keeps busy as our trusted solar advisor.

Last year, over 620 Roseville residential customers installed a solar system on their roofs. That's more than double the number who installed rooftop solar systems in 2015. All told, Roseville ended 2016 with a total of 3,083 rooftop solar installations.

"We're pro-solar," David said. "If people want to install solar panels on their roof, my job is to make sure they are well informed and understand their options and let them decide."



Learning is Electric at the Utility Exploration Center.

ROSEVILLE UTILITY EXPLORATION CENTER

Learning.

Roseville Electric Utility and Roseville Environmental Utilities provide funding to the Utility Exploration Center, which is why admission there is free. Last year, 7,301 students attended programs at the Utility Exploration Center, a 3 percent increase over the year before.

The Utility Exploration Center is one of Roseville's real gems. A unique, hands-on, interpretive learning center dedicated to energy efficiency, resource conservation and living sustainability, the center is visited by tens of thousands of students, young adults and parents each year.

"Wow, they're really into it, aren't they?" one high school student asked another after Melissa Kinsey and two of her colleagues delivered a unit on careers in utilities hosted by the Utility Exploration Center.

Melissa hears that now and again. And each time she hears it, she knows she has made the right career choice.

Her title at the Utility Exploration Center is "interpreter," but she's not bilingual. Instead, Melissa blends the language of science and a healthy sense of fun to take Roseville students on a hands-on, experiential journey through electricity, water, sustainability and the environment. By making electricity personally relevant and fun for Roseville students, Melissa and her fellow interpreters try to empower them to live a more sustainable lifestyle.

"Science is fun—it's the epitome of fun," Melissa said enthusiastically. "Utility Exploration Center interpreters take science and facts and make them fun and accessible. Sometimes people are put off by science because it comes at them as a one-way stream of facts that need to be memorized, like the atomic weight of plutonium. There's no attempt to make it personally relevant, let alone fun."

The Utility Exploration Center has several electricity programs for elementary- and middle-school students, including Power Patrol and Electric Flow. Power Patrol drew 580 students last year while 736 students experienced Electric Flow. Another program, Energy Insights, was attended by 132 Girl Scout Juniors.

Parents always accompany the students during Utility Exploration Center visits. So while Melissa and her colleagues know their activities are targeted to school children, they also know they are speaking to the parents too.

"Electricity is one of the easier topics to discuss with students as well as their parents," she continued.

The Utility Exploration Center's interpreters are constantly on the lookout for new ways to present their material is a fun and easy-to-understand and engaging manner. It takes nearly a full year to develop a new school program, and even longstanding programs get updated to keep them fresh.

In addition to the school programming, the Utility Exploration Center hosts several electricity-themed community events during the year, including:

- Count Watts Spooktacular, where we identify and fight phantom energy
- Big Trucks Summer, where kids can climb behind the wheel of a large electric utility and talk with linemen about what they do
- Get Energized, a summer event where families can build and race solar cars and learn more about efficiency upgrades and rebates to help save during those hot summer months

"Through interpretation, we create understanding. Through understanding, we create appreciation. And through appreciation, we create protection," Melissa said.

"Science is fun—it's the epitome of fun, …Utility Exploration Center interpreters take science and facts and make them fun and accessible."

Play is Electric at Roseville's Parks, Recreation & Libraries Department.

ROSEVILLE PARK

Play.

Seventy two parks and facilities. 4,000 acres of open space. 32 miles of bike trails. 7.5 million square feet of public landscaped medians, paseos and street corridors. 350 downtown Vernon Street events a year. Two golf courses.

Life is busy at Roseville's Parks, Recreation & Libraries department. That's exactly the way Dion Louthan, the director, likes it. An avid golfer and scuba diver, Dion came to Roseville after serving as parks director in Salina, Kansas and Henderson, Nevada.

"We have so many different kinds of health and wellness activities here in Roseville," he said. "There's unparalleled opportunity for active recreation—golf, swimming, biking—but there's no shortage of passive recreational opportunities either, like sitting under a tree and reading a book at one of our parks."

"There's also a conservation element to Parks & Recreation too," he continued. "In the last year, because of the drought, we have focused more conservation efforts on landscapes by replacing turf with drought-resistant plants and shrubs. Recently, one of our crews was at Roseville Electric Utility's headquarters, replacing its landscaping. We all work together to be exceptional stewards of our natural resources, for the benefit of residents."

Through funding from Roseville Electric Utility, the Parks, Recreation & Libraries department plays a big role in making Roseville a desirable place to live.

"We're constantly enhancing our offerings to make sure we deliver exceptional experiences, whether personal, social or ecological," Dion said. "The support we receive from Roseville Electric Utility helps us maintain high-quality programs and services while embracing new ideas and technologies to expand our reach."

To help keep our downtown vibrant, Roseville's Parks, Recreation & Libraries department looks to the Town Square for a number of high-profile events.

"We're part of the renaissance occurring along downtown Vernon Street," Dion said. "In 2016, we estimate a total of 120,000 people attended 350 different events in and around Vernon Street.

We have a number of popular events, but none matches the excitement of the annual holiday Tree Lighting event. With sponsorship from Roseville Electric Utility, the city's 45-foot tall tree is draped with 10,000 LED lights, the centerpiece of a unique experience that has become a tradition for families to attend.

The week of holiday fun and other activities helped Roseville land on several "Best Places to Live" lists in 2016, including:

- 9th Best Place to raise a family in California (Wallethub.com)
- 21st Safest City in the U.S. (Niche.com), and
- 32nd Best City to live in America (Wall St 24/7's 50 Best American Cities to Live)

"Roseville's downtown is really a great community gem, and with support from our community-owned utility, we're taking steps to make it even better," Dion said.

"The support we receive from Roseville Electric Utility helps us maintain high-quality programs…"

FINANCIALS

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

Public Utilities Commission
Electric Department
City of Roseville, California

We have audited the accompanying financial statements of the Electric Enterprise Fund (Electric Fund) of the City of Roseville, California (City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric Fund of the City, as of June 30, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Fund Financial Statements

As discussed in Note 1, the financial statements present only the Electric Fund of the City and do not purport to, and do not present fairly the financial position of the City, as of June 30, 2016, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Implementation of New Accounting Standards

As discussed in note 1 to the financial statements, the Electric Fund of the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statements No. 72, *Fair Value Measurement and Application*, and No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*, effective July 1, 2015. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Electric Enterprise Fund of the City of Roseville's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. 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.

Vavrinek, Trine, Day & Co LLP

Sacramento, California
February 13, 2017

CITY OF ROSEVILLE ELECTRIC ENTERPRISE FUND
PROPRIETARY FUND

STATEMENT OF NET POSITION

JUNE 30, 2016

CURRENT ASSETS	
Cash and investments in City Treasury	$115,359,723
Restricted cash and investments with fiscal agent	17,029,969
Accounts, net of allowance for doubtful accounts	23,424,854
Accrued interest	311,460
Prepaids	2,008,787
Inventories	10,240,800
Total Current Assets	**168,375,593**
NON-CURRENT ASSETS	
Land and construction in progress	28,205,225
Other capital assets	637,193,668
Less: accumulated depreciation	(230,718,682)
Total Capital Assets	**434,680,211**
Investment in NCPA reserves	3,409,325
Derivative at fair value—asset	69,435
Total Non-Current Assets	**438,158,971**
Total Assets	**606,534,564**
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amount on refunding	3,559,310
Accumulated decrease in fair value of hedging derivatives	27,168,636
Deferred amounts related to pensions	3,884,489
Total Deferred Outflows of Resources	**34,612,435**

LIABILITIES

CURRENT LIABILITIES	
Accounts payable and accrued payroll	10,298,890
Accrued liabilities	979,813
Current portion of compensated absences	1,402,414
Current portion of long-term debt	6,465,000
Interest payable	1,823,272
Customer deposits	2,317,233
Unearned revenue	2,780,007
Total Current Liabilities	**26,066,629**

LONG-TERM LIABILITIES	
Certificates of participation and revenue bonds, due in more than one year	213,900,000
Compensated absences	2,627,038
Unamortized bond premiums	9,071,120
Derivative at fair value—liability	27,168,636
Net pension liability	37,644,806
Total Long-term Liabilities	**290,411,600**
Total Liabilities	**316,478,229**

DEFERRED INFLOWS OF RESOURCES	
Accumulated increase in fair value of hedging derivatives	39,122
Deferred amounts related to pensions	2,286,182
Total deferred inflows of resources	2,355,617

NET POSITION

Net ivestment in capital assets	208,803,401
Restricted for benefit of rate payers	6,589,267
Restricted for debt service	16,493,250
Unrestricted	90,427,235
Total Net Position	**$322,313,153**

CITY OF ROSEVILLE ELECTRIC ENTERPRISE FUND PROPRIETARY FUND

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDING JUNE 30, 2016

OPERATING REVENUES	
Residential sales	69,369,857
Commercial and industrial sales	95,038,615
Other sales	635,183
Other operating revenues	1,512,252
Total Operating Revenues	**166,555,907**
OPERATING EXPENSES[1]	
Production and purchased power	79,508,171
Transmission	5,141,208
Distribution—operations	6,097,100
Distribution—maintenance	7,365,191
Customer accounts, service and informational	2,303,661
Public benefits and administrative and general	16,970,332
Payment in lieu of taxes (franchise transfer)	5,937,021
Depreciation	20,495,166
Total Operating Expenses	**143,817,850**
Operating Income (Loss)	**22,738,057**
NON-OPERATING REVENUES (EXPENSES)	
Increase in value of certain NCPA projects and reserves	438,994
Investment income	1,524,614
Interest expense and fiscal charges	(9,974,520)
Cost of issuance	(20,964)
Gain (Loss) from sale of property	(525,988)
Amortization	348,738
Total Non-Operating Revenues (Expenses)	**(8,209,126)**
Income before Capital Contributions and Transfers	**14,528,931**

Contributions and transfers:	
Capital contributions—connection/impact fees	1,361,092
Contributions in aid of construction	4,052,555
Capital contributions from developers	8,604,310
Transfers out to City [2]	(835,707)
Total contributions and transfers	13,182,250
CHANGE IN NET POSITION	**27,711,181**
NET POSITION, BEGINNING	**294,601,972**
NET POSITION, ENDING	**$322,313,153**

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 cost 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 CASH FLOWS

FOR THE YEAR ENDING JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$165,717,820
Payments to suppliers	(101,010,190)
Payments to employees	(22,475,474)
Other receipts	2,957,399
Net Cash Provided by (Used for) Operating Activities	**45,189,555**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers (out)	(835,707)
Net Cash Provided by (Used for) Noncapital Financing Activities	**(835,707)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions	4,052,555
Acquisition and construction of capital assets, net	(10,319,333)
Change in restricted assets	(314,848)
Issuance costs	(20,964)
Principal payments on capital debt	(6,824,000)
Interest paid on capital debt	(9,974,522)
Connection fees	1,361,092
Net Cash Provided by (Used for) Capital and Related Financing Activities	**(22,040,020)**
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on dividends	1,467,441
Net Cash Provided by Investing Activities	**1,467,441**
Net increase in cash and cash equivalents	23,781,269
Cash and investments at beginning of period	91,578,454
Cash and investments at end of period	$115,359,723

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	
Operating income	$22,738,057
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:	
Depreciation	20,495,167
Pension expense	(908,223)
Change in assets and liabilities:	
Receivables, net	301,586
Inventories	(766,257)
Prepaids	154,522
Accounts and other payables	1,719,079
Unearned revenue	1,455,624
Net Cash Provided by (Used for) Operating Activities	**$45,189,555**

SCHEDULE OF NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES	
Contribution of capital assets from developers	$8,268,050
Capital assets transferred to the City	$336,260
Amortization of bond premium	$604,000
Amortization of deferred amount on refunding	$(255,261)

See accompanying notes to financial statements

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

The 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 and therefore, these financial statements do not purport to represent the financial position and changes in financial position, and where applicable, cash flows thereof 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 (GASB) 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). The Electric Fund operating revenues, such as charges for services, result from exchange transactions associated with the principle activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Operating expenses includes expenses reflected by the City as transfers related to rent payments, meter reading, billing, customer service, pension and benefits, other indirect cost transfer and payment in lieu of taxes or franchise fee.

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 expenses. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

D. Cash and Investments

Cash and investments with original maturities of three months or less are treated as cash and equivalents for purpose of preparing the statements 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. Further information related to the City's cash and investment pool can be found in the City's Comprehensive Annual Financial Report (CAFR).

E. 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 7. 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 8.

F. Prepaids

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

G. Inventories

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

H. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net 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) until then. The Electric Fund has three 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. The deferred outflows related to pensions are contributions made to the pension plan subsequent to the measurement date of the net pension liability and are described in Note 5.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of net 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 has two items that qualify 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. The deferred inflows related to pensions result from the difference between projected and actual earnings of plan investments and are described in Note 5.

I. 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.

J. 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	$3,101,504
Additions	2,039,017
Payments	(1,111,069)
Ending Balance	**$4,029,452**
Current Portion	**$1,402,414**

K. 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.

L. 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.

M. 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.

N. 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

O. Fair Value Measurements

As of July 1, 2015, the Electric Fund implemented GASB Statement No.72, *Fair Value Measurement and Application*. *GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurement. The Electric Fund categorizes the fair value measurements of its investments based on the hierarchy established by GAAP. The fair value hierarchy, which as has three levels , is based on valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical asses; Level 2 inputs are significant other obserbable inputs; Level 3 inputs are significant unobservable inputs.*

P. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net postion of the City's California Public Employees Retirement System (CalPERS) plan and additions to/deductions from the plan's fiduciary net postion have been determinded on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported as fair value.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. New Accounting Pronouncements

Effective in this Fiscal Year

GASB Statement No. 72—In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. The primary objective of this statement is to define fair value and describe how fair value should be measured, define what assets and liabilities should be measured at fair value, and determine what information about fair value should be disclosed in the notes to the financial statements. The City has implemented this statement effective July 1, 2015.

GASB Statement No. 82—In March 2016, GASB issued Statement No. 82, *Pension Issues—an Amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The City has implemented this Statement effective July 1, 2015.

Effective in Future Fiscal Years

GASB Statement No. 74—In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of the Statement is to address the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The Statement requires more extensive note disclosures and RSI related to the measurement of the OPEB liabilities for which assets have been accumulated. The Statement is effective for periods beginning after June 15, 2016. The City has not determined the effect of the statement.

GASB Statement No. 75—In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The objective of the Statement is to replace the requirements of GASB Statement No. 45. In addition, the Statement requires governments to report a liability on the face of the financial statements for the OPEB provided and requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. The Statement is effective for periods beginning June 15, 2017. The City has not determined the effect of the statement.

GASB Statement No. 77—In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. The Statement requires state and local governments to disclose information about tax abatement agreements. The Statement is effective for periods beginning after December 15, 2015. The City has not determined the effect of the statement**.**

GASB Statement No. 78—In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement is effective for reporting periods beginning after December 15, 2015. The City has not determined the effect of the Statement.

GASB Statement No. 80—In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement is effective for reporting periods beginning after June 15, 2016. The City has not determined the effect of this Statement.

GASB Statement No. 81—In March 1016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement is effective for reporting periods beginning after December 15, 2016. The City has not determined the effect of this Statement.

GASB Statement No. 83—In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of tangible capital asset. A governement that has legal obligations to perform furture asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a goverment's AROs, the methods and assumptions used the the estimates of the liabilites, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The City has not determined its effect on the financial statements.

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	no threshold
Improvements	40 years	no threshold
Equipment	3–20 years	5,000
Plants and Substations	10–120 years	no threshold
Distribution System	7–100 years	no threshold
Electric Generation	10–40 years	no threshold

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.

B. Landscaping Covered by the Modified Approach

The City has elected to use the modified approach with respect to its landscaping. The City's policy based on current funding is to maintain the landscaping at an average Ground Management Index (GMI) of Level 3, instead of providing depreciation. During fiscal year 2016 the Electric Fund expended $30,750 to preserve its landscaping. The City estimates that it will be required to expend approximately $32,000 in fiscal year 2017 to maintain its landscaping at this level.

Capital assets at June 30, 2016, comprise:

	Balance at June 30, 2015	Additions	Retirements	Transfers	Balance at June 30, 2016
Capital assets, not being depreciated:					
Land	$4,373,682				$4,373,682
Landscaping (modified)	550,000				550,000
Construction in progress	22,644,725	$10,099,069	($1,849,376)	($7,612,875)	23,281,543
Total capital assets not being depreciated	**27,568,407**	**10,099,069**	**(1,849,376)**	**(7,612,875)**	**28,205,225**
Capital assets, being depreciated:					
Buildings	13,457,985				13,457,985
Improvements	2,472,564				2,472,564
Equipment	4,029,696	136,730	(144,997)	38,376	4,059,805
Traffic signals	48,621,190	428,340			49,049,530
Plant and substations	68,705,756		(465,324)		68,240,432
Distribution	279,660,429	10,261,412	(745,736)	7,910,759	279,086,864
Generation	202,711,283	115,205			202,826,488
Total capital assets being depreciated	**619,658,903**	**10,941,687**	**(1,356,057)**	**7,949,135**	**637,193,668**
Less accumulated depreciation for:					
Buildings	(4,503,542)	(335,634)			(4,839,176)
Improvements	(804,039)	(91,256)			(895,295)
Equipment	(3,042,093)	(191,797)	98,926		(3,134,964)
Traffic signals	(23,744,274)	(1,963,283)			(25,707,557)
Plant and substations	(21,958,699)	(1,757,455)	321,595		(23,394,559)
Distribution	(78,450,261)	(5,395,262)	409,549		(83,435,974)
Generation	(78,550,678)	(10,760,479)			(89,311,157)
Total accumulated depreciation	**(211,053,586)**	**(20,495,166)**	**830,070**		**(230,718,682)**
Net capital assets being depreciated	**408,605,317**	**(9,553,479)**	**(525,987)**	**7,949,135**	**406,474,986**
Capital assets, net	**$436,173,724**	**$545,590**	**($2,375,363)**	**$336,260**	**$434,680,211**

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 in City Treasury	$115,359,723
Restricted cash and investments with fiscal agents	17,029,969
Total cash and investments	**$132,389,692**

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, 2016, consist of the following:

City of Roseville pooled cash and investments	$115,359,223
Cash on hand	500
Investments	17,029,969
Total cash and investments	**$132,389,692**

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	AA	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	$65 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.

(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.

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	None to A-1
Time Deposits	30 days	Non to A-1
Bankers' Acceptances	270 days	None to A-1
Insured FDIC Deposits	N/A	None
Money Market Funds	N/A	Aam-G
Pre-refunded Municipal Obligations	N/A	AAA
Repurchase Agreements	30 days	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:

	12 Months or Less	More Than 60 Months	Total
Guaranteed Investment Contract		$2,150,736	$2,150,736
California Asset Management Program	$14,879,233		14,879,233
Total Investments	**$14,879,233**	**$2,150,736**	**$17,029,969**

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, 2016 for each investment type as provided by Standard and Poor's investment rating system:

	AAAm	Total
Investments:		
California Asset Management Program	$14,879,233	$14,879,233
Not rated:		
Guaranteed Investment Contract		2,150,736
Total Investments		**$17,029,969**

NOTE 3—CASH AND INVESTMENTS (CONTINUED)

F. Fair Value Measurements

The Electronic Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is used on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quotes prices in active markets for identical assets; Level 2 inputs are significant other observable input; Level 3 inputs are significant unobservable inputs.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The City's assessment of the significance of particular inputs to these fair value measurements requires judgement and considers factors specific to eash asset or liability.

The Electric Fund has the following recurring fair value measurements as of June 30, 2016:

California Asset Management Program - Net Asset Value	$14,879,233
Guaranteed Investment Contract - Amortized Cost	$2,150,736
Total Investments not categorized	**$17,029,969**

Pooled cash and investments

The Electric Fund's cash balance was pooled with various other City funds for deposit and investment purposes. The City's treasury is responsible for the cash management of the Fund's cash balance, which pools available cash for investment purposes. Each City fund owns a share of pooled cash and investmes, which are separately maintained, and interest income was apportioned based on its average month-end cash balances to the total of the pooled cash and investments.

The Electric Fund's pooled cash and investments at June 30, 2016 is $115,359,223. The deposit and investment disclosures required by GASB Statement No. 40, *Deposit and Investment Risk Disclosures,* are reported in the annual report of the City. The Electric Fund recognizes its position in the City investment pool at fair value based on information provided by the City. Deposits and withdrawals to the pool are made on the basis of $1 and not fair value. Accordingly, the inputs used to report fair value are not categorized in accordance with GASB No. 72. Additional information regarding interest rate risk, concentration of credit risk, custodial credit risk and fair value measurements of the City's pooled cash and investments is presented in the City's CAFR.

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, 2016, is as follows:

	Original Issue Amount	Balance June 30, 2015	Additions	Retirements	Balance June 30, 2016	Current Portion
Certificates of Participation:						
2004 Electric System Revenue,						
3.00%-5.25%, due 2/1/34	$39,940,000	$5,000			$5,000	
Less: deferred bond discount	(728,254)					
2009 Electric System Revenue Refunding						
2.00%-5.25%, due 2/1/24	27,010,000	17,690,000		$(1,640,000)	16,050,000	$1,680,000
Add: deferred bond premium	396,611	237,965		(26,441)	211,524	
2012 Electric System Revenue						
variable rate, due 2/1/35	90,000,000	90,000,000			90,000,000	
Total Certificates of Participation	**156,618,357**	**107,932,965**		**(1,666,441)**	**106,266,524**	**1,680,000**
Revenue Bonds:						
2010 Electric System Revenue Refunding						
2.00%-5.00%, due 2/1/37	55,845,000	54,480,000		(405,000)	54,075,000	440,000
Add: deferred bond premium	2,764,207	2,252,317		(102,378)	2,149,939	
2013 Electric System Revenue Refunding						
2.00%-5.00%, due 2/1/29	48,780,000	47,925,000		(4,175,000)	43,750,000	4,345,000
Add: deferred bond premium	5,899,513	5,162,073		(368,720)	4,793,353	
2014 Refunding Electric System Rev. Bonds						
5%, due 2/1/34	16,485,000	16,485,000			16,485,000	
Add: deferred bond premium	2,129,224	2,022,765		(106,461)	1,916,304	
Total Revenue Bonds	**131,902,944**	**128,327,155**		**(5,157,559)**	**123,169,596**	**4,785,000**
Total	**$288,521,301**	**$236,260,120**		**$(6,824,000)**	**$229,436,120**	**$6,465,000**

NOTE 4—LONG-TERM DEBT (CONTINUED)

B. 2004 Electric System Revenue Certificates of Participation

On July 1, 2004, the City issued $39,940,000 of Certificates of Participation (COPs) 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 4F below. In August 2014, the 2004 Electric System Revenue COPs were partially refunded by the 2014 Electric System Revenue Refunding Bonds as discussed in note 4G below, leaving a PAR amount of $5,000.

C. 2009 Electric System Revenue Refunding Certificates of Participation

On November 24, 2009, the City issued 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. The balance outstanding as of June 30, 2016 is $16,050,000.

D. 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 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. The balance outstanding as of June 30, 2016 is $54,075,000.

E. 2012 Electric System Revenue Refunding Certificates of Participation

On November 7, 2012 the City issued 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 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, 2016 was 0.870%.

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 3.15% at June 30, 2016. The COPs are subject to mandatory prepayment annually beginning February 1, 2023 through 2035. The balance outstanding as of June 30, 2016 is $90,000,000.

F. 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, COPs. 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 on February 1 through 2029. The balance outstanding as of June 30, 2016 is $43,750,000.

G. Roseville Financing Authority Electric System Revenue Refunding Bonds, Series 2014

On July 24, 2014, the Roseville Financing Authority issued Electric System Revenue Refunding Bonds, Series 2014, in the amount of $16,485,000 to refund the 2004 Electric System Revenue COPs. The bonds bear interest of 5%. Principal payments are due annually on February 1 beginning in 2030. Interest payments are due semi-annually on each August 1 and February 1, commencing on February 1, 2015 through February 1, 2034. The balance outstanding as of June 30, 2016 is $16,485,000.

H. Electric System Pledged Revenues

As of June 30, 2016, the total principal and interest remaining to be paid on the 2004 Electric System Revenue COPs, 2012 Electric System Revenue Refunding COPs, 2009 Electric System Revenue Refunding COPs, 2010 Electric System Revenue Refunding Revenue Bonds, and the 2013 Electric System Revenue Refunding Bonds and the 2014 Electric System Revenue Refunding Bonds was $268,300,536. 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 2016, net revenues amount to $48,334,538 which represents coverage of 299% over the $16,145,049 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, 2016, 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	Maturity 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%	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%	2/1/2035
	$90,000,000						

Based on the swap agreements, the city owes interest calculated at a fixed rate to the counter-party of the swap. In return, the counter-party 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 up front 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, 2016, the fair values of the swaps were negative as follows:

	Fair Value	
Related Bond Issue	**2016**	**2015**
2012 Electric System Refunding COP (based on notional amount of 2008 Electric System Revenue COP, Series A)		
Bank of America, N.A.	($10,221,595)	($6,822,683)
Morgan Stanley Capital Services Inc.	(15,036,848)	(9,955,096)
	($25,258,443)	**($16,777,779)**

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.

NOTE 4—LONG-TERM DEBT (CONTINUED)

I. Interest Rate Swap Agreements (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, 2016, 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	Principal	Interest	Interest Rate Swaps, Net	Total
2017		$784,800	$2,600,089	$3,384,889
2018		784,800	2,600,089	3,384,889
2019		784,800	2,600,089	3,384,889
2020		784,800	2,600,089	3,384,889
2021		784,800	2,600,089	3,384,889
2022-2026	$22,650,000	3,563,101	11,804,766	38,017,867
2027-2031	34,550,000	2,231,484	7,393,041	44,174,525
2032-2035	32,800,000	609,601	2,019,643	35,429,244
Total	**$90,000,000**	**$10,328,186**	**$34,217,895**	**$134,546,081**

J. Original Issue Discounts and Premiums, and Deferred Amount 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.

K. Debt Service Requirements

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

For the Year Ending June 30	Principal	Interest
2017	$6,465,000	$6,359,794
2018	6,725,000	6,101,194
2019	6,995,000	5,832,194
2020	7,320,000	5,502,919
2021	7,670,000	5,153,150
2022-2026	45,345,000	21,303,216
2027-2031	55,820,000	16,270,633
2032-2036	68,320,000	10,371,061
2037	15,705,000	785,250
	$220,365,000	**$77,679,411**
Reconciliation of long-term debt		
Add deferred bond premium (discount)	9,071,120	
Net long-term debt	**$229,436,120**	

NOTE 5—PENSION PLAN

A. Plan Description

Substantially all Electric Fund employees are eligible to participate in the City's Miscellaneous Plan, an agent multiple employer defined benefit pension plan administered by the California Public Employees Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan is established by State statute and may be amended by City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website**.**

B. Benefits Provided

CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plan's provisions and benefits in effect at June 30, 2016, 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	23.506%	23.506%

C. Contributions

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

Employee contribution rates for the fiscal year ended June 30, 2016, were 8.0% for the Classic Plan Members and 6.25% for the PEPRA Plan members. The Electric Fund's proportionate share of the City's contributions to the Miscellaneous Plan was $3,884,489 for the year ended June 30, 2016.

D. Pension Liability, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2016, the Electric Fund reported a net pension liability of $37,664,806 for its proportionate share of the City's Miscellaneous Plan's net pension liability.

The net pension liability of the Plan was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015. The Electric Fund's proportion of the City's miscellaneous pension plan's net pension liability was based on the Electric Fund's fiscal year 2016 contributions to the City's Miscellaneous Pension Plan relative to the total contributions of the City has a whole. The Electric Fund's proportionate share of the City's miscellaneous pension plan net pension liability as of June 30, 2015 and 2016 was 21.27% for both years.

For the year ended June 30, 2016, the Electric Fund recognized pension expense of $2,981,700. At June 30, 2016, the Electric Fund reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions subsequent to measurement date	$3,884,489	
Change of assumptions		($1,518,613)
Difference between expected and actual experience		($281,393)
Net differences between projected and actual earnings on pension plan investments		($486,176)
Total	$3,884,489	($2,286,182)

NOTE 5—PENSION PLAN (CONTINUED)

D. Pension Liability, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

The amount of $3,884,489 reported in the enterprise fund as deferred outflows of resources related to pensions, resulting from the Electric Fund's contributions to the City's plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized as a reduction to pension expense as follows:

Year ended June 30	
2017	$ (875,360)
2018	(875,360)
2019	(842,426)
2020	453,559
2021	(146,595)
Total	**$ (2,286,182)**

E. Actuarial Assumptions

The Electric Fund's proportion of the City's Miscellaneous Plan total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions.

	Miscellaneous
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	3.3%–14.2% (1)
Investment Rate of Return	7.65%
Mortality	Derived using CalPERS membership data

(1) Depending on age, service, and type of employment

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the results of a January 2014 actuarial experience study for the period of 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

F. Changes in Assumptions

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administravtive expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected furture real rates of return (expected returns, net of pension plan investment expense an inflation) are developed for each major asset class.

In determing the long-term expected rate of return on pension plan investments, CalPERS took into account both short and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	Target Allocation	Real Return Years 1-10 [1]	Real Return Years 11+ [2]
Global Equity	51%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	10%	4.50%	5.13%
Infrastructure and Forestland	2%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%
Total	100%		

(1) An expected inflation of 2.5% used for this period

(2) An expected inflation of 3.0% used for this period

NOTE 5—PENSION PLAN (CONTINUED)

G. Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that the City's contributions will be made at rates equal to the difference between actuarially determined contributions rates and the employee rate. Based on those assumptions, each pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

H. Sensitivity of the Electric Fund's proportionate share of the City's Miscellaneous Plan Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Electric Fund for the Plan, calculated using the discount rate for the Plan, as well as what the Electric Fund's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Miscellaneous
1% Decrease	6.65%
Net Pension Liability	$53,627,440
Current Discount Rate	7.65%
Net Pension Liability	$37,644,806
1% Increase	8.65%
Net Pension Liability	$24,443,626

I. Pension Plan Fiduciary Net Position

Detailed information the City's collective net pension liability is available in the City's separately issued CAFR. The City's financial statements may be obtained by contacting the City of Roseville's Finance Department. That report may be obtained on the internet at **www.roseville.ca.us.**

NOTE 6—POST-EMPLOYMENT 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, 2016, there were 596 participants receiving these health care benefits.

<table>
<tr><td>Eligibility</td><td colspan="2">Retire directly from the City under CalPERS (age 50 (a) and 5 years of CalPERS service or disability retirement)</td></tr>
<tr><td></td><td>Tier 1
Hired prior January 1, 2004 (b)</td><td>Tier 2
Hired on or after January 1, 2004 (b)</td></tr>
<tr><td>Benefit</td><td>City paid premium, subject to the following caps:

Group — 2016
Management/Confidential — $1,272
Stationary Engineers Local 39 — 1,284
Roseville Police Association — 1,272
Roseville Police Officers Association — 1,272
Roseville Firefighters Association — 1,272
International Brotherhood of Electrical Workers — 1,272</td><td>City paid premium, subject to the following caps:

2016
Single — $705
Two Party — 1,343
Family — 1,727
Subject to vesting schedule

CalPERS service — Percent of Cap
Less than 10 years — 0% (c)
10-20 years — 50%
20 years or more — 100%

Five years' City service required
100% vested if disabled</td></tr>
<tr><td></td><td>Tier 3 RFF
Hired on or after January 1, 2012</td><td>Tier 3 Non-RFF
Hired on or after January 1, 2014 (d)</td></tr>
<tr><td>Benefit</td><td>$720/month - subject to Tier 2 vesting schedule based on City Service Employees contribute percent of payroll to PFM trust starting 2012:

Years of City Service — Payroll %
1 — 1%
2 — 2%
3 — 3%
4 — 4%
5+ — 5%</td><td>PEMHCA minimum
Roseville Health Savings Account
Employees contribute percent of payroll to health savings account:

Years of City Service — Payroll %
1 — 1%
2 — 2%
3 — 3%
4 — 4%
5+ — 5%
City contribution of $100/month after 5 years City service.
Must retire from City to receive City health saving account contributions.</td></tr>
<tr><td>Non-Represented</td><td colspan="2">Eligible for PEMHCA minimum only</td></tr>
<tr><td>Dental, Vision and Life</td><td colspan="2">None</td></tr>
<tr><td>Surviving Spouse Continuation</td><td colspan="2">Retiree medical benefit continues to surviving spouse if retiree elects CalPERS survivor annuity.</td></tr>
</table>

(a) Age 52 for Miscellaneous PEPRA employees

(b) January 1, 2005 for Police Officers Association (sworn) and Local 39

(c) City must pay at least the PEMHCA minimum

(d) Eligible for PEMHCA minimum only

NOTE 6—POST-EMPLOYMENT BENEFITS (CONTINUED)

Funding Policy and Actuarial Assumptions

The annual required contribution (ARC) was determined as part of a June 30, 2015, 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 7.00% to 7.20% in 2017 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 26 years remaining.

Annual OPEB Cost

The Electric Fund contributed $723,472, $648,594, and $614,929 toward the City's annual OPEB cost for the years ended June 30, 2016, 2015 and 2014 respectively.

All disclosures related to the City's postemployment health care benefit plan can be found in the City's CAFR available on the City's website at www.roseville.ca.us.

NOTE 7—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 financial statements as Investment in NCPA Reserve.

During the year ended June 30, 2016, the City incurred expenses totaling $7,535,368 for purchased power, regulatory and legislative assessments, association dues 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, 2016
General Operating Reserve (including advances)	$1,506,710
Associated Member Services (including advances)	76,454
Undivided equity interest, at cost, in certain NCPA Power Projects:	
Geothermal Projects	642,565
Calaveras Hydroelectric Project	1,108,321
Combustion Turbine Project No. 2	75,275
	$3,409,325

NOTE 7—NORTHERN CALIFORNIA POWER AGENCY (NCPA) (CONTINUED)

A. General (Continued)

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.

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, 2016, the book value of this Project's

plant, equipment and other assets was $87,015,792 while its long-term debt totaled $34,594,237 and other liabilities totaled $44,272,327. The City's share of the Project's long-term debt amounted to $2,727,064 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, 2016, the City was owed $4,321.

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, 2016, the book value of this Project's plant, equipment and other assets was $435,313,323, while its long-term debt totaled $375,870,310, and other liabilities totaled $50,207,012 The City's share of the Project's long-term debt amounted to $38,710,607 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, 2016, the book value of this Project's plant, equipment and other assets was $44,658,157, deferred outflows totaled $2,257,570, while its long-term debt totaled $42,026,831 and other liabilities totaled $2,425,094. The City's share of the Project's long-term debt amounted to $15,339,793 at that date.

C. NCPA Financial Information

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

NOTE 8—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 (SIR) is met, CJPRMA becomes responsible for payment of all claims up to the limit. Financial statements for the risk pool and more information may be obtained from CJPRMA, 3201 Doolan Road, Suite 285, Livermore, CA 94551.

General Liability Coverage

The City has a SIR of $500,000 per claim with coverage up to a $40,000,000 limit. The City's premium was $624,805.

Property Coverage

CJPRMA has purchased commercial insurance against property damage. The City has a SIR of $25,000 per claim with coverage up to a $300,000,000 limit. The City's premium for coverage is $182,928.

Boiler and Machinery Coverage

CJPRMA has purchased commercial insurance against boiler and machinery claims. The City has a SIR of $5,000 per claim with coverage up to a $21,250,000 limit. The annual premium paid was $34,056.

Roseville Energy Park Property Coverage

The City purchased commercial property insurance specifically to cover the Roseville Energy Park. The City has a SIR of $250,000 per claim up to a $200,000,000 limit. The City's premium for coverage is $363,194.

Fiduciary Coverage

The City purchased fiduciary insurance specifically to cover the OPEB Trust. The SIR is $25,000 per claim up to a $3,000,000 limit. The City's premium for coverage is $34,056.

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 SIR of $350,000 per claim. The City's premium of $661,722 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 $841,887.

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

NOTE 9—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.

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 10—CONTINGENT LIABILITIES

A. 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 7. The City's estimated share of such debt outstanding at June 30, 2016, was $56,777,464. 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 4.58533% 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.

B. 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.

C. 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.

D. Other Commitments

The Electric Fund had the following outstanding significant commitments at June 30, 2016:

Projects	Amounts (in millions)
REP long-term service agreement	$29.5
Net power purchase contracts	30.9
Natural Gas Forward Obligations	108.1
Renewable power purchase obligations	71.0

NOTE 11—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 Roseville Successory 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 11D) 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.

As of June 30, 2016, the book value of prepaid gas under this agreement amounted to $159,332,478.

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, 2016.

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 12.

NOTE 12—DERIVATIVE INSTRUMENTS

A. Summary of Notional Amounts and Fair Values

The City enters into contracts to hedge its price exposures to power and 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 inflow or outflow of resources on the statement of net position. For the reporting period, all of the City's derivatives are considered effective hedges.

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, 2016.

	2016 Change in Fair Value		Fair Value, End of Fiscal Year 2016		Notional
	Classification	Amount	Classification	Amount	
Effective Cash Flow Hedges					
Electric Fund					
Pay Fixed SWAP, Natural Gas	Deferred Outflow	$5,774,190	Derivative	**$(1,910,193)**	8,687,000 mmBtu
Pay Fixed SWAP, Natural Gas	Deferred Inflow	30,313	Derivative	**$69,435**	552,000 mmBtu

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, 2016, 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, 2016, 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	975,000 mmBtu	6/1/2017	3/31/2019	Pay $3.72; Receive NGI PG&E citygate price	BP Energy	A-
Hedge Cash Flows on PG&E citygate Gas	612,500 mmBtu	11/1/2016	9/30/2017	Pay $3.59; Receive NGI PG&E citygate price	J Aron & Company	A-
Hedge Cash Flows on PG&E citygate Gas	1,607,50000 mmBtu	8/1/2016	12/31/2016	Pay $4.75; Receive NGI PG&E citygate price	Macquarie Energy	A
Hedge Cash Flows on PG&E citygate Gas	1,012,000 mmBtu	7/1/2015	12/31/2016	Pay $5.77; Receive NGI PG&E citygate price	Shell Energy North America	A

NOTE 12—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.

REQUIRED SUPPLEMENTARY INFORMATION

ROSEVILLE ELECTRIC ENTERPRISE FUND

MODIFIED APPROACH TO REPORTING LANDSCAPING COSTS

FOR THE YEAR ENDED JUNE 30, 2016

GASB Statement No. 34 allows the City to use the Modified Approach with respect to infrastructure assets instead of depreciating these assets. The Modified Approach may be used if two requirements are met:

1. The City must have an asset management system (AMS) with certain features:
    - It must maintain an up-to-date inventory of the infrastructure assets
    - It must estimate the annual costs to maintain and preserve those assets at the condition level the City has established and disclosed through administrative or executive policy or legislative action.
    - The AMS must be used to assess the condition of the assets periodically, using a measurement scale.
    - The condition assessments must be replicable as those that are based on sufficiently understandable and complete measurement methods such that different measurers using the same methods would reach substantially similar results.
2. The City must document that the landscaping is being preserved approximately at or above the condition level the City has established and disclosed. This documentation must include the results of the three most recent complete condition assessments and must provide reasonable assurance that the assets are being preserved approximately at or above the intended condition level.

PARKS AND LANDSCAPING

The City has elected to use the Modified Approach to report parks and landscaping costs citywide. The City uses a computerized Grounds Management System to track the condition levels of each of the parks and landscaping. The condition of the parks and landscaping is based on a weighted average of six levels of condition. The Ground Management System uses a measurement scale that is based on various levels ranging from six for an undeveloped natural area to one for parks and landscaping with high-quality, diverse landscaping with state-of-the-art maintenance. The condition index is used to classify parks and landscaping in the following levels: state-of-the-art to high-level maintenance (1-2), moderate to moderately low level maintenance (3-4), minimum-level maintenance (5), and natural area that is not developed (6).

The City's policy based on current funding is to maintain parks and landscape at an average GMI of Level 3. This rating allows for moderate maintenance and is the recommended level for most organizations. The Electric Fund expended $30,750 for maintenance in fiscal year 2016.

REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

SCHEDULE OF THE ELECTRIC FUND'S PROPORTIONATE SHARE OF THE CITY'S MISCELLANEOUS PLAN NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2016

	2015	2016
Proportion of the collective net pension liability	21.27%	21.27%
Proportionate share of the collective net pension liability	$35,340,103	$37,644,806
Covered employee payroll	$14,222,485	$15,098,184
Proportionate share of net pension liability as a % of covered payroll	248.48%	249.33%
Plan fiduciary net position as a % of the total pension liability	67.62%	66.97%
Measurement date	June 30, 2014	June 30, 2015

* Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

ROSEVILLE ELECTRIC ENTERPRISE FUND
SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2016

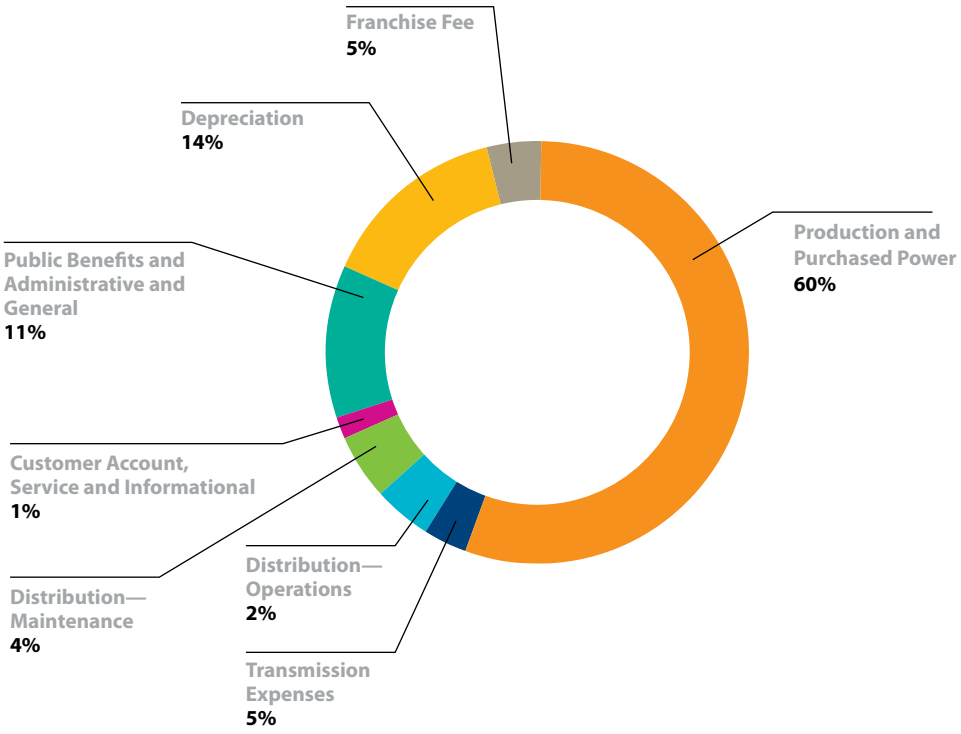
	2015	2016
Actuarially determined contributions	$ 3,375,790	$3,884,489
Contributions in relation to the actuarially determined contribution	$ 3,375,790	$3,884,489
Contribution deficiency (excess)	$ -	$ -
Covered payroll	$15,098,184	$16,397,168
Contributions as a % of covered-employee payroll	22.49%	23.69%
Methods and assumptions used to determine contribution rates:		
Actuarial cost method		Entry age normal cost method
Ammortization method		Level percentage of payroll
Asset valuation method		Market value
Inflation		2.75%
Salary Increase		3.3% to 14.2% depending on age, service and type of employment
Discount rate		7.65%
Retirement age		50-57 for Safety; 50-67 for Miscellaneous
Mortality		Derived using CalPERS membership data

* Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

SUPPLEMENTARY INFORMATION

CITY OF ROSEVILLE ELECTRIC ENTERPRISE FUND OPERATING EXPENSES

FOR THE YEAR ENDED JUNE 30, 2016



Description	Detail	6/30/16
PRODUCTION AND PURCHASED POWER		
Purchased Power	53,646,425	
Electric Generation Operations	25,861,747	
Total Production and Purchased Power		**79,508,171**
TRANSMISSION EXPENSES		**5,141,208**
DISTRIBUTION—OPERATIONS		
Distribution Operation Supervision & Engineering	1,484,578	
Load Dispatching	896,157	
Station Expenses	579,339	
Overhead Line Expenses	202,420	
Underground Line Expenses	435,325	
Street Lighting	546,608	
Meter Expenses	404,954	
Customer Installation Expenses	5,981	
Miscellaneous Distribution Expenses	1,265,286	
Distribution Operations Rent	276,450	
Total Distribution—Operations		**6,097,100**

Description	Detail	6/30/16
DISTRIBUTION—MAINTENANCE		
Supervision & Engineering	30,194	
Structures	302,939	
Station Equipment	1,468,506	
Overhead Lines	1,942,464	
Underground Lines	540,519	
Line Transformers	28,121	
Street Lights	2,191,850	
Meters	766,306	
Maintenance Miscellaneous—Distribution Plant	94,293	
Total Distribution—Maintenance		**7,365,191**
CUSTOMER ACCOUNTS, SERVICE AND INFORMATIONAL		
Meter Reading Expenses	672,957	
Customer Billing & Service Administration	583,084	
Uncollectible Accounts	218,567	
Supervision of Customer Service & Informational	94,071	
Customer Assistance, Informational & Inst. Advertising	117,470	
Customer Service & Information	617,512	
Total Customer Account, Service and Informational		**2,303,661**
PUBLIC BENEFITS AND ADMINISTRATIVE AND GENERAL		
Administrative & General Salaries	2,464,072	
Office Supplies	903,242	
Outside Service Employed	379,686	
Property Insurance	317,885	
Employee Pension and Benefits	229,035	
Regulatory Commission Expenses	40,637	
General Advertising Expenses	508,749	
General Rents and Transportation Expenses	18,453	
Misc. Administrative, City Indirects & Expenses Transferred	5,836,609	
Public Benefits Programs and Rebates	6,271,962	
Total Public Benefits and Administrative and General		**16,970,332**
Depreciation		**20,495,166**
Franchise Fee		**5,937,021**
Grand Total Operating Expenses		**$143,817,849**

CITY OF ROSEVILLE ELECTRIC DIVISION DISTRIBUTION CAPITAL ASSETS

FISCAL YEAR ENDED 6/30/16

Asset Description	Cost	Depreciation	Book Value
Miscellaneous Intangible Plant—Distribution	$1,419,887	$1,419,887	$0
REP Structure & Improvements	6,151,628	1,303,536	4,848,092
REP Fuel Holders & Producers	4,445,460	1,247,198	3,198,261
REP Prime Movers & Generators	136,020,523	57,171,915	78,848,608
REP Accessory Electric Equipment	11,256,316	4,688,639	6,567,677
REP Miscellaneous Power Plant Equipment	45,486,577	25,084,602	20,401,975
Land & Land Rights	9,408,698	45,822	9,362,876
Structures & Improvements	14,925,602	5,096,764	9,828,838
Station Equipment & Substations	73,240,537	24,065,559	49,174,978
Poles, Towers, & Fixtures	11,924,121	3,670,006	8,254,115
Overhead Conductors & Devices	2,009,446	1,207,573	801,873
Underground Conduit	30,486,716	2,256,748	28,229,968
Underground Conductors & Devices	182,894,175	52,846,770	130,047,405
Line Transformers	32,770,463	12,011,727	20,758,737
Meters	7,296,366	2,831,501	4,464,865
Installations on Customer Premises	1,919,322	647,771	1271,551
Street Lighting & Signal Systems	65,518,842	32,487,578	33,031,264
Structures & Improvements G&A	13,360	4,082	9,277
Office Furniture & Equipment	597,706	517,138	80,567
Tools, Shop & Garage Equipment	27,422	22,762	4,661
Laboratory Equipment	400,776	400,181	595
Power-operated Equipment	14,512	9,483	5,029
Communication Equipment	2,183,294	773,115	1,410,179
Miscellaneous Equipment	178,701	164,600	14,101
Other Tangible Property	1,526,901	743,726	783,175
Distribution Capital Assets in Service	**642,117,351**	**230,718,683**	**411,398,669**
Work in Progress	**23,281,542**	**0**	**23,281,542**
Grand Total	**$665,398,893**	**$230,718,683**	**$434,680,211**

FISCAL YEAR ENDED 6/30/16

Asset Description	Cost	Depreciation	Book Value
Distribution Capital Assets in Service by Voltage			
Power Plant	$202,883,198	$89,342,977	$113,540,221
60 kV System	43,456,591	13,400,609	30,055,982
12 kV System	207,389,877	60,537,869	146,852,008
All Secondary Systems	166,441,859	58,457,117	107,984,742
Other	21,945,827	8,980,110	12,965,717
Distribution Capital Assets in Service	**$642,117,352**	**$230,718,683**	**$411,398,669**

CITY OF
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Electric Utility

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