PUBLIC UTILITIES

RIVERSIDE

RIVERSIDE PUBLIC UTILITIES
1990-1991 ANNUAL REPORT

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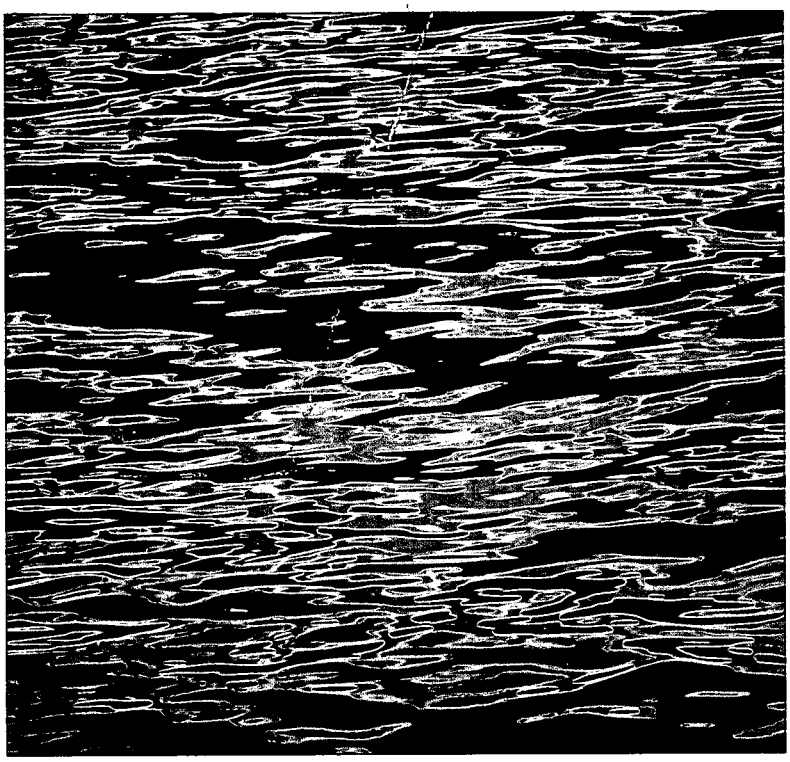


RIVERSIDE PUBLIC UTILITIES

PUBLIC UTILITIES
RIVERSIDE

PUBLIC UTILITIES
RIVERSIDE

A MESSAGE FROM THE DIRECTOR

In the fiscal year 1990-1991, Riverside Public Utilities, like virtually every business in the United States, felt the effects of the economic downturn, which were further complicated in the Water Utility by a continuation of the statewide drought. However, unlike many businesses, Riverside Public Utilities remained fiscally strong and continued to provide quality service to the citizens of Riverside. This annual report emphasizes that in these uncertain times, the residents can still count on their public utilities.

To illustrate this stability, the report is organized around the central themes of: Challenge, Strength, Leadership, Teamwork, and Public Service. Riverside Public Utilities has met these challenges of the past fiscal year through its strength, leadership, and teamwork to maintain the highest quality of public service. It is during difficult times that the true character of an organization becomes most apparent.

Riverside Public Utilities' chief strength is its independence of energy and water resources. This year that strength resulted in savings of $1.7 million over budgeted expenses for supply. Riverside participates financially in a number of resources it controls jointly with other utilities. These facilities: the Intermountain Power Project, San Onofre Nuclear Generating Station, Palo Verde Nuclear Generating Station, and Hoover Dam, combined with long-term contract purchases to create reasonable and stable rates. This year, Riverside signed a new contract with Southern California Edison that will equal $30 million in present value savings over its eight-year life and a contract with the Bonneville Power Administration for hydroelectric power to meet peak loads which will equal $11.5 million in present value savings.

A strong water conservation program, including city-wide distribution of water conservation kits and innovative maximization of local water resources characterizes Riverside's management of its independent water supply.

This year, the Water Utility completed construction of the new six-pump Olivewood Booster Station allowing Riverside to exchange up to 8,000 acre feet of agricultural water for up to 6,400 acre feet of potable water from the Gage Canal, a local agricultural water supplier. Strength of resources and local teamwork, in this case, have combined to increase the resources of both organizations.

This strength was further evidenced when the Water and Electric Utilities issued bonds in 1990-1991. The Electric Utility issued $68.2 million of revenue and refunding bonds and the Water Utility issued $52.8 million in revenue and refunding bonds. A substantial portion of these issues will fund $46.8 million in new capital facilities in the Electric Utility and $31.3 million of new capital facilities in the Water Utility. These bonds were also used to refund existing bonds, saving $3.8 million over the costs of bonds issued earlier at higher interest rates.

This financial strength and leadership was recognized by Moody's and Standard & Poor's, which upgraded electric bonds to Aa and AA- and water bonds to Aa and AA, respectively.

The City Council, Board of Public Utilities, and employees of Riverside Public Utilities know that challenges will continue in the future. They may not be the same ones we face today, but they will be met because we are all committed to continue to provide outstanding service. I believe the last few words of this report sum it up the best, ". . . it is public ownership that distinguishes our efforts, and public service is both the foundation and result of our strength, creating a Utility governed by the philosophy that it must not only manage its resources well, but manage itself well as a resource for its community."

Bill D. Carnahan
Director, Riverside Public Utilities

Riverside Public Utilities' mission is to provide water and electric services in a safe, reliable, environmentally sensitive, and fiscally responsible manner.

CHALLENGE

An invitation to trial or contest; to question; a summons to compete.

PUBLIC UTILITIES
RIVERSIDE

A CAPACITY FOR CHALLENGE

The 1990s have delivered both challenge and promise. The environment has demanded our critical attention. The economy has pressed our financial resources and business acumen. Inherent in these challenges, however, is an opportunity. Times of challenge are the times when we discover ourselves. We find out what we're made of, we reach down and uncover hidden resources.

It is times like these when the words "strength" and "leadership" carry special meaning.

For Riverside Public Utilities, strength and leadership are the day-to-day mainstays of doing business. Strength and leadership, however, do not exist in isolation. Riverside Public Utilities' strength is drawn from its role as a public utility. Riverside Public Utilities' mission to provide water and electric service in a safe, reliable, environmentally sensitive, and fiscally responsible manner requires planning, preparation, and perseverance. These qualities have helped to build the strength required to meet the challenges of the 1990s and continue to build new strengths based on our preparedness for the future.

Leadership, at Riverside Public Utilities, has its basis in teamwork. First, there is the Utilities team itself. Hard-working, professional staff at all levels bring both dedication and ingenuity to their work, each making an important contribution to the resources of Riverside Public Utilities as a whole. It is these resources we can count on to create new opportunities for Riverside Public Utilities.

The concept of teamwork, though, is broader than the Utility alone. Riverside Public Utilities is a member of two larger teams, the City of Riverside and the community of publicly-owned utilities.

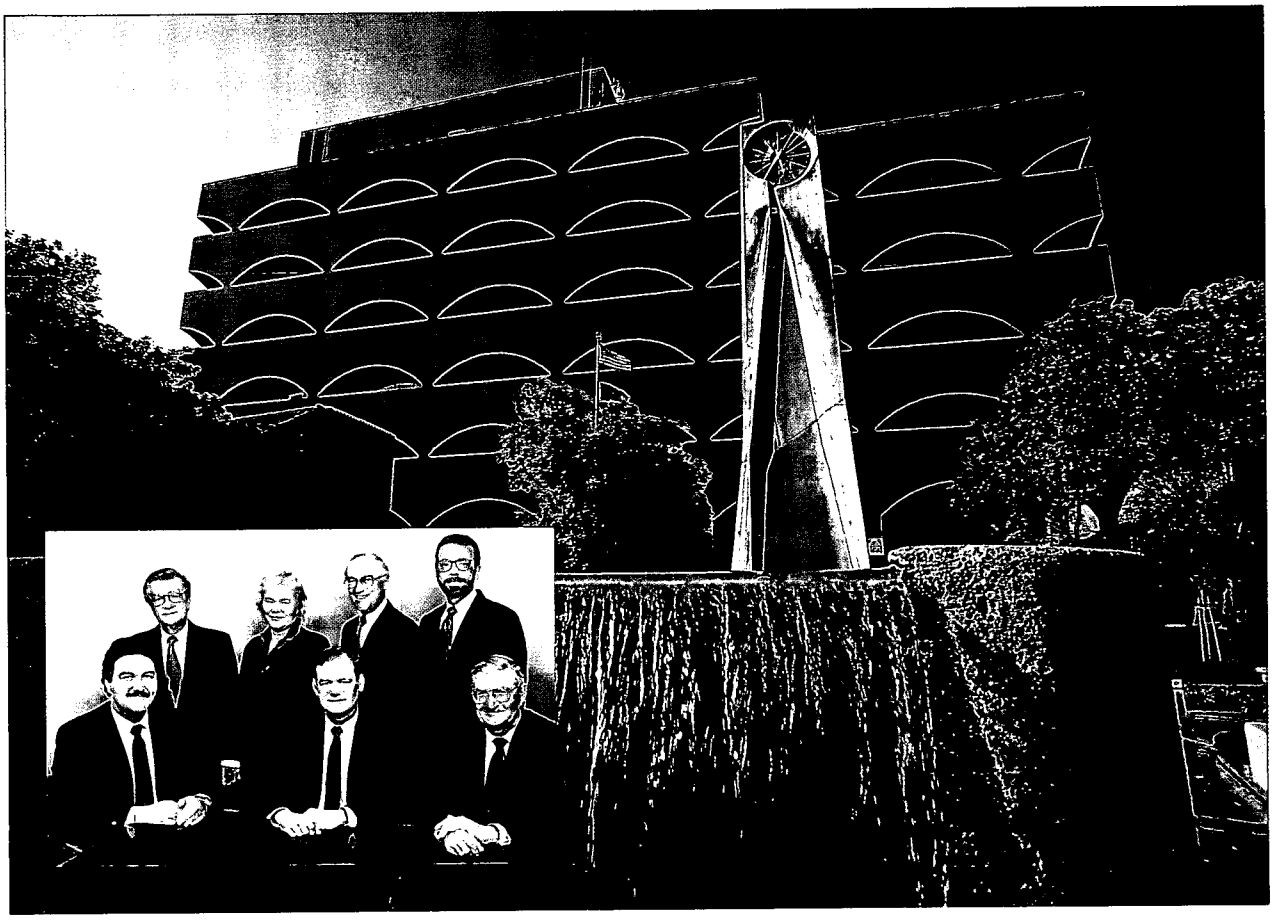
Riverside Public Utilities is an important team member of the City of Riverside. By supporting and encouraging the acquisition and development of independently-owned water and electrical resources, the City and its citizens have made Riverside Public Utilities financially strong. In return, Riverside Public Utilities has been able to contribute to Riverside's quality of life by providing water and electricity at rates below those for most surrounding communities. These same reasonable and stable rates are incentives to new business and industry and help the existing business community remain competitive.

As a member of Riverside's team, Riverside Public Utilities employs more than 400 people, contributing more than $21.7 million in wages and $7.5 million in support of City services to the local economy. In 1990-1991, $11.8 million was contributed to the City of Riverside's general fund by Riverside Public Utilities.

Riverside Public Utilities is also an important team member in organizations and associations of publicly-owned utilities. With almost 100 years of experience and as the second municipally-owned electric utility created in California, Riverside Public Utilities brings an important depth of expertise to the groups of public utilities with which we work. With groups of smaller providers, we can assist as leaders, helping them to independently develop, manage, and provide electricity and water to their communities. Among our equals, we bring a long history of financial expertise and know-how to the table when opportunities for new independent electric resources and transmission projects are being considered.

Strength and leadership, teamwork and public service. These are the ingredients we use to turn the challenges of the 1990s into real opportunities, now and for the future.

This annual report is an exploration of these factors for each of the responsibilities Riverside Public Utilities undertakes: providing electricity, providing water, and in the course of these activities — serving the public.



Riverside Public Utilities employs more than 400 people, contributing more than $21.7 million in wages and $7.5 million in support of City services to the local economy. In 1990-1992, $11.8 million was contributed to the City of Riverside's general fund by Riverside Public Utilities. Photograph inset: The Board of Public Utilities is made up of citizens appointed for four-year terms by the City Council: (seated left to right) Esteban Soriano, Roger Luebs (chair), Ron McCoy, (standing left to right) Paul Osborne, Mary Curtin, Glen Stephens, John Tavaglione.

1990-1991 FISCAL YEAR HIGHLIGHTS

	ELECTRIC YEAR ENDED JUNE 30		WATER YEAR ENDED JUNE 30	
OPERATIONS	**1991**	**1990**	**1991**	**1990**
Production	1,554 million kilowatt-hours	1,526 million kilowatt-hours	65,040 acre feet	67,847 acre feet
System Peak Requirements	404,800 kilowatts	407,000 kilowatts	94 million gallons	95 million gallons
Average Number of Customers[1]	86,808	87,000	58,923	61,000
FINANCIAL (in thousands)				
Total Operating Revenues	$152,712	$146,588	$15,967	$16,941
Transferred to City of Riverside General Fund	$ 9,915	$ 9,652	$ 1,948	$ 1,895
CREDIT RATING	**MOODY'S INVESTORS SERVICE**		**STANDARD & POOR'S CORPORATION**	
Electric Revenue Bonds	Aa		AA-	
Water Revenue Bonds	Aa		AA	

(1)Certain customer accounts have been consolidated in fiscal year 1991. See selected statistics.

STRENGTH

Power in general, whether physical, mental, or due to the possession of resources; the ability for effective action; the capacity for moral effort or endurance; firmness of mind, character, will, purpose.

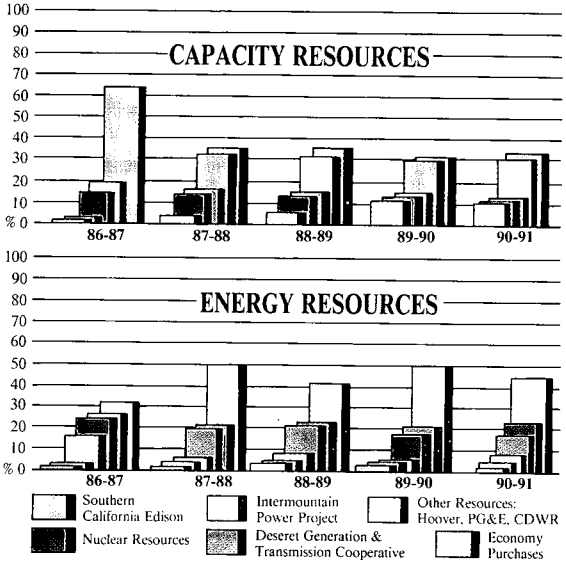
PUBLIC UTILITIES
RIVERSIDE

THE ELECTRIC UTILITY

In 1895, firmness of purpose and will were the strengths Riverside demonstrated in creating its own publicly-owned Electric Utility. The City and its citizens were determined to have their own independent supply of electricity, recognizing that inherent in that independence was not only the ability to control supply but as a result, to create stable, reasonable rates.

Today, Riverside meets almost 70% of its own energy needs from a diverse mix of resources it controls in partnership with other utilities.

Coal-fired generating facilities with state-of-the-art emission controls, such as the Intermountain Power Project (IPP) and the Bonanza Generating Station in Utah, provide 44.9% of the supply and are among the least expensive resources in Riverside's energy mix. The savings associated with these resources, however, are somewhat offset by long distance transmission requirements.



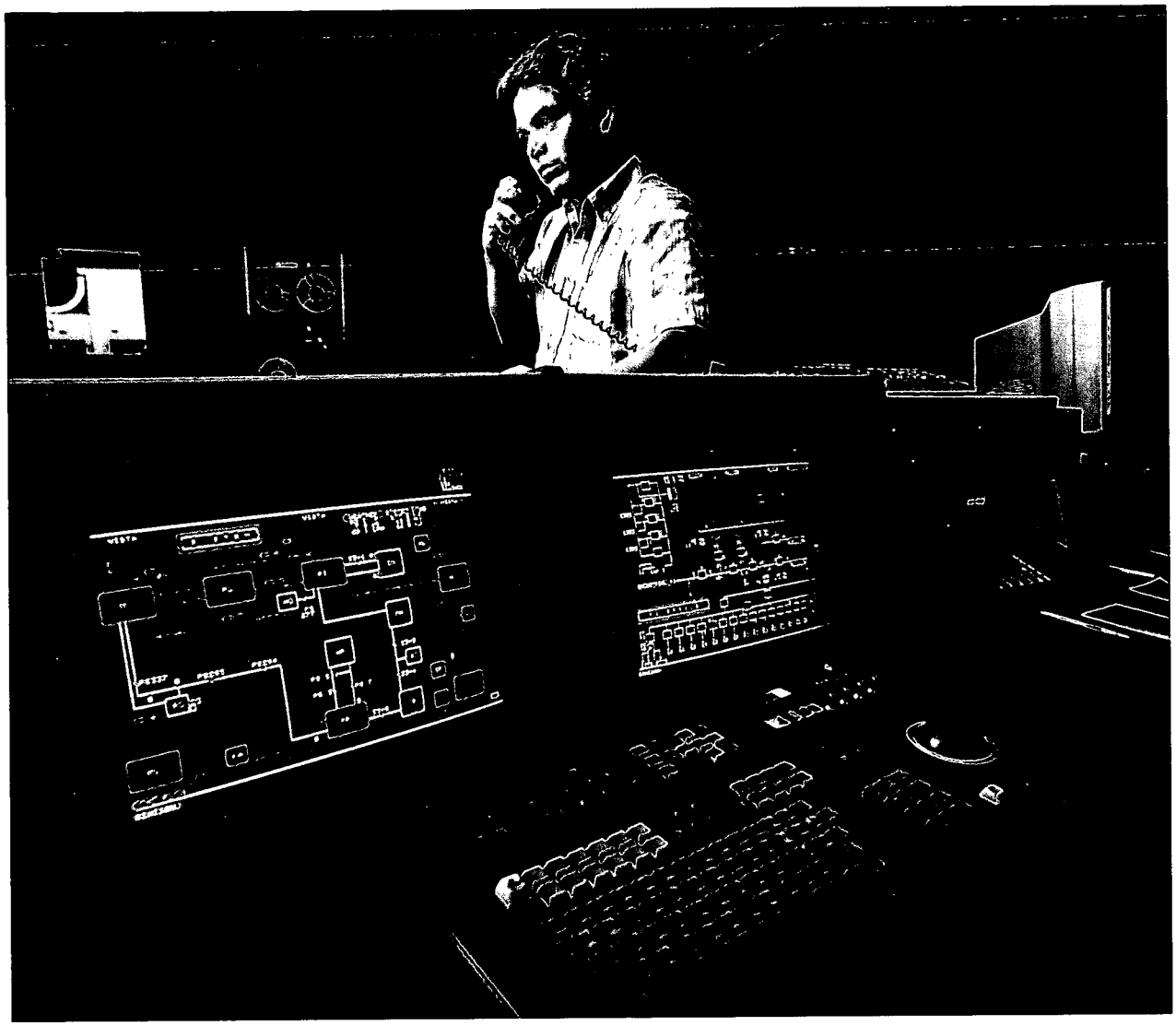
Nuclear energy from San Onofre Nuclear Generating Station is one of the few local resources that can provide electricity which meets Southern California's strict air quality regulations. Nuclear energy from San Onofre Nuclear Generating Station in Southern California and Palo Verde Nuclear Generating Station in Arizona account for 22.5% of Riverside's energy supply.

Hydroelectricity provides energy that is both renewable and cost-effective, 2.2% of Riverside's energy is supplied by facilities at Hoover Dam. Hydroelectricity is one component of the long-term energy sources Riverside Public Utilities has acquired to meet mid-peak and peak load requirements. The agreement renegotiated with the California Department of Water Resources in 1990-1991 is an example of such contracts. Firm for three years and renewable annually thereafter, this 20 megawatts of seasonal peaking capacity will save electric ratepayers more than $500,000 annually over purchases from Southern California Edison (SCE).

The Bonneville Power Administration (BPA) contract is a similar long-term agreement for hydroelectric power to meet peak load needs. On February 1, 1990, Riverside began to receive energy under the contract, which provides 23 megawatts of summer and 16 megawatts of winter peaking capacity. An estimate of the present value savings from the contract totals $11.5 million. A unique feature of this agreement enables Riverside to receive electricity from the BPA during the day to meet its peak demand and subsequently return energy to the BPA at night.

On August 1, 1990, Riverside also started to receive power under two new agreements with SCE. The Integrated Operations Agreement allows Riverside to optimize its resources in a timely fashion, reducing the amount of capacity required for reserves, and assuring full credit from the operation of Riverside's resources. The Power Supply Agreement provides monthly peaking capacity and associated energy at a price significantly lower than SCE's wholesale rate tariff. Over the eight-year life of this contract, the present value savings total more than $30 million.

Clearly, Riverside's commitment to independent resources yields great benefits. These benefits are seen on a yearly basis, such as the $1.7 million saved in actual costs for power versus budgeted expenses in 1990-1991. They



The Electric Utility's system operating, monitoring, and dispatching facility operates the system for regular maintenance and construction as well as working to keep customers in service if there is a problem. Last year the system operated over 99.99% of the time.

are also seen on a daily basis, as Riverside buys up to 5% of its total energy each day in the economy market. In 1990-1991, Riverside saved over $1.3 million purchasing economy energy through the Western Systems Power Pool rather than purchasing this energy from SCE and sold approximately $2.4 million worth of excess power from its own resources in the wholesale market.

These developments and agreements reflect Riverside Public Utilities' clear understanding that controlling energy costs and enlightened resource management have always been the greatest sources of the Electric Utility's strength.

That strength, "due to the possession of resources" and a result of "firmness of . . . purpose," has helped secure the financial might required to successfully meet the challenges of the 1990s.

In 1990-1991, electric revenue and refunding bonds worth $68.2 million were issued, saving over $1.1 million for electric ratepayers by refunding bonds that were issued at higher interest rates. Recognition of Riverside Public Utilities' financial strength, past and future, was affirmed when Moody's and Standard & Poor's upgraded electric bond ratings to Aa and AA-, respectively. Riverside Public Utilities is one of a small and select group of utilities to obtain the prestige of AA ratings.

In addition to these savings, electric ratepayers also benefit from the Electric Utility's strength in the form of lower rates than many surrounding communities. While electric rates rose 4% this year, the first increase since 1984, electricity in Riverside continued to cost as much as 21% less than electricity supplied by SCE for residential and small commercial use.

STRENGTH

PUBLIC UTILITIES
RIVERSIDE

THE WATER UTILITY

The strength of Riverside's Water Utility is most directly vested in its resources. The 1913 purchase of the domestic systems of three local water companies made Riverside uniquely fortunate among California cities. The water rights acquired as a part of these holdings gave Riverside its own supply and an independence from reliance on imported water.

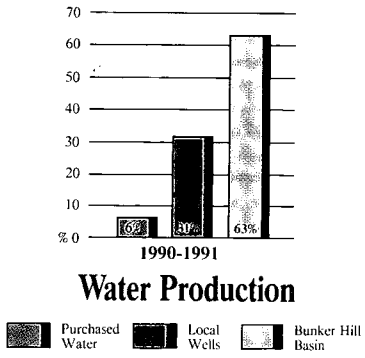
In 1990-1991, Riverside met 94% of its water needs from its own groundwater resources. Riverside's supply is created by runoff of rain and snow to the Bunker Hill Basin in San Bernardino and the North Riverside Basin. Each year, the majority of this precipitation is stored in these basins, a high quality water supply naturally filtered by sand and gravel and tapped for domestic use by 47 operating wells.

These water resources have formed a foundation of strength for the community, which has, in turn, created financial strength as well. Water revenue and refunding bonds issued in the amount of $52.8 million in 1990-1991 yielded $2.7 million in savings for water ratepayers by refunding earlier bonds at higher interest rates. Bond rating agencies continued to recognize the financial strength inherent in the independence of resources with Moody's upgrading Water Utility bonds to Aa and Standard & Poor's upgrading the rating to AA.

The Water Utility's financial strength is also evidenced by lower rates. In 1990-1991, water rates rose 5.7% overall, the first increase since 1983. Despite this increase, however, water ratepayers continued to pay substantially less than residents of surrounding areas, with the average customer paying only 57% and 74% of the bills paid for the same amount of water by Eastern Municipal Water District and Western Municipal Water District customers, respectively.

Riverside Public Utilities does not, however, take either its strength or independence for granted. The Water Utility continues to subscribe to a philosophy of careful management, ensuring its preparedness to meet the challenges of the future.

In 1990-1991, Riverside Public Utilities, along with the rest of California, mounted an aggressive water conservation campaign to deal with the sixth year of drought. The stated goal was to voluntarily decrease Riverside's use of imported water to zero. The program began in May 1991, with bill stuffers, radio and newspaper ads, and door-to-door distribution of conservation kits forming the core activities. Though next year will reflect the full extent of the program's results, initial monitoring showed significant decreases in summer water use. Effective resource management, however, must also include programs for reuse through reclamation and use of non-potable water for irrigation. Riverside's future plans include these options, as well as treatment options for groundwater supplies.



LEADERSHIP

To guide by persuasion; to direct by one's example; to guide opinion, the direction of activity, or action; to have official initiative.

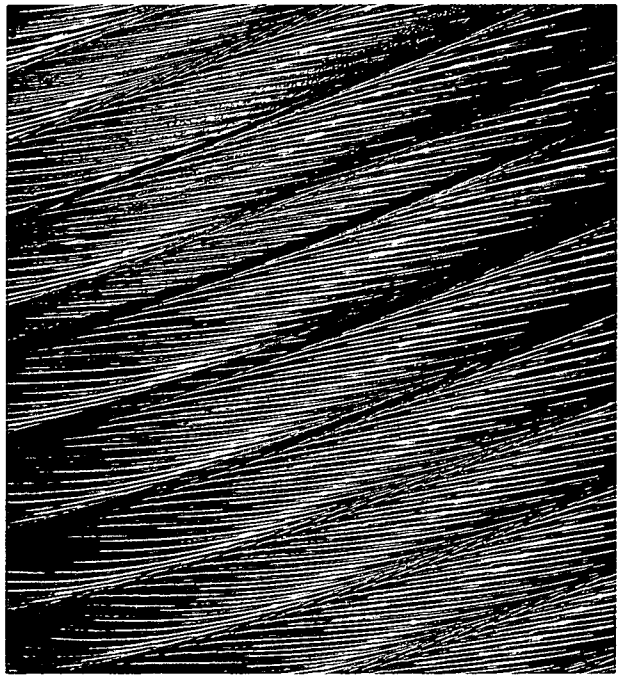
PUBLIC UTILITIES
RIVERSIDE

THE ELECTRIC UTILITY

When Riverside lit California's first commercial electric light in 1888, it established a reputation and role as a regional leader.

The course charted by the Utility's economic choices has served to expand that role from electric pioneer to financial leader.

As well as having diversified its own power supply mix for greater and greater cost benefits, Riverside also serves the cities of Azusa, Colton, and Banning as their agent in the wholesale power arena. Last year, Riverside saved those cities $11.5 million by making economy purchases. In return, Riverside received more than $280,000 for providing those services.



In 1990-1991, Riverside and these three cities realized that their current agreement, while beneficial, limited the potential benefits of mutual cooperation. Together, they formed the Power Agency of California. A joint powers agency, this new arrangement creates new potential. As the Power Agency of California, these cities can participate in joint contracts for supply and joint ownership of resources, creating new cost benefits related to economies of scale.

Today's dilemmas are not confined to local concerns, however. They embrace issues across the globe. The turn of this century harbingers a future for which we must be fit in skill, vision, and will if we are to remain successful leaders.

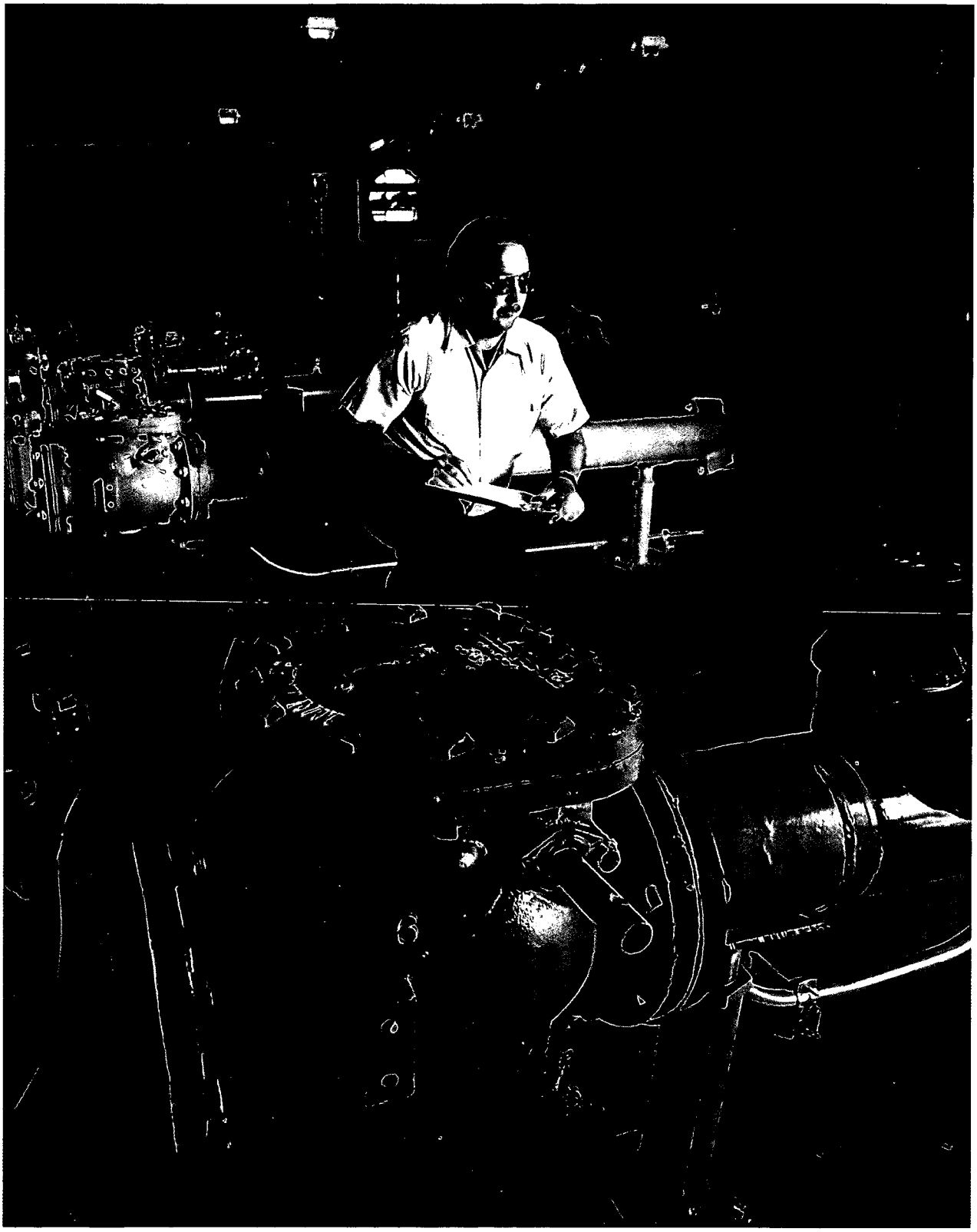
Limited resources and the pressing responsibilities we face as caretakers of our environment are primary considerations. Rather than seeing these factors as constraints, however, the Board of Public Utilities and City Council choose, as did the City's founders, to see these growing concerns as promising challenges.

It is said that the key to success lies in readiness. The fundamental challenge to be addressed as Riverside plans its energy future is how to keep energy costs down, while participating in a marketplace where it cannot go forward alone.

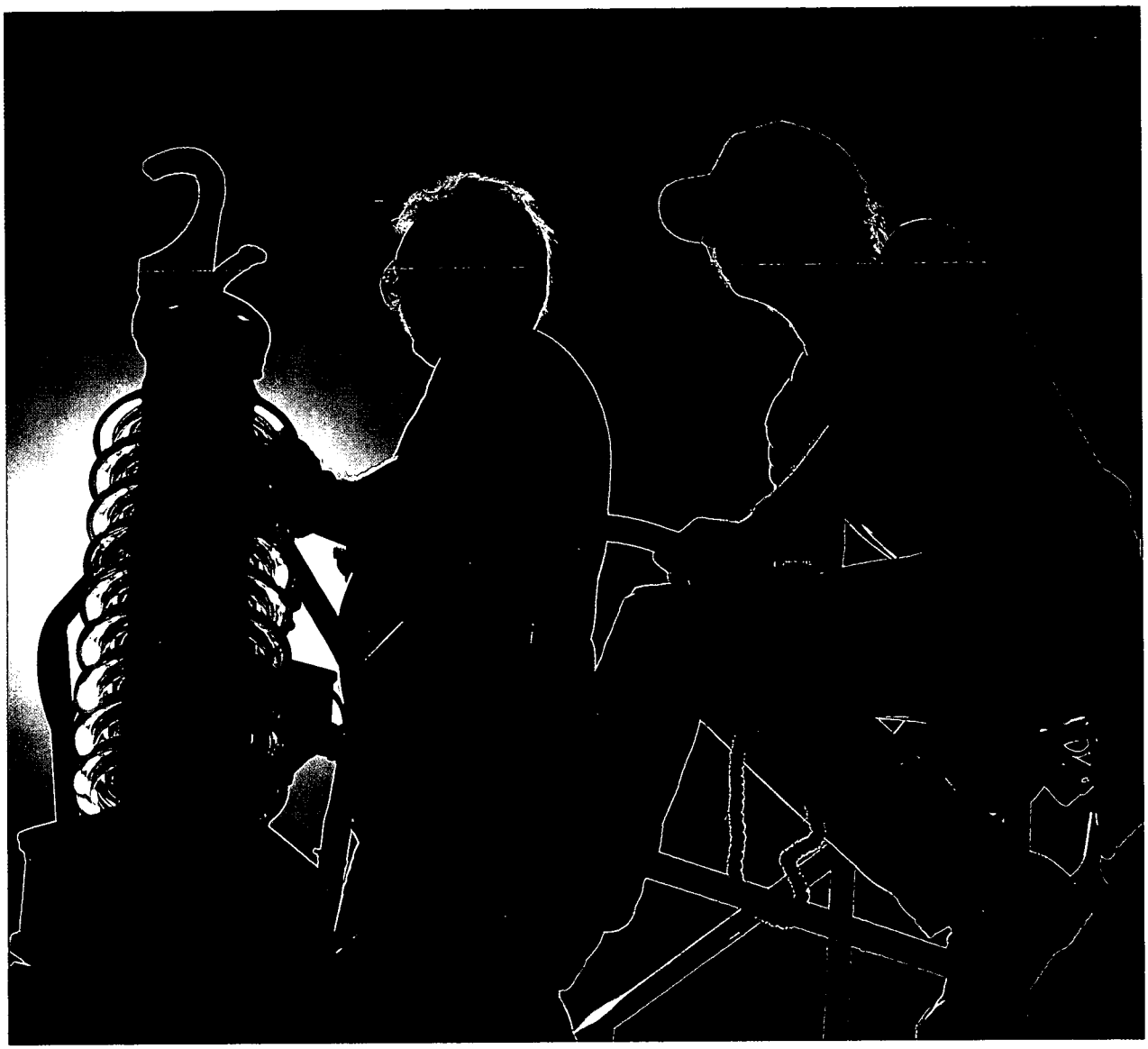
Riverside's leadership is evident in its preparation for these challenges. The 1990-1991 Power Supply Plan is a blueprint for the future. This 20-year plan allows the Electric Utility to accurately project future needs and guide the development of new resources in ways that are the most advantageous for its customer-owners.

In addition, the Electric Utility continues to examine new methods for generating greater information on customer use patterns. Surveys, metering, and new software with predictive functions are being evaluated for their ability to produce detailed forecasts by rate class.

These 1990-1991 developments create a new foundation for the Utility's use of integrated resource management plans. Integrated resource management combines a varied mix of renewable and non-renewable resources



In 1990-1991, Riverside met 94% of its water needs through use of its own groundwater resources. Independent water and electric resources contribute to Riverside Public Utilities' financial strength. Last year, Moody's and Standard & Poor's upgraded Riverside's electric bond ratings to Aa and AA- and water bonds to Aa and AA, respectively.



Today, Riverside meets almost 70% of its own energy needs from resources it controls in partnership with other utilities. The Intermountain Power Project and the Bonanza Generating Station supply 44.9% from coal-fired generating facilities with state-of-the-art emission controls. Nuclear generating stations at Palo Verde and San Onofre supply 22.5% and hydroelectricity from Hoover Dam supplies 2.2%.

with load management opportunities to achieve greatest efficiency.

To offset the need to supply increasing amounts of energy to meet growing peak loads, demand side management (DSM) techniques can be used to reduce peaks. In 1990-1991, Riverside Public Utilities prepared a survey of DSM options available to the City that are suitable for Riverside's load. These suggestions will be considered by the Board of Public Utilities and City Council in 1992 and embrace a variety of programs, including thermal energy storage (TES), energy efficient lighting retrofits, air conditioner efficiency, and strategic conservation.

TES systems, storing energy during off-peak hours for use later in the day, represent optimum opportunities to control peak loads. In 1990-1991, the University of California at Riverside, working with Riverside Public Utilities, began to implement a TES system expected to reduce peak loads by four megawatts. TES projects of this magnitude defer additional capacity purchases and help keep costs low.

LEADERSHIP

PUBLIC UTILITIES
RIVERSIDE

THE WATER UTILITY

In 1990-1991, the Water Utility continued to exercise leadership in the two areas that present the greatest challenges to managing our water resources: water conservation and water quality.

Guiding by both "persuasion" and "example," the Water Utility launched a broad-based water conservation campaign and began consideration of a water conservation demonstration garden for the new Riverside Public Utilities Operations Center.

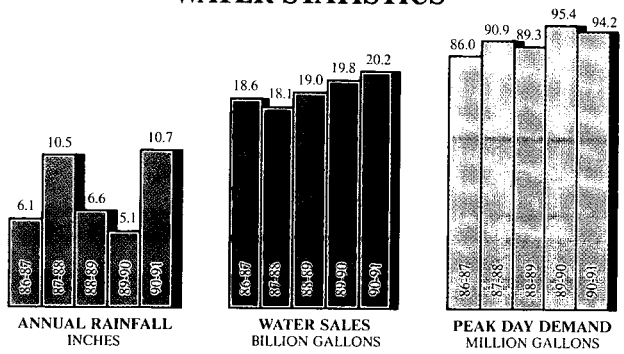
Our understanding that water and human activity are interdependent and that water is a limited resource is also fundamental to the Water Utility's approach to water quality issues.

In 1991, we know that human activity not only requires water but can also be the cause of threats to the quality of the water supply. Agricultural runoff can percolate through the soil and carry the residues of fertilizers and pesticides to the groundwater. Toxic substances can also seep through the soil.

Riverside Public Utilities water meets or exceeds all federal and state standards for water quality. Each year more than 5,000 samples are taken and tested for bacteria and chemicals. A new monitoring plan to ensure conformance with the Safe Drinking Water Act, Total Coliform Rule, began on January 1, 1990. An expanded sampling program to monitor a plume of DBCP and nitrates that could affect the basin has begun.

Basinwide, Riverside is a leader in promoting cooperation and implementing plans to protect the groundwater supply. This activity includes ensuring appropriate action on decontamination and treatment options required as a result of chemicals used at Norton Air Force Base — an EPA superfund site. Next year will bring a program for compliance with the Lead and Copper Tap Water Monitoring Rule. Riverside's Water Utility has also initiated studies and provided testimony on the impact of a new proposed rule regulating radionuclides, organizing its efforts on a regional basis to ensure that both economic and water quality issues are examined.

WATER STATISTICS

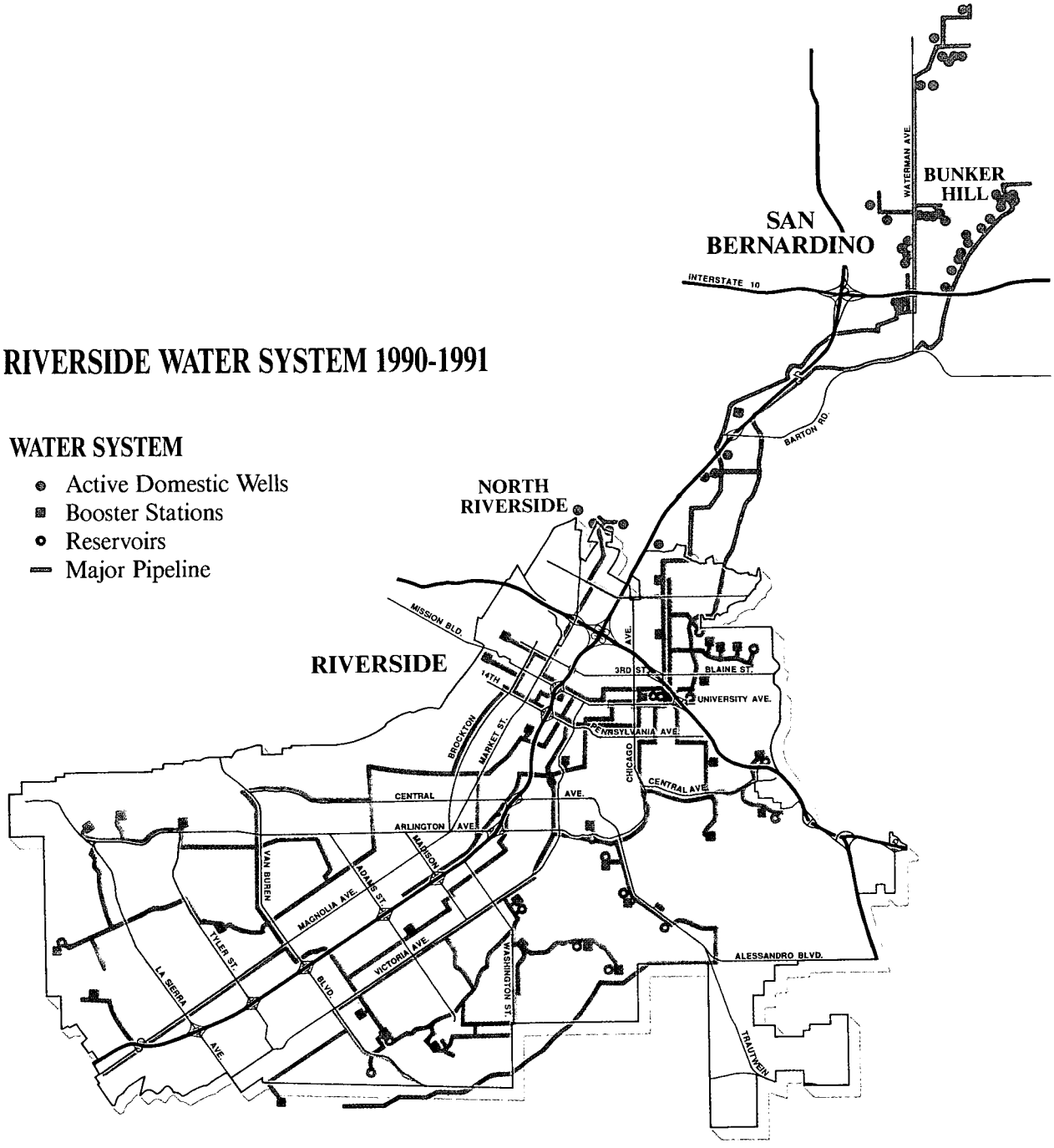


ANNUAL RAINFALL
INCHES

WATER SALES
BILLION GALLONS

PEAK DAY DEMAND
MILLION GALLONS

RIVERSIDE WATER SYSTEM 1990-1991



TEAMWORK

A partnership, alliance, or union toward a common goal; a joint action.

PUBLIC UTILITIES
RIVERSIDE

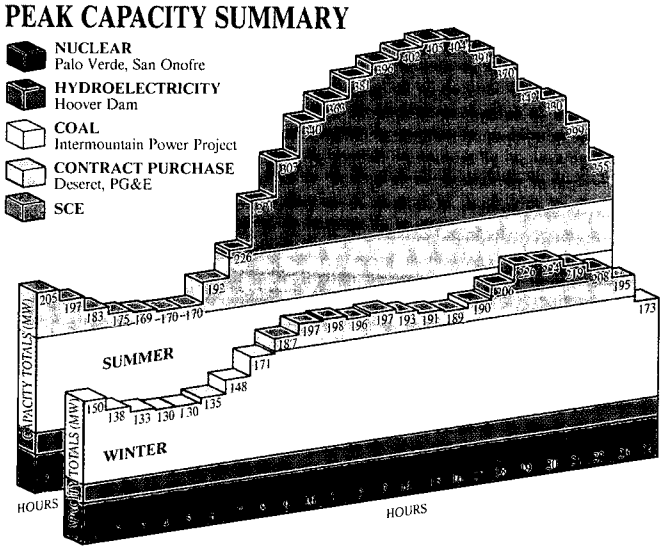
THE ELECTRIC UTILITY

In 1901, the Riverside Light Department sold 900,000 kwh of electricity all year, enough to run 90,000 100-watt light bulbs for an hour. Riverside's 1990-1991 peak on July 11th was 404.8 megawatts, enough electricity to light more than 4 million 100-watt bulbs simultaneously. Delivering that electricity requires teamwork on many levels.

Each year, Riverside's electric system grows to meet new demands, to upgrade and renew equipment, and to ensure its electric facilities will meet the future demands foreseen by the City.

The Electric Utility's ability to seek out and actively participate in the development and financial viability of power supply resources has made Riverside Public Utilities a valuable and recognized member of the public power industry. Utility staff have served in executive capacities for both the American Public Power Association (APPA) and the California Municipal Utilities Association (CMUA), as well as serving on committees of both.

PEAK CAPACITY SUMMARY



Through its efforts as a contractor of power from the Intermountain Power Project (IPP) and Riverside's role as a member of the IPP Coordinating Committee, the Electric Utility has helped to develop a facility that serves many major consumer-owned utilities in California and provides benefits to the state of Utah.

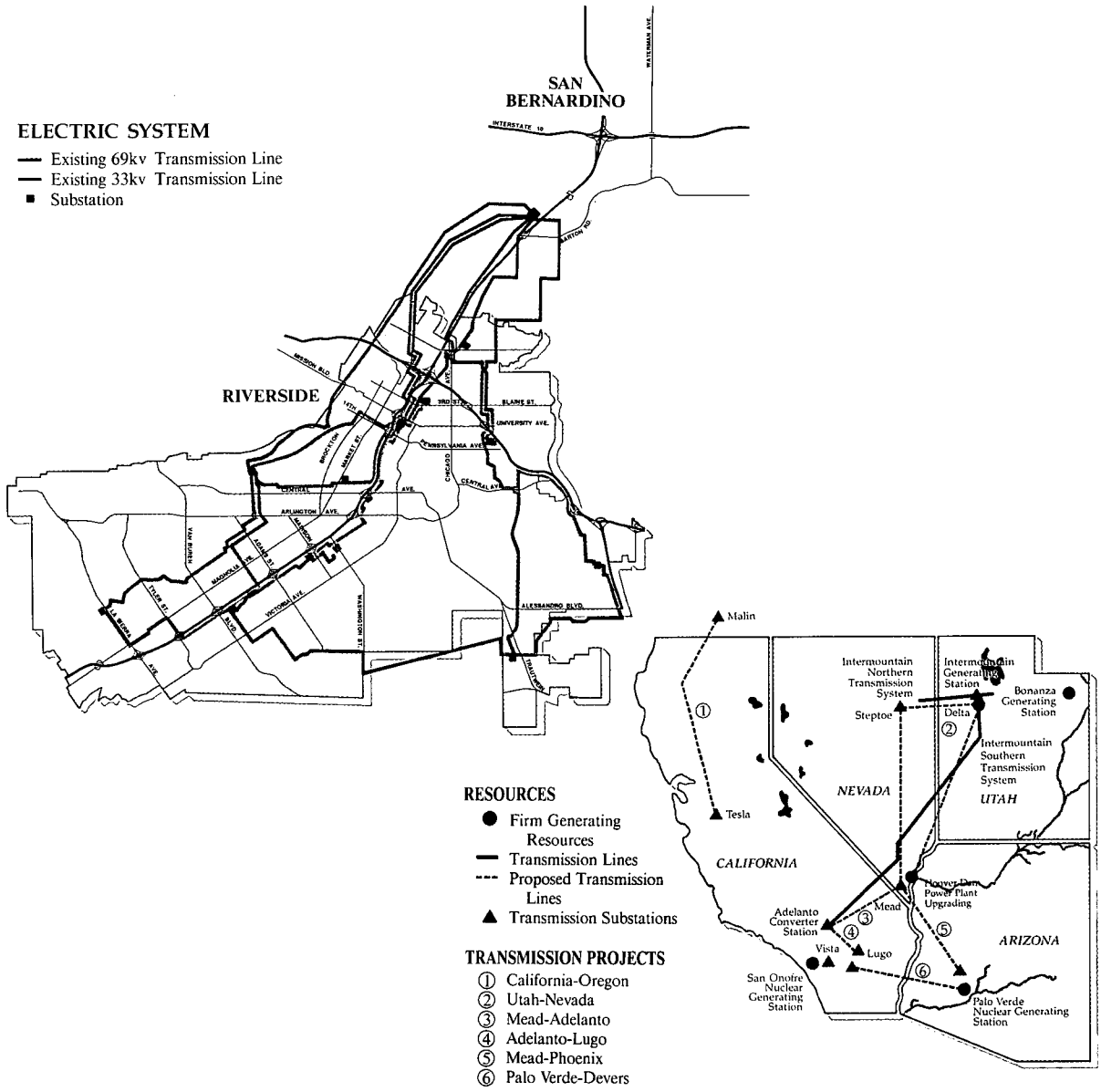
At Hoover Dam, the Electric Utility had an aggressive and innovative role in funding upgrades for 120 megawatts of additional hydroelectric capacity for California utilities, 30 megawatts of which are contracted for use by Riverside.

Riverside Public Utilities also participated with investor-owned utilities to develop two major nuclear generating stations, San Onofre and Palo Verde, which now serve the needs of utilities in four states.

Teamwork is also a major factor in bringing the electricity from these resources home. Today, when transmission distances are measured in thousands of miles and costs in billions of dollars, Riverside participates with many other public utilities, so that jointly they may marshal the resources to make projects of this scope happen.

Through one of these groups, the Southern California Public Power Authority (SCPPA), Riverside is participating in and helping to finance three long distance transmission projects. Mead-Phoenix and Mead-Adelanto will

RIVERSIDE ELECTRIC SYSTEM 1990-1991



both be firm routes for energy from the Palo Verde Nuclear Generating Station and open up other power resources in the Southwest in 1995. Both have received all environmental and other licensing permits, are in the final stages of design, and should begin construction in 1992. Adelanto-Lugo, a third project, is in the final stages of the permitting process and also has a completion date of 1995.

Planning for needs beyond 1995 is in the early stages, but these distant dreams are regional in scope. Palo Verde-Devers is a second route for energy from Palo Verde. The Utah-Nevada Transmission Project is a potential gateway to hydroelectric resources in Canada and coal and natural gas facilities in Idaho, Montana, and Canada. The Southwest Power Project might open access through southern Arizona to Mexico.

TEAMWORK

PUBLIC UTILITIES
RIVERSIDE

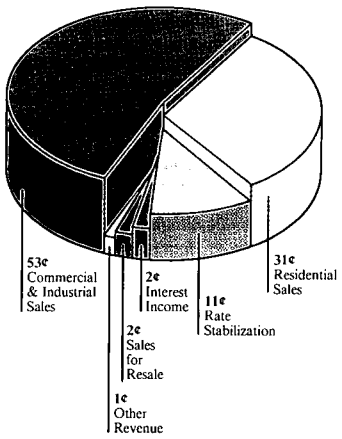
THE ELECTRIC UTILITY

Closer to home, the Electric Utility is also an important member of a local team, the City of Riverside. The Electric Utility provides more than 280 jobs contributing more than $15.1 million to the local economy in wages and benefits. In addition, the Electric Utility is an important source of revenue for the City, paying $4 million in support of City services and more than $9.9 million directly to the City of Riverside general fund.

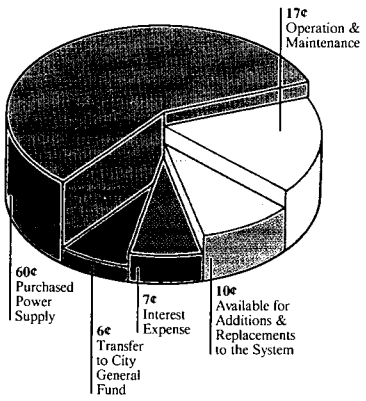
The Electric Utility is also an important part of the City team in another important way. Each year the electric system must grow, must upgrade and renew equipment, and must prepare to meet future needs for electrical service foreseen by the City. It is in that capacity that the teamwork of the Electric Utility itself comes into play. From engineering through operations and field services, the Electric Utility team works to design and operate a system that provides service 99.99% of the time.

THE 1990-1991 ELECTRIC DOLLAR

Source of Revenue



Distribution of Revenue



Since the construction of the present Public Utilities Operations Center 35 years ago, Riverside Public Utilities now serves 136% more electric and 84% more water customers. A new complex, to be constructed in 1992, will help to better serve these increased demands.

In 1990-1991, many major electric projects were undertaken or completed. Plans for the conversion of the Riverside Substation to a low-profile facility were virtually completed. This renovation will provide for an increase of transformer line positions from four to five immediately and up to seven in the future. It will also add the potential for five more 69/12kv distribution transformers. Construction, using mostly Riverside Public Utilities crews, began in the summer of 1991 and will be completed by 1993 at a cost of $3.9 million.

Planning for the University of California at Riverside Substation also entered its final stages in 1990-1991. This $3.8 million expansion will accommodate the growth of student enrollment from 8,000 to 18,000 students. Construction will begin in late 1991.

In 1990-1991, the $116 million six-year Electric Capital Improvement Program (CIP) provides for distribution system expansions to the Orangecrest, Canyon Springs, Lusk/Highlander, and Alessandro Heights residential areas and the Marketplace, Sycamore Canyon, and Hunter Park projects in redevelopment areas.

Part of the CIP, a new 69kv transmission line between the Orangecrest and Springs substations began the environmental review process in 1990-1991. A new $450,000 fiber optics communication system carrying voice and data was implemented, linking the Orangecrest, Freeman,

The $116 million six-year Electric Capital Improvement Program provides for distribution system expansions to the Orangecrest, Canyon Springs, Lusk/Highlander, and Alessandro Heights residential areas and the Marketplace, Sycamore Canyon, and Hunter Park projects in redevelopment areas. In 1990-1991, Electric Utility crews laid 31.4 miles of new underground distribution lines.

La Colina, and Springs substations. Work also began on the pilot project to convert all records and maps to the new Computer Aided Design, Mapping, and Engineering (CADME) system. CADME is a complex, multi-year project that will enable Utilities staff to more efficiently design, plan, and modify the water and electric systems.

ELECTRIC SYSTEM GROWTH

New Residential Services	926	New Underground Distribution Lines	31.4 miles
New Commercial/Industrial Services	336	New Service Areas Acquired	.2 square miles
New Overhead Distribution Lines	-1.5 miles*	Conversion of 4kv to 12kv Lines	11.8 miles

**More existing overhead distribution lines were placed underground than new lines added resulting in a net decrease to the overhead system.*

TEAMWORK

PUBLIC UTILITIES
RIVERSIDE

THE WATER UTILITY

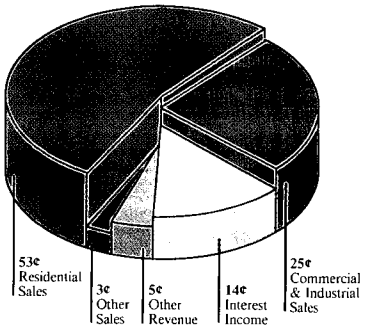
The Water Utility's commitment to water conservation and leadership on regional water quality issues has made Riverside an important team member of several regional, state, and federal associations addressing these challenges.

Utility staff participate in and serve on the water quality and groundwater committees of the Association of California Water Agencies (ACWA), the Southern California Water Committee (SCWC), and help to support the research efforts of the American Water Works Association (AWWA).

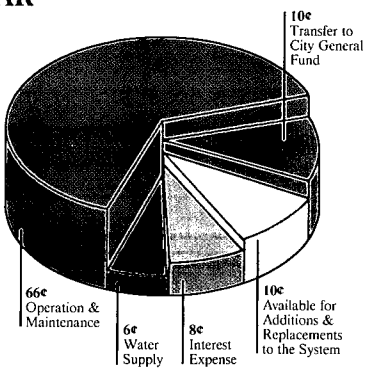
The best example of the Water Utility's teamwork in 1990-1991 is, however, local. In 1990-1991, the Water Utility initiated and participated in a new arrangement with the Gage Canal Company that helped each to maximize its resources.

THE 1990-1991 WATER DOLLAR

Source of Revenue



Distribution of Revenue



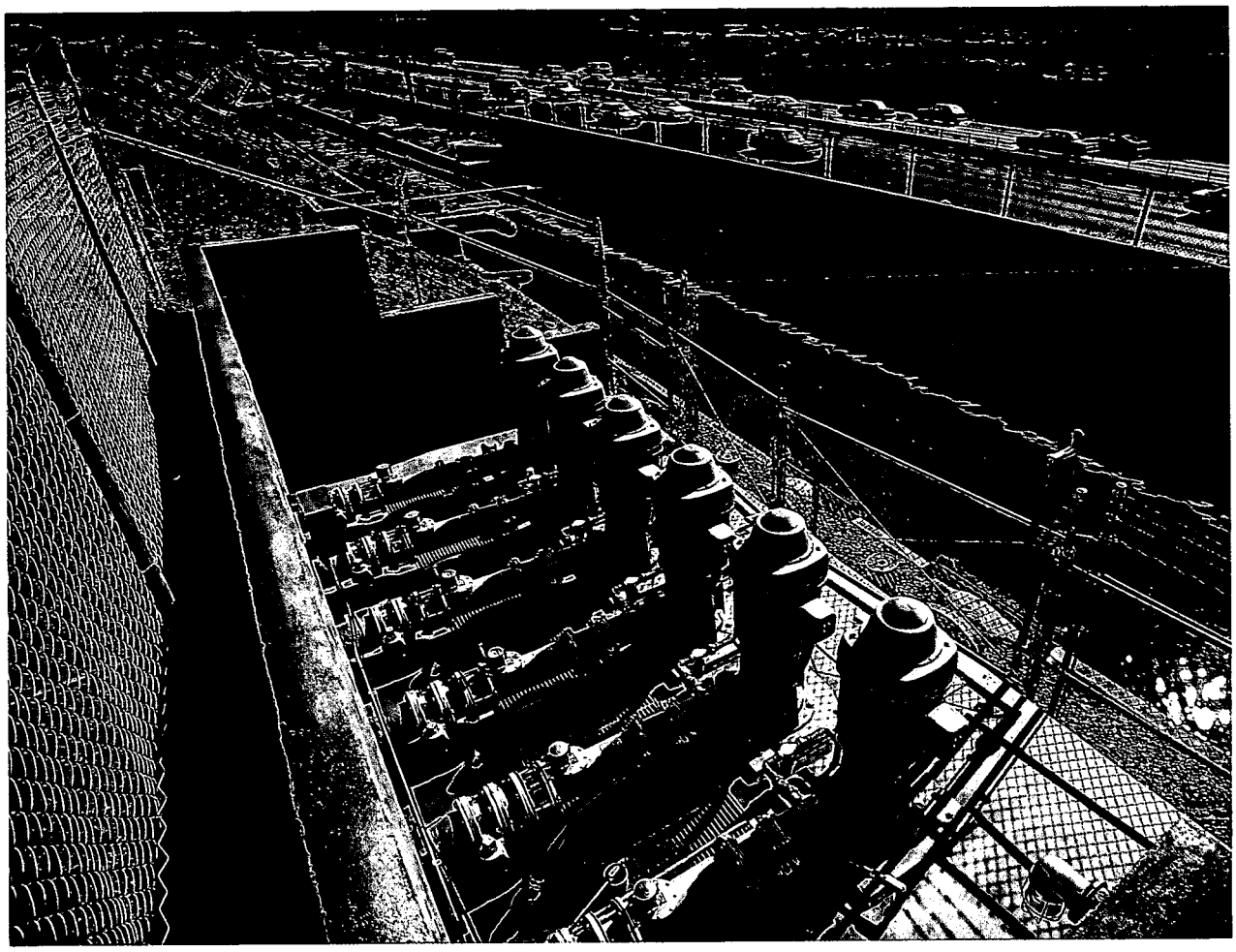
The historic Gage Canal Company is an important local supplier of agricultural water, primarily to area citrus farms. The water being transported for those uses, however, is high quality and potable. Riverside's Water Utility has a large supply of non-potable agricultural water available, but few agricultural customers.

This year, the Water Utility completed construction of a new six-pump booster station, allowing Riverside Public Utilities to exchange agricultural water from the Riverside Canal for potable water from the Gage Canal. Under this agreement, called the Gage Canal Exchange, Riverside receives up to 6,400 acre feet of water from the Gage Canal at the City's Linden and Evans reservoirs. In return, Riverside pumps up to 8,000 acre feet of agricultural water from the Riverside Canal at the Olivewood Booster Station into the Gage Canal. The City of Riverside increases its potable water supply and the Gage Canal Company receives additional agricultural water, both maximizing the efficient use of a scarce resource.

The Water Utility, like the Electric Utility, is also a valued member of the City of Riverside team. Providing 130 jobs, the Water Utility contributes almost $6.6 million to the local economy in wages and benefits. Riverside also benefits from the $3.5 million the Water Utility spends for City services as well as the $1.4 million the Water Utility transferred to the City's general fund last year.

The Water Utility is also an example of how teamwork operates to benefit the customer-owners of Riverside Public Utilities.

More than one-quarter of the water engineering staff are registered civil engineers. This highly qualified staff means that many of the Water Utility's projects, such as booster stations, wells, and transmission lines can be designed in-house. In-house design provides a cost-effective



This year, the Water Utility completed construction of a new six-pump booster station at the Olivewood Booster Station, allowing Riverside to exchange agricultural water for potable water from the Gage Canal.

alternative to paying fees for design consultants, helping to keep rates low.

Water operations, engineering, planning, and field staff are long serving, dedicated team members. They support and maintain a system that serves water customers almost 100% of the time, while planning and providing for system expansions to meet future City needs.

In 1990-1991, Water Utility projects under the Capital Improvement Plan included the completion of the University City and Tilden booster stations. Construction design was started on two new underground reservoirs: University City at 3 million gallons and Van Buren at 7.5 million gallons. Both are underground, thereby protecting sensitive views and neighborhood aesthetic qualities. In addition, these new reservoirs meet goals for the storage of water available during lower use periods for peak use, as well as emergency capacity in the event of a natural disaster such as an earthquake.

Also part of the $79 million six-year Water Capital Improvement Plan were the completion of the new Garner D well, producing more than 2,200 gallons per minute of potable water, and the improvement of water pressure to a portion of the Arlington area through completion of the 9,000-foot Cypress Avenue water transmission main. Preliminary design was completed for the Mockingbird Canyon Spillway, a $1.3 million project required by the state Division of Safety of Dams for storm control.

WATER SYSTEM GROWTH

New Water Services	662
New Water Mains and Appurtenances	13 miles
Well Production	20 billion gallons
New Booster Station Capacity	15.5 million gallons/day

PUBLIC SERVICE

Work done by or made on behalf of the community;
activity devoted to the use and enjoyment of a resource by the community;
activity devoted or directed to the promotion of the general welfare.

PUBLIC UTILITIES
RIVERSIDE

Strength, leadership, teamwork. The Electric Utility and the Water Utility demonstrate all three. The most important factor, however, is that these qualities are developed and valued in the service of the public. For it is the public that owns Riverside Public Utilities.

As a result, at Riverside Public Utilities, customer service is also clearly public service. Customer service employees are proud to serve their community, taking more than 189,000 calls and greeting more than 80,000 people at office and drive-through facilities.

In 1990-1991, Riverside Public Utilities further recognized the importance of its customer-owners and implemented new customer service training programs at all staff levels. Better training improves staff ability and, as a result, customer satisfaction.

Riverside Public Utilities has always believed in service to the community. Annually since the turn of the century, Riverside Public Utilities has provided illumination for holiday decorations in the business areas of Downtown, Magnolia Center, and Arlington. Today this spirit of service also expresses itself through programs such as WE CARE/HHEARTS, which offers free energy and water conservation information and services to seniors and the disabled. In 1990-1991, almost 1,000 visits were made by senior citizen employees who conduct energy and water use audits, give advice, and install weather stripping, water heater blankets, door sweeps, low-flow showerheads, and water conservations kits.

SHARE, Sharing Households Assist Riverside's Energy Fund, is another community program that exemplifies Riverside Public Utilities' tradition of service. A joint program of Riverside Public Utilities and the County of Riverside Department of Community Action, voluntary donations to the SHARE Fund by Utility customers are used to provide low-income residents with Utility bill and deposit assistance.

In 1990-1991, Riverside Public Utilities expanded its water conservation campaign. The stated goal was to voluntarily decrease Riverside's use of imported water to zero.

Photograph at left: Riverside Public Utilities provides service to more than 86,800 electric customers and nearly 59,000 water customers.

PUBLIC SERVICE

PUBLIC UTILITIES
RIVERSIDE

In 1990-1991, $24,716 was raised through more than 8,000 SHARE donations to assist low-income customers who require temporary help. Program applications and disbursements are administered through the Department of Community Action.

Riverside Public Utilities' commitment to public service has remained constant. The demands of limited resources and a changing future have meant, however, that public service has also come to mean public education.

In 1990-1991, new public information efforts organized into a master-planned program last year, yielded a 98% increase in requests for information for a total of 16,400 requests.

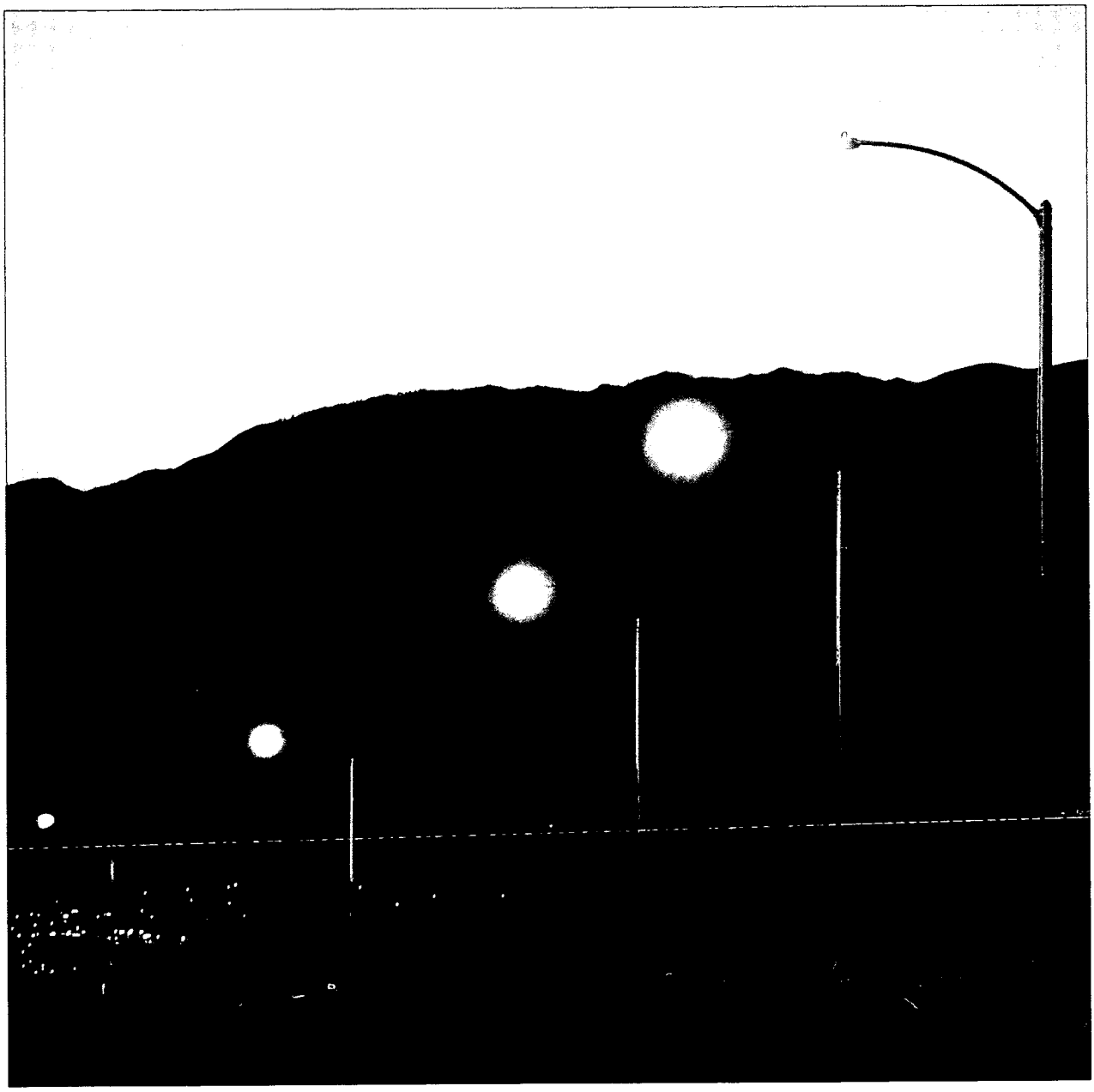
Energy conservation programs continued to experience increases. COOL CA$H, a program offering rebates on energy efficient cooling equipment, reached 396 customers, a 70% increase. Rebates to swimming pool owners who operate their pool pumps in off-peak hours increased by 134 for a total of 3,508 participants.

School education programs provided more than 1,500 students with over 8,000 pieces of information. Again in 1990-1991, more than 1,200 fifth-graders participated in the annual "Water is Life" poster contest, a program jointly sponsored by four water agencies in the region.

Children were also an important focus of the 1990-1991 water conservation campaign. More than 3,000 students and adults participated in a Water Awareness Month Kickoff event hosted by television weather personality Dr. George Fischbeck.

In 1990-1991, the Board of Public Utilities extended conservation activities beyond May, California's designated Water Awareness Month. A full summer program was implemented, beginning with the door-to-door distribution of almost 90,000 water conservation kits and answering 4,660 requests for low-flow showerheads. Subsequent bill stuffers and radio and newspaper advertising increased requests for information on water conservation by 216%.

And so, it is public ownership that distinguishes our efforts, and public service that is both the foundation and result of our strength, creating a Utility governed by the philosophy that it must not only manage its resources well, but manage itself well as a resource for its community.



Riverside Public Utilities' strength is drawn from its role as a public utility, serving its community and customer-owners in a way that helps the community meet the challenges of the 1990s.

Photograph at left: More than 3,000 gathered to hear television weather personality Dr. George Fischbeck kick-off Water Awareness Month in May 1991. Riverside's water conservation campaign included bill stuffers, radio ads, door-to-door distribution of water conservation kits, and free low-flow showerheads.

RIVERSIDE PUBLIC UTILITIES

PUBLIC UTILITIES
RIVERSIDE

EMPLOYEE RECOGNITION

Leon Chagolla

In June of 1991, Leon Chagolla completed 35 years of service with the City of Riverside. Before coming to the City, Leon attended Poly High School in Riverside. After high school he served four years in the U.S. Marine Corps, with combat duty during the Korean War.

Leon returned home from the Marine Corps in April and started working for the City's Sanitation Division on June 25, 1956. He worked with the Sanitation Division until transferring to the Water Division in 1968 as a Construction and Maintenance Worker. He worked his way through the classifications to Journeyman Pipefitter with a special interest in the Fire Hydrant Maintenance Program, a program that Leon saw grow from less than 3,000 fire hydrants 20 years ago to more than 6,000 fire hydrants today.

Leon is a conscientious, dedicated, and loyal employee. He has personally maintained each fire hydrant in the City a number of times, knowing that any hydrant, at any time, may be needed to save life or property.

Abraham Torres

Abe was hired by the City on March 13, 1957, as a Laborer, and progressed via self-training through the positions of Serviceman, Plumber, and Plant and Equipment Mechanic, to his present job of Maintenance Electrician. He is a talented electrician and has been very proficient in training others and working with outside vendors in the emergency repair of the water system.

Abe was born on January 14, 1934, in Wailuku, Hawaii, and attended high school at H.P. Baldwin High in Wailuku on Maui Island. He also attended Riverside Community College to enhance his skills as an electrician. Abe came to the mainland in 1952 and joined the U.S. Marine Corps where he was assigned sea duty on the USS Yorkshire.

Abe is married and has 5 children, with whom he maintains a close family relationship. He enjoys camping, fishing, and swimming with his family, and volunteers many hours to church-related activities.

Troy F. Stinson

On May 7, 1991, Troy F. Stinson completed 35 years of service with Riverside Public Utilities.

He was born in Bakersfield, Calif., and lived the majority of his boyhood in the City of Taft, Calif., in western Kern County. He graduated from Taft Union High School in 1955. Troy went to Taft Junior College until he went to work for Riverside Public Utilities. He married Hilda in June of 1958 and has two boys, Kenneth and Kevin. Kevin is also employed by Riverside Public Utilities as a Waterworks Pipefitter. Troy has lived in Riverside for the last 17 years.

Troy graduated from Riverside Community College in the early '60s. He has held many positions in the Electric Utility and presently holds the position of Utilities Field Coordinator, which supervises all electric and water field forces.

CITY OF RIVERSIDE

FINANCIAL STATEMENTS

CITY OF RIVERSIDE
RIVERSIDE PUBLIC UTILITIES

PUBLIC UTILITIES
RIVERSIDE

FINANCIAL REVIEW

Riverside Public Utilities is a municipal corporation, and as part of the City of Riverside has no stockholders and pays no dividends. Riverside Public Utilities pays for the cost of operation and debt service through revenues from its customers. Approximately 50 percent of annual capital expenditures are made from revenues, with the remaining capital facilities financed via electric and water revenue bonds and contributions in aid of construction.

Riverside Public Utilities finished the 1990-91 fiscal year prepared to meet the coming challenges that the drought and a slowing economy will present. To help fund capital programs over the next three years, Riverside issued both water and electric bonds. The Electric Utility issued $68.2 million of revenue and refunding bonds to fund $46.3 million in new capital. The Water Utility issued $52.8 million in revenue and refunding bonds to fund $31.3 million of new capital. In addition, Riverside took advantage of historically low interest rates to refund outstanding debt for gross savings of $3.8 million over the next 21 years. The true interest cost (TIC) on the electric bonds was 6.94 percent, while the water bonds were issued with a TIC of 6.80 percent.

Riverside's financial strength and strong service area were evident as Moody's rated both Utilities' bonds as Aa, while Standard & Poor's rated the Electric Utility's bonds at AA- and the Water Utility at AA. These ratings represented an upgrade for both Utilities.

Sales in both the Water and Electric Utilities slowed during the past fiscal year. This was reflected in a lower increase in revenues in the Electric Utility and a decline in revenue in the Water Utility. Sales revenue in the Electric Utility increased 6.0 percent due partially to a 1.8 percent increase in energy sales and a 4 percent rate increase that was effective in May 1991. This rate increase was the first increase in electric rates since 1984. Revenues were further supplemented by $17.8 million from the rate stabilization account. The reduction in the rate stabilization account was dampened by the receipt of $9.6 million in refunds from Southern California Edison. These funds will be used in future years to help mitigate rate increases.

The Water Utility experienced a decline in sales revenue of $974,000 due to reduced sales volume as the drought continued into its fifth year. The Water Utility's financial plan includes a 6 percent rate increase in fiscal year 1991-92. This rate increase was planned to cover capital expenditures and increased operating costs, and is unaffected by the reduction in sales due to the presence of sufficient reserves to cover any temporary shortfall in revenues. Riverside's water rates remain lower than surrounding agencies due to Riverside's use of local groundwater supplies. The protection of this resource remains high on the Utility's agenda, as the cost of water treatment has significant impact on the Utility's rates.

Capital expenditures in the Electric Utility totaled $19.5 million, including the purchase of land for the Utilities' new operation center. This facility is to be completed in fiscal year 1992-93 at a cost of $9 million.

Water Utility capital expenditures increased by almost 25 percent, to $7.9 million. Included in these expenditures are the beginnings of a $25 million capital program designed to increase reservoir storage capacity. Capital expenditures in future years are expected to rise above these levels as reservoir capacity is added to the system.

In addition to the cost of operation, Riverside Public Utilities pays for all services rendered on its behalf by other City departments and transfers up to 11.5 percent of its prior year revenues to the City's general fund. In fiscal year 1990-91, the Electric Utility transferred $9.9 million, while the Water Utility transferred $1.9 million.

CITY OF RIVERSIDE
THE ELECTRIC UTILITY

PUBLIC UTILITIES
RIVERSIDE

ELECTRIC UTILITY SELECTED STATISTICS

POWER SUPPLY (mwh)

	1990/91	1989/90	1988/89	1987/88	1986/87
San Onofre	264,500	239,500	272,500	237,100	263,700
Intermountain Power	697,800	795,400	716,100	641,300	396,800
Palo Verde	84,700	27,800	58,300	51,500	42,300
Hoover	33,700	24,100	16,800	38,400	
Firm contracts	358,300	314,000	229,700	292,300	156,100
Non-firm contracts	79,000	77,600	112,000	63,400	202,600
Southern California Edison	36,000	47,200	54,400	20,800	196,700
Total	1,554,000	1,525,600	1,459,800	1,344,800	1,258,200
System peak (mw)	404.8	407.0	367.2	317.6	292.2

ELECTRIC USE

Average number of customers					
Residential[1]	78,317	78,795	76,087	74,195	72,197
Commercial	8,156	8,083	7,620	7,169	6,677
Industrial	189	186	196	193	330
Other	146	146	148	148	150
Total	86,808	87,210	84,051	81,705	79,354
Millions of kilowatt-hour sales					
Residential	546	516	503	452	431
Commercial	381	356	333	298	279
Industrial	526	527	534	480	439
Other	42	41	43	41	42
Total	1,495	1,440	1,413	1,271	1,191
Average annual kwh per residential customer	6,972	6,549	6,611	6,092	5,970
Average price (cents/kwh)	9.06	9.10	9.04	9.28	9.27
Debt as a percent of net plant[2]	79.0%	78.8%	85.4%	89.1%	93.6%
Operating income as a percent of operating revenues	15.4%	10.4%	8.2%	13.5%	19.6%
Employees	284	264	259	243	225

[1]Private area lights were reflected as individual customers in prior years. In 1990-91, these accounts were combined with the residence, resulting in a net decrease in residential customers.

[2]Net plant includes nuclear fuel inventory and work in progress.

CITY OF RIVERSIDE
THE ELECTRIC UTILITY

PUBLIC UTILITIES
RIVERSIDE

BALANCE SHEET

	June 30	
	1991	**1990**
	(In Thousands)	
Assets		
Utility plant:		
Production	$114,811	$113,295
Transmission	10,934	8,402
Distribution	115,572	98,794
General	6,931	5,747
	248,248	226,238
Less accumulated depreciation	(76,914)	(68,287)
	171,334	157,951
Construction in progress	21,029	19,203
Nuclear fuel, at amortized cost	5,350	6,097
Total utility plant	197,713	183,251
Restricted assets	69,284	32,508
Current assets:		
Cash and investments	13,382	22,599
Accounts receivable, net	23,172	15,772
Accrued interest receivable	1,000	1,171
Prepaid expenses	4,598	4,021
Nuclear materials inventory	356	344
Total current assets	42,508	43,907
Other assets:		
Unamortized project costs	43	184
Bond issuance cost	1,174	0
Total assets	$310,722	$259,850

The notes to the financial statements are an integral part of this statement.

CITY OF RIVERSIDE
THE ELECTRIC UTILITY

PUBLIC UTILITIES
RIVERSIDE

BALANCE SHEET

	June 30	
	1991	1990
	(In Thousands)	
Capitalization and liabilities		
Customers' equity:		
Retained earnings		
Reserved	$ 22,412	$ 17,813
Unreserved	10,000	10,000
Total retained earnings	32,412	27,813
Contributed capital	30,626	24,460
Total customers' equity	63,038	52,273
Long-term obligations, less current portion	188,670	141,576
Total capitalization	251,708	193,849
Other non-current liabilities:		
Decommissioning liability	6,439	4,696
Rate stabilization account, less current portion	10,520	13,898
Total non-current liabilities	16,959	18,594
Current liabilities payable from restricted assets:		
Accrued interest payable	3,437	2,570
Current portion of long-term obligations	3,302	3,110
Total current liabilities payable from restricted assets	6,739	5,680
Current liabilities:		
Accounts payable	5,637	9,953
Accrued liabilities	4,321	3,901
Rate stabilization account	23,000	27,873
Customer deposits	2,358	
Total current liabilities	35,316	41,727
Commitments and contingencies		
Total capitalization and liabilities	$310,722	$259,850

The notes to the financial statements are an integral part of this statement.

CITY OF RIVERSIDE
THE ELECTRIC UTILITY

PUBLIC UTILITIES
RIVERSIDE

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

	For the Fiscal Years Ended June 30	
	1991	**1990**
	(In Thousands)	
Operating revenues:		
Residential	$47,858	$44,670
Commercial and industrial	83,505	79,276
Sales to other utilities	2,485	2,004
Provision for rate stabilization	17,815	19,497
Other	1,049	1,141
Total operating revenues	152,712	146,588
Operating expenses:		
Purchased power	93,585	98,405
Operations	21,734	20,304
Maintenance	5,044	4,421
Depreciation and amortization	8,884	8,236
Total operating expenses	129,247	131,366
Operating income	23,465	15,222
Non-operating revenues (expenses):		
Interest income	3,254	4,700
Interest expense	(10,610)	(10,486)
Loss on retirement of utility plant	(73)	(41)
Other	103	260
Non-operating revenues (expenses)	(7,326)	(5,567)
Income before operating transfers	16,139	9,655
Operating transfer out:		
General fund contribution	(9,915)	(9,652)
Net income before extraordinary loss	6,224	3
Extraordinary loss on advance refunding	(1,625)	
Net income	4,599	3
Retained earnings, July 1	27,813	27,810
Retained earnings, June 30	$32,412	$27,813

The notes to the financial statements are an integral part of this statement.

CITY OF RIVERSIDE
THE ELECTRIC UTILITY

PUBLIC UTILITIES
RIVERSIDE

STATEMENT OF CASH FLOWS

	For the Fiscal Years Ended June 30	
	1991	1990
	(In Thousands)	
Cash flows from operating activities:		
Cash received from customers and users	$ 147,671	$ 146,158
Cash paid to suppliers and employees	(131,586)	(139,894)
Net cash provided by operating activities	16,085	6,264
Cash flows from non-capital financing activities:		
Nuclear material inventory	(12)	42
Operating transfers out	(9,915)	(9,652)
Non-operating revenue	103	260
Net cash used by non-capital financing activities	(9,824)	(9,350)
Cash flows from capital and related financing activities:		
Proceeds from the sale of revenue bonds	63,045	
Purchase of fixed assets	(19,543)	(15,590)
Proceeds from the sale of fixed assets	(74)	44
Principal paid on revenue bonds	(17,715)	(2,937)
Interest paid on revenue bonds	(10,444)	(10,787)
Contributed capital	2,363	2,217
Net cash provided (used) by capital and related financing activities	17,632	(27,053)
Cash flows from investing activities:		
Income from investments	3,666	4,510
Net increase (decrease) in cash and cash equivalents	27,559	(25,629)
Cash and cash equivalents, July 1	55,107	80,736
Cash and cash equivalents, June 30	$ 82,666	$ 55,107
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$23,465	$15,222
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	8,884	8,236
Provision for uncollectible accounts	776	907
(Increase) decrease in prepaid items	(577)	(1,057)
(Increase) decrease in utility billed	(779)	(1,056)
(Increase) decrease in utility unbilled	(4,468)	(57)
(Increase) decrease in accounts receivable	(2,512)	373
(Increase) decrease in intergovernmental receivable	(130)	(265)
(Increase) decrease in due to other funds	(287)	0
Increase (decrease) in accounts payable	(3,244)	1,489
Increase (decrease) in accrued payroll payable	31	41
Increase (decrease) in compensated absences	388	433
Increase (decrease) in retainage	(227)	177
Increase (decrease) in intergovernmental payable	(1,086)	(364)
Increase (decrease) in deposits	2,359	0
Increase (decrease) in decommissioning liability	1,743	1,682
Increase (decrease) in rate stabilization account	(8,251)	(19,497)
Net cash provided by operating activities	$16,085	$ 6,264
Schedule of non-cash investing, capital, and financing activities:		
Contributions in aid of construction	$ 3,803	$ 2,551

The notes to the financial statements are an integral part of this statement.

CITY OF RIVERSIDE
THE ELECTRIC UTILITY

PUBLIC UTILITIES
RIVERSIDE

NOTES TO THE FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 1991

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting

The financial statements of the Electric Utility are presented in conformity with generally accepted accounting principles as applicable to governments and substantially in conformity with accounting principles prescribed by the Federal Energy Regulatory Commission, except for the method of accounting for contributed capital described below. The Electric Utility is not subject to the regulations of the Federal Energy Regulatory Commission.

Utility Plant and Depreciation

All utility plant is valued at historical cost or estimated historical cost, if actual historical cost is not available. Cost includes labor; materials; allocated indirect charges such as engineering, supervision, construction and transportation equipment, retirement plan contributions and other fringe benefits; and certain administrative and general expenses. Contributed plant is valued at its estimated fair market 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	30 years
Transmission and distribution plant	20-50 years
General plant and equipment	5-15 years

Nuclear Fuel

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

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 and the operating cash reserve are also classified as restricted assets because their use is legally restricted to a specific purpose.

Cash and Investments

The City pools idle cash from all funds for the purpose of increasing income through investment activities. Investments are carried at cost, which approximates market value. Interest income on investments is allocated to the various funds of the City on the basis of average daily cash and investment balances.

During fiscal year 1991, the Electric Utility retroactively adopted GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting." All highly liquid investments, including restricted assets, with a maturity of three months 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 in the statement of cash flows.

Inventories

The City maintains a separate Central Stores inventory. The Electric Utility expenses items as they are drawn out of Central Stores. As such, the Electric Utility does not include inventories on its financial statements.

Bond Discounts and Issuance Costs

Bond discounts and issuance costs are deferred and amortized over the term of the bonds using the effective interest method. Bond discounts are presented as a reduction of the face amount of bonds payable whereas issuance costs are recorded as deferred charges.

CITY OF RIVERSIDE
THE ELECTRIC UTILITY

PUBLIC UTILITIES
RIVERSIDE

Contributed Capital

Amounts received from customers and others for constructing utility plant are combined with retained earnings to represent customers' equity. Accordingly, contributed capital is shown in the accompanying balance sheet as an equity account and is not offset against utility plant. Depreciation on contributed assets is expensed.

Nuclear Decommissioning Reserve

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 reserve fund for the decommissioning of the nuclear power plant and restoration of the beachfront at San Onofre. These reserve funds are included in restricted assets on the balance sheet. The Electric Utility funds the reserve and recognizes expense over the useful life of the generating plant. Prior to fiscal year 1991, the Electric Utility maintained the reserve fund. During 1991, a separate trust account was established for prior and future amounts funded and these amounts were reclassified to restricted assets in the accompanying balance sheet. To date, the Electric Utility has set aside $6,439,000 in cash and investments at the trustee as Riverside's estimated share of the decommissioning cost of San Onofre. Based on a cost estimate completed by Southern California Edison (SCE) and approved by the California Public Utilities Commission, the Utility plans to set aside approximately $1,380,000 per year to fund this obligation. Decommissioning should commence around the year 2015.

Rate Stabilization Account

The Electric Utility's rules and regulations provide for a rate stabilization account (RSA), which is used to offset changes in the cost of providing power. Wholesale rate refunds and over or under collections of revenues resulting from the difference between the Electric Utility's actual costs of supplying electric power and energy and the amount billed to customers through existing rates are recorded in the RSA. The amount of the RSA is determined in accordance with a formula based on retained earnings not exceeding the required reserve for debt service plus a $10,000,000 reserve for working capital. The Electric Utility's fiscal 1991-92 budget includes the recognition of revenues in the amount of $23,000,000 from the RSA to be used to offset fiscal year 1991-92 rate increases.

The following is a summary of changes in the rate stabilization account for fiscal years 1991 and 1990.

	1990-91	1989-90
Balance, July 1	$41,771,000	$61,268,000
Increases:		
Refunds from SCE	9,564,000	
Decreases:		
Current year provision	(17,815,000)	(19,497,000)
Balance, June 30	$33,520,000	$41,771,000

During fiscal year 1991, the Electric Utility received $9,564,000 in refunds from SCE for the settlement of previous wholesale rate disputes.

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, 1991, was $2,358,000. As of June 30, 1990, customer deposits were held by the City in a fund separate from the Electric Utility. The Electric Utility's portion of customer deposits held by the City at June 30, 1990, was $1,807,000.

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 $4,688,000 at June 30, 1990, and $9,156,000 at June 30, 1991. 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. The balance in the allowance account was $945,000 at June 30, 1990, and $1,499,000 at June 30, 1991. During the fiscal year, accounts determined to be uncollectible are recorded as bad debt expense.

Compensated Absences

The accompanying financial statements include accruals for salaries, fringe benefits, and compensated absences due employees at June 30, 1991. The Electric Utility treats compensated absences due employees as a current liability. The amount accrued for compensated absences was $3,581,000 at June 30, 1990, and $3,969,000 at June 30, 1991.

Employees receive 10 to 20 vacation days a year based upon length of service. A maximum of two years vacation can be accumulated and unused vacation may be redeemed for cash upon separation.

Employees receive one day of sick leave for each month of employment, with unlimited accumulation. Employees who terminate for reasons other than retirement or death lose all accumulated sick leave. Upon retirement or death, a percentage of unused sick leave is paid to certain employees or their estates in a lump sum based on longevity. Employees hired in the general bargaining unit after July 1, 1979, cannot redeem unused sick leave. A liability is recognized for the portion of accumulated sick leave benefits that is estimated to be settled upon retirement or death.

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 unreported claims based upon past experience, modified for current trends and information.

While the ultimate losses incurred through June 30, 1991, are dependent upon future developments, management believes that amounts paid are sufficient to cover such losses.

Deferred Compensation and Employee Retirement Plans

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. The plan, available to all City employees, permits deferral of a portion of an employee's salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency (as defined in the deferred compensation plan).

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City, subject only to the claims of the City's general creditors. Participants' rights under the plan are equal to those of general creditors of the City in an amount equal to the fair market value of the deferred account for each participant.

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 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. As an example, employees may retire at age 60 and receive 2 percent of their highest average annual salary for each year of service completed. Employees retiring at age 50 to 59 receive a lesser percentage for each year of service. 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 7 percent, while the Utility is required to contribute the remaining amounts necessary to fund the benefits for its members using the actuarial basis recommended by the PERS actuaries and consultants and adopted by the PERS Board of Administration. These benefit provisions and all other requirements are established by state statute and City ordinance. The Utility pays both the employee and employer contributions. Citywide information concerning elements of unfunded pension benefit obligations, contributions to PERS for the year ended June 30, 1991, 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, 1991.

General Fund Contribution

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 1989-90 and 1990-91, the Electric Utility transferred 7.5 percent of the prior year's gross operating revenues to the general fund. This amounted to $9,652,000 in 1989-90 and $9,915,000 in 1990-91.

Budgets and Budgetary Accounting

The Electric Utility presents, and the City Council adopts, an annual budget. The proposed budget includes estimated expenditures and forecasted revenues. The City Council adopts the Electric Utility's budget at its last meeting in June via an adopting resolution. The Electric Utility's budgeted expenditures for fiscal year 1990-91 amounted to $192,295,000, while the adopted 1991-92 budget totals $166,253,000.

NOTE 2. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations of the Electric Utility for the year ended June 30, 1991 (in thousands):

	Balance July 1, 1990	Increase	Decrease	Balance June 30, 1991
Certificates of participation	$ 777		$ 206	$ 571
Revenue bonds payable	143,910	$50,396	2,905	191,401
Total	$144,687	$50,396	$3,111	$191,972

Annual debt service requirements to maturity as of June 30, 1991, are as follows (in thousands):

	1992	1993	1994	1995	1996	There-after	Total
Certificates of participation	$ 193	$ 171	$ 97	$ 66	$ 22	$ 22	$ 571
Bond interest payable	13,272	12,650	12,347	12,035	11,722	126,226	188,252
Bond principal payable	3,110	3,990	4,290	4,605	4,920	170,486	191,401
Total	$16,575	$16,811	$16,734	$16,706	$16,664	$296,734	$380,224

Certificates of Participation

The Electric Utility's share of outstanding certificates of participation is due in annual installments through January 1, 1996; interest rates range from 5.75 percent to 9.4 percent.

Revenue Bonds Payable at June 30, 1991

$80,000,000 1980 electric revenue serial bonds due in annual installments from $1,025,000 to $1,250,000 through October 1, 1993; interest from 8.1 percent to 10.0 percent $3,400,000

$9,070,000 1980 electric revenue refunding serial bonds due in annual installments of $470,000 through October 1, 1993; interest from 8.1 percent to 10.0 percent $1,410,000

$35,000,000 1983 electric revenue serial bonds due in annual installments from $530,000 to $680,000 through October 1, 1995; interest from 8.5 percent to 10.5 percent..... $2,895,000

$16,500,000 1985 electric revenue bonds; $6,110,000 serial bonds due in annual installments from $355,000 to $440,000 through October 1, 1995; interest from 7.0 percent to 7.7 percent $1,925,000

$121,025,000 1986 electric revenue refunding serial A bonds; $36,410,000 serial bonds due in annual installments from $840,000 to $4,740,000 through October 1, 2001; interest from 5.6 percent to 6.8 percent; $15,705,000 term bonds due October 1, 2004, at 7.0 percent; and $68,910,000 term bonds due October 1, 2013, at 7.0 percent $118,190,000

$68,175,000 1991 electric revenue bonds; $27,395,000 serial bonds due in annual installments from $670,000 to $3,590,000 through October 1, 2005; interest from 4.5 percent to 6.6 percent; $40,780,000 term bonds due October 1, 2015, at 6.0 percent $68,175,000

Less: Unamortized bond discount..... $(4,594,000)

Total electric revenue bonds payable..... $191,401,000

Advance Refunding

On March 15, 1991, electric revenue bonds were sold to advance refund a portion of one issue of electric revenue bonds and to provide funds for capital improvements. The advance refunding resulted in less restrictive covenants to allow for more effective issuance of new debt.

The advance refunding resulted in the recognition of an accounting loss of $1,625,000, reduced aggregate debt service payments by $1,749,000, and created an economic gain (difference between the present value of the old and new debt service payments) of $597,000.

Debt Service Coverage Ratio

The Electric Utility's bond indentures require the Utility to maintain a debt service coverage ratio, as defined by the bond covenants, of 1.25. The Electric Utility's debt service coverage ratio was 2.90 at June 30, 1991.

NOTE 3. RESERVED RETAINED EARNINGS

A reserve for debt service has been established pursuant to applicable bond indentures. The reserve for debt service at June 30, 1991, is equal to the maximum annual debt service required in future years plus three months interest and nine months principal due in the next fiscal year.

NOTE 4. LITIGATION

The Electric Utility is a defendant in various lawsuits arising in the normal course of business. Management, based in part on the opinion of outside legal counsel, does not believe that the ultimate resolution of these matters will have a material effect on the financial position or results of operations of the Electric Utility.

The City is a party plaintiff in various rate cases and other proceedings affecting the Electric Utility. The City does not believe that any of these proceedings will have an adverse effect upon the financial condition of the Electric Utility.

NOTE 5. COMMITMENTS

Take-or-Pay Contracts

The Electric Utility has entered into a power sales contract with the Intermountain Power Agency (IPA) for the delivery of electric power. The Electric Utility's share of IPA power is equal to 7.6 percent of the generation output of IPA's 1,699 megawatt coal-fueled generating station, located in central Utah.

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

The Electric Utility is a member of the Southern California Public Power Authority (SCPPA), a joint powers agency. 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, the Electric Utility will be obligated for its proportionate share of the cost of the project. The

projects and the Electric Utility's proportionate share of SCPPA's obligations are as follows:

Project	Percent Share
Palo Verde Nuclear Generating Station	5.4 percent
Southern Transmission System	10.1 percent
Hoover Dam Uprating	31.9 percent

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. Payment for these obligations will be made from operating revenues received during the year that payment is due. Interest rates on the outstanding debt associated with the take-or-pay obligations range from 5.49 percent to 12.47 percent. The following schedule details the amount of principal that is due and payable by the Electric Utility for each project in the fiscal year indicated.

PRINCIPAL PAYMENTS
(In Thousands)

Year Ending June	IPA	SCPPA			
	Intermountain Power Project	Palo Verde Nuclear Generating Station	Southern Transmission System	Hoover Uprating	Total
1992	$ 5,275	$ 882	$ 1,065		$ 7,222
1993	5,470	947	1,141		7,558
1994	5,968	1,018	1,222	$ 156	8,364
1995	6,501	1,099	1,313	167	9,080
1996	7,241	1,189	1,414	179	10,028
Thereafter	349,222	50,719	101,408	10,439	511,788
Total	$379,677	$55,854	$107,563	$10,941	$554,035

Power Sales Agreements

The Electric Utility has executed five firm power sales agreements. The agreements are with the Deseret Generation and Transmission Cooperative (Deseret) of Sandy, Utah; the Pacific Gas and Electric Company (PG&E); the California Department of Water Resources (CDWR); the Bonneville Power Administration (BPA); and the Southern California Edison Company (SCE). The minimum annual obligations under each of these contracts are shown in the table below. The agreement with Deseret is a fixed price purchase of 46.7 megawatts of firm capacity and associated energy for a period of eight years, ending December 31, 1994. The agreement with PG&E is for the purchase of 5 megawatts of firm capacity and associated energy. This contract was terminated on August 1, 1991. The agreement with CDWR is for the purchase of 20 megawatts of firm capacity and associated energy during the months of May through October of each year beginning May 1, 1992. The agreement with CDWR is an "evergreen" contract that may be terminated upon three years notice by either party. The agreement with BPA is for the purchase of firm capacity (23 megawatts in the summer months and 16 megawatts in the winter months), and associated energy for a period of 20 years. The agreement with SCE is for the purchase of firm capacity and associated energy for a period of eight years ending December 31, 1998. The firm capacity from SCE ranges from 150 megawatts in the summer to 10 megawatts in the winter.

PUBLIC UTILITIES
RIVERSIDE

POWER SALES AGREEMENTS
Minimum Obligations 1991-92
(In Thousands)

Supplier	Capacity	Energy	Total
Deseret	$ 6,486	$2,674	$ 9,160
SCE	4,990	1,423	6,413
CDWR	263	127	390
BPA	507	0	507
PG & E	33	58	91
Total	$12,279	$4,282	$16,561

Joint Ventures

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. Pursuant to 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. Maintenance and operation of SONGS remains the responsibility of SCE, as operating agent for the City.

The Electric Utility's share of the capitalized construction cost and operating expenses is included in the Electric Utility financial statements. As of June 30, 1991, Riverside's 1.79 percent share of the capitalized construction costs for SONGS totaled $114,811,000 with accumulated depreciation of $29,647,000. 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 reactor in the United States.

Subsequent Event

On August 30, 1991, the Electric Utility received a wholesale rate refund in the amount of $12,068,000 from SCE. This amount will be recorded in the Electric Utility's rate stabilization account in fiscal 1991-92 and be used to fund future years' operating costs.

Report of Independent Accountants To the City Council and Board of Public Utilities of the City of Riverside, California

In our opinion, the accompanying balance sheet and the related statements of operations and retained earnings and of cash flows present fairly, in all material respects, the financial position of the City of Riverside Electric Utility at June 30, 1991 and 1990, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of the management of the City of Riverside; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse

Riverside, California
December 17, 1991

CITY OF RIVERSIDE
THE WATER UTILITY

PUBLIC UTILITIES
RIVERSIDE

WATER UTILITY SELECTED STATISTICS

WATER SUPPLY (acre-feet)

	1990/91	1989/90	1988/89	1987/88	1986/87
Pumping	61,204	61,249	60,815	57,446	57,267
Purchases	3,836	6,598	3,133	3,214	3,417
Total	65,040	67,847	63,948	60,660	60,684
% Pumped	94.1%	90.3%	95.2%	94.7%	94.4%
System peak day (gals)	94,243,000	95,400,000	89,248,000	90,858,000	86,025,000

WATER USE

Average number of customers					
Residential	53,882	52,889	52,076	51,018	50,132
Commercial/industrial	4,203	3,976	3,862	3,757	3,670
Other[1]	838	3,692	3,237	2,942	2,528
Total	58,923	60,557	59,175	57,717	56,330
CCF sales					
Residential	16,486,215	17,149,071	16,527,248	15,156,174	15,417,373
Commercial/industrial	8,982,227	8,573,499	8,266,856	7,805,421	7,896,845
Other	542,577	742,372	564,663	1,254,534	1,511,726
Total	26,011,019	26,464,942	25,358,767	24,216,129	24,825,944
Average annual CCF per residential customer	306	324	317	297	308
Average price (cents/CCF) per residential customer	62.9	62.3	61.2	63.5	62.5
Debt as a percent of net plant	47.9%	40.0%	42.7%	47.5%	48.0%
Employees	130.5	129.5	129.5	124.5	119.5

[1] Fire hydrants previously included as individual accounts were combined as one municipal account in 1990-91, resulting in a net decrease in other customers.

CITY OF RIVERSIDE
THE WATER UTILITY

PUBLIC UTILITIES
RIVERSIDE

BALANCE SHEET

	June 30	
	1991	**1990**
Assets	(In Thousands)	
Utility plant:		
Source of supply	$ 14,082	$ 13,886
Pumping	5,126	4,927
Treatment	326	326
Transmission and distribution	115,739	97,007
General	3,909	3,584
Intangible	5,540	5,543
	144,722	125,273
Less accumulated depreciation	(39,523)	(36,468)
	105,199	88,805
Construction in progress	8,563	7,148
Total utility plant	113,762	95,953
Restricted assets	28,232	5,246
Current assets:		
Cash and investments	22,883	33,609
Accounts receivable, net	2,838	2,370
Accrued interest receivable	660	702
Total current assets	26,381	36,681
Other assets	958	142
Total assets	$169,333	$138,022

The notes to the financial statements are an integral part of this statement.

CITY OF RIVERSIDE
THE WATER UTILITY

PUBLIC UTILITIES
RIVERSIDE

BALANCE SHEET

	June 30	
	1991	1990
	(In Thousands)	
Capitalization and liabilities		
Customers' equity:		
Retained earnings		
Reserved	$ 5,698	$ 5,246
Unreserved	25,034	26,795
Total retained earnings	30,732	32,041
Contributed capital	80,895	65,055
Total customers' equity	111,627	97,096
Long-term obligations, less current portion	53,033	36,309
Total capitalization	164,660	133,405
Current liabilities payable from restricted assets:		
Accrued interest payable	818	629
Current portion of long-term obligations	949	1,769
Total current liabilities payable from restricted assets	1,767	2,398
Current liabilities:		
Accounts payable	791	771
Accrued liabilities	1,793	1,448
Customer deposits	322	
Total current liabilities	2,906	2,219
Commitments and contingencies		
Total capitalization and liabilities	$169,333	$138,022

The notes to the financial statements are an integral part of this statement.

CITY OF RIVERSIDE
THE WATER UTILITY

PUBLIC UTILITIES
RIVERSIDE

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

	For the Fiscal Years Ended June 30	
	1991	**1990**
	(In Thousands)	
Operating revenues:		
Water sales		
Residential	$10,371	$11,224
Commercial	4,916	5,222
Other	680	495
Total operating revenues	15,967	16,941
Operating expenses:		
Operations	8,735	7,181
Maintenance	2,117	1,888
Purchased energy	2,212	2,129
Purchased water	1,178	1,135
Depreciation	3,217	2,811
Total operating expenses	17,459	15,144
Operating income (loss)	(1,492)	1,797
Non-operating revenues (expenses):		
Interest income	2,776	3,136
Interest expense	(1,518)	(2,663)
Gain on retirement of utility plant	2	160
Other	1,043	1,001
Total non-operating revenues (expenses)	2,303	1,634
Income before operating transfers	811	3,431
Operating transfers out:		
General fund contribution	(1,948)	(1,895)
Net income (loss) before extraordinary loss	(1,137)	1,536
Extraordinary loss on advance refunding	(172)	
Net income (loss)	(1,309)	1,536
Retained earnings, July 1	32,041	30,505
Retained earnings, June 30	$30,732	$32,041

The notes to the financial statements are an integral part of this statement.

CITY OF RIVERSIDE
THE WATER UTILITY

PUBLIC UTILITIES
RIVERSIDE

STATEMENT OF CASH FLOWS

	For the Fiscal Years Ended June 30	
	1991	1990
	(In Thousands)	
Cash flows from operating activities:		
Cash received from customers and users	$ 15,821	$ 16,479
Cash paid to suppliers and employees	(13,923)	(11,889)
Net cash provided by operating activities	1,898	4,590
Cash flows from non-capital financing activities:		
Operating transfers out	(1,949)	(1,895)
Non-operating revenue	1,043	1,001
Net cash used by non-capital financing activities	(906)	(894)
Cash flows from capital and related financing activities:		
Proceeds from the sale of revenue bonds	52,058	
Purchase of fixed assets	(7,904)	(6,310)
Proceeds from the sale of fixed assets	2	221
Principal paid on revenue bonds	(36,325)	(1,476)
Interest paid on revenue bonds	(2,146)	(2,673)
Contributed capital	2,719	3,431
Net cash provided (used) by capital and related financing activities	8,404	(6,807)
Cash flows from investing activities:		
Income from investments	2,864	3,172
Net increase in cash and cash equivalents	12,260	61
Cash and cash equivalents, July 1	38,855	38,794
Cash and cash equivalents, June 30	$ 51,115	$ 38,855
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	$ (1,492)	$1,797
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	3,217	2,811
Provision for uncollectible accounts	99	132
(Increase) decrease in utility billed	36	(624)
(Increase) decrease in utility unbilled	(441)	(9)
(Increase) decrease in accounts receivable	(130)	(3)
(Increase) decrease in intergovernmental receivable	(33)	25
(Increase) decrease in notes receivable	0	17
(Increase) decrease in allowance for uncollectibles	0	2
Increase (decrease) in accounts payable	112	266
Increase (decrease) in accrued payroll payable	10	12
Increase (decrease) in compensated absences	191	117
Increase (decrease) in retainage	9	57
Increase (decrease) in intergovernmental payable	0	0
Increase (decrease) in deposits	322	0
Increase (decrease) in water stock	(2)	(10)
Net cash provided by operating activities	1,898	4,590
Schedule of non-cash investing, capital, and financing activities:		
Contributions in aid of construction	$13,122	

The notes to the financial statements are an integral part of this statement.

CITY OF RIVERSIDE
THE WATER UTILITY

PUBLIC UTILITIES
RIVERSIDE

NOTES TO THE FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 1991

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Water Utility exists under, and by virtue of, the City Charter enacted in 1883, and is a component unit of the City of Riverside (City). The Water Utility is responsible for the production, transmission, and distribution of water for sale in the City.

Basis of Accounting

The financial statements of the Water Utility are presented in conformity with generally accepted accounting principles as applicable to governments and substantially in conformity with accounting principles prescribed by the California Public Utilities Commission, except for the method of accounting for contributed capital described below. The Water Utility is not subject to the regulations of the California Public Utilities Commission.

Utility Plant and Depreciation

All utility plant is valued at historical cost or estimated historical cost, if actual historical cost is not available. Cost includes labor; materials; allocated indirect charges such as engineering, supervision, construction and transportation equipment, retirement plan contributions and other fringe benefits; and certain administrative and general expenses. Contributed plant is valued at its estimated fair market 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	20-50 years
Transmission and distribution plant	30-50 years
General plant and equipment	5-50 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. Funds set aside for the operating cash reserve are also classified as restricted assets because their use is legally restricted to a specific purpose.

Cash and Investments

The City pools idle cash from all funds for the purpose of increasing income through investment activities. Investments are carried at cost, which approximates market value. Interest income on investments is allocated to the various funds of the City on the basis of average daily cash and investment balances.

During fiscal year 1991, the Water Utility retroactively adopted GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting." All highly liquid investments, including restricted assets, with a maturity of three months or less when purchased are considered 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 in the statement of cash flows.

Inventories

The City maintains a separate Central Stores inventory. The Water Utility expenses items as they are drawn out of Central Stores. As such, the Water Utility does not include inventories on its financial statements.

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 deferred charges. Capital appreciation is the annual increase in the value of bonds originally issued at a discounted amount. These bonds receive no annual interest payments and mature at a predetermined par value.

Contributed Capital

Amounts received from customers and others for constructing utility plant are combined with retained earnings to represent customers' equity. Accordingly, contributed capital is shown in the accompanying balance sheet as an equity account and is not offset against utility plant. Depreciation on contributed assets is expensed.

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, 1991, was $322,000. As of June 30, 1990, customer deposits were held by the City in a fund separate from the Water Utility. The Water Utility's portion of customer deposits held by the City at June 30, 1990, was $246,000.

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 $759,000 at June 30, 1990, and $1,101,000 at June 30, 1991. 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. The balance in the allowance account was $214,000 at June 30, 1990, and $272,000 at June 30, 1991. During the fiscal year, accounts determined to be uncollectible are recorded as bad debt expense.

Compensated Absences

The accompanying financial statements include accruals for salaries, fringe benefits, and compensated absences due employees at June 30, 1991. The Water Utility treats compensated absences due employees as a current liability. The amount accrued for compensated absences was $1,316,000 at June 30, 1990, and $1,507,000 at June 30, 1991.

Employees receive 10 to 20 vacation days a year based upon length of service. A maximum of two years vacation can be accumulated and unused vacation may be redeemed for cash upon separation.

Employees receive one day of sick leave for each month of employment, with unlimited accumulation. Employees who terminate for reasons other than retirement or death lose all accumulated sick leave. Upon retirement or death, a percentage of unused sick leave is paid to certain employees or their estates in a lump sum based on longevity. Employees hired in the general bargaining unit after July 1, 1979, cannot redeem any unused sick leave. A liability is recognized for the portion of accumulated sick leave benefits that is estimated to be settled upon retirement or death.

Self-Insurance Program

The Water Utility participates in a self-insurance program for workers' 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 unreported claims based upon past experience, modified for current trends and information.

While the ultimate amount of losses incurred through June 30, 1991, is dependent upon future developments, management believes that amounts paid are sufficient to cover such losses.

Deferred Compensation and Employee Retirement Plans

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency (as defined in the deferred compensation plan).

All amounts of compensation deferred under the plan and all related income are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City, subject only to the claims of the City's general creditors. Participants' rights under the deferred compensation plan are equal to those of the City's general creditors in an amount equal to the fair market value of the deferred account for each participant.

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 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. As an example, employees may retire at age 60 and receive 2 percent of their highest average annual salary for each year of service completed. Employees retiring at age 50 to 59 receive a lesser percentage for each year of service. 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 7 percent, while the Utility is required to contribute the remaining amounts necessary to fund the benefits for its members using the actuarial basis recommended by the PERS actuaries and consultants and adopted by the PERS Board of Administration. These benefit provisions and all other requirements are established by state statute and City ordinance. The Utility pays both the employee and employer contributions. Citywide information concerning elements of unfunded pension benefit obligations, contributions to PERS for the year ended June 30, 1991, 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, 1991.

General Fund Contribution

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 1989-90 and 1990-91, the Water Utility transferred 11.5 percent of gross operating revenues, or $1,895,000 and $1,948,000 respectively.

Budgets and Budgetary Accounting

The Water Utility presents, and the City Council adopts, an annual budget. The proposed budget includes estimated expenditures and forecasted revenues. The City Council adopts the Water Utility's budget at its last meeting in June via an adopting resolution. The Water Utility's budgeted expenditures for fiscal year 1990-91 amounted to $38,713,000, while the adopted 1991-92 budget totals $34,984,000.

NOTE 2. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations of the Water Utility for the year ended June 30, 1991 (in thousands):

	Balance July 1, 1990	Increase	Decrease	Balance June 30, 1991
Certificate of participation	$ 431		$ 194	$ 237
Contracts payable	1,322		2	1,320
Revenue bonds payable	36,325	$ 16,860	760	52,425
Total	$ 38,078	$ 16,860	$ 956	$ 53,982

The annual requirements to amortize all debt outstanding (including interest) as of June 30, 1991, are as follows (in thousands):

	1992	1993	1994	1995	1996	Thereafter	Total
Certificate of participation and contracts payable	$ 273	$ 202	$ 181	$ 181	$ 150	$ 570	$ 1,557
Bond interest payable	3,023	2,738	2,659	2,568	2,468	25,314	38,770
Bond principal payable	675	1,635	1,710	1,805	1,900	44,700	52,425
Total	$3,971	$4,575	$4,550	$4,554	$4,518	$70,584	$92,752

Certificates of Participation

The Water Utility's share of outstanding certificates of participation is due in annual installments through January 1, 1996; interest rates range from 5.75 percent to 9.4 percent.

Contracts Payable

Contracts payable at June 30, 1991, consist of water stock acquisition rights payable on demand to various water companies.

Revenue Bonds Payable at June 30, 1991

$69,840,000 1991 water revenue bonds; $25,050,000 serial bonds due in annual installments from $675,000 to $3,100,000 through October 1, 2002; interest from 4.25 percent to 9.0 percent; and $25,900,000 serial capital appreciation bonds due October 1, 2010; interest from 6.65 percent to 7.0 percent; and $18,890,000 term bonds due October 1, 2015, at 6.0 percent..... $69,840,000

Less: Unamortized capital appreciation	(17,026,000)
Unamortized bond discount	(389,000)
Total water revenue bonds payable	$52,425,000

Advance Refunding

On January 11, 1991, eight water revenue bond issues were defeased by cash deposits to irrevocable trust accounts. On March 15, 1991, water revenue bonds were sold to advance refund two water revenue bond issues and to provide funds for capital improvements. The combination of the two transactions defeased all of the previously outstanding water revenue bonds. This refunding and cash defeasance removed outstanding bonds with certain restrictive covenants to allow for more effective issuance of new debt and achieved a present value savings over the life of the new issue.

The cash defeasance resulted in the recognition of an accounting gain of $1,933,000, the cash deposit resulted in a cash flow savings of $10,178,000 and resulted in an economic gain (difference between the present value of the old and new debt service payments) of $1,020,000. The refunding resulted in the recognition of an accounting loss of $2,105,000, reduced aggregate debt service payments by $3,948,000 and created an economic gain of $988,000.

Debt Service Coverage Ratio

The Water Utility's bond indenture requires the Utility to maintain a debt service coverage ratio, as defined in the bond covenants, of 1.25. The Water Utility's debt service coverage ratio was 2.93 at June 30, 1991.

NOTE 3. RESERVES OF RETAINED EARNINGS

A reserve for debt service has been established pursuant to applicable bond indentures. The reserve for debt service at June 30, 1991, is equal to the maximum annual debt service required in future years plus three months interest and nine months principal due in the next fiscal year.

NOTE 4. LITIGATION

The Water Utility is a defendant in various lawsuits arising in the normal course of business. Management, based in part on the opinion of outside legal counsel, does not believe that the ultimate resolution of these matters will have a material effect on the financial position or results of operations of the Water Utility.

CITY OF RIVERSIDE
THE WATER UTILITY

PUBLIC UTILITIES
RIVERSIDE

Report of Independent Accountants
To the City Council and Board
of Public Utilities of the
City of Riverside, California

In our opinion, the accompanying balance sheet and the related statements of operations and retained earnings and of cash flows present fairly, in all material respects, the financial position of the City of Riverside Water Utility at June 30, 1991 and 1990, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of the management of the City of Riverside; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse

Riverside, California
December 17, 1991

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June 30, 1991

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Wendy F. Adams
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Donna L. Aguilera
Richard C. Aguilera
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Judith L. Bailey
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Michael J. Baldwin
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Glenn M. Cox
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