

R I V E R S I D E P U B L I C U T I L I T I E S

1992-93

Annual

Report

D I R E C T O R ' S M E S S A G E

Quality of life—each of us, as individuals, interprets this concept differently. Sometimes quality of life is determined by events that surround us or by factors that are beyond our control. Other times quality of life is influenced by our own actions or deeds.

Determining the quality of life that a city offers its citizens can be measured many ways. For some, quality of life is defined by the sense of community reflected by its citizenry. Many judge it by the feeling of safety and security afforded by the city. Some determine quality by the opportunities available to them. Others look for quality in education or recreation. Many forecast quality by the city's plans for the future.

As a consumer-owned water and electric utility, Riverside Public Utilities contributes to the sense of community, safety, opportunity, education, recreation and future of its city on a daily basis. Some of our contributions are readily apparent, while many others go unnoticed by the average Riverside citizen.

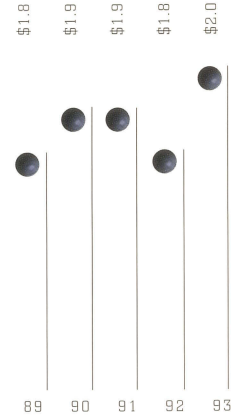
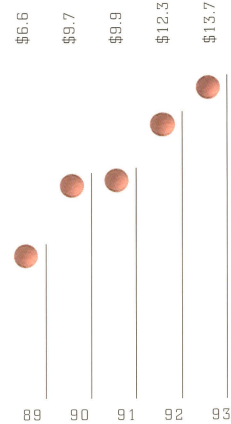
Most of us are aware of the importance water and electric service has upon the quality of our lives. But few of us probably realize the many other community benefits afforded by a municipal utility. During the 1992-93 fiscal year alone, Riverside Public Utilities transferred \$13.7 million of electric revenues and \$2.0 million of water revenues to the city's general fund in support of police, fire, library, recreation, youth and other city services. This annual report is a reflection of the many avenues in which Riverside Public Utilities supports its community and the quality of life of its residents.



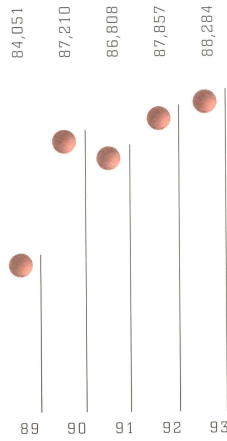
Bill Carnahan, Director
Riverside Public Utilities

GENERAL FUND TRANSFER

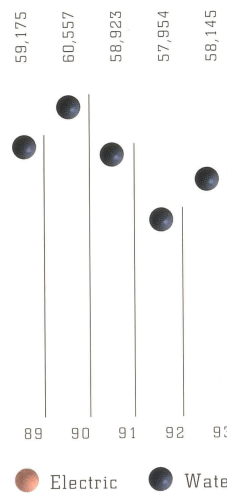
In Millions
● Electric ● Water



AVERAGE NUMBER OF CUSTOMERS



AVERAGE NUMBER OF CUSTOMERS



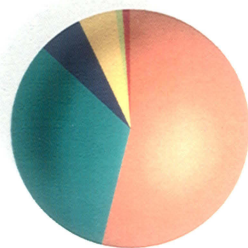
Most consumers are aware of the importance of good credit. But fewer people realize that the successful operation of a utility, just like the purchase of a home or an automobile, can be hindered or facilitated by a credit rating. Riverside Public Utilities is one of a small and select group of utilities to obtain and maintain the prestige of AA ratings, which enables it to obtain reduced interest rates. In 1992-93, Moody's Investor Service rated both utility bonds Aa, while Standard & Poor's Corporation rated the electric bonds AA- and the water bonds AA.

Strengthening the utility's financial position, electric revenue bonds were sold in March 1993 to refund existing bonds, resulting in \$15.1 million in aggregate savings on bonds issued earlier at higher interest rates.

During a period of national economic downturn, Riverside Public Utilities has strived to remain sensitive to its customers' needs by holding the line on costs, delaying rate increases, and helping customers save money through conservation efforts.

1992-93 Electric Dollar and Resources

SOURCE OF REVENUE



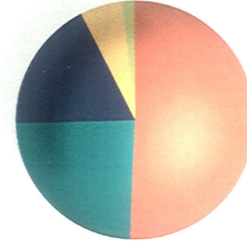
- Commercial & Industrial Sales (54¢)
- Residential Sales (33¢)
- Rate Stabilization (6¢)
- Interest Income (5¢)
- Sales for Resale (1¢)
- Other Revenue (1¢)

DISTRIBUTION OF REVENUE



- Purchased Power Supply (56¢)
- Operation & Maintenance (18¢)
- Available for Additions & Replacements to the System (11¢)
- Transfer to City General Fund (8¢)*
- Interest Expense (7¢)

ENERGY RESOURCES

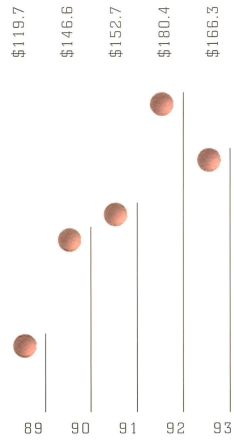


- Coal (50.8%)
- Nuclear (23.9%)
- Third Party Purchases (17.9%)
- SCE (5.7%)
- Hydropower (1.7%)

*Based on fiscal year 1992-93 transfer of 9.1% of operating revenues (excludes interest and other non-operating income).

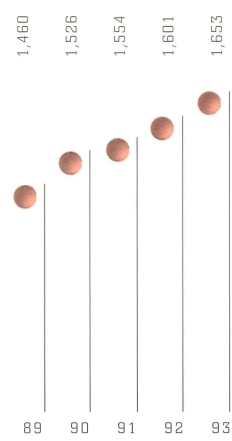
TOTAL OPERATING REVENUE

In Millions



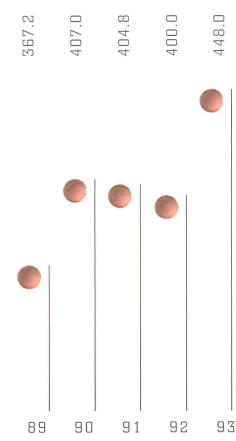
PRODUCTION

In Million Kilowatt-Hours



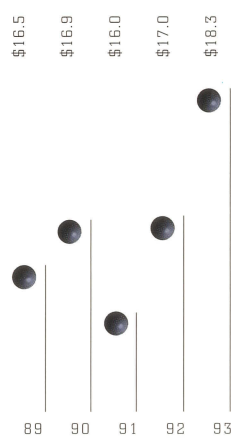
PEAK DAY DEMAND

In Megawatts



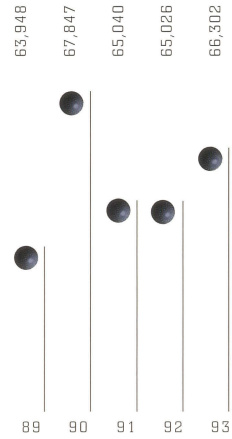
TOTAL OPERATING REVENUE

In Millions



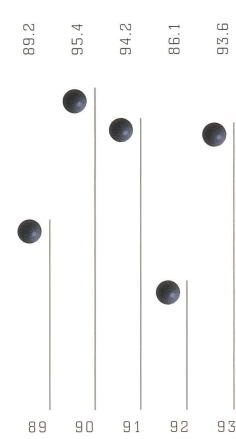
PRODUCTION

In Acre Feet



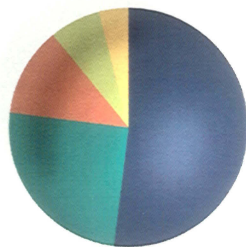
PEAK DAY DEMAND

In Million Gallons



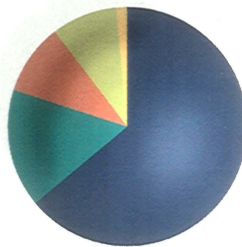
1992-93 Water Dollar and Resources

SOURCE OF REVENUE



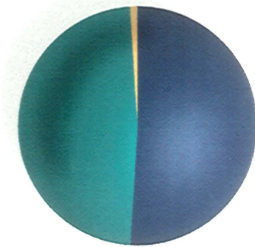
- Residential Sales (52%)
- Commercial & Industrial Sales (25%)
- Interest Income (12%)
- Other Revenue (7%)
- Other Sales (4%)

DISTRIBUTION OF REVENUE



- Operation & Maintenance (64%)
- Interest Expense (16%)
- Available for Additions & Replacements to the System (9.5%)
- Transfer to City General Fund (9.5%)*
- Water Supply (1.5%)

WATER RESOURCES



- Riverside Basin Wells (51%)
- San Bernardino Basin Wells (48%)
- Purchased Water (1%)

*Based on fiscal year 1992-93 transfer of 11.5% of operating revenues (excludes interest and other non-operating income).



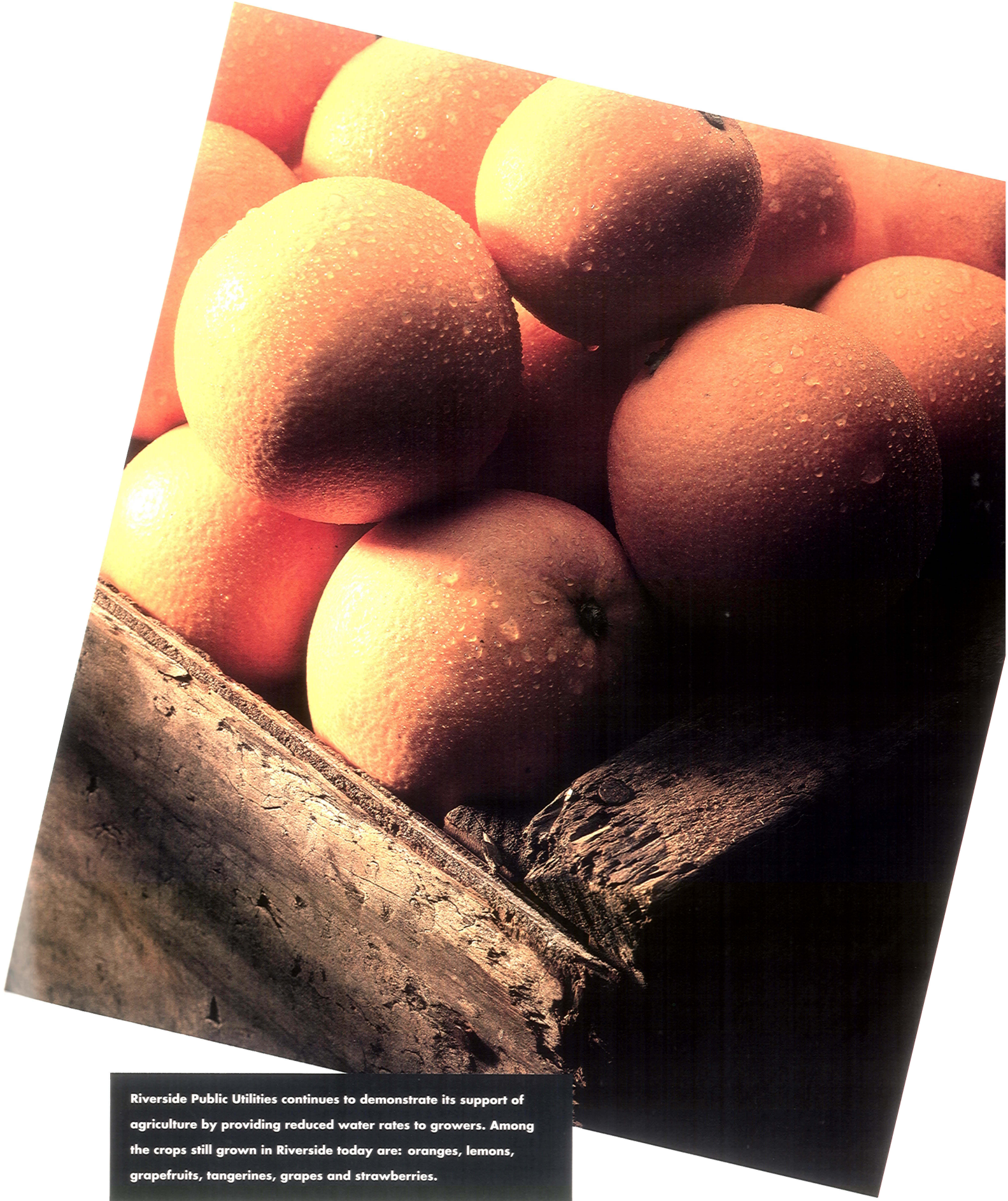
ENSURING THAT ANOTHER
GENERATION OF ORANGE TREES
TAKES ROOT IN RIVERSIDE
IS JOHN GLESS, A LOCAL
AGRICULTURAL GROWER WHO
HAS BEEN RETAINED BY THE
CALIFORNIA CITRUS STATE
HISTORIC PARK TO CARE FOR
THE PARK'S ORCHARDS. A
PORTION OF THE PARK IS
SITUATED ON LAND OWNED BY
RIVERSIDE PUBLIC UTILITIES.

The Gless family has been a part of the agricultural industry since 1907. It's as much a part of their heritage as it's a part of the city. Riverside's "citriculture" began in 1873 when the U.S. Department of Agriculture changed the history of Southern California by sending two navel orange trees to local resident Eliza Tibbets. Those trees produced fruit so flavorful that news of a superior orange quickly spread and a great agricultural industry was born.

The rise of the citrus industry helped foster the development of the city's electric and water systems. While Riverside established a public electric system in 1895, the community's water needs were met by private enterprise until the city purchased three local water companies in 1913 to create its public water system.

Today the California Citrus State Historic Park, which opened in August 1993, is dedicated to telling the story of the region's citrus industry. The park is situated on land considered the finest navel orange growing region in the world. A portion of the park's grounds, 128 acres, is owned by Riverside Public Utilities. In the interest of preserving a vanishing cultural landscape, the city is finalizing an agreement to lease this land to the state at no cost.

Concern over the irrigation of city greenbelts resulted in the Greenbelt Flowage Agreement in January 1993. Instead of utilizing costly drinking water, agricultural customers who are within the Gage Canal Company's service area but are Riverside Public Utilities customers can receive irrigation water from the city via the canal at one-third the cost of purchasing drinking water.



Riverside Public Utilities continues to demonstrate its support of agriculture by providing reduced water rates to growers. Among the crops still grown in Riverside today are: oranges, lemons, grapefruits, tangerines, grapes and strawberries.



Due to an increase in electric revenue transferred to the city's general fund, it's anticipated the Riverside Police Department will add 34 positions and purchase additional mobile data terminals, radios, computers and safety equipment. The Riverside Fire Department will gain 10 fire services positions, one fire engine and related fire safety equipment.

After 21 years as a fire fighter, Sam Salinas still remembers the first fire he responded to as a cadet in 1972. Reported as a palm tree fire, it turned out to be a two-story structure fire in which an infant lost its life. With the safety of its citizens a foremost concern of city leaders, a 15% increase in the amount of electric revenue transferred to the general fund was approved by the City Council near the close of the 1992-93 fiscal year to provide for additional police and fire services personnel and equipment. As a result, police and fire services will receive an additional \$2.1 million.

Expanding upon its commitment to public safety, Riverside became the first city in California to implement the McGruff Truck program, a national child protection and crime prevention program that identifies utility vehicles and their drivers as a source of help. McGruff Trucks are equipped with radio communication and driven by utility employees who have been specially trained and screened by the Police Department. Implemented in October 1992, McGruff Truck has been heralded as a beneficial public safety program that relies upon existing personnel and equipment.

Preventing disastrous outcomes is the purpose of Riverside Public Utilities' free electrical safety demonstration. Electric line workers use an 8-foot table model, complete with high voltage electric lines and a street scene, to depict possible life-threatening electrical hazards. In 1992-93, utility employees conducted 43 demonstrations for businesses, community groups and schools.

Protecting the city's water supply is a top priority of Riverside Public Utilities. More than 8,000 water samples were collected and tested this year. Riverside Public Utilities' water supply continues to meet or exceed all federal and state drinking water standards.



IF THERE'S ONE THING
RIVERSIDE FIRE FIGHTER
SAM SALINAS RARELY
WORRIES ABOUT WHEN
FIGHTING A FIRE IS THE
AVAILABILITY OF WATER.
KEEPING RIVERSIDE'S MORE
THAN 6,000 FIRE HYDRANTS
IN TOP WORKING ORDER IS
A FULL-TIME JOB FOR TWO
RIVERSIDE PUBLIC UTILITIES
EMPLOYEES. WATER FROM
THE HYDRANTS IS PROVIDED
AT NO CHARGE TO HELP
PROTECT THE LIVES AND
PROPERTY OF THE CITIZENS
OF RIVERSIDE.



ELIZABETH SCHREIBER, GENERAL
MANAGER OF THE GALLERIA AT
TYLER, TAKES PRIDE IN THE
SHOPPING CENTER BEING NAMED
THE 1993 BUSINESS OF THE YEAR
BY THE GREATER RIVERSIDE
CHAMBERS OF COMMERCE. AFTER
RESEARCHING THE OPPORTUNITIES
AVAILABLE IN RIVERSIDE, THE
CENTER'S MANAGEMENT COMPANY
DECIDED IN FAVOR OF A \$100
MILLION, 18-MONTH RENOVATION
AND EXPANSION THAT WAS
COMPLETED IN OCTOBER 1991.

Elizabeth Schreiber knows how to manage a business. As general manager of the Galleria at Tyler, Schreiber has increased the size of the facility by one-third, tripled the number of services and created at least 1,500 new jobs.

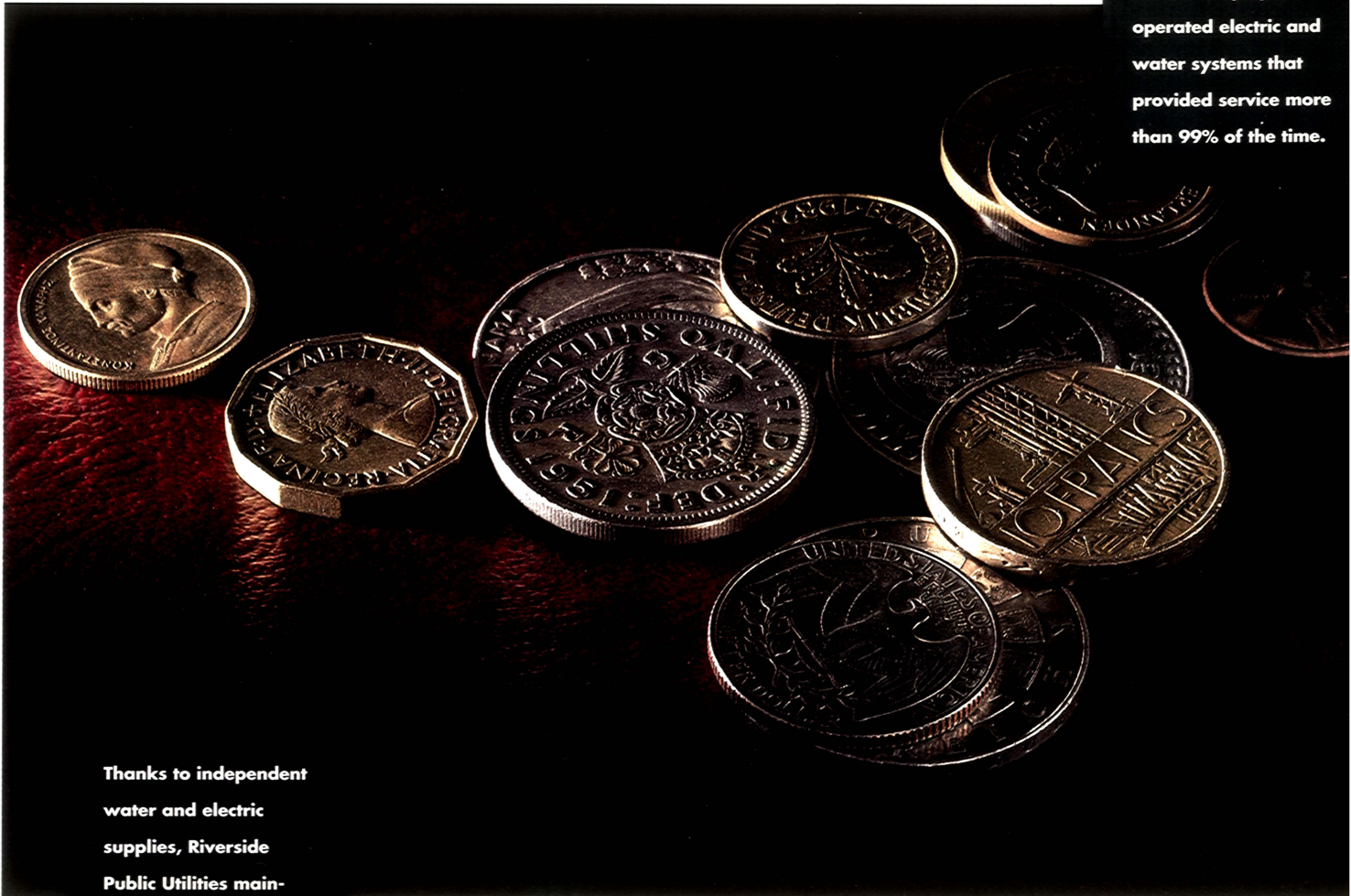
Before a business selects a city to call home it often studies several elements that may help to determine its success. Utility services and rates are among the common questions asked by prospective businesses.

In sharp contrast to many California cities, Riverside has adequate supplies of water and electricity for current and future customers. And despite an overall 5% electric rate increase in December 1992 and an overall 5.84% water rate increase in June 1993, Riverside's rates are among the lowest in Southern California.

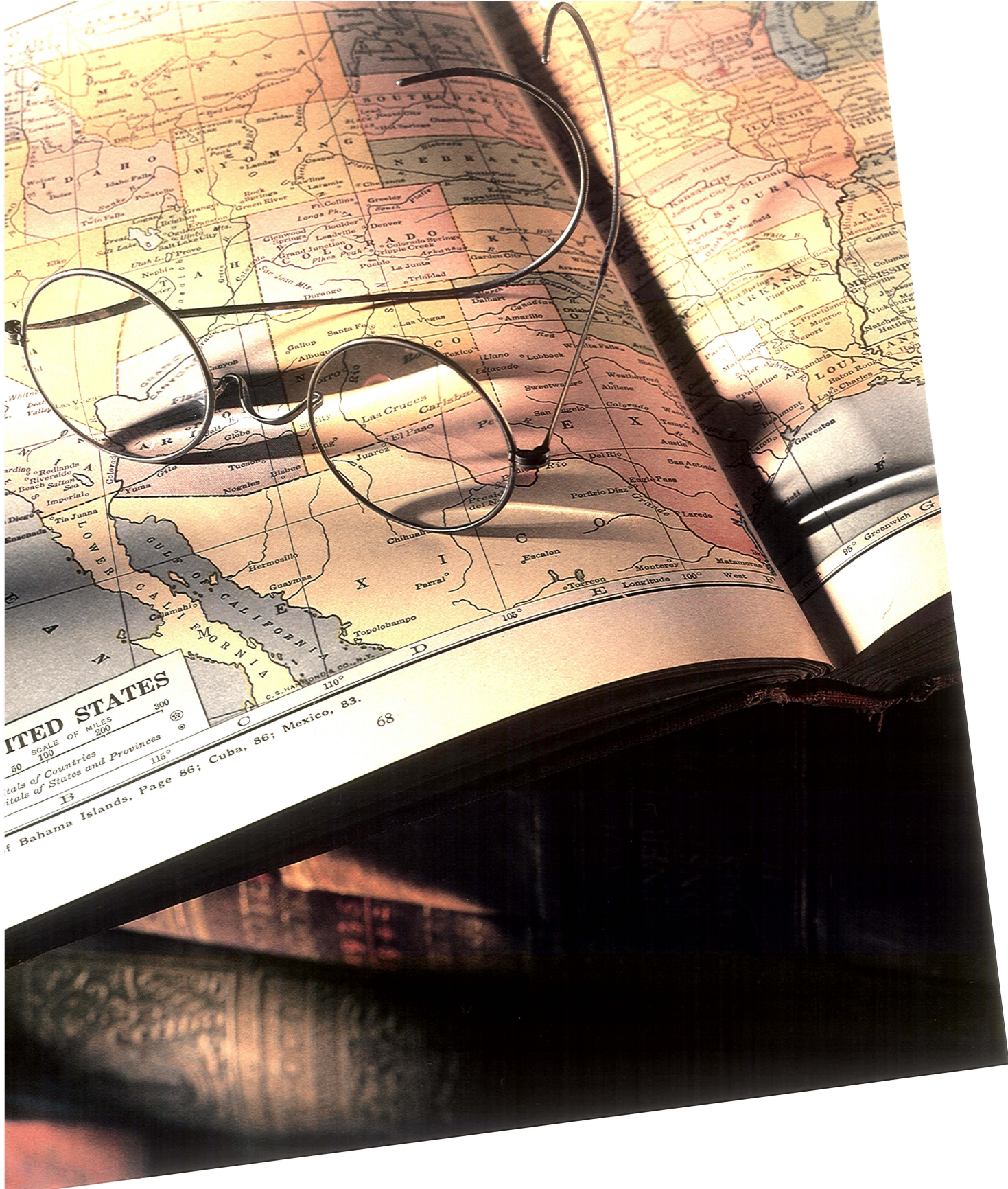
In 1992-93, customer service employees handled over 292,750 telephone calls and greeted more than 88,600 walk-in customers. As part of its customer outreach efforts, Riverside Public Utilities offers a variety of commercial and residential conservation programs including rebates on energy efficient appliances and free surveys of commercial facilities. Assistance programs for seniors, the disabled, customers using life support equipment and low-income families are also available.

A contract for the construction of a new Utilities Operations Center was awarded in 1992-93. Upon its completion in 1994, the center will combine utility field forces under one roof, increasing efficiencies and coordination of service. It will also serve as a demonstration site for commercial conservation programs, provide a more convenient customer service location, and offer community groups access to meeting facilities.

More than 88,000 electric customers and nearly 58,500 water customers depend upon Riverside Public Utilities to provide the electricity and water needed to run their homes and businesses. In 1992-93, Public Utilities employees operated electric and water systems that provided service more than 99% of the time.



Thanks to independent water and electric supplies, Riverside Public Utilities maintains rates well below those of neighboring utilities. As of June 30, 1993, residents served by surrounding agencies paid as much as 92% more for the same amount of water and up to 21% more for electricity.



Teacher participation in the Energy & Water School Education Program more than doubled in 1992-93. Accompanying the increase in teacher participation, student participation rose by 95%, reaching a total of 16,991 Riverside students.

Even though she's only 10 years old, Jenny Slocum of Riverside knows the value of hard work and research. Jenny is just one of many students who has come to rely on the staff of Riverside Public Utilities for background information on energy and water. And on her last two science projects, Jenny's efforts have been rewarded. She received the principal's award for a project on water evaporation, while a subsequent project on insulation earned a first place award in her classroom.

Riverside Public Utilities' Energy & Water School Education Program has been assisting students like Jenny since 1983. Now in its tenth year, the program distributed a record number of free educational materials to students attending public and private schools in Riverside. The program also provides teachers with classroom speakers, special events, field trips and an audiovisual lending library.

In an age of shrinking school budgets, Riverside Public Utilities continues to work with local schools to help them reduce their electricity consumption. In 1992-93, Riverside Public Utilities commissioned energy audits of eight schools and financed approximately \$10,000 in survey costs. Audit results indicate the potential for an annual combined savings of \$35,559 in electricity costs. Estimated savings per school range from a low of \$1,643 to a high of \$9,430.

Going beyond the classroom environment, Riverside Public Utilities reaches out to its customer-owners by providing ongoing community education programs including a speakers bureau, facility tours and special events. The Public Utilities Department also helps to support library services through its annual contribution to the city's general fund.



FIFTH-GRADER JENNY SLOCUM OF RIVERSIDE ANALYZES AND RECORDS THE RESULTS OF HER SCIENCE EXPERIMENT ON INSULATION AS SHE LOOKS FOR AN ANSWER TO HER HYPOTHESIS, "WHAT TYPE OF INSULATION WILL KEEP THE HEAT OUT THE BEST?"




GOALIE PAUL TORRES CONGRATULATES SOCCER FORWARD JESSICA SIMPSON ON A GOOD GAME. EVERY YEAR HUNDREDS OF CHILDREN THROUGHOUT THE CITY ARE ABLE TO ENJOY THE SPORT OF SOCCER AT A REASONABLE COST THANKS TO A \$1 PER YEAR LEASE AGREEMENT THAT THE AYSO SIGNED WITH THE CITY FOR 56 ACRES OF LAND OWNED BY RIVERSIDE PUBLIC UTILITIES.

For 8-year-old soccer player Jessica Simpson, the best part of the game is all the kicking and running she gets to do while out on the field. Her mom, Liza, is pleased with all the energy her daughter expends on the soccer field but also thinks it's a great way for Jessica to get some exercise, learn good sportsmanship, make new friends, and enjoy the outdoors.

Riverside Public Utilities realizes the importance of the traits Liza hopes will be instilled in her daughter by playing soccer. To help encourage these values and skills, the city leases 56 acres of land near Reid Park that is owned by the utility to the American Youth Soccer Organization (AYSO) for only a dollar a year. As a result of the lease agreement, approximately 2,400 children from 175 teams race up and down the soccer fields on an average Saturday during the height of the AYSO's fall season. While Riverside Public Utilities supplies water and electricity to the grounds, turf maintenance and rodent control are the responsibility of the AYSO.

But soccer isn't the only sport that Riverside Public Utilities supports through low-cost land lease agreements. Golfers who tee off on the greens at the Riverside Golf Club and the San Bernardino Golf Club are also playing on grounds owned by Riverside Public Utilities. Both the city and the private parties to which the land is leased benefit by turning this open space into a profitable enterprise that provides jobs and recreation for local residents.



Riverside Public Utilities' commitment to its community goes beyond simply supplying water and electricity. In addition to offering reduced water rates for park and recreational land, Riverside Public Utilities sponsors irrigation surveys of city greenbelts in conjunction with the Riverside-Corona Resource Conservation District. In 1992-93, an audit of La Sierra Park projected a possible reduction of 1.6 million gallons of water a year at a savings of \$1,250.



Long-range planning and diversification of its power resources allowed Riverside to meet 85% of its own energy needs through partnerships, ownerships and contractual agreements during the 1992-93 fiscal year. Having an independent electric supply saves the utility and its customers millions of dollars annually.

Known as “Grandmother the Great,” Lupe Avila has an appreciation for today’s lifestyle that few of her family members have experienced. Born in 1910, Lupe can remember when the typical family home had no electricity, running water or sewer services. Today most of the customer-owners of Riverside Public Utilities seldom think twice about turning on a faucet or flipping a light switch. But the electricity that Lupe’s great-granddaughter, Shawna, will use when she is an adult must be planned for today.

This year, Riverside Public Utilities achieved an estimated savings of \$4.2 million by purchasing economy energy through the Western Systems Power Pool. Further savings were realized by selling nearly \$2.4 million of excess power from its own resources in the wholesale market arena.

In 1992-93, Riverside Public Utilities finalized an agreement with Deseret Generation and Transmission Cooperative in Utah that supplies baseload capacity power through 2009. Nominal savings associated with this contract in comparison to wholesale purchases from Southern California Edison are \$171 million.

Improvements to the water system during the year reflect the city’s desire to ensure future water supplies. Construction of two reservoirs, the 7.5 million gallon Van Buren Reservoir and the 3 million gallon University City Reservoir, was completed at a cost of \$5.9 million. The water utility also completed the construction of three new wells at a cost of \$1.5 million. The total pumping capacity from these three wells, 12.9 million gallons a day, accounts for almost 7% of Riverside’s annual water supply.



FIVE GENERATIONS OF THE AVILA FAMILY CALL RIVERSIDE HOME. LUPE AVILA, A LIFETIME RIVERSIDE RESIDENT, HAS MANY HOPES FOR 5-YEAR-OLD SHAWNA HAINTREE AND HER OTHER 56 GRANDCHILDREN AND GREAT-GRANDCHILDREN. HER HOPES INCLUDE: A STABLE FAMILY, A SAFE NEIGHBORHOOD, A GOOD EDUCATION, AND THE OPPORTUNITY TO MAKE THEIR DREAMS COME TRUE. RIVERSIDE PUBLIC UTILITIES IS COMMITTED TO HELPING OUR CUSTOMERS MAKE THOSE HOPES A REALITY.

BOARD OF PUBLIC UTILITIES

(from left to right)

DAVID MACHER

Occupation: Certified Public Accountant
Riverside resident: lifetime

JACQUELINE MIMMS

Occupation: University Budget Director
Riverside resident: 8 years

PAUL OSBORNE

Occupation: Retired, Former Utilities Customer Service Division Manager
Riverside resident: 46 years

RONALD McCOY

Occupation: Retired, Former Assistant Chief Engineer-Water
Riverside resident: 12 years

ESTEBAN SORIANO

1992-93 Board Chairman
Occupation: Owner of Marketing Research Firm
Riverside resident: 8 years

GLEN STEPHENS

Occupation: Attorney at Law
Riverside resident: 33 years

RAPHAEL de la CRUZ

Occupation: Community Services Director
Riverside resident: lifetime



Quality service and keeping rates down are among the primary concerns of Riverside's Board of Public Utilities. Board members are appointed by the City Council to develop utility policies and represent the community. The Board is comprised of seven residents who devote countless hours of their personal time without compensation.

Giving back to their community is an annual tradition for Riverside Public Utilities employees. In 1992-93, utility employees donated \$19,381 to charitable organizations through the United Way and participated in the city's holiday food drive for disadvantaged families, contributing 1,407 pounds of food in December 1992.

As a part of city government, Riverside Public Utilities has a vested interest in its community. In 1992-93, Riverside Public Utilities supported the local economy by returning \$13.8 million in employee wages and purchasing \$6.1 million in services from other city departments. All of which are strong evidence of Riverside Public Utilities continued commitment to the quality of life in Riverside.

Statistics and Financial
Statements

F I N A N C I A L S E C T I O N

Fiscal Year Ended
June 30, 1993

Statistics - Water Utility

Water Supply (acre feet)

	1992/93	1991/92	1990/91	1989/90	1988/89	1987/88
Pumping	65,018	64,836	61,204	61,249	60,815	57,446
Purchases	604	190	3,836	6,598	3,133	3,214
Total	65,622	65,026	65,040	67,847	63,948	60,660
% Pumped	99.1%	99.7%	94.1%	90.3%	95.2%	94.7%
System peak day (gals)	93,655,000	86,075,000	94,243,000	95,400,000	89,248,000	90,858,000

Water Use

	1992/93	1991/92	1990/91	1989/90	1988/89	1987/88
Average number of customers						
Residential	53,463	53,254	53,882	52,889	52,076	51,018
Commercial/industrial	4,098	4,093	4,203	3,976	3,862	3,757
Other ⁽¹⁾	584	607	838	3,692	3,237	2,942
Total	58,145	57,954	58,923	60,557	59,175	57,717
CCF sales						
Residential	16,320,462	15,492,812	16,486,215	17,149,071	16,527,248	15,156,174
Commercial/industrial	8,228,209	7,998,728	8,982,227	8,573,499	8,266,856	7,805,421
Other	1,143,982	1,199,629	542,577	742,372	564,663	1,254,534
Total	25,692,653	24,691,169	26,011,019	26,464,942	25,358,767	24,216,129
Average annual CCF per residential customer	305	291	306	324	317	297
Average price (cents/CCF) per residential customer	72.4	68.7	62.9	62.3	61.2	63.5
Debt as a percent of net plant	38.2%	41.5%	46.1%	40.0%	42.7%	47.5%
Employees	159	137	131	130	130	125

⁽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.

Statistics - Electric Utility

Power Supply (MWh)

	1992/93	1991/92	1990/91	1989/90	1988/89	1987/88
San Onofre	312,000	231,600	264,500	239,500	272,500	237,100
Intermountain Power	839,500	831,700	697,800	795,400	716,100	641,300
Palo Verde	83,900	76,600	84,700	27,800	58,300	51,500
Hoover	28,400	31,400	33,700	24,100	16,800	38,400
Firm contracts	143,900	179,900	358,300	314,000	229,700	292,300
Non-firm contracts	151,200	150,100	79,000	77,600	112,000	63,400
Southern California Edison	94,400	99,400	36,000	47,200	54,400	20,800
Total	1,653,300	1,600,700	1,554,000	1,525,600	1,459,800	1,344,800
System peak (MW)	448.0	400.0	404.8	407.0	367.2	317.6

Electric Use

	1992/93	1991/92	1990/91	1989/90	1988/89	1987/88
Average number of customers						
Residential ⁽¹⁾	79,665	78,985	78,317	78,795	76,087	74,195
Commercial	8,314	8,565	8,156	8,083	7,620	7,169
Industrial	182	180	189	186	196	193
Other	123	127	146	146	148	148
Total	88,284	87,857	86,808	87,210	84,051	81,705
Millions of kilowatt-hour sales						
Residential	557	528	546	516	503	452
Commercial	392	394	381	356	333	298
Industrial	566	540	526	527	534	480
Other	41	42	42	41	43	41
Total	1,556	1,504	1,495	1,440	1,413	1,271
Average annual kWh per residential customer	6,992	6,685	6,972	6,549	6,611	6,092
Average price (cents/kWh) per residential customer	10.31	9.90	9.06	9.10	9.04	9.28
Debt as a percent of net plant ⁽²⁾	95.2%	93.4%	96.8%	78.8%	85.4%	89.1%
Operating income as a percent of operating revenues	15.9%	25.3%	15.4%	10.4%	8.2%	13.5%
Employees	287	286	284	264	259	243

⁽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 Electric Utility - Balance Sheets

	June 30	
	1993	1992
	(In Thousands)	
Assets		
Utility plant:		
Production	\$118,985	\$116,778
Transmission	11,666	11,408
Distribution	132,139	125,967
General	8,345	7,655
	<u>271,135</u>	<u>261,808</u>
Less accumulated depreciation	(94,336)	(85,481)
	<u>176,799</u>	<u>176,327</u>
Construction in progress	23,416	20,542
Nuclear fuel, at amortized cost	4,366	4,998
Total utility plant	<u>204,581</u>	<u>201,867</u>
Restricted assets	<u>48,049</u>	<u>55,039</u>
Current assets:		
Cash and investments	61,524	55,452
Accounts receivable, net	20,787	21,213
Accrued interest receivable	1,016	843
Prepaid expenses	2,958	3,802
Nuclear materials inventory	436	437
Total current assets	<u>86,721</u>	<u>81,747</u>
Other assets:		
Unamortized project costs	605	5
Bond issuance cost	2,245	1,102
Total other assets	<u>2,850</u>	<u>1,107</u>
Total assets	<u>\$342,201</u>	<u>\$339,760</u>

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

City of Riverside Electric Utility – Balance Sheets

	June 30	
	1993	1992
	(In Thousands)	
Capitalization and liabilities		
Customers' equity:		
Retained earnings		
Reserved	\$ 22,469	\$ 22,834
Unreserved	37,551	36,417
Total retained earnings	60,020	59,251
Contributed capital	36,398	32,579
Total customers' equity	96,418	91,830
Long-term obligations, less current portion	190,086	184,789
Total capitalization	286,504	276,619
Other non-current liabilities:		
Decommissioning liability	10,375	8,371
Rate stabilization account, less current portion	5,503	12,870
Total non-current liabilities	15,878	21,241
Current liabilities payable from restricted assets:		
Accrued interest payable	2,921	3,199
Current portion of long-term obligations	4,840	3,990
Total current liabilities payable from restricted assets	7,761	7,189
Current liabilities:		
Accounts payable	6,712	6,091
Accrued liabilities	4,396	4,472
Rate stabilization account	18,900	21,325
Current portion of long-term obligations	106	171
Customer deposits	1,944	2,652
Total current liabilities	32,058	34,711
Commitments and contingencies		
Total capitalization and liabilities	<u>\$342,201</u>	<u>\$339,760</u>

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

City of Riverside Electric Utility – Statements of Operations and Retained Earnings

	For the Fiscal Years Ended June 30	
	1993	1992
	(In Thousands)	
Operating revenues:		
Residential	\$ 57,422	\$ 52,288
Commercial and industrial	95,234	92,240
Sales to other utilities	2,434	1,532
Provision for rate stabilization	10,100	33,151
Other	1,107	1,177
Total operating revenues	<u>166,297</u>	<u>180,388</u>
Operating expenses:		
Purchased power	98,982	94,967
Operations	26,308	23,969
Maintenance	5,061	5,712
Depreciation and amortization	9,530	10,118
Total operating expenses	<u>139,881</u>	<u>134,766</u>
Operating income	<u>26,416</u>	<u>45,622</u>
Non-operating revenues (expenses):		
Interest income	8,312	7,115
Interest expense	(12,914)	(13,680)
Gain (loss) on retirement of utility plant	76	(123)
Other	1,794	199
Total non-operating revenues (expenses)	<u>(2,732)</u>	<u>(6,489)</u>
Income before operating transfer	23,684	39,133
Operating transfer out:		
General fund contribution	<u>(13,672)</u>	<u>(12,294)</u>
Net income before extraordinary loss	10,012	26,839
Extraordinary loss on advance refunding	<u>(9,243)</u>	<u>0</u>
Net income	769	26,839
Retained earnings, July 1	<u>59,251</u>	<u>32,412</u>
Retained earnings, June 30	<u>\$ 60,020</u>	<u>\$ 59,251</u>

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

City of Riverside Electric Utility – Statements of Cash Flows

	For the Fiscal Years Ended June 30	
	1993	1992
	(In Thousands)	
Cash flows from operating activities:		
Cash received from customers and users	\$156,223	\$183,315
Cash paid to suppliers and employees	(125,553)	(120,260)
Net cash provided by operating activities	<u>30,670</u>	<u>63,055</u>
Cash flows from non-capital financing activities:		
Operating transfers out	(13,672)	(12,294)
Non-operating revenue	1,794	199
Net cash used by non-capital financing activities	<u>(11,878)</u>	<u>(12,095)</u>
Cash flows from capital and related financing activities:		
Proceeds from the sale of revenue bonds	118,368	0
Purchase of utility plant	(12,662)	(14,030)
Purchase of nuclear fuel	(772)	(783)
Proceeds from the sale of utility plant	97	113
Principal paid on long-term obligations	(4,166)	(3,302)
Interest paid on long-term obligations	(12,840)	(13,566)
Bond issuance costs	(1,215)	0
Deposit to escrow account for advance refunding of revenue bonds	(117,698)	0
Contributed capital	3,039	1,161
Net cash used by capital and related financing activities	<u>(27,849)</u>	<u>(30,407)</u>
Cash flows from investing activities:		
Income from investments	8,139	7,272
Net increase (decrease) in cash and cash equivalents	(918)	27,825
Cash and cash equivalents, July 1	<u>110,491</u>	<u>82,666</u>
Cash and cash equivalents, June 30	<u>\$109,573</u>	<u>\$110,491</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 26,416	\$ 45,622
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	9,530	10,118
Amortization (burn) of nuclear fuel	1,404	1,135
(Provision) recovery for uncollectible accounts receivable	415	(384)
Decrease in accounts receivable	11	2,343
Decrease in prepaid expenses	844	796
(Increase) decrease in nuclear materials inventory	1	(81)
Increase in accounts payable	621	454
Increase (decrease) in accrued liabilities	(76)	151
Increase (decrease) in customer deposits	(708)	294
Increase in decommissioning liability	2,004	1,932
Increase (decrease) in rate stabilization account	(9,792)	675
Net cash provided by operating activities	<u>\$ 30,670</u>	<u>\$ 63,055</u>
Schedule of non-cash investing, capital and financing activities:		
Contributions in aid of construction	<u>\$ 780</u>	<u>\$ 792</u>
Purchase of equipment through capital lease	<u>\$ 55</u>	<u>\$ 0</u>

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

Notes to the Financial Statements

Note 1. Summary of Significant

Accounting Policies

The Electric Utility exists under, and by virtue of, the City Charter enacted in 1883, 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 (SCE), 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 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.

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.

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. A separate trust account has been established for prior and future amounts funded and these amounts are classified as restricted assets in the accompanying balance sheet. To date, the Electric Utility has set aside \$10,375,207 in cash and investments with the trustee as Riverside's estimated share of the decommissioning cost of San Onofre. Based on a cost estimate completed by SCE and approved by the California Public Utilities Commission, the Electric Utility plans to set aside approximately \$1,460,000 per year to fund this obligation. Decommissioning is expected to commence around the year 2015.

Notes to the Financial Statements

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 RSA is determined by specific approval of the Board and City Council. The Electric Utility's fiscal year 1993-94 budget includes the recognition of revenues in the amount of \$18,900,000 from the RSA to be used to offset fiscal year 1993-94 rate increases.

The following is a summary of changes in the rate stabilization account for fiscal years 1993 and 1992.

	<u>1993</u>	<u>1992</u>
Balance, July 1	\$34,195,000	\$33,520,000
Increases:		
Refunds from SCE	308,000	33,826,000
Decreases:		
Current year provision	<u>(10,100,000)</u>	<u>(33,151,000)</u>
Balance, June 30	<u>\$24,403,000</u>	<u>\$34,195,000</u>

During fiscal years 1993 and 1992, the Electric Utility received \$308,000 and \$33,826,000, respectively, 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, 1993 and 1992, was \$1,944,000 and \$2,652,000, respectively.

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 \$7,859,000 at June 30, 1993, and \$10,319,000 at June 30, 1992. 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 \$1,546,000 at June 30, 1993, and \$1,132,000 at June 30, 1992. 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, 1993. The Electric Utility treats compensated absences due employees as a current liability. The amount accrued for compensated absences was \$3,821,000 at June 30, 1993, and \$3,993,000 at June 30, 1992.

Employees receive 10 to 25 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, 1993, 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 the 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.

Notes to the Financial Statements

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The City believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

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 Electric 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 Electric 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, 1993, 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, 1993.

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 1991-92 and 1992-93 the Electric Utility transferred 9.1 percent of the prior year's gross operating revenues to the general fund, with the exception of May and June 1993, when the transfer rate increased from 9.1 percent to 11.5 percent. This amounted to \$12,294,000 in 1991-92 and \$13,672,000 in 1992-93.

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 1992-93 amounted to \$168,541,000, while the adopted 1993-94 budget totals \$178,922,000.

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, 1993 (in thousands):

	Balance July 1, 1992	Increase	Decrease	Balance June 30, 1993
Certificates of participation and capital lease	\$ 379	\$ 55	\$ 176	\$ 258
Revenue bonds payable	188,572	118,368	112,166	194,774
Total	\$188,951	\$118,423	\$112,342	\$195,032

Annual debt service requirements to maturity as of June 30, 1993, are as follows (in thousands):

	1994	1995	1996	1997	1998	Thereafter	Total
Certificates of participation and capital lease	\$ 106	\$ 76	\$ 34	\$ 33	\$ 9	\$ 0	\$ 258
Bond interest payable	11,071	10,328	10,050	9,724	9,397	86,520	137,090
Bond principal payable	4,840	5,585	5,865	6,190	6,520	165,774	194,774
Total	\$16,017	\$15,989	\$15,949	\$15,947	\$15,926	\$252,294	\$332,122

Certificates of Participation and Capital Lease

The Electric Utility's share of outstanding certificates of participation in the amount of \$208,000 is due in annual installments through November 1, 1997; interest rates range from 5.75 percent to 9.4 percent.

The Electric Utility's share of equipment purchased through a capital lease in the amount of \$50,000 is due in monthly installments of \$1,031 through November 1, 1997, at 8.0 percent interest.

Notes to the Financial Statements

Revenue Bonds Payable at June 30, 1993

\$80,000,000 1980 electric revenue serial bonds, balance due on October 1, 1993, interest at 8.25 percent.....	\$ 1,250,000
\$9,070,000 1980 electric revenue refunding serial bonds, balance due on October 1, 1993, interest at 8.25 percent	470,000
\$121,025,000 1986 electric revenue refunding series A bonds, \$36,410,000 serial bonds due in annual installments from \$800,000 to \$3,820,000 through October 1, 1997, interest from 5.8 percent to 6.4 percent	11,215,000
\$68,175,000 1991 electric revenue bonds: \$27,395,000 serial bonds due in annual installments from \$715,000 to \$3,590,000 through October 1, 2005, interest from 5.0 percent to 6.6 percent; \$40,780,000 term bonds due October 1, 2015, interest at 6.0 percent.....	67,505,000
\$118,550,000 1993 electric refunding revenue bonds: \$92,245,000 serial bonds due in annual installments from \$1,515,000 to \$8,005,000 through October 1, 2010, interest from 2.25 percent to 8.25 percent; \$26,305,000 term bonds due October 1, 2013, interest at 5.0 percent	118,550,000
Less: Unamortized bond discount.....	(4,215,748)
Total electric revenue bonds payable.....	<u>\$194,774,252</u>

Advance Refunding

On March 10, 1993, electric revenue bonds were sold to advance refund two issues and a portion of one issue of electric revenue bonds. The true interest cost of this refunding issue was 5.13 percent.

The advance refunding resulted in the recognition of an accounting loss of \$9.2 million, reduced aggregate debt service payments by \$15.1 million, and created an economic gain (differences between the present value of the old and new debt service payment) of \$8.1 million.

Debt Service Coverage Ratio

The Electric Utility's bond indentures require the Electric 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 2.86 at June 30, 1993.

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, 1993, 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 1,600 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:

<u>Project</u>	<u>Percent Share</u>
Palo Verde Nuclear Generating Station.....	5.4 percent
Southern Transmission System.....	10.2 percent
Hoover Dam Upgrading.....	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. Management intends to pay these obligations 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 1.95 percent to 10.38 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.

Notes to the Financial Statements

Principal Payments

(In Thousands)

Year Ending June	IPA	SCPPA			Total
	Intermountain Power Project	Palo Verde Nuclear Generating Station	Southern Transmission System	Hoover Uprating	
1994	\$ 6,761	\$ 1,071	\$ 1,050	\$ 289	\$ 9,171
1995	7,229	1,211	1,423	308	10,171
1996	8,379	1,288	1,718	327	11,712
1997	8,724	1,381	2,040	346	12,491
1998	9,296	1,480	1,743	370	12,889
Thereafter	362,707	57,562	153,576	11,531	585,376
Subtotal	\$403,096	\$63,993	\$161,550	\$13,171	\$641,810
Less unamortized bond discount	(23,780)	(7,067)	(17,083)	(1,549)	(49,479)
Total	\$379,316	\$56,926	\$144,467	\$11,622	\$592,331

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 (two agreements); the California Department of Water Resources (CDWR); the Bonneville Power Administration (BPA); and Southern California Edison (SCE). The minimum annual obligations under each of these contracts are shown in the table below.

The first 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 second agreement with Deseret is for five megawatts beginning in 1992 through December 31, 1994, then increasing to 52 megawatts through December 31, 2009. 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 and 16 megawatts in the winter), 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 is for 150 megawatts in the summer.

Power Sales Agreements

Minimum Obligations 1993-94 (In Thousands)

Supplier	Capacity	Energy	Total
Deseret - 1	\$ 6,445	\$ 0	\$ 6,445
Deseret - 2	345	133	478
SCE	4,660	3,000	7,660
CDWR	814	144	958
BPA	479	0	479
Total	\$12,743	\$3,277	\$16,020

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, 1993, Riverside's 1.79 percent share of the capitalized construction costs for SONGS totaled \$118,984,721 with accumulated depreciation of \$38,235,875. 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.

Independent Auditors' Report

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

We have audited the accompanying balance sheet of the City of Riverside Electric Utility as of June 30, 1993, and the related statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Electric Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the City of Riverside Electric Utility as of June 30, 1992, were audited by other auditors whose report thereon dated November 20, 1992, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 1993 financial statements referred to above present fairly, in all material respects, the financial position of the City of Riverside Electric Utility as of June 30, 1993, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

KPMG Peat Marwick

November 30, 1993

City of Riverside Water Utility - Balance Sheets

	June 30	
	1993	1992
	(In Thousands)	
Assets		
Utility plant:		
Source of supply	\$ 15,777	\$ 15,092
Pumping	6,902	6,660
Treatment	326	326
Transmission and distribution	133,010	129,931
General	4,429	4,342
Intangible	5,543	5,543
	<u>165,987</u>	<u>161,894</u>
Less accumulated depreciation and amortization	(45,747)	(42,745)
	<u>120,240</u>	<u>119,149</u>
Construction in progress	14,641	7,076
Total utility plant	<u>134,881</u>	<u>126,225</u>
Restricted assets	<u>19,805</u>	<u>27,027</u>
Current assets:		
Cash and investments	19,031	19,934
Accounts receivable, net	2,624	2,748
Accrued interest receivable	269	375
Total current assets	<u>21,924</u>	<u>23,057</u>
Other assets	832	895
Total assets	<u>\$177,442</u>	<u>\$177,204</u>

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

City of Riverside Water Utility - Balance Sheets

	June 30	
	1993	1992
	(In Thousands)	
Capitalization and liabilities		
Customers' equity:		
Retained earnings		
Reserved	\$ 6,332	\$ 6,294
Unreserved	<u>20,928</u>	<u>21,882</u>
Total retained earnings	27,260	28,176
Contributed capital	<u>93,349</u>	<u>91,494</u>
Total customers' equity	120,609	119,670
Long-term obligations, less current portion	<u>50,989</u>	<u>52,001</u>
Total capitalization	<u>171,598</u>	<u>171,671</u>
Current liabilities payable from restricted assets:		
Accrued interest payable	675	694
Current portion of long-term obligations	<u>1,710</u>	<u>1,635</u>
Total current liabilities payable from restricted assets	<u>2,385</u>	<u>2,329</u>
Current liabilities:		
Accounts payable	874	617
Accrued liabilities	2,130	2,023
Current portion of long-term obligations	190	202
Customer deposits	<u>265</u>	<u>362</u>
Total current liabilities	<u>3,459</u>	<u>3,204</u>
Commitments and contingencies		
Total capitalization and liabilities	<u>\$177,442</u>	<u>\$177,204</u>

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

City of Riverside Water Utility – Statements of Operations and Retained Earnings

	For the Fiscal Years Ended June 30	
	1993	1992
	(In Thousands)	
Operating revenues:		
Water Sales		
Residential	\$11,808	\$10,638
Commercial/industrial	5,605	5,486
Other	902	861
Total operating revenues	<u>18,315</u>	<u>16,985</u>
Operating expenses:		
Operations	9,251	9,691
Maintenance	2,490	2,163
Purchased energy	2,713	2,815
Purchased water	318	103
Depreciation and amortization	3,243	3,539
Total operating expenses	<u>18,015</u>	<u>18,311</u>
Operating income (loss)	<u>300</u>	<u>(1,326)</u>
Non-operating revenues (expenses):		
Interest income	2,715	3,150
Interest expense and fiscal charges	(3,552)	(3,713)
Gain (loss) on retirement of utility plant	52	(48)
Other	1,522	1,217
Total non-operating revenues (expenses)	<u>737</u>	<u>606</u>
Income (loss) before operating transfer	1,037	(720)
Operating transfer out:		
General fund contribution	(1,953)	(1,836)
Net loss	(916)	(2,556)
Retained earnings, July 1	<u>28,176</u>	<u>30,732</u>
Retained earnings, June 30	<u>\$27,260</u>	<u>\$28,176</u>

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

City of Riverside Water Utility – Statements of Cash Flows

	For the Fiscal Years	
	Ended June 30	
	1993	1992
	(In Thousands)	
Cash flows from operating activities:		
Cash received from customers and users	\$18,342	\$17,115
Cash paid to suppliers and employees	(14,408)	(14,716)
Net cash provided by operating activities	<u>3,934</u>	<u>2,399</u>
Cash flows from non-capital financing activities:		
Operating transfer out	(1,953)	(1,836)
Non-operating revenue	1,522	1,217
Net cash used by non-capital financing activities	<u>(431)</u>	<u>(619)</u>
Cash flows from capital and related financing activities:		
Purchase of utility plant	(11,330)	(7,338)
Proceeds from the sale of utility plant	153	57
Principal paid on long-term obligations	(1,692)	(796)
Interest paid on long-term obligations	(2,819)	(3,122)
Contributed capital	1,239	1,830
Net cash used by capital and related financing activities	<u>(14,449)</u>	<u>(9,369)</u>
Cash flows from investing activities:		
Income from investments	<u>2,821</u>	<u>3,435</u>
Net decrease in cash and cash equivalents	(8,125)	(4,154)
Cash and cash equivalents, July 1	<u>46,961</u>	<u>51,115</u>
Cash and cash equivalents, June 30	<u>\$38,836</u>	<u>\$46,961</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 300	\$ (1,326)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,243	3,539
Provision (recovery) for uncollectible accounts receivable	16	(71)
Decrease in accounts receivable	108	161
Increase (decrease) in accounts payable	257	(174)
Increase in accrued liabilities	107	230
Increase (decrease) in customer deposits	(97)	40
Net cash provided by operating activities	<u>\$ 3,934</u>	<u>\$ 2,399</u>
Schedule of non-cash investing, capital and financing activities:		
Contributions in aid of construction	<u>\$ 616</u>	<u>\$ 8,769</u>
Purchase of equipment through a capital lease	<u>\$ 55</u>	<u>\$ 0</u>

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

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies

The Water Utility exists under, and by virtue of, the City Charter enacted in 1883, 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.

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.

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, 1993 and 1992, was \$265,000 and \$362,000, respectively.

Revenue Recognition

The Water Utility uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Water Utility customers are billed monthly. Unbilled water service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled \$1,122,000 at June 30, 1993, and \$1,146,000 at June 30, 1992.

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 \$389,000 at June 30, 1993, and \$372,000 at June 30, 1992. 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. The Water Utility treats compensated absences due employees as a current liability. The amount accrued for compensated absences was \$1,609,000 at June 30, 1993, and \$1,670,000 at June 30, 1992.

Notes to the Financial Statements

Employees receive 10 to 25 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, 1993, 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 the 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.

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The City believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

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 Water 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 Water 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, 1993, 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, 1993.

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 1993 and 1992, the Water Utility transferred 11.5 percent of gross operating revenues or \$1,953,000 and \$1,836,000, 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 1992-93 amounted to \$39,677,000, while the adopted 1993-1994 budget totals \$39,850,000.

Notes to the Financial Statements

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, 1993 (in thousands):

	Balance July 1, 1992	Increase	Decrease	Balance June 30, 1993
Certificates of participation	\$ 114	\$ 0	\$ 52	\$ 62
Contracts payable/capital lease	1,320	55	6	1,369
Revenue bonds payable	52,404	0	946	51,458
Total	\$53,838	\$55	\$1,004	\$52,889

Annual debt service requirements to maturity as of June 30, 1993, are as follows (in thousands):

	1994	1995	1996	1997	1998	Thereafter	Total
Certificates of participation, contracts payable/capital lease	\$ 190	\$ 191	\$ 161	\$ 161	\$ 159	\$ 570	\$ 1,432
Bond interest payable	2,659	2,568	2,468	2,359	2,239	20,716	33,009
Bond principal payable	1,710	1,805	1,900	2,015	2,130	41,898	51,458
Total	\$4,559	\$4,564	\$4,529	\$4,535	\$4,528	\$63,184	\$85,899

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 and Capital Lease

Contracts payable at June 30, 1993, consist of water stock acquisition rights in the amount of \$1,320,000 payable on demand to various water companies. The Water Utility's share of equipment purchased through a capital lease in the amount of \$50,000 is due in monthly installments of \$1,031 through November 1, 1997, at 8.0 percent interest.

Revenue Bonds Payable at June 30, 1993

\$69,840,000 1991 water revenue bonds: \$25,050,000 serial bonds due in annual installments from \$1,710,000 to \$3,100,000 through October 1, 2002, interest from 5.0 percent to 9.0 percent; \$25,900,000 serial capital appreciation bonds due in annual installments from \$3,235,000 to \$3,240,000 from October 1, 2003, to October 1, 2010, interest from 6.65 percent to 7.0 percent; and \$18,890,000 term bonds due October 1, 2015, interest at 6.0 percent\$67,530,000
Less: Unamortized capital appreciation(15,735,000)
Unamortized bond discount(337,000)
Total water revenue bonds payable.....\$51,458,000

Debt Service Coverage Ratio

The Water Utility's bond indenture requires the Water 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 1.39 at June 30, 1993.

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, 1993, 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.

Independent Auditors' Report

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

We have audited the accompanying balance sheet of the City of Riverside Water Utility as of June 30, 1993, and the related statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Water Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the City of Riverside Water Utility as of June 30, 1992, were audited by other auditors whose report thereon dated November 20, 1992, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 1993 financial statements referred to above present fairly, in all material respects, the financial position of the City of Riverside Water Utility as of June 30, 1993, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

KPMG Peat Marwick

November 30, 1993