

CITY OF RIVERSIDE PUBLIC UTILITIES  
FINANCIAL STATEMENTS 2003-2004

RELIABILITY • RESOURCES • RESERVES • RETURN



**No community could function without people who consistently give more than they get.**

Fortunately, Riverside Public Utilities is filled with people who hold to this time-honored tenet of public service.

From the time and effort expended by citizen-volunteers who serve without compensation on the Board of Public Utilities to the hundreds of public service employees who provide around-the-clock water and electric service to a fast-growing Riverside – all give more than they expect to receive in return.

The 2003-2004 Financial Statements are a tribute to the many people in Riverside Public Utilities who selflessly devote their time and talents to serve the residents, businesses and visitors that inhabit the City of Riverside.

**Mission**

Riverside Public Utilities is committed to the highest quality water and electric services at the lowest possible rates to benefit the community.

**Vision**

Riverside Public Utilities will be recognized as a community treasure with a national reputation for excellence.

**Core Values**

(not in priority order)

- Safety
- Honesty and Integrity
- Teamwork
- Professionalism
- Quality Service
- Creativity and Innovation
- Inclusiveness and Mutual Respect
- Community Involvement

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**BOARD OF PUBLIC UTILITIES AND ADMINISTRATION**



**Peter G. Hubbard**  
 2003-2004 Chairman  
 Occupation: Director Medical Services  
 Riverside Resident: lifetime  
 Years of Service: 6

The Board of Public Utilities is composed of seven citizen-volunteers appointed by the City Council to four-year terms without compensation. Board members oversee the utility's policies, operations, revenues, expenditures, planning, and regulatory compliance. In addition to bi-weekly Board meetings, members also serve on subcommittees to provide input on the development of new facilities and equipment; measures and programs to conserve energy and water resources; and select appropriate technology to protect our water supply and secure our energy resources. The citizen-volunteers who serve on the Board of Public Utilities provide an ongoing, year-round citizen review of all actions by Riverside Public Utilities before any measure is sent to the elected City Council representatives for a final determination.

The Board of Public Utilities meets at 8:15 a.m. on the first and third Fridays of each month in the Art Pick City Council Chamber at City Hall, 3900 Main Street, Riverside. Board meetings are open to the public.



**David Barnhart**  
 Occupation: Retired Director, Riverside County Transportation  
 Riverside Resident: 10 years  
 Years of Service: 1



**Lalit N. Acharya**  
 Occupation: President, Non-Profit Foundation  
 Riverside Resident: 14 years  
 Years of Service: 6



**Joe Tavaglione**  
 Occupation: President, Construction & Development Co.  
 Riverside Resident: lifetime  
 Years of Service: 4



**Conrad Newberry Jr.**  
 Occupation: Registered Mechanical Engineer  
 Riverside Resident: 10 years  
 Years of Service: 7



**Robert Stockton**  
 Occupation: Principal/Vice President, Engineering Company  
 Riverside Resident: 4 years  
 Years of Service: 1



**James W. Anderson**  
 2003-2004 Vice Chairman  
 Occupation: Retired Attorney, Environmental and Administrative Law  
 Riverside Resident: 32 years  
 Years of Service: 5

**Public Utilities Administration**



**Thomas P. Evans**  
 Director



**David H. Wright**  
 Deputy Director,  
 Marketing &  
 Customer Service



**Dieter P. Wirtzfeld**  
 Assistant Director,  
 Water



**Donna I. Stevener**  
 Assistant Director,  
 Finance/Resources



**Stephen H. Badgett**  
 Assistant Director,  
 Energy Delivery

## The Four R's of Public Power

When it comes to providing energy and water for more than a century to the progressive, fast-growing City of Riverside, our customers expect Riverside Public Utilities to keep our priorities straight and focus on "The Four R's:" Reliability – Resources – Reserves – Return to our Customers.

### Reliability

The worst blackout in U.S. history on August 14, 2003 and the effects of six years of drought kept the 435+ employees and the Board of Public Utilities mindful of the challenges that exist locally and nationally.

In April 2004, RPU began an \$8 million Downtown Power Upgrade Project (DPUP) to modernize electric circuitry equipment to meet Riverside's power needs well into the 21st Century. The DPUP is expected to be completed during summer 2005.

After 134 years of service, the 16-mile Riverside Canal is nearing completion of an \$8.5 million rehabilitation (\$5.2 million funded by a state grant). Continuing the important pipeline replacement program was again a high priority for the water utility. Nearly 34,000 feet of aging water mains were replaced in 2004 at a cost of \$4.7 million to improve service and upgrade fire protection.

### Resources

Increasing resources by diversifying our energy portfolio and supplying our own electrical power continues to be a top goal.

The City Council approved construction of the Riverside Energy Resource Center (RERC), a new, natural gas-fired 99.6-megawatt (MW) "peaker plant." The RERC will provide power during times of peak demand, reduce our reliance on the state's electric grid, and be a source of emergency power in case of disruption to the statewide grid. Approved by the California Energy Commission, the RERC is scheduled to be on line in late 2005.

Riverside continues to be a leader in the "Green Power" arena with several new renewable energy projects coming on line this year, including a 1.3 MW wind project and another photovoltaic project that benefits low-income customers. Renewable Green Power energy resources comprise 12 percent of our retail energy requirements, which is one-third greater than the percent average for California.

On the water side, three new ion exchange plants to remove perchlorate were added to our water system increasing the amount and quality of water resources available to our customers.

## The Four R's of Public Power (continued)

A Water Supply Plan and a Recycled Water Master Plan were also completed to plan for future growth requirements. Following a Water System Security Vulnerability Assessment, security measures were initiated to protect our water resources.

### Reserves

Preserving our strong financial health was again affirmed as a key goal of both the water and electric utilities. Building cash reserves and reducing costs are key drivers to satisfy this important goal.

Over the past three years, the utility has realized over \$15 million of net present value savings from refinancing outstanding debt, which averages approximately \$1.6 million per year over the term of the debt. Through these and other cash savings, the utility was able to increase operating cash reserves in accordance with our goals.

The utility issued \$110 million of electric revenue bonds with all-in true interest cost of 3.94%, as well as affirmed the Electric Fund's A+ and the Water Fund's AA credit ratings.

Further affirming the utility's standing and "reserves" of public trust, the Federal Energy Regulatory Commission (FERC) exonerated Riverside Public Utilities (RPU) of any "prohibited gaming activities" during the California power crisis.

### Return To Our Customers

Three "Rs" would be adequate for some utilities. But Riverside Public Utilities supplies an additional monthly return to our customers in the form of rates for water and electricity that are among the lowest in southern California.

Due to sound fiscal policies and practices, the utility is able to transfer a portion of all utility revenues/income to the City of Riverside's General Fund to be used for essential city services. In 2004, it amounted to \$19.3 million, which represents approximately 11.6 percent of the City's General Fund budget used to maintain police, fire, library, parks and recreation and other vital community services.

By clearly focusing on the "Four R's" of Reliability, Resources, Reserves and Return to our Customers, Riverside Public Utilities continues to move forward to secure the water and power that City of Riverside customers need now and in the future.



Assistant Director, Finance/Resources

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

We have audited the accompanying financial statements of the City of Riverside, California, Electric Utility, a fund of the City, as of and for the years ended June 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the City of Riverside Electric Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements of the City of Riverside, California, Electric Utility are intended to present the financial position and the changes in financial position and cash flows for the City of Riverside, California, Electric Utility, a fund of the City, and do not purport to, and do not, present fairly the financial position of the City of Riverside, California, and the changes in its financial position and its cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Riverside, California, Electric Utility as of June 30, 2004 and 2003, and the changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 5 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the City of Riverside, California, Electric Utility's basic financial statements. The supplementary information entitled Electric Statistics, as listed in the table of contents, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*McGladrey & Pullen, LLP*

Riverside, California  
September 30, 2004

As management of Riverside Public Utilities (a department of the City of Riverside), we offer the readers of the City of Riverside Electric Utility financial statements, a fund of the City, this narrative overview and analysis of the financial activities of the Electric Utility (Utility) for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information furnished in our fiscal message on pages 2 and 3 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

## FINANCIAL HIGHLIGHTS

Fiscal year 2004 was a banner year for the Electric Utility, with the retail revenues setting an all-time record of \$200.4 million—a result of an expanded customer base (Riverside set its 100,000th meter), as well as an increase in the average customer demand for electricity. Because of the positive operating results, the Electric Utility was able to increase unrestricted cash reserves by \$23.4 million, which supports the Electric Utility's long-term financial plan goal of strengthening its financial position and building liquidity.

The assets of the Electric Utility exceeded its liabilities at the close of the most recent fiscal year by \$197,748 (equity). Of this amount, \$104,026 may be used to meet the Utility's ongoing obligations to creditors and customers.

The Utility's total equity increased by \$32,994 from the prior fiscal year, primarily due to an additional \$24.8 million in retail sales and contributions from developers totaling \$8.2 million.

At the end of the current fiscal year, unrestricted equity represented over 56 percent of annual operating expenses.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

The City of Riverside Electric Utility's financial statements comprise two components: 1) financial statements and 2) notes to the financial statements. In addition, this report also contains other supplementary information to provide the reader additional information about the Electric Utility, including sales statistics and other relevant data.

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

The *Balance Sheets* present information on assets and liabilities, with the difference between the two reported as equity. Over time, increases or decreases in equity may serve as a useful indicator of whether the financial condition of the utility is improving or deteriorating.

The *Statements of Revenues, Expenses and Changes in Equity* present information showing how the Utility's equity changed during the most recent two fiscal years. Results of operations are reported as underlying events occur, regardless of the timing of cash flows. Thus, revenues and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods, i.e. accounts payable and accounts receivable. This is called the accrual basis of accounting and is more fully described in the accompanying Notes to the Financial Statements.

The *Statements of Cash Flows* present the cash flow changes occurring during the last two fiscal years in highly liquid cash and cash equivalents, including certain restricted assets.

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 14 to 23 of this report.

## Utility Financial Analysis

As noted earlier, equity (also called net assets) may serve over time as a useful indicator of the fund's financial position. In the case of Riverside's Electric Utility, assets exceeded liabilities by \$197,748 at the close of the most recent fiscal year.

A portion of the Utility's net assets (30 percent) reflects its investment in capital assets, such as production, transmission, and distribution facilities, less any related outstanding debt used to acquire those assets. The Electric Utility uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since the capital assets themselves cannot be used to liquidate these long-term liabilities.

Significant projects during the fiscal year included \$1.5 million for capital additions at the City's San Onofre Nuclear Generating Station (SONGS), \$7.5 million to begin engineering and purchase equipment for the Riverside Energy Resource Center, \$2.2 million to relocate facilities for the Caltrans I-60/91/215 interchange project, \$0.6 million to begin the Downtown Power Upgrade Project, and \$14.6 million in additions to serve existing customers and connect new customers to the electric system.

The Unrestricted portion of the Utility's net assets (53 percent) may be used to meet the Utility's ongoing obligations to creditors and customers.

**City of Riverside Electric Utility's Equity  
(Net Assets)**

	2004	2003
Current and other assets	\$ 311,063	\$186,932
Capital assets	291,289	272,319
<b>Total assets</b>	<b>602,352</b>	<b>459,251</b>
Long-term debt outstanding	322,110	221,921
Other liabilities	82,494	72,576
<b>Total liabilities</b>	<b>404,604</b>	<b>294,497</b>
Equity (net assets):		
Invested in capital assets, net of related debt	59,805	49,303
Restricted	33,917	25,786
Unrestricted	104,026	89,665
<b>Total equity (net assets)</b>	<b>\$197,748</b>	<b>\$164,754</b>

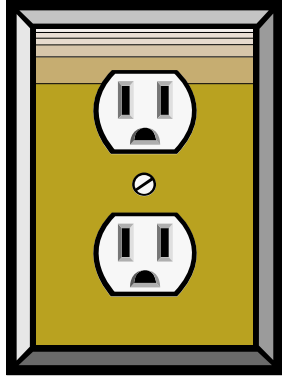
An additional portion of the Electric Utility's equity (17 percent) represents resources that are subject to external restrictions on how they may be used. These are reserved for items such as debt repayment and other legally restricted assets.

The Electric Utility's equity increased by \$32,994 during the current fiscal year. The increase is primarily a result of retail revenues reaching an all time high of \$200 million and contributions from developers totaling \$8.2 million.

**City of Riverside Electric Utility's  
Changes in Equity (Net Assets)**

	2004	2003
Revenues:		
Retail sales	\$ 200,422	\$175,622
Wholesale sales	9,581	17,806
Transmission revenue	20,917	8,661
Investment income	2,747	4,286
Other	3,315	3,402
<b>Total revenues before (reserve)/ recovery</b>	<b>236,982</b>	<b>209,777</b>
Less reserve for bad debt, net of recoveries	(293)	(1,218)
<b>Total revenues before capital contributions</b>	<b>236,689</b>	<b>208,559</b>
Capital contributions	8,227	4,360
<b>Total revenues and capital contributions</b>	<b>244,916</b>	<b>212,919</b>
Expenses:		
Production	111,422	116,159
Transmission	33,651	21,538
Distribution	25,484	22,554
Depreciation	14,994	13,516
Interest expense and fiscal charges	10,194	11,437
<b>Total expenses</b>	<b>195,745</b>	<b>185,204</b>
Contributions to the City's General Fund	16,177	15,333
<b>Total expenses and contributions to the City's General Fund</b>	<b>211,922</b>	<b>200,537</b>
<b>Increase in equity (net assets)</b>	<b>32,994</b>	<b>12,382</b>
Equity, beginning of year	164,754	152,372
<b>Equity, end of year</b>	<b>\$ 197,748</b>	<b>\$164,754</b>

### Revenues by Sources - Electric Utility



- Retail Sales (82%)
- Transmission Revenue (9%)
- Wholesale Sales (4%)
- Capital Contributions (3%)
- Investment Income (1%)
- Other (1%)

Retail sales (residential, commercial, industrial and other sales) continue to be the primary revenue source for the Electric Utility making up 82 percent of total revenue. Retail sales showed an increase of 14.1 percent from the prior year due to a 3.1 percent overall rate increase that became effective November 1, 2003, and 10.8% load growth due to both an expanded customer base and an increase in average consumption.

Wholesale sales decreased 46 percent below the prior year levels. The decrease from the prior year is due to a 5 percent decrease in the volume of excess power sales, (the increased load growth described above resulted in less "excess" available for resale) as well as lower prices received for excess power.

On January 1, 2003, the City turned over operational control of its transmission facilities and became a Participating Transmission Owner (PTO) with the

California Independent System Operator (ISO). As a PTO, the City is entitled to, and is receiving compensation for use of its transmission facilities committed to the ISO's operational control. The compensation is based upon the City's Transmission Revenue Requirement (TRR) as approved by the Federal Energy Regulatory Commission (FERC).

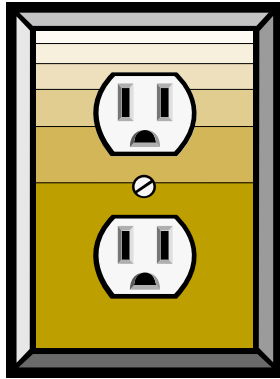
The California Investor Owned Utilities (IOUs), the California Department of Water Resources (CDWR), and the California Public Utilities Commission (CPUC), among others, objected to various aspects of the City's TRR at the FERC. The City and the objecting parties submitted, and the FERC accepted, a settlement agreement.

The settlement agreement disposes of all City TRR issues except for CDWR's and the CPUC's contention that the City is not entitled to its TRR for the majority of the transmission facilities committed to the ISO's operational control. Although the City believes it will ultimately prevail and will vigorously defend its position, an adverse ruling on this issue could require the City to refund up to \$14.7 million of revenues received by the year ended June 30, 2004. As TRR amounts are received from the ISO, the City will set these amounts aside in an internally restricted reserve account until this issue is resolved at the FERC. It is not expected that this issue will be resolved until sometime in 2005. From January 1, 2003 to June 30, 2004, the City recorded \$28.2 million of transmission revenue due to its PTO status.

Investment income decreased by \$1,539, or 36 percent over prior year levels. The decrease is related to market conditions that continue to be poor, which have resulted in lower earnings for the Utility's investment portfolio.

Capital contributions increased 89 percent from prior year levels. The increased amount over prior year reflects an increased level of construction projects funded by others, including an additional \$1.6 million for the Caltrans funded I-215/60/91 freeway interchange project.

**Expenses by Sources - Electric Utility**



- Production (52%)
- Transmission (16%)
- Distribution (12%)
- Contributions to the City's General Fund (8%)
- Depreciation (7%)
- Interest Expense (5%)

Total expenses for the Electric Utility increased by 6 percent from last fiscal year. The Utility experienced increases in certain operating expenses in the current year (salary increases and cost of living type increases for other cost categories), as well as an overall increase in power production costs. Total power costs were higher mainly due to increased retail sales.

Transmission expenses increased by 56 percent. These costs are based on the volume of power sold to customers, which experienced substantial increases over the prior year, resulting in higher transmission costs. Also, Riverside experienced additional costs as a result of becoming a Participating Transmission Owner on January 1, 2003, and the simultaneous expiration of low-cost transmission contracts that previously protected Riverside from expensive high voltage access charges. Although Riverside is now subject to these high voltage access charges, these are offset by additional transmission revenues discussed previously. The prior fiscal year reflects six month's of these access charges, with the year ending June 30, 2004 reflecting a full twelve months.

Distribution costs increased 13 percent from last fiscal year. The increase as compared to prior year is mostly due to increased personnel and related benefits costs, as well as increases in outside legal and professional services costs.

Contributions to the City's General Fund are based on a formula using operating revenues from the prior fiscal year. This amount also increased by \$844 or 5.5 percent.

**Capital Asset and Debt Administration**

The Electric Utility's investment in capital assets as of June 30, 2004 amounts to \$291,289 (net of accumulated depreciation). This includes investments in production, transmission, and distribution related facilities, as well as general items such as office equipment, furniture, etc. This fiscal year showed a 7 percent increase in capital assets over the prior year.

For a description of major capital assets constructed during the year, see discussion under "Utility Financial Analysis" on page 5.

**City of Riverside Electric Utility's Capital Assets (Net of depreciation)**

	2004	2003
Production	\$ 81,568	\$ 86,473
Transmission	6,225	6,584
Distribution	157,577	148,058
General	13,574	13,742
Construction in progress	29,941	16,335
Nuclear fuel, at amortized costs	2,404	1,127
<b>Total</b>	<b>\$291,289</b>	<b>\$272,319</b>

Additional information regarding capital assets can be found in Note 1 on page 14 and in Note 3 on Page 17 of this report.

**City of Riverside Electric Utility's  
 Outstanding Debt (Revenue Bonds)**

At the end of the current fiscal year, the City of Riverside's Electric Utility had long-term debt outstanding of \$322,110. This debt is backed by the revenue of the utility (revenue bonds).

	2004	2003
Revenue bonds	\$ 325,665	\$ 230,635
Less: Current portions	(14,555)	(10,780)
Unamortized premium	11,000	2,066
<b>Total</b>	<b>\$ 322,110</b>	<b>\$ 221,921</b>

The Electric Utility maintains an "A+" credit rating from Standard & Poor's and Fitch, Inc. for its revenue bonds.

Additional information on the Electric Utility's long-term debt can be found in Note 4 on pages 18 and 19 of this report.

**Economic Factors and Rates**

Although inflationary trends in the Riverside region continue to compare favorably to the national indices, history has shown that certain costs such as purchased power during the California energy crisis can exponentially exceed inflation. The FERC imposed price cap on purchased power (June 2001) is still in effect, which continues to help stabilize power prices. Prior to the price cap, when the FERC refused to intervene and help stabilize the market, Californians did not see a resolution to the high power prices. As a hedge against the unreasonably high power prices, the Utility entered into short term agreements to purchase power at costs in excess of historic market levels. The last of those agreements for high cost power is reflected in the prior year financial statements as production costs. The forward price curves have stabilized; however, regulatory actions and other factors could impact them.

The City Council has approved Electric rate increases for three consecutive years. These increases are an overall 3.4 percent, 3.1 percent, and 2.2 percent effective November 1, 2002, 2003, and 2004, respectively, and will help strengthen the Utility's financial stability by meeting the expected increased costs to operate the Utility, improve system reliability, and build liquidity by increasing cash reserves.

In addition to inflation, management continually plans for and identifies issues or potential contingencies that could impact future rates, such as system expansion, infrastructure needs, accelerated debt payments, future supply costs, regulatory changes, and others.

The Board of Public Utilities has a goal of having rate increases not to exceed 5 percent per year. This requires proper planning, as well as building reserves, to handle system emergencies or disasters, as well as certain other one-time costs.

**Requests for Information**

This financial report is designed to provide a general overview of the City of Riverside Electric Utility's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Assistant Director Finance/Resources, City of Riverside Public Utilities, 3900 Main Street, 4th floor, Riverside, CA 92522.

## BALANCE SHEETS

ASSETS	JUNE 30 2004	JUNE 30 2003
	(in thousands)	
<b>UTILITY PLANT:</b>		
Production	\$ 175,595	\$ 174,035
Transmission	15,051	15,043
Distribution	257,678	241,531
General	26,388	25,190
	474,712	455,799
Less accumulated depreciation	(215,768)	(200,942)
	258,944	254,857
Construction in progress	29,941	16,335
Nuclear fuel, at amortized cost	2,404	1,127
	291,289	272,319
<b>RESTRICTED ASSETS:</b>		
Cash and cash equivalents (Note 2)	110,029	29,186
Investments (Note 2)	61,671	43,230
Public Benefit Programs receivable	590	620
	172,290	73,036
<b>OTHER NON-CURRENT ASSETS:</b>		
Unamortized purchased power (Note 8)	18,374	21,715
Unamortized bond issuance costs	6,894	2,360
Unamortized bond refunding costs	5,486	3,629
	30,754	27,704
Total other non-current assets	30,754	27,704
Total non-current assets	494,333	373,059
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents (Note 2)	70,607	47,244
Accounts receivable, less allowance for doubtful accounts		
2004 \$264; 2003 \$263	20,705	20,233
Accounts receivable other utilities and governments, less allowance for doubtful accounts		
2004 \$2,234; 2003 \$2,262	10,197	11,674
Accrued interest receivable	697	613
Prepaid expenses	4,584	5,278
Nuclear materials inventory	1,229	1,150
	108,019	86,192
Total current assets	108,019	86,192
Total assets	\$ 602,352	\$ 459,251

See accompanying notes to the financial statements

**BALANCE SHEETS**

	JUNE 30 2004	JUNE 30 2003
	(in thousands)	
<b>EQUITY AND LIABILITIES</b>		
<b>EQUITY:</b>		
Invested in capital assets, net of related debt	\$ 59,805	\$ 49,303
Restricted for debt service (Note 5)	33,917	25,786
Unrestricted	104,026	89,665
Total equity	197,748	164,754
<b>LONG-TERM DEBT, LESS CURRENT PORTION (NOTE 4):</b>	322,110	221,921
<b>OTHER NON-CURRENT LIABILITIES:</b>		
Nuclear decommissioning liability (Note 4)	41,157	38,144
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:</b>		
Accrued interest payable	2,557	2,808
Public Benefit Programs	3,960	3,630
Current portion of long-term debt (Note 4)	14,555	10,780
Total current liabilities payable from restricted assets	21,072	17,218
<b>CURRENT LIABILITIES:</b>		
Accounts payable	12,604	9,736
Accrued liabilities	4,850	4,608
Customer deposits	2,811	2,870
Total current liabilities	20,265	17,214
Total liabilities	404,604	294,497
<b>COMMITMENTS AND CONTINGENCIES (NOTES 8 AND 9)</b>		
Total equity and liabilities	\$ 602,352	\$ 459,251

See accompanying notes to the financial statements

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN EQUITY

FOR THE FISCAL YEARS  
ENDED JUNE 30  
2004 2003  
(in thousands)

## OPERATING REVENUES:

Residential sales	\$ 80,872	\$ 68,649
Commercial sales	57,079	48,974
Industrial sales	56,117	52,380
Other sales	6,354	5,619
Wholesale sales	9,581	17,806
Transmission revenue	20,917	8,661
Other operating revenue	2,182	2,230
Total operating revenues before (reserve)/recovery	233,102	204,319
Reserve for uncollectible	(468)	(1,257)
Bad debt recovery	175	39
Total operating revenues, net of (reserve)/recovery	232,809	203,101

## OPERATING EXPENSES:

Production	111,422	116,159
Transmission	33,651	21,538
Distribution	25,484	22,554
Depreciation	14,994	13,516
Total operating expenses	185,551	173,767
Operating income	47,258	29,334

## NON-OPERATING REVENUES (EXPENSES):

Investment income	2,747	4,286
Interest expense and fiscal charges	(10,194)	(11,437)
Gain on retirement of utility plant	84	387
Other	1,049	785
Total non-operating expenses	(6,314)	(5,979)
Income before capital contributions and transfers	40,944	23,355
Capital contributions	8,227	4,360
Transfers out - contributions to the City's General Fund	(16,177)	(15,333)
Total capital contributions and transfers out	(7,950)	(10,973)
Increase in equity	32,994	12,382

EQUITY, BEGINNING OF YEAR

164,754 152,372

EQUITY, END OF YEAR

\$ 197,748 \$164,754

See accompanying notes to the financial statements

## STATEMENTS OF CASH FLOWS

FOR THE FISCAL YEARS  
ENDED JUNE 30  
2004 2003  
(in thousands)

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers and users	\$ 233,785	\$ 195,946
Cash paid to suppliers and employees	(160,112)	(152,545)
Other receipts	1,049	785
Net cash provided by operating activities	74,722	44,186
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
Transfers out - contributions to the City's General Fund	(16,177)	(15,333)
Net cash used by non-capital financing activities	(16,177)	(15,333)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of utility plant	(29,004)	(19,870)
Purchase of nuclear fuel	(1,313)	(903)
Proceeds from the sale of utility plant	209	567
Proceeds from sale of revenue bonds, net of premium	194,665	0
Deposit to escrow account for advanced bond refunding	(78,719)	0
Principal paid on long-term debt	(11,655)	(7,850)
Interest paid on long-term debt	(17,162)	(11,206)
Capital contributions	4,418	2,254
Net cash provided (used) by capital and related financing activities	61,439	(37,008)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investment securities	(18,441)	(3,235)
Income from investments	2,663	4,275
Net cash provided (used) by investing activities	(15,778)	1,040
Net increase (decrease) in cash and cash equivalents	104,206	(7,115)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR <sup>1</sup></b>	76,430	83,545
<b>CASH AND CASH EQUIVALENTS, END OF YEAR <sup>1</sup></b>	\$ 180,636	\$ 76,430
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income	\$ 47,258	\$ 29,334
Other receipts	1,049	785
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	14,994	13,516
Amortization/burn of nuclear fuel	3,377	4,514
Decrease in allowance for uncollectible accounts receivable	(27)	(6,497)
Decrease (increase) in accounts receivable	1,062	(415)
Decrease (increase) in prepaid expenses	694	(907)
Increase in nuclear materials inventory	(79)	(53)
Increase in accounts payable	2,868	1,600
Increase (decrease) in accrued liabilities	242	(76)
Increase (decrease) in Public Benefit Program	330	(661)
Decrease in customer deposits	(59)	(243)
Increase in nuclear decommissioning liability	3,013	3,289
Net cash provided by operating activities	\$ 74,722	\$ 44,186
<b>SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:</b>		
Capital contributions	\$ 3,808	\$ 2,106

<sup>1</sup> Cash and cash equivalents also include cash and cash equivalents in restricted assets.

See accompanying notes to the financial statements

**NOTE 1. Summary of Significant Accounting Policies**

The Electric Utility exists under, and by virtue of, the City Charter enacted in 1883. The Electric Utility is responsible for the generation, transmission and distribution of electric power for sale in the City.

■ **Basis of Accounting** The accounting records of the Electric Utility are in accordance with accounting principles generally accepted in the United States of America as applicable to governments and substantially in conformity with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). The Electric Utility is not subject to the regulations of the FERC. The Electric Utility is not required to and does not elect to implement the pronouncements of the Financial Accounting Standards Board issued after November 1989.

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

■ **Revenue Recognition** The Electric Utility uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Electric Utility customers are billed monthly. Unbilled electric service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled \$9,958 at June 30, 2004, and \$9,282 at June 30, 2003.

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

■ **Utility Plant and Depreciation** Utility plant assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Costs include labor; materials; interest during construction; allocated indirect charges such as engineering, supervision, construction and transportation equipment; retirement plan contributions and other fringe benefits. Contributed plant assets are valued at estimated fair value on the date contributed. The cost of relatively minor replacements is included in maintenance expense.

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

Production plant . . . . .	9-30 years
Transmission and distribution plant . . . .	20-50 years
General plant and equipment . . . . .	3-15 years

■ **Nuclear Fuel** The Electric Utility amortizes and charges to expense, the cost of nuclear fuel, on the basis of actual thermal energy produced relative to total thermal energy expected to be produced over the life of the fuel. In accordance with the Nuclear Waste Disposal Act of 1982, the Electric Utility is charged one dollar per megawatt-hour of energy generated by the City's share of San Onofre Nuclear Generating Station's Units 2 and 3 to provide for estimated future storage and disposal of spent nuclear fuel. The Electric Utility pays this fee to its operating agent, Southern California Edison Co (SCE), on a quarterly basis (see Note 7).

■ **Restricted Assets** Proceeds of revenue bonds yet to be used for capital projects, as well as certain resources set aside for debt service, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Funds set aside for the nuclear decommissioning reserve are also classified as restricted assets because their use is legally restricted to a specific purpose.

In January 1998, the Electric Utility began collecting a surcharge for public benefit programs on customer utility bills. This surcharge is mandated by state legislation included in Assembly Bill 1890 and is restricted to various socially beneficial programs and services. The programs and services include cost effective demand-side management services to promote energy efficiency and conservation and related education and information; ongoing support and new investments in renewable resource technologies; energy research and development; and programs and services for low-income electric customers. The activity associated with the surcharge for public benefit programs is reflected in the accompanying financial statements as a restricted asset and deferred revenue.

■ **Cash and Investments** The City follows the practice of pooling cash and investments of all funds except for funds required to be held by outside fiscal agents under the provisions of bond indentures and certain trust agreements. Cash accounts for all City funds are pooled for investment purposes to enhance safety and liquidity while maximizing interest earnings. Interest income earned on pooled cash is allocated monthly to the various funds of the City based on the month-end cash balances. Earnings on cash and investments held by fiscal agents are credited directly to the related accounts.

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

**NOTE 1. Summary of Significant Accounting Policies (Continued)**

All highly liquid investments (including restricted assets) with a maturity of ninety days or less when purchased are considered to be cash equivalents. Cash and investments held on behalf of the Electric Utility by the City Treasurer are considered highly liquid and are classified as cash equivalents for the purpose of presentation in the statement of cash flows.

■ **Bond Discounts and Issuance Costs** Bond premiums, discounts, and issuance costs 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, whereas issuance costs are recorded as other assets.

■ **Nuclear Decommissioning Liability** Federal regulations require the Electric Utility to provide for the future decommissioning of its ownership share of the nuclear units at San Onofre. The Electric Utility has established a trust account to accumulate resources for the decommissioning of the nuclear power plant and restoration of the beachfront at San Onofre. Based on the most recent cost estimate completed by ABZ Incorporated, the Electric Utility plans to set aside approximately \$1.6 million per year to fund this obligation. The funding will occur over the useful life of the generating plant or until the account is fully funded.

Increases to the trusts are from amounts set aside and investment earnings. The investment earnings are included in investment income in the Utility's financial statements. These amounts, as well as amounts set aside, are contributed to the trusts and reflected as decommissioning expense, which are considered part of power supply costs. The total amounts held in the trust accounts are classified as restricted assets and other non-current liability in the accompanying balance sheet. To date, the Electric Utility has set aside \$41,156 in cash investments with the trustee as Riverside's estimated share of the decommissioning cost of San Onofre. The plant site easement at San Onofre terminates May 2050. The plant must be decommissioned and the site restored by the time the easement terminates.

■ **Competitive Transition Account and Internally Restricted Cash Reserves** A Competitive Transition Account (CTA) was established in June 1998 after approval by the Board of Public Utilities and the City Council. This new account was funded by a transfer of \$23.5 million from a rate stabilization account and \$10 million from an operating cash reserve account.

The CTA is an internally restricted asset and the Board and City Council will approve usage of funds on an annual or as-needed basis for purposes of handling competitive financial issues. This account was established for a short-term period (five years) during the anticipated phase-in of retail competition in the electric utility industry. Possible fund uses include early pay down of generation-related debt or long-term contracts, rate stabilization or other competitive purposes. The balance in the CTA at June 30, 2003, was \$29.0 million, and is reflected as a current asset in the accompanying financial statements as part of cash and cash equivalents.

Effective July 1, 2003, the City Council approved the dissolution of the Competitive Transition Account. The funds from the Competitive Transition Account are to be used for establishing a Regulatory Risk Reserve Account for \$4.0 million, an Energy Risk Management Reserve Account for \$11.0 million and transferring the remaining balance of \$14.0 million to the Operating Reserve Account, all of which are considered internally restricted assets. The balance as of June 30, 2004 are as follows: Regulatory Risk Reserve \$19.9 million, Energy Risk Management Reserve \$11.0 million and Operating Reserve \$14.7 million for a combined total of \$45.6 million.

■ **Customer Deposits** The City holds customer deposits as security for the payment of utility bills. The Electric Utility's portion of these deposits as of June 30, 2004 and 2003, was \$2,811 and \$2,870, respectively.

■ **Compensated Absences** The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due employees at June 30, 2004 and 2003. The Electric Utility treats compensated absences due employees as a current liability. The amount accrued for compensated absences was \$4,217 at June 30, 2004, and \$4,115 at June 30, 2003, and is included in accrued liabilities in the accompanying balance sheets.

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

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

**NOTE 1. Summary of Significant Accounting Policies (Continued)**

■ **Self-Insurance Program** The Electric Utility participates in a self-insurance program for workers' compensation and general liability coverage that is administered by the City. The Electric Utility pays an amount to the City representing an estimate of amounts to be paid for reported claims incurred and incurred but unreported claims based upon past experience, modified for current trends and information.

Although the ultimate amount of losses incurred through June 30, 2004 is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. Premiums paid to the City by the Electric Utility were \$518 and \$385 for the years ended June 30, 2004 and 2003. Any losses above the City's reserves would be covered through increased rates charged to the Electric Utility in future years.

■ **Employee Retirement Plan** The City contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agency for participating public entities within the state of California.

All permanent full-time and selected part-time employees are eligible for participation in PERS. Benefits vest after five years of service and are determined by a formula that considers the employee's age, years of service and salary. Employees may retire at age 55 and receive 2.7 percent of their highest average annual salary for each year of service completed. PERS also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute and City ordinance.

Employee contributions are 8 percent of their annual covered salary. The Electric Utility is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The Electric Utility pays both the employee and employer contributions.

Citywide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the year ended June 30, 2004 and recent trend information may be found in the notes of the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2004.

■ **Equity** The Electric Utility's equity consists of its net assets (assets less liabilities) which are classified into the following three components:

- **Invested in capital assets, net of related debt** – this component consists of capital assets (net of accumulated depreciation) and unamortized debt expenses reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** – this component consists of net assets on which constraints are placed as to their use. Constraints include those imposed by creditors (such as through debt covenants) contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or through enabling legislation.
- **Unrestricted net assets** – this component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

■ **Contributions to the City's General Fund** Pursuant to the City Charter, the Electric Utility may transfer up to 11.5 percent of its prior year's gross operating revenues to the City's General Fund. In fiscal years 2003-04 and 2002-03, the Electric Utility transferred approximately 9.0 percent of gross operating revenues, or \$16,177 and \$15,333, respectively.

■ **Budgets and Budgetary Accounting** The Electric Utility presents, and the City Council adopts, an annual budget. The proposed budget includes estimated expenses and forecasted revenues. The City Council adopts the Electric Utility's budget in June each year via a resolution.

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

**NOTE 2. Cash and Investments**

Cash and investments at June 30, 2004 and 2003, consist of the following (in thousands):

	June 30, 2004	June 30, 2003
	Fair Value	
Deposits with City Treasurer's investment pool	\$ 87,449	\$ 70,954
Cash and investments at fiscal agent	154,858	48,706
<b>Total cash and investments</b>	<b>\$ 242,307</b>	<b>\$ 119,660</b>

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

	June 30, 2004	June 30, 2003
Cash and cash equivalents	\$ 70,607	\$ 47,244
Restricted assets:		
Cash and cash equivalents	110,029	29,186
Investments	61,671	43,230
<b>Total restricted cash and investments</b>	<b>171,700</b>	<b>72,416</b>
<b>Total cash and investments</b>	<b>\$ 242,307</b>	<b>\$ 119,660</b>

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

- Securities of the U.S. government, or its agencies
- Local agency investment fund (state pool) deposits
- Negotiable certificates of deposits
- Repurchase agreements
- Banker's acceptances
- Mutual funds
- Commercial paper of "prime" quality
- Medium-term corporate notes
- Reverse repurchase agreements

■ **Credit Risk, Carrying Amount and Market Value of Deposits and Investments** The Electric Utility's share of the City's investment pool at June 30, 2004, represents approximately 35 percent or \$242,307 of the City's total cash and investments of \$685,470. For more discussion relating to the City's investment policies and credit risk see the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2004. Cash and investments at fiscal agent are insured or registered, or held in the name of the Electric Utility or its agent.

**NOTE 3. Utility Plant**

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2004 and 2003 (in thousands):

	Balance, As of 6/30/2002	Additions	Deletions/ Transfers	Balance, As of 6/30/2003	Additions	Deletions/ Transfers	Balance, As of 6/30/2004
Production	\$ 128,009	\$ 46,026	\$ 0	\$ 174,035	\$ 1,560	\$ 0	\$ 175,595
Transmission	15,025	18	0	15,043	8	0	15,051
Distribution	232,056	9,790	(315)	241,531	16,423	(276)	257,678
General	24,626	664	(100)	25,190	1,215	(17)	26,388
Construction in progress	50,856	19,870	(54,391)	16,335	32,812	(19,206)	29,941
Nuclear fuel	1,397	903	(1,173)	1,127	1,313	(36)	2,404
Subtotal	451,969	77,271	(55,979)	473,261	53,331	(19,535)	507,057
Less accumulated depreciation	(187,660)	(13,516)	234	(200,942)	(14,993)	167	(215,768)
<b>Total utility plant</b>	<b>\$ 264,309</b>	<b>\$ 63,755</b>	<b>(\$55,745)</b>	<b>\$ 272,319</b>	<b>\$ 38,338</b>	<b>(\$19,368)</b>	<b>\$ 291,289</b>

**NOTE 4. Long-Term Obligations**

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2004 and 2003 (in thousands):

	Balance, As of 6/30/2002	Additions	Reductions	Balance, As of 6/30/2003	Additions	Reductions	Balance, As of 6/30/2004
Revenue bonds	\$ 240,524	\$ 0	(\$7,823)	\$ 232,701	\$194,579	(\$90,615)	\$ 336,665
Capital leases	11	0	(11)	0	0	0	0
Nuclear decommissioning liability (Note 1)	34,855	3,289	0	38,144	3,013	0	41,157
<b>Total long-term obligations</b>	<b>\$ 275,390</b>	<b>\$ 3,289</b>	<b>(\$7,834)</b>	<b>\$ 270,845</b>	<b>\$197,592</b>	<b>(\$90,615)</b>	<b>\$ 377,822</b>

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

■ **Revenue Bonds Payable**

June 30, 2004    June 30, 2003

**\$118,550 1993 Electric Refunding Revenue Bonds:** All outstanding bonds were refunded on July 31, 2003 with the 2003 Electric Refunding/Revenue bonds, with the exception of the October 1, 2003 maturity

\$ 0    \$ 81,380

**\$4,100 1994 FARECal Electric Revenue Bonds:** All outstanding bonds were refunded on July 31, 2003 with the 2003 Electric Refunding/Revenue bonds

0    3,310

**\$98,730 1998 Electric Refunding/Revenue Bonds:** \$63,165 serial bonds due in annual installments from \$4,995 to \$7,085 through October 1, 2013, interest from 4.3 percent to 5.38 percent; \$21,595 term bonds due October 1, 2018, interest at 5.0 percent; \$13,970 term bonds due October 1, 2022, interest at 5.0 percent

94,080    98,730

**\$47,215 2001 Electric Revenue Bonds:** \$47,215 serial bonds due in annual installments from \$2,855 to \$4,750 through October 1, 2016, interest from 2.9 percent to 5.25 percent

47,215    47,215

**\$75,405 2003 Electric Refunding/Revenue Bonds:** \$75,405 serial bonds due in annual installments from \$6,705 to \$8,535 through October 1, 2013, interest from 2.0 percent to 5.0 percent

74,370    0

**\$110,000 2004 Electric Revenue Bonds:**

110,000    0

**A - \$27,500 2004 Series A Bonds** - Serial bonds due in annual installments from \$2,615 to \$3,695 through October 1, 2014, interest from 4.0 percent to 5.5 percent

**B - \$82,500 2004 Series B Bonds** - Auction Rate Securities due in annual installments from \$1,250 to \$7,000 from October 1, 2014 through October 1, 2029. Interest is variable and rate is subject to weekly repricing (rate at June 29, 2004 was 1.12 percent)

Total electric revenue bonds payable

325,665    230,635

Unamortized bond premium (discount)

11,000    2,066

Total long-term debt, net of bond premium (discount)

336,665    232,701

Less: current portion

(14,555)    (10,780)

Total long-term debt

**\$ 322,110    \$ 221,921**

**NOTE 4. Long-Term Obligations (Continued)**

Annual debt service requirements to maturity, excluding amounts for nuclear decommissioning liability, as of June 30, 2004, are as follows (in thousands):

	2005	2006	2007	2008	2009	2010-2014	2015-2019	2020-2024	2025-2029	2030-2034	Total
Principal	\$14,555	\$15,015	\$18,215	\$18,935	\$19,795	\$104,900	\$56,330	\$39,695	\$31,225	\$7,000	\$325,665
Interest	13,613	13,353	12,728	11,983	11,133	40,863	19,953	10,368	3,839	65	137,898
Unamortized bond (discount) premium	951	958	1,090	1,086	1,082	5,152	593	88	0	0	11,000
<b>Total</b>	<b>\$29,119</b>	<b>\$29,326</b>	<b>\$32,033</b>	<b>\$32,004</b>	<b>\$32,010</b>	<b>\$150,915</b>	<b>\$76,876</b>	<b>\$50,151</b>	<b>\$35,064</b>	<b>\$7,065</b>	<b>\$474,563</b>

■ **Advance Refunding** On July 31, 2003 \$75,405 of Electric Refunding Revenue Bonds were sold with a true interest cost of 3.35% to advance refund \$75,410 of previously outstanding 1993 Electric Revenue bonds and \$3,310 of previously outstanding 1994 Electric Revenue bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2,222. This difference, reported in the accompanying financial statements as a deduction from bond proceeds, is being charged to operations through 2013 using a proportional method. The City completed the advance refunding to allow more lenient bond covenants, reduce net aggregate debt service payments over the next 11 years by \$6,595 and to obtain an economic gain (difference between present value of the old and new debt service payments) of \$5,437.

■ **2004 Electric Revenue Bonds** On June 3, 2004, the Electric Utility issued \$110,000 of Electric Revenue bonds to finance the costs of acquisition and construction of a 99.6 megawatt, two unit, simple cycle power plant and related transmission lines, to finance the costs of acquisition and construction of certain other additions and improvements to the Electric System distribution and transmission facilities, and to fund a reserve account. Series A is comprised of \$27,500 serial bonds, with principal payments from October 1, 2006 through October 1, 2014 ranging from \$2,615 to \$3,695 at rates between 4% and 5.5%. Series B is comprised of \$82,500 variable Auction Rate Securities term bonds, maturing on October 1, 2014 through October 1, 2029, with principal payments ranging from \$1,250 to \$7,000. Assuming a variable rate of 3.5%, the all-in true interest cost for this issue is 3.94%.

■ **Debt Service Coverage Ratio** The Electric Utility's bond indentures require the Electric Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants, of 1.10. The Electric Utility's debt service coverage ratio was 3.38 at June 30, 2004, and 2.91 at June 30, 2003.

**NOTE 5. Restricted Equity**

Pursuant to applicable bond indentures, a reserve for debt service has been established by restricting assets and reserving a portion of equity. Bond indentures for Riverside's electric revenue and refunding bonds require reserves that equate to the maximum annual debt service required in future years plus three months interest and nine months principal due in the next fiscal year. Additional reserves for the 1998 revenue bonds are not required due to the purchase of surety bonds to cover the required reserve requirements.

**NOTE 6. Jointly-Governed Organizations**

■ **Southern California Public Power Authority** On November 1, 1980, the City of Riverside joined with the Imperial Irrigation District and the cities of Los Angeles, Anaheim, Vernon, Azusa, Banning, Colton, Burbank, Glendale and Pasadena to create the Southern California Public Power Authority (SCPPA) by a Joint Powers Agreement under the laws of the state of California. As of July 2001, the cities of Cerritos and San Marcos were admitted as members of SCPPA. In August 2003, the Authority rescinded the membership of the City of San Marcos, as the City no longer met the criteria for membership. The primary purpose of SCPPA is to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. SCPPA is governed by a Board of Directors, which consists of one representative for each of the members. During the 2003-04 and 2002-03 fiscal years, the Electric Utility paid approximately \$21,236 and \$20,324, respectively, to SCPPA under various take-or-pay contracts that are described in greater detail in Note 8. These payments are reflected as a component of production or transmission expense in the financial statements.

#### NOTE 6. Jointly-Governed Organizations (Continued)

■ **Power Agency of California** On July 1, 1990, the City of Riverside joined with the cities of Azusa, Banning and Colton to create the Power Agency of California (PAC) by a Joint Powers Agreement under the laws of the state of California. The City of Anaheim joined PAC on July 1, 1996. The primary purpose of PAC is to take advantage of synergies and economies of scale as a result of the five cities acting in concert. PAC has the ability to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. PAC is governed by a Board of Directors, which consists of one representative for each of the members. The term of the Joint Powers Agreement is 50 years. Effective June 30, 2001, PAC was placed in an inactive status by the Board of Directors. The Agency can only be reactivated by authorization of the Agency Board.

#### NOTE 7. Jointly-Owned Utility Project

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

The original operating license for SONGS units 2 and 3 was set to expire in 2013; however, this was subsequently extended due to a construction recapture provision, and now expires February 16, 2022 and November 15, 2022 for Units 2 and 3 respectively.

There are no separate financial statements for the jointly-owned utility plant since each participant's interests in the utility plant and operating expenses are included in their respective financial statements. The Electric Utility's 1.79 percent share of the capitalized construction costs for SONGS totaled \$130,042

and \$128,483 for fiscal years ended June 30, 2004 and 2003, respectively. Acquisition of assets are depreciated through 2013, the original license expiration date. The accumulated depreciation amounted to \$92,382 and \$87,309 for the fiscal years ended June 30, 2004 and 2003, respectively. The Electric Utility made provisions for future decommissioning costs of \$1,581 for both fiscal years plus earnings on the Decommissioning Trust Fund of \$1,431 and \$1,708 for fiscal years June 30, 2004 and June 30, 2003, respectively (see Note 1). The Electric Utility's portion of current and long-term debt associated with SONGS is included in the accompanying financial statements.

As a participant in SONGS, the Electric Utility could be subject to assessment of retrospective insurance premiums in the event of a nuclear incident at San Onofre or any other licensed nuclear reactor in the United States.

#### NOTE 8. Commitments

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

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

The Electric Utility is a member of the Southern California Public Power Authority (SCPPA), a joint powers agency (see Note 6). SCPPA provides for the financing and construction of electric generating and transmission projects for participation by some or all of its members. To the extent the Electric Utility participates in projects developed by SCPPA, it has entered into Power Purchase or Transmission Service Agreements, entitling the Electric Utility to the power output or transmission service, as applicable, and the Electric Utility will be obligated for its proportionate share of the project costs.

**NOTE 8. Commitments (Continued)**

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

PROJECT	PERCENT SHARE	ENTITLEMENT	FINAL MATURITY	CONTRACT EXPIRATION
Palo Verde Nuclear Generating Station	5.4 percent	11.7 MW	2017	2030
Southern Transmission System	10.2 percent	195 MW	2023	2027
Hoover Dam Uprating	31.9 percent	30 MW	2017	2017
Mead-Phoenix Transmission	4.0 percent	12 MW	2020	2030
Mead-Adelanto Transmission	13.5 percent	118 MW	2020	2030

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

Interest rates on the outstanding debt associated with the take-or-pay obligations range from 4.1 percent to 5.9 percent. The schedule below details the amount of principal and interest that is due and payable by the Electric Utility as part of the take-or-pay contract for each project in the fiscal year indicated.

DEBT SERVICE PAYMENTS (in thousands) Year Ending June 30	IPA		SCPPA				TOTAL
	Intermountain Power Project	Palo Verde Nuclear Generating Station	Southern Transmission System	Hoover Dam Uprating	Mead-Phoenix Transmission	Mead-Adelanto Transmission	All Projects
2005	\$21,350	\$4,338	\$6,723	\$707	\$132	\$1,388	\$34,638
2006	22,079	1,541	6,968	708	132	1,388	32,816
2007	21,974	1,541	7,192	704	259	2,816	34,486
2008	22,498	1,541	6,693	704	260	2,819	34,515
2009	21,682	3,081	6,575	704	259	2,814	35,115
2010-2014	118,748	13,383	34,390	3,502	1,405	13,997	185,425
2015-2019	106,187	32,640	35,256	2,771	1,229	13,961	192,044
2020-2024	68,513	0	37,269	0	496	5,604	111,882
Total	\$403,031	\$58,065	\$141,066	\$9,800	\$4,172	\$44,787	\$660,921

In addition to debt service, Riverside's entitlements require the payment of fuel costs, operating and maintenance, administrative and general and other miscellaneous costs associated with the generation and transmission facilities discussed above. These costs do not have a similar structured payment schedule as debt service and vary each year. The costs incurred for the years ended June 30, 2004 and 2003, are as follows:

(In thousands) FISCAL YEAR	Intermountain Power Project	Palo Verde Nuclear	Southern Transmission System	Mead-Adelanto Transmission	Mead-Phoenix Transmission	Hoover Dam Uprating	TOTAL
2004	\$20,766	\$1,927	\$1,812	\$141	\$46	\$84	\$24,776
2003	\$18,819	\$2,355	\$1,320	\$157	\$44	\$87	\$22,782

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

**NOTE 8. Commitments (continued)**

■ **Power Purchase Agreements** The Electric Utility has executed five firm power purchase agreements. The agreements are with Deseret Generation and Transmission Cooperative (Deseret) of Murray, Utah; California Department of Water Resources (CDWR); and Bonneville Power Administration (BPA). The minimum annual obligations under each of these contracts are shown in the table below.

*Minimum Obligations 2004-2005 (in thousands)*

SUPPLIER	CAPACITY	ENERGY	TOTAL
Deseret	\$ 3,463	\$ 1,766	\$ 5,229
CDWR III	514	0	514
CDWR IV	671	0	671
BPA (two agreements)	1,914	0	1,914
Total	\$ 6,562	\$ 1,766	\$ 8,328

The agreement with Deseret is for five megawatts of capacity and associated energy from January 1, 1992, through December 31, 1994, then increasing to 52 megawatts of capacity and associated energy through December 31, 2009. A notice of termination of the power purchase agreement was provided to Deseret effective March 31, 1998, resulting in litigation which was settled on July 31, 1999. Under the terms of the settlement agreement, the notice of termination was rescinded and the power purchase agreement was

amended to reflect substantial price reductions after fiscal year 2002 through the term of the agreement in 2009. In exchange, Riverside Public Utilities paid Deseret \$25 million from Electric fund reserves, which is reflected on the Balance Sheet as Unamortized Purchased Power. On July 1, 2002, the Electric Utility began to amortize the related price reductions, and will continue to amortize over the remaining term of the agreement using the straight-line method.

As of June 30, 2004 and 2003, unamortized purchased power was \$18,374 and \$21,715, respectively, and the Utility had recorded amortization of \$3,341 in both fiscal years.

There are two separate agreements with CDWR. CDWR III is for the purchase of 23 megawatts of capacity from May through October of each year beginning June 1, 1996, for 15 years. CDWR IV is for the purchase of 30 megawatts of capacity from May through October beginning June 1, 1996, for 15 years, subject to early termination.

The first agreement with BPA is for the purchase of firm capacity (23 megawatts in the summer months and 16 megawatts in the winter months) beginning February 1, 1991, for a period of 20 years. The second BPA agreement is for the purchase of capacity (50 megawatts during the summer months and 13 megawatts during the winter months) beginning April 30, 1996, for 20 years. Effective May 1, 1998, these summer and winter capacity amounts increased to 60 megawatts and 15 megawatts, respectively, for the remainder of the second agreement.

**NOTE 8. Commitments (continued)**

■ **Renewable Portfolio Standard** On July 8, 2003, and June 6, 2003, the City Council and Public Utilities Board, respectively, adopted a Renewable Portfolio Standard to increase procurement of renewable resources to reach a target of 20 percent of the Utility's energy from renewable resources by 2015. The contracts in the following table were executed as part of compliance with this standard. The Utility also has an agreement with Bonneville Power Administration for the purchase of energy credits that add to the total renewable portfolio. In the current year, renewable resources provided 12 percent of retail energy requirements, or approximately 9 percent of total power produced.

Long-term renewable power purchase agreements (in thousands):

SUPPLIER	TYPE	MAXIMUM CONTRACT	CONTRACT EXPIRATION	ESTIMATED ANNUAL COST FOR 2005
Milliken Genco	Landfill Gas	2.3 MW	12/31/2007	\$ 825
Mid Valley Genco	Landfill Gas	2.3 MW	12/31/2007	943
Riverside County (Badlands Landfill)	Landfill Gas	1.2 MW	12/31/2008	255
Wintec	Wind	1.3 MW	4/30/2018	158
Salton Sea Power LLC	Geothermal	20.0 MW	5/31/2013	9,619
Total:		27.1 MW		\$ 11,800

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

■ **Construction Commitments** As of June 30, 2004, the Electric Utility had major commitments of approximately \$40.8 million, with respect to unfinished capital projects, of which \$3.1 million is expected to be funded by others, \$37.2 million by bonds and \$0.5 million by rates.

**NOTE 9. Litigation**

The City continues to participate in key FERC dockets impacting the City's Electric Utility, such as the Market Design and Western Markets refunding dockets.

On January 1, 2003, the City became a PTO with the ISO, entitling the City to receive compensation for use of its transmission facilities committed to the ISO's operational control. The compensation is based on the City's TRR as approved by the FERC. The California Investor Owned Utilities (IOUs), the CDWR, and the CPUC, among others, objected to various aspects of the City's TRR at the FERC. The City and the objecting parties submitted, and the FERC accepted for filing, a settlement agreement that disposes of all City TRR issues except for CDWR's and CPUC's contention that the City is not entitled to its TRR for the majority of its transmission facilities committed to the ISO's control. Trial on this TRR issue commenced in October, 2004, with an initial decision expected in February, 2005.

If the City does not prevail in this litigation, up to \$14.7 million of transmission revenue collected through June 30, 2004 may have to be refunded to the ISO.

The City is owed approximately \$300 by the California Independent System Operator (ISO) and \$1 million by the California Power Exchange (PX), primarily due to Pacific Gas & Electric's (PG&E) defaulting on its payments to the ISO and PX in early 2001.

These amounts were fully reserved with an allowance for potentially uncollectible receivables in fiscal year 2001, and any amounts subsequently collected will be included in earnings in the period collected. After PG&E's defaults on its payments in 2001, PG&E and the PX filed voluntary Chapter 11 petitions in the U.S. Bankruptcy Courts in San Francisco, California, and Los Angeles, California, respectively. PG&E was the largest purchaser of electricity from the ISO and the PX, and therefore was the largest creditor of the ISO and PX. PG&E's various creditors' classes and the Bankruptcy Court approved a Settlement Plan under which PG&E paid the PX and ISO 100% of its debts to creditors in the same class as the City. Payments to the City of the City's share of these PG&E funds by the PX and ISO are contingent upon the FERC's issuance of orders in various dockets that will determine the methodology for the ISO's and PX's calculations of refunds and charge backs to its participants, including the City.

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

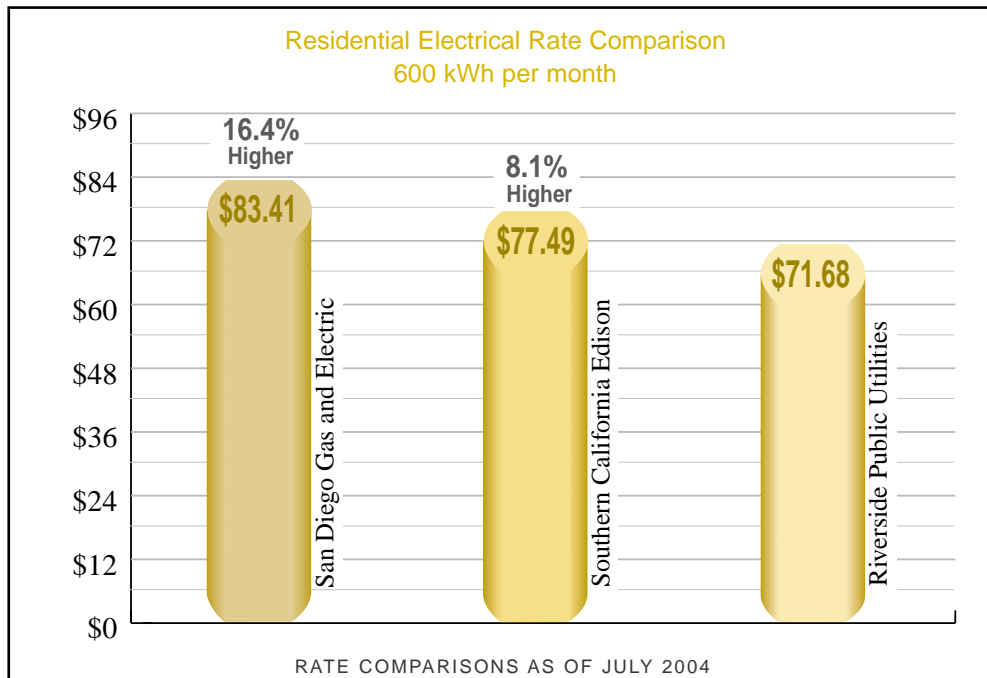
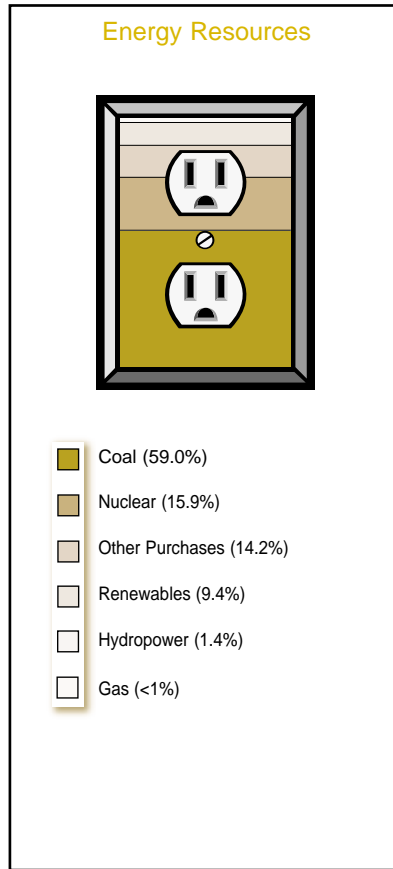
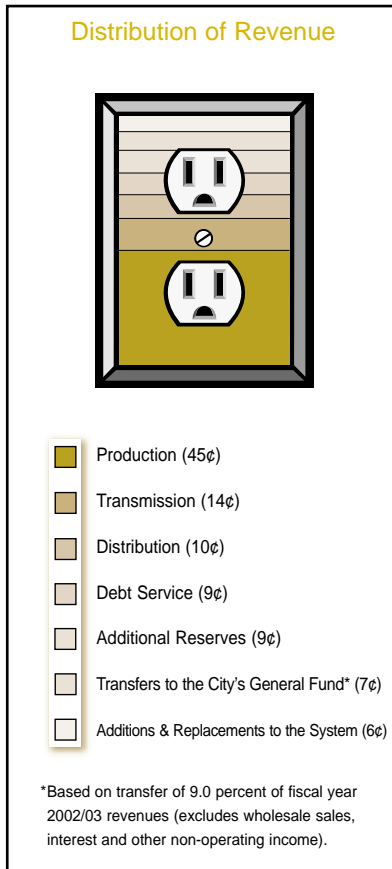
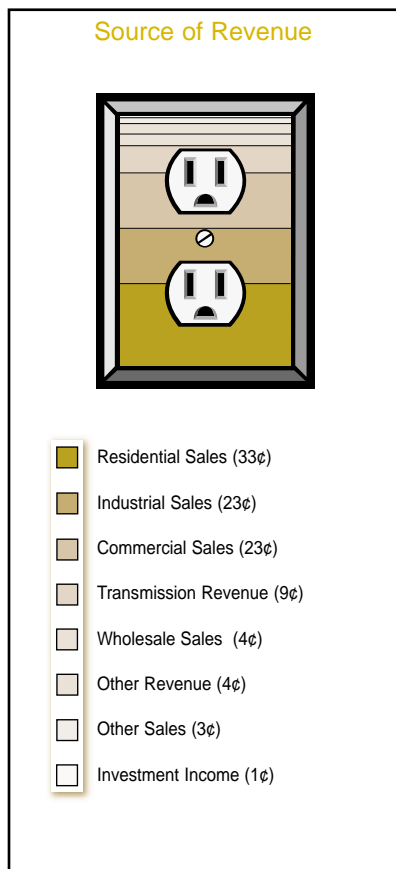
POWER SUPPLY (MWH)	2003/04	2002/03	2001/02	2000/01	1999/00
Nuclear					
San Onofre	316,600	321,800	312,100	250,100	342,000
Palo Verde	86,400	97,200	94,700	94,800	97,900
Coal					
Intermountain Power	1,091,700	1,029,400	1,027,000	1,028,600	1,006,900
Deseret	404,300	404,600	394,700	418,800	340,500
Hoover (Hydro)	35,600	36,200	40,200	41,100	43,500
Springs (Gas)	1,900	9,800	1,300	0	0
Renewable Resources	237,600	224,700	109,500	0	0
Other purchases	437,200	270,900	538,000	754,800	597,500
Exchanges In	95,100	89,300	115,000	89,400	30,800
Exchanges Out	(171,700)	(137,700)	(172,700)	(89,100)	(123,800)
<b>Total</b>	<b>2,534,700</b>	<b>2,346,200</b>	<b>2,459,800</b>	<b>2,588,500</b>	<b>2,335,300</b>
System peak (MW)	517.2	474.2	446.6	463.8	473.1

ELECTRIC USE	2003/04	2002/03	2001/02	2000/01	1999/00
Number of meters as of year end					
Residential	90,583	89,149	88,044	86,455	84,345
Commercial	9,683	9,356	9,203	9,069	9,140
Industrial	351	374	403	391	380
Other	149	139	143	141	139
<b>Total</b>	<b>100,766</b>	<b>99,018</b>	<b>97,793</b>	<b>96,056</b>	<b>94,004</b>
Millions of kilowatt-hours sales					
Residential	707	618	600	610	594
Commercial	522	451	434	432	436
Industrial	687	658	629	654	651
Wholesale sales	354	378	541	600	419
Other	52	49	53	54	53
<b>Total</b>	<b>2,322</b>	<b>2,154</b>	<b>2,257</b>	<b>2,350</b>	<b>2,153</b>

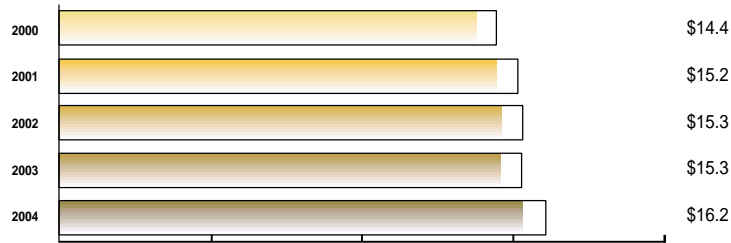
ELECTRIC FACTS	2003/04	2002/03	2001/02	2000/01	1999/00
Average annual kWh per residential customer	7,884	6,970	6,905	7,125	7,105
Average price (cents/kWh) per residential customer	11.44	10.99	10.77	10.73	10.83
Debt service coverage ratio	3.38	2.91	2.27	2.69	2.76
Operating income as a percent of operating revenues	20.3%	14.4%	6.7%	7.7%	12.9%
Employees <sup>1</sup>	306	292	283	281	277

<sup>1</sup>Approved positions

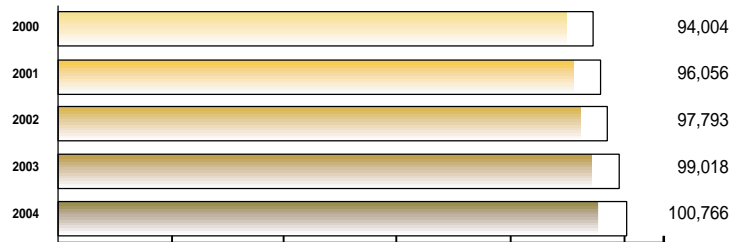
2003/04 Electric Revenue and Resources



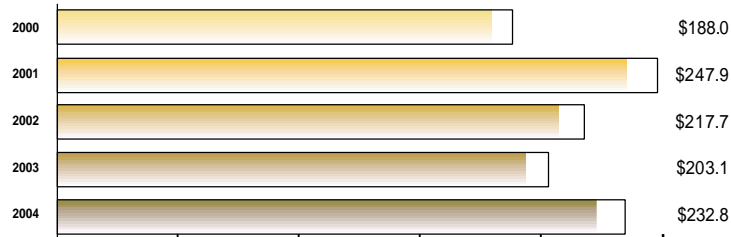
General Fund Transfer (in millions)



Number of Meters at Year End



Total Operating Revenue (in millions)



Production (in million kilowatt-hours)<sup>1</sup>



<sup>1</sup> Energy shown before losses, net of exchanges

Peak Day Demand (in megawatts)



Electric Facts and System Statistics

Established:	1895
Service Area Population:	277,030
Service Area Size (square miles):	79.1
System Statistics:	
Transmission lines (circuit miles):	86.3
Distribution lines (circuit miles):	1,138
Number of substations:	14
2003-04 Peak Day (megawatts):	517
Highest single hourly use:	
9/05/03, 4pm, 103 degrees	
Historical peak (megawatts):	517
Highest single hourly use:	
9/05/03, 4pm, 103 degrees	

Bond Ratings

FITCH, INC.	A+
STANDARD & POOR'S	A+

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

We have audited the accompanying financial statements of the City of Riverside, California, Water Utility, a fund of the City, as of and for the years ended June 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the City of Riverside, California, Water Utility's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the City of Riverside, California, Water Utility are intended to present the financial position and the changes in financial position and cash flows for the City of Riverside, California, Water Utility, a fund of the City, and do not purport to, and do not, present fairly the financial position of the City of Riverside, California, and the changes in its financial position and its cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Riverside, California, Water Utility, as of June 30, 2004 and 2003, and the changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 28 through 31 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the City of Riverside, California, Water Utility's basic financial statements. The supplementary information entitled Water Statistics, as listed in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*McGladrey & Pullen, LLP*

Riverside, California  
September 30, 2004

As management of Riverside Public Utilities (a department of the City of Riverside), we offer the readers of the City of Riverside Water Utility financial statements, a fund of the City, this narrative overview and analysis of the financial activities of the Water Utility (Utility) for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information furnished in our fiscal message on pages 2 and 3 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

### Financial Highlights

The assets of the Water Utility exceeded its liabilities at the close of the most recent fiscal year by \$194,342 (equity). Of this amount, \$18,586 may be used to meet the Utility's ongoing obligations to creditors and customers.

The Utility's total equity increased by \$12,597 from the prior fiscal year, primarily due to capital contributions from developer fees and other parties totaling \$15,494.

At the end of the current fiscal year, unrestricted equity represented over 62 percent of annual operating expenses for 2004.

### Overview of the Financial Statements

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

The City of Riverside Water Utility's financial statements comprise two components: 1) financial statements and 2) notes to the financial statements. In addition, this report also contains other supplementary information to provide the reader additional information about the Water Utility, including sales statistics and other relevant data.

Included as part of the financial statements are three separate statements.

The *Balance Sheets* present information on assets and liabilities, with the difference between the two reported as equity. Over time, increases or decreases in equity may serve as a useful indicator of whether the financial condition of the utility is improving or deteriorating.

The *Statements of Revenues, Expenses and Changes in Equity* present information showing how the Utility's equity changed during the most recent two fiscal years. Results of operations are reported as underlying events occur, regardless of the timing of cash flows. Thus, revenues and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods, i.e. accounts payable and accounts receivable. This is called the accrual basis of accounting and is more fully described in the accompanying Notes to the Financial Statements.

The *Statements of Cash Flows* present the cash flow changes occurring during the last two fiscal years in highly liquid cash and cash equivalents, including certain restricted assets.

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the Water Utility's financial statements. The notes to the financial statements can be found on pages 36 to 40 of this report.

### Utility Financial Analysis

As noted earlier, equity (also called net assets) may serve over time as a useful indicator of the fund's financial position. In the case of Riverside's Water Utility, assets exceeded liabilities by \$194,342 at the close of the most recent fiscal year.

The largest portion of the Utility's net assets (86 percent) reflects its investment in capital assets, such as treatment, pumping, source of supply, transmission and distribution facilities, less any related debt used to acquire those assets that remains outstanding. The Utility uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since the capital assets themselves cannot be used to liquidate these long-term liabilities.

The percent of the Utility's net assets invested in capital assets increased by 9.6 percent or \$14,607. The increase is primarily attributable to the timing of expenditures in the Utility's capital improvement plan. Significant projects during the fiscal year included \$4.9 million for the pipeline replacement program, \$4.0 million to relocate facilities for the Cal-Trans I-60/91/215 interchange project, \$2.9 million to rehabilitate the Riverside Canal to facilitate future water deliveries, \$2.1 million to retrofit the Mocking Bird Canyon Dam for flood control purposes, \$2.4 million to complete water treatment facilities, and \$1.3 million for system expansion.

The unrestricted portion of the Utility's net assets (10 percent) may be used to meet the Utility's ongoing obligations to creditors and customers.

### City of Riverside Water Utility's Equity (Net Assets)

	2004	2003
Current and other assets	\$ 40,754	\$ 47,463
Capital assets	230,912	212,105
<b>Total assets</b>	<b>271,666</b>	<b>259,568</b>
Long-term debt outstanding	66,593	69,361
Other liabilities	10,731	8,462
<b>Total liabilities</b>	<b>77,324</b>	<b>77,823</b>
Equity (net assets):		
Invested in capital assets, net of related debt	167,325	152,718
Restricted	8,431	8,417
Unrestricted	18,586	20,610
<b>Total equity (net assets)</b>	<b>\$ 194,342</b>	<b>\$ 181,745</b>

An additional portion of the Utility's equity (4 percent) represents resources that are subject to external restrictions on how they may be used. These are reserved for items such as debt repayment and other legally restricted assets.

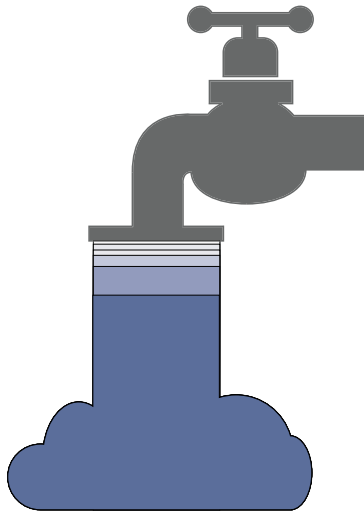
The Utility's equity increased by \$12,597 during the current fiscal year. This increase primarily relates to amounts received from developer fees and other capital contributions due to increased building activity in Riverside.

Key elements of the increase in equity are as follows:

### City of Riverside Water Utility's Changes in Equity (Net Assets)

	2004	2003
Revenues:		
Retail sales	\$30,483	\$27,467
Wholesale sales	149	560
Investment income	664	1,763
Other	2,881	2,339
<b>Total revenues before (reserve)/ recovery</b>	<b>34,177</b>	<b>32,129</b>
Less reserve for bad debt, net of recoveries	(120)	(130)
<b>Total revenues before capital contributions</b>	<b>34,057</b>	<b>31,999</b>
Capital contributions	15,494	8,405
<b>Total revenues and capital contributions</b>	<b>49,551</b>	<b>40,404</b>
Expenses:		
Operations	14,051	12,069
Maintenance	3,381	3,027
Purchased energy	3,724	3,619
Purchased water	2,481	1,077
Depreciation	6,273	5,554
Interest expense and fiscal charges	3,881	4,233
<b>Total expenses</b>	<b>33,791</b>	<b>29,579</b>
Contributions to the City's general fund	3,163	3,182
<b>Total expenses and contributions to the City's general fund</b>	<b>36,954</b>	<b>32,761</b>
<b>Increase in equity (net assets)</b>	<b>12,597</b>	<b>7,643</b>
Equity, beginning of year	181,745	174,102
<b>Equity, end of year</b>	<b>\$194,342</b>	<b>\$ 181,745</b>

**Revenues by Sources - Water Utility**



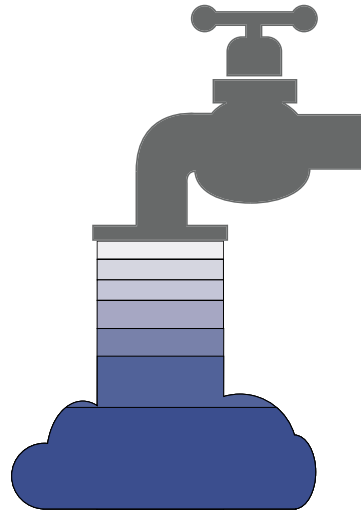
- Retail Sales (62%)
- Capital Contributions (31%)
- Other (6%)
- Investment Income (1%)

Retail sales (residential, commercial and other sales) continue to be the primary revenue source for the water utility making up 62 percent of total revenue. Retail sales reached an historical high of \$30 million, an increase of 11 percent from prior year. This increase is due to 6.9 percent higher consumption and the full year impact of an overall 3.9% rate increase in March 2003.

Investment income decreased by \$1,099 (62 percent) which is due to an overall decrease in the Utility's cash and investments and the continuing decline in the return earned on investments.

Capital contributions increased 84 percent from prior year levels. The increased amount over the prior year reflects an increased level of construction projects funded by others, including major construction on the I-60/91/215 freeway interchange project funded by Caltrans.

**Expenses - Water Utility**



- Operations (38%)
- Depreciation (17%)
- Purchased Energy (10%)
- Interest Expense (10%)
- Contributions to City's General Fund (9%)
- Maintenance (9%)
- Purchased Water (7%)

Total expenses show a 13 percent increase over the prior fiscal year, which is mainly due to an increase of \$1.3 million for purchased water and pumping costs due to drought related conditions and an increase in professional services and personnel costs.

Contributions to the City's general fund are based on a formula using 11.5 percent of operating revenues from the prior fiscal year. This amount decreased by \$19 or .6 percent.

**Capital Asset and Debt Administration**

The Water Utility's investment in capital assets as of June 30, 2004 amounts to \$230,912 (net of accumulated depreciation). This includes investments in source of supply, pumping, treatment, transmission, and distribution related facilities, as well as general items such as office equipment, furniture, etc. This fiscal year reflects a record \$22.1 million of capital assets constructed resulting in a 9 percent increase in capital assets over the prior year.

For a description of major capital assets constructed during the year, see discussion under "Utility Financial Analysis" on page 29.

**City of Riverside Water Utility's Capital Assets (Net of depreciation)**

	2004	2003
Source of supply	\$ 19,526	\$ 19,577
Pumping	3,237	3,350
Treatment	13,257	12,644
General	1,489	1,729
Transmission & distribution	160,775	158,734
Intangible	6,269	6,269
Construction in progress	26,359	9,802
<b>Total</b>	<b>\$ 230,912</b>	<b>\$ 212,105</b>

Additional information regarding capital assets can be found in Note 1 on pages 36 through 37 and Note 3 on Page 38 of this report.

**City of Riverside Water Utility's Outstanding Debt (Revenue Bonds and Contracts Payable)**

At the end of the current fiscal year, the City of Riverside's Water Utility had long-term debt of \$66,593. This debt is backed by the revenue of the utility (revenue bonds).

	2004	2003
Revenue bonds	\$ 75,060	\$ 79,070
Contracts payable	1,039	1,083
Less: unamortized bond discount/capital appreciation	(5,311)	(6,632)
Less: current portion	(4,195)	(4,160)
<b>Total</b>	<b>\$ 66,593</b>	<b>\$ 69,361</b>

The Water Utility maintains a "AA" credit rating from Standard & Poor's and Fitch, Inc. for its revenue bonds.

Additional information on the Water Utility's long-term debt can be found in Note 4 on pages 39 through 40 of this report.

**Economic Factors and Rates**

Although inflationary trends in the Riverside region continue to compare favorably to the national indices, the Water Utility's escalation in costs are not strictly attributable to inflation. One of the main drivers of the

increase in costs relates to the multiple years of drought conditions in the Southern California region. This has resulted in lower water tables, which requires additional pumping costs to deliver water from deeper elevation levels, as well as additional costs to purchase water. Another factor affecting the Water Utility, is the cost of several expensive capital projects, that had previously been delayed multiple times due to budget constraints, that management believes can no longer be postponed.

The projected increase in costs are substantial, and in an effort to maintain the Water Utility's historically strong financial position, the Riverside City Council, after the requisite Public Hearing, unanimously approved a three-year water rate increase effective June 1, 2004, 2005, and 2006, respectively, in order to meet the increased costs of operating the Utility and improve system reliability by investing in system improvements. The increase is 8.5 percent per year for most rate classes, for an overall 25.5 percent increase. A portion of the rate increase (0.5 percent per year, for a cumulative 1.5 percent) will be used to fund programs to promote conservation, education and water use efficiency; to encourage the use of reclaimed water; for research, development and demonstration programs to advance science and technology with respect to water conservation and reclamation; and for water service provided to low-income customers. An additional 2 percent of the rate increase will be used to fully implement (including 2 percent previously implemented, for a cumulative 4 percent) the expanded water main replacement program approved by City Council and the Board of Public Utilities in 1999.

Also as part of the rate increase process, the Water Utility restructured its rates by extending the summer season by one month (when weather is still warm, the demand for water is still high, and purchasing additional water to meet customer needs is expensive) and implemented a fourth tier to the residential rate structure in order to send the appropriate price signals to high consumers of water.

In addition to inflation, management continually plans for and identifies issues or potential contingencies that could impact future rates, such as reclaimed water, infrastructure needs, system growth, ground water contamination, and others. In an effort to control costs to its customers, the Utility is aggressive in pursuing outside parties, and holding them responsible for any negative effects they cause to Riverside's water quality.

**Requests for Information**

This financial report is designed to provide a general overview of the City of Riverside Water Utility's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Assistant Director Finance/Resources, Riverside Public Utilities, 3900 Main Street, 4th floor, Riverside, CA 92522.

## BALANCE SHEETS

ASSETS	JUNE 30 2004	JUNE 30 2003
	(in thousands)	
<b>UTILITY PLANT:</b>		
Source of supply	\$ 28,509	\$ 28,213
Pumping	8,859	8,790
Treatment	14,419	13,438
Transmission and distribution	233,762	226,986
General	7,040	6,810
Intangible	6,269	6,269
	298,858	290,506
Less accumulated depreciation	(94,305)	(88,203)
	204,553	202,303
Construction in progress	26,359	9,802
Total utility plant (Note 3)	230,912	212,105
<b>RESTRICTED ASSETS:</b>		
Cash and cash equivalents (Note 2)	10,100	17,365
Investments (Note 2)	4,184	4,161
Total restricted assets	14,284	21,526
<b>OTHER NON-CURRENT ASSETS:</b>		
Unamortized bond issuance costs	796	851
Unamortized bond refunding costs	529	554
Total other non-current assets	1,325	1,405
Total non-current assets	246,521	235,036
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents (Note 2)	17,302	20,320
Accounts receivable, less allowance for doubtful accounts 2004 \$42; 2003 \$34	3,644	3,563
Accounts receivable, other utilities and governments, less allowances for doubtful accounts 2004 \$165; 2003 \$107	3,949	356
Accrued interest receivable	178	231
Advances to the City's General Fund	72	62
Total current assets	25,145	24,532
Total assets	\$ 271,666	\$ 259,568

See accompanying notes to the financial statements

**BALANCE SHEETS**

EQUITY AND LIABILITIES	JUNE 30 2004	JUNE 30 2003
	(in thousands)	
<b>EQUITY:</b>		
Invested in capital assets, net of related debt	\$ 167,325	\$ 152,718
Restricted for debt service (Note 5)	8,431	8,417
Unrestricted	18,586	20,610
Total equity	194,342	181,745
<b>LONG-TERM DEBT, LESS CURRENT PORTION (NOTE 4)</b>	66,593	69,361
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:</b>		
Accrued interest payable	616	622
Current portion of long-term debt (Note 4)	4,045	4,010
Total current liabilities payable from restricted assets	4,661	4,632
<b>CURRENT LIABILITIES:</b>		
Accounts payable	3,363	1,296
Accrued liabilities	2,163	1,992
Current portion of long-term debt (Note 4)	150	150
Customer deposits	394	392
Total current liabilities	6,070	3,830
Total liabilities	77,324	77,823
<b>COMMITMENTS AND CONTINGENCIES (NOTES 7 AND 8)</b>		
Total equity and liabilities	<u>\$ 271,666</u>	<u>\$ 259,568</u>

See accompanying notes to the financial statements

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN EQUITY

	FOR THE FISCAL YEARS ENDED JUNE 30	
	2004	2003
	(in thousands)	
<b>OPERATING REVENUES:</b>		
Residential sales	\$ 19,921	\$ 18,075
Commercial sales	9,182	8,338
Other sales	1,380	1,054
Wholesale sales	149	560
Other operating revenue	1,750	610
Total operating revenues before (reserve)/recovery	32,382	28,637
Reserve for uncollectible, net of bad debt recovery	(120)	(130)
Total operating revenues, net of (reserve)/recovery	32,262	28,507
<b>OPERATING EXPENSES:</b>		
Operations	14,051	12,069
Maintenance	3,381	3,027
Purchased energy	3,724	3,619
Purchased water	2,481	1,077
Depreciation	6,273	5,554
Total operating expenses	29,910	25,346
Operating income	2,352	3,161
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
Investment income	664	1,763
Interest expense and fiscal charges	(3,881)	(4,233)
Gain on retirement of utility plant	47	65
Other	1,084	1,664
Total non-operating expenses	(2,086)	(741)
Income before capital contributions and transfers	266	2,420
Capital contributions	15,494	8,405
Transfers out - contributions to the City's General Fund	(3,163)	(3,182)
Total capital contributions and transfers out	12,331	5,223
Increase in equity	12,597	7,643
<b>EQUITY, BEGINNING OF YEAR</b>	181,745	174,102
<b>EQUITY, END OF YEAR</b>	<b>\$194,342</b>	<b>\$181,745</b>

See accompanying notes to the financial statements

## STATEMENTS OF CASH FLOWS

	FOR THE FISCAL YEARS ENDED JUNE 30	
	2004	2003
	(in thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers and users	\$ 28,710	\$ 28,711
Cash paid to suppliers and employees	(21,519)	(20,298)
Other receipts	1,084	1,664
Net cash provided by operating activities	8,275	10,077
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
Transfers out - contributions to the City's general fund	(3,163)	(3,182)
Net cash flows used by non-capital financing activities	(3,163)	(3,182)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of utility plant	(22,553)	(20,945)
Proceeds from the sale of utility plant	61	81
Principal paid on long-term debt	(4,054)	(3,895)
Interest paid on long-term debt	(2,487)	(2,889)
Capital contributions	12,954	4,919
Net cash used by capital and related financing activities	(16,079)	(22,729)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Reduction (increase) in advances to the City's General Fund	(10)	22
Purchases of investment securities	(23)	(33)
Income from investments	717	1,867
Net cash provided by investing activities	684	1,856
Net decrease in cash and cash equivalents	(10,283)	(13,978)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR<sup>1</sup></b>	<b>37,685</b>	<b>51,663</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR<sup>1</sup></b>	<b>\$ 27,402</b>	<b>\$ 37,685</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income	\$ 2,352	\$ 3,161
Other receipts	1,084	1,664
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,273	5,554
Increase in uncollectible accounts receivable	66	71
Decrease (increase) in accounts receivable	(3,740)	60
Increase (decrease) in accounts payable	2,067	(413)
Increase (decrease) in accrued liabilities	171	(93)
Increase in customer deposits	2	73
Net cash provided by operating activities	\$ 8,275	\$ 10,077
<b>SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:</b>		
Capital contributions	\$ 2,540	\$ 3,486

<sup>1</sup> Cash and cash equivalents, also include cash and cash equivalents in restricted assets.

See accompanying notes to the financial statements

## NOTE 1. Summary of Significant Accounting Policies

The Water Utility exists under, and by virtue of, the City Charter enacted in 1883. The Water Utility is responsible for the production, transmission and distribution of water for sale in the City, except for certain areas served by another water utility.

■ **Basis of Accounting** The accounting records of the Water Utility are in accordance with accounting principles generally accepted in the United States of America as applicable to governments and substantially in conformity with the Uniform System of Accounts prescribed by the California Public Utilities Commission. The Water Utility is not subject to the regulations of the California Public Utilities Commission. The Water Utility is not required to and does not elect to implement the pronouncements of the Financial Accounting Standards Board issued after November 1989.

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

■ **Revenue Recognition** The Water Utility uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Water Utility customers are billed monthly. Unbilled water service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled \$1,869 at June 30, 2004, and \$1,638 at June 30, 2003.

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

■ **Utility Plant and Depreciation** Utility plant assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Costs include labor; materials; interest during construction; allocated indirect charges such as engineering, supervision, construction and transportation equipment, retirement plan contributions and other fringe benefits. Contributed plant assets are valued at estimated fair value on the date contributed. The cost of relatively minor replacements is included in maintenance expense.

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

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

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

■ **Cash and Investments** The City follows the practice of pooling cash and investments of all funds except for funds required to be held by outside fiscal agents under the provisions of bond indentures and certain trust agreements. Cash accounts for all City funds are pooled for investment purposes to enhance safety and liquidity while maximizing interest earnings. Interest income earned on pooled cash is allocated monthly to the various funds of the City based on the month-end cash balances. Earnings on cash and investments held by fiscal agents are credited directly to the related accounts.

The City values its cash and investments in accordance with provisions of Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and External Investment Pools (GASB 31), which requires governmental entities, including governmental external investment pools, to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the Statement of Revenues, Expenses and Changes in Equity in the year in which the change occurred. Fair value is determined using published market prices.

All highly liquid investments (including restricted assets) with a maturity of ninety days or less when purchased are considered to be cash equivalents. Cash and investments held on behalf of the Water Utility by the City Treasurer are considered highly liquid and are classified as cash equivalents for the purpose of presentation in the statement of cash flows.

■ **Bond Discounts, Capital Appreciation and Issuance Costs** Bond discounts, capital appreciation and issuance costs are deferred and amortized over the term of the bonds using the effective interest method. Bond discounts and capital appreciation are presented as a reduction of the face amount of bonds payable, whereas issuance costs are recorded as other assets. Capital appreciation is the annual increase in the value of bonds originally issued at a discounted amount. These bonds do not pay annual interest and mature at a predetermined par value.

■ **Customer Deposits** The City holds customer deposits as security for the payment of utility bills. The Water Utility's portion of these deposits as of June 30, 2004 and 2003, was \$394 and \$392, respectively.

## NOTE 1. Summary of Significant Accounting Policies (Continued)

■ **Compensated Absences** The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due employees at June 30, 2004 and 2003. The Water Utility treats compensated absences due employees as a current liability. The amount accrued for compensated absences was \$1,881 at June 30, 2004, and \$1,784 at June 30, 2003, and is included in accrued liabilities in the accompanying balance sheets.

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

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

■ **Self-Insurance Program** The Water Utility participates in a self-insurance program for worker's compensation and general liability coverage that is administered by the City. The Water Utility pays an amount to the City representing an estimate of amounts to be paid for reported claims incurred and incurred but unreported claims based upon past experience, modified for current trends and information.

Although the ultimate amount of losses incurred through June 30, 2004, is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. Premiums paid to the City by the Water Utility were \$293 and \$213 for the years ended June 30, 2004 and 2003. Any losses above the City's reserves would be covered through increased rates charged to the Water Utility in future years.

■ **Employee Retirement Plan** The City contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agency for participating public entities within the state of California.

All permanent full-time and selected part-time employees are eligible for participation in PERS. Benefits vest after five years of service and are determined by a formula that considers the employee's age, years of service and salary. Employees may retire at age 55 and receive 2.7 percent of their highest average annual salary for each year of service completed. PERS also provides death and disability

benefits. These benefit provisions and all other requirements are established by state statute and City ordinance.

Employee contributions are 8 percent of their annual covered salary. The Water Utility is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The Water Utility pays both the employee and employer contributions.

Citywide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the fiscal year ended June 30, 2004, and recent trend information may be found in the notes of the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2004.

■ **Equity** The Water Utility's equity consists of its net assets (assets less liabilities) which are classified into the following three components:

- **Invested in capital assets, net of related debt** – this component consists of capital assets (net of accumulated depreciation) and unamortized debt expenses reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** – this component consists of net assets on which constraints are placed as to their use. Constraints include those imposed by creditors (such as through debt covenants) contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or through enabling legislation.
- **Unrestricted net assets** – this component of net assets consists of net assets that do not meet the definition of "restricted" or invested in capital assets, net of related debt."

■ **Contributions to the City's General Fund** Pursuant to the City Charter, the Water Utility may transfer up to 11.5 percent of its prior year's gross operating revenues to the City's General Fund. In fiscal years 2003-04 and 2002-03, the Water Utility transferred 11.5 percent of gross operating revenues, or \$3,163 and \$3,182, respectively.

■ **Budgets and Budgetary Accounting** The Water Utility presents, and the City Council adopts, an annual budget. The proposed budget includes estimated expenses and forecasted revenues. The City Council adopts the Water Utility's budget in June each year via a resolution.

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

## NOTE 2. Cash and Investments

Cash and investments at June 30, 2004 and 2003, consist of the following (in thousands):

	June 30, 2004	June 30, 2003
	Fair Value	
Deposits with City Treasurer's investment pool	\$ 21,550	\$ 24,952
Cash and investments at fiscal agent	10,036	16,894
<b>Total cash and investments</b>	<b>\$ 31,586</b>	<b>\$ 41,846</b>

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

	June 30, 2004	June 30, 2003
Cash and cash equivalents	\$ 17,302	\$ 20,320
Restricted assets:		
Cash and cash equivalents	10,100	17,365
Investments	4,184	4,161
<b>Total restricted cash and investments</b>	<b>14,284</b>	<b>21,526</b>
<b>Total cash and investments</b>	<b>\$ 31,586</b>	<b>\$ 41,846</b>

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

- Securities of the U.S. government, or its agencies
- Local agency investment fund (state pool) deposits
- Negotiable certificates of deposit
- Repurchase agreements
- Banker's acceptances
- Mutual funds
- Commercial paper of "prime" quality
- Medium-term corporate notes
- Reverse repurchase agreements

■ **Credit Risk, Carrying Amount and Market Value of Deposits and Investments** The Water Utility's share of the City's investment pool at June 30, 2004, represents approximately 5 percent or \$31,586 of the City's total cash and investments of \$685,470.

For more discussion relating to the City's investment policies and credit risk see the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2004. Cash and investments at fiscal agent are insured or registered, or held in the name of the Water Utility or its agent.

## NOTE 3. Utility Plant

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2004 and 2003 (in thousands):

	Balance, As of 7/01/2002	Additions	Deletions/ Transfers	Balance, As of 6/30/2003	Additions	Deletions/ Transfers	Balance, As of 6/30/2004
Source of supply	\$ 26,389	\$ 1,824	\$ 0	\$ 28,213	\$ 296	\$ 0	\$ 28,509
Pumping	8,640	150	0	8,790	69	0	8,859
Treatment	8,560	4,878	0	13,438	981	0	14,419
Transmission and distribution	201,448	25,671	(133)	226,986	6,902	(126)	233,762
General	6,354	492	(36)	6,810	296	(66)	7,040
Intangible	6,269	0	0	6,269	0	0	6,269
Construction in progress	18,387	20,992	(29,577)	9,802	25,138	(8,581)	26,359
Subtotal	276,047	54,007	(29,746)	300,308	33,682	(8,773)	325,217
Less accumulated depreciation	(82,803)	(5,554)	154	(88,203)	(6,273)	171	(94,305)
<b>Total utility plant</b>	<b>\$193,244</b>	<b>\$ 48,453</b>	<b>(\$29,592)</b>	<b>\$ 212,105</b>	<b>\$ 27,409</b>	<b>(\$8,602)</b>	<b>\$ 230,912</b>

**NOTE 4. Long-Term Obligations**

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2004 and 2003 (in thousands):

	Balance, As of 7/1/2002	Additions	Deletions/ Transfers	Balance, As of 6/30/2003	Additions	Deletions/ Transfers	Balance, As of 6/30/2004
Revenue bonds	\$ 74,945	\$ 0	(\$2,507)	\$ 72,438	\$ 0	(\$2,689)	\$ 69,749
Capital leases	11	0	(11)	0	0	0	0
Water stock acquisition rights	1,121	0	(38)	1,083	0	(44)	1,039
<b>Total long-term obligations</b>	<b>\$ 76,077</b>	<b>\$ 0</b>	<b>(\$2,556)</b>	<b>\$ 73,521</b>	<b>\$ 0</b>	<b>(\$2,733)</b>	<b>\$ 70,788</b>

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

**■ Contracts Payable**

**Water Stock Acquisitions:** Payable on demand to various water companies

Total contracts payable

**■ Revenue Bonds Payable**

**\$69,840 1991 Water Revenue Bonds:** \$25,900 serial capital appreciation bonds due in annual installments from \$3,235 to \$3,240 from October 1, 2005, to October 1, 2010, interest from 6.85 percent to 7.0 percent; (partially advance refunded in 1998)

**\$4,710 1994 FARECal Revenue Bonds:** \$2,420 serial bonds due in annual installments from \$190 to \$255 through July 1, 2010, interest from 5.5 percent to 5.9 percent; \$2,290 term bonds due July 1, 2017, at 6.0 percent

**\$30,965 1998 Water Refunding/Revenue Bonds:** \$15,055 serial bonds due in annual installments from \$260 to \$4,055 through October 1, 2013, interest from 4.4 percent to 5.38 percent; \$10,155 term bonds due October 1, 2018, interest at 5.0 percent; \$5,755 term bonds due October 1, 2027, interest at 5.0 percent

**\$20,000 2001 Water Revenue Bonds:** \$10,070 serial bonds due in annual installments from \$375 to \$745 through October 1, 2021, interest from 3.1 percent to 5.0 percent; \$4,345 term bonds due October 1, 2026, interest at 5.0 percent; \$5,585 term bonds due October 1, 2031, interest at 5.0 percent

Total water revenue bonds payable

Total debt

Unamortized capital appreciation  
Unamortized bond discount

Total debt, net of bond discount and capital appreciation

Less current portion

Total long-term debt

June 30, 2004    June 30, 2003

\$ 1,039	\$ 1,083
1,039	1,083
22,665	25,900
3,615	3,795
29,480	29,720
19,300	19,655
75,060	79,070
76,099	80,153
(4,654) (657)	(5,940) (692)
70,788	73,521
(4,195)	(4,160)
<b>\$ 66,593</b>	<b>\$ 69,361</b>

**NOTE 4. Long-Term Obligations (continued)**

Annual debt service requirements to maturity, as of June 30, 2004, are as follows (in thousands):

	2005	2006	2007	2008	2009	2010-2014	2015-2019	2020-2024	2025-2029	2030-2034	Total
Principal	\$ 4,195	\$ 4,225	\$ 4,265	\$ 4,305	\$ 4,340	\$ 22,764	\$ 14,190	\$ 6,620	\$ 7,680	\$ 3,515	\$ 76,099
Interest	2,597	2,565	2,530	2,491	2,451	10,699	5,645	3,659	1,801	269	34,707
Unamortized bond (discount) premium	(1,190)	(1,048)	(892)	(725)	(545)	(618)	(125)	(72)	(67)	(29)	(5,311)
Total	\$ 5,602	\$ 5,742	\$ 5,903	\$ 6,071	\$ 6,246	\$ 32,845	\$ 19,710	\$ 10,207	\$ 9,414	\$ 3,755	\$ 105,495

**■ Debt Service Coverage Ratio** The Water Utility's bond indentures require the Water Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants, of 1.25. The Water Utility's debt service coverage ratio was 3.52 at June 30, 2004, and 2.6 at June 30, 2003.

**NOTE 5. Restricted Equity**

Pursuant to applicable bond indentures, a reserve for debt service has been established by restricting assets and reserving a portion of equity. Bond indentures for Riverside's water revenue bonds require reserves that equate to the maximum annual debt service required in future years plus three months interest and nine months principal due in the next fiscal year. The reserve for Riverside's portion of FARECal revenue bonds is equal to 10 percent of the program agreement amounts. Additional reserves for the 1998 revenue bonds are not required due to the purchase of surety bonds to cover the required reserve requirements.

**NOTE 6. Jointly-Governed Organizations**

On July 1, 1993, the City of Riverside joined with the cities of Anaheim, Colton, Compton, Healdsburg, Los Angeles, Palo Alto, Pasadena, Redding, the North Marin Water District, the Northern California Power Agency, the Sacramento Municipal Utility District, and Turlock Irrigation District to create the Financing Authority for Resource Efficiency of California (FARECal). The City of Santa Cruz joined in 1994, Trinity Public Utility District joined in 1996, and the cities of Azusa and Victorville joined in 2002. The primary purpose of FARECal is to issue bonds and use the proceeds to promote, advance, encourage and participate in conservation, reclamation and other programs that are designed to utilize energy or water resources more efficiently. FARECal is administered by a Board of Directors currently represented by the cities of Anaheim, Colton, Palo Alto, Pasadena, Azusa, and Trinity Public Utility District. The Water Utility's portion of the FARECal debt and utility plant assets is recorded in the accompanying financial statements.

**NOTE 7. Litigation**

The Water Utility is a defendant in various lawsuits arising in the normal course of business. Present lawsuits and other claims against the water utility are incidental to the ordinary course of operations of the

water utility and are largely covered by the city's self-insurance program. In the opinion of management and the city attorney, such claims and litigation will not have a materially adverse effect upon the financial position or results of operation of the water utility.

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

The City has detected Perchlorate in a number of its drinking water wells. While Lockheed Martin has not admitted liability for the presence of Perchlorate in the City's wells, Lockheed Martin has agreed to reimburse the City for the capital, operation and maintenance costs associated with Perchlorate Treatment Facilities on four of the City's drinking water wells that were producing water with detectable Perchlorate levels, under an agreement between the City and Lockheed Martin dated October 29, 2002 ("Interim Perchlorate Agreement"). On November 25, 2003, the City and Lockheed Martin entered into an amendment to the Interim Perchlorate Agreement ("Amendment"). Under the Amendment Lockheed Martin agreed to extend its reimbursement obligations under the Interim Perchlorate Agreement to four additional City drinking water wells. The Amendment also allows Lockheed Martin to access three additional City wells for Lockheed Martin's evaluation and engineering of potential temporary pilot treatment of those three wells.

**NOTE 8. Construction Commitments**

As of June 30, 2004, the Water Utility had major commitments of approximately \$5,614 with respect to unfinished capital projects, of which \$2,362 is expected to be funded by others, \$2,119 is expected to be funded by bond proceeds, and \$1,133 is expected to be funded by a 4% surcharge included in the Water Utility's rates.

WATER SUPPLY (ACRE FEET)					
	2003/04	2002/03	2001/02	2000/01	1999/00
Pumping	81,797	70,977	79,937	74,647	78,639
Purchases	1,693	695	900	498	68
<b>Total</b>	<b>83,490</b>	<b>71,672</b>	<b>80,837</b>	<b>75,145</b>	<b>78,707</b>
Percentage pumped	98.0%	99.0%	98.9%	99.3%	99.9%
System peak day (gallons)	105,029,000	101,484,000	102,241,000	99,861,000	101,119,000

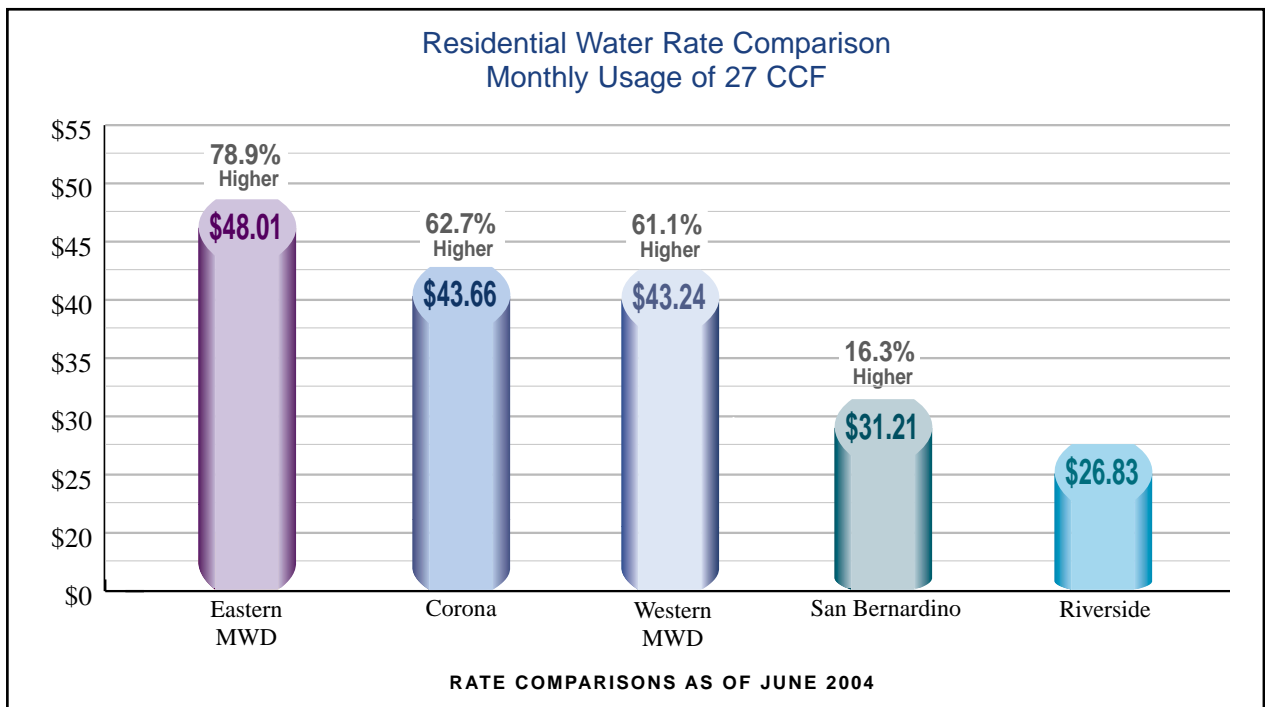
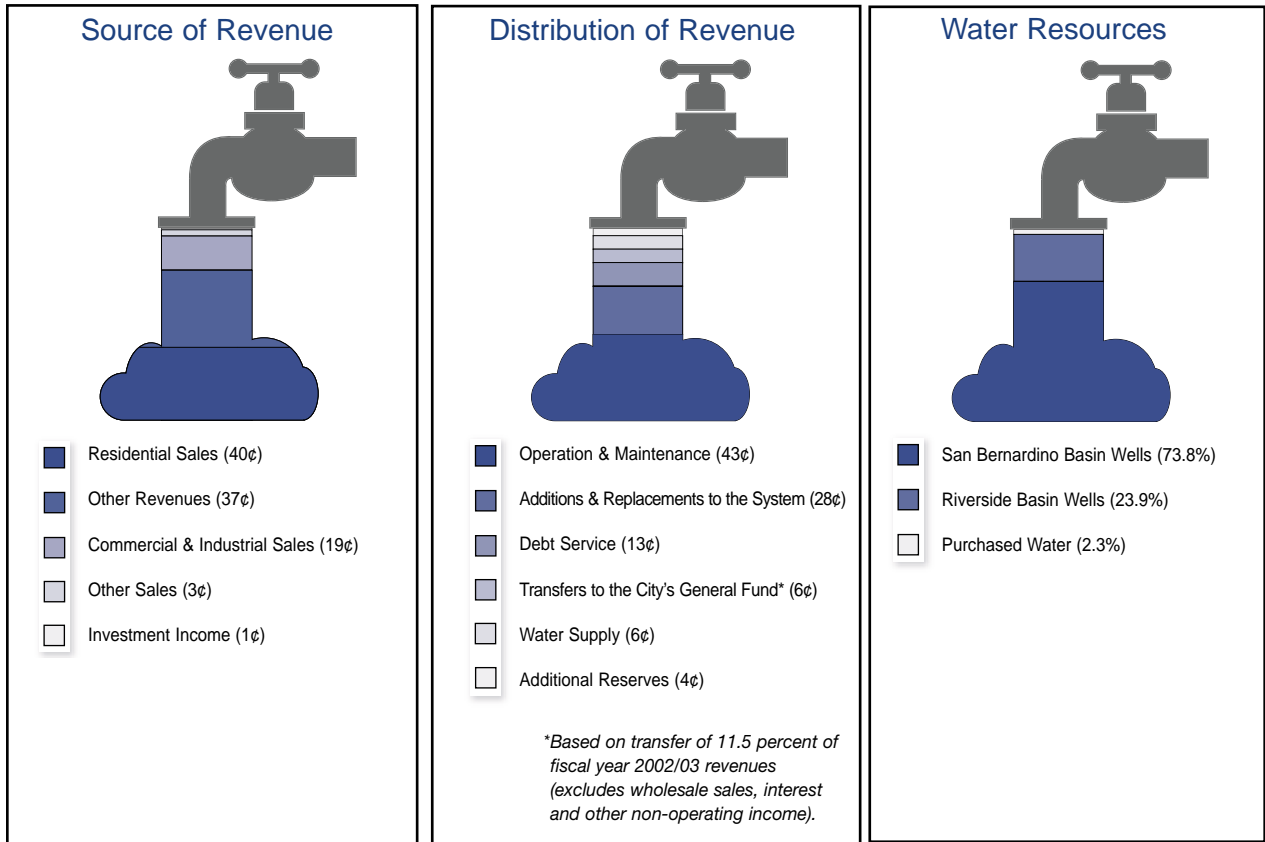
WATER USE					
	2003/04	2002/03	2001/02	2000/01	1999/00
Number of meters as of year end					
Residential	56,254	55,376	54,910	54,626	54,051
Commercial/Industrial	4,932	4,782	4,776	4,711	4,729
Other	482	467	373	372	308
<b>Total</b>	<b>61,668</b>	<b>60,625</b>	<b>60,059</b>	<b>59,709</b>	<b>59,088</b>
*CCF sales					
Residential	19,056,556	17,824,440	18,653,037	17,517,449	18,708,750
Commercial/Industrial	9,988,578	9,411,391	9,820,471	9,577,374	9,873,278
Other	1,361,809	995,815	945,519	949,425	702,983
<b>Total</b>	<b>30,406,943</b>	<b>28,231,646</b>	<b>29,419,027</b>	<b>28,044,248</b>	<b>29,285,011</b>

\*(CCF equals 100 cubic feet)

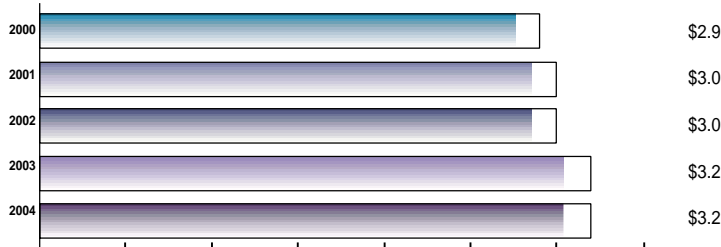
WATER FACTS					
	2003/04	2002/03	2001/02	2000/01	1999/00
Average annual CCF per residential customer	342	324	343	323	347
Average price (\$/CCF) per residential customer	\$ 1.05	\$ 1.01	\$ .97	\$ .94	\$ .93
Debt service coverage ratio	3.52	2.60	3.89	3.31	3.17
Employees <sup>1</sup>	130	125	123	122	121

<sup>1</sup>Approved positions

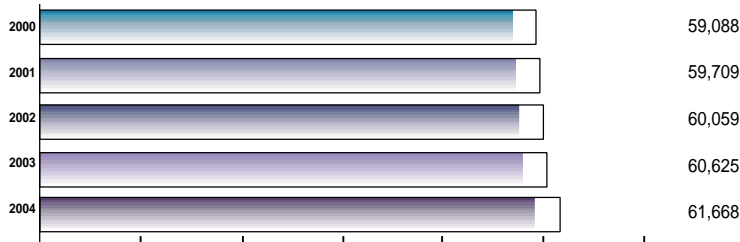
2003/04 Water Revenue and Resources



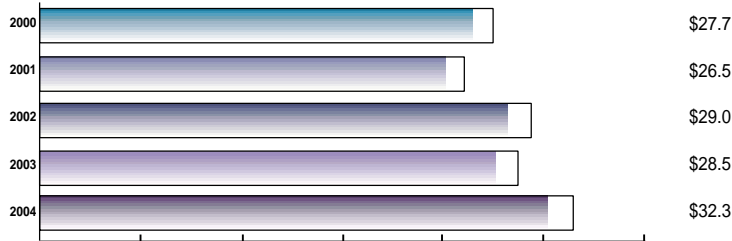
General Fund Transfer (in millions)



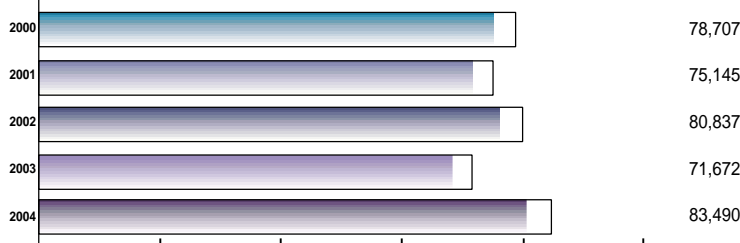
Average Number of Customers



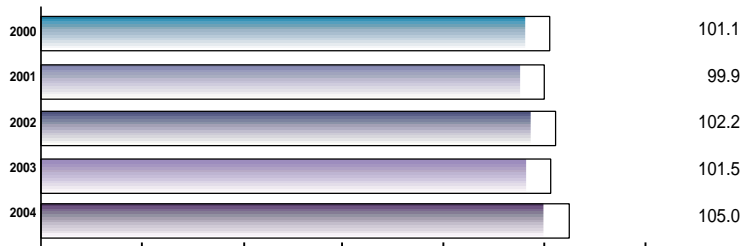
Total Operating Revenue (in millions)



Production (in acre feet)



Peak Day Demand (in million gallons)



WATER FACTS AND SYSTEM STATISTICS

Established:	1913
Service Area Population:	277,030
Service Area Size (square miles):	73.9
System Statistics:	
Smallest pipeline:	2.0"
Largest pipeline:	72.0"
Miles of pipeline:	938
Number of domestic wells:	54
Number of active reservoirs:	16
Total reservoir capacity (gallons):	100,400,000
Number of treatment plants:	9
Number of treatment vessels:	76
Miles of canal:	14
Number of fire hydrants:	6,763
Daily average production (gallons):	74,179,330
2003-04 Peak day (gallons):	105,029,000
5/17/04, 78 degrees	
Historical peak (gallons):	105,029,000
5/17/04, 78 degrees	

BOND RATINGS

FITCH, INC.	AA
STANDARD & POOR'S	AA