

Our story isn't just
about electricity
and water.

It's about building a better

VALUE to our customers'

defining **QUALITY** service

adapting and succeeding

places to cultivate new

RELATIONSHIPS to thrive.

COMMUNITY. And adding
day-to-day lives. It's about
by customer standards. And
in ever-changing market-
alliances and allow existing



It's about
COMMITMENT.

It's about working toward the
common good with a utility
that's genuinely committed to you.



Riverside Public Utilities is that utility—your utility. Decisions about electric and water services continue to be made locally by the City Council and Board of Public Utilities to serve the best interests of Riverside. Because we're customer-owned, your prosperity and satisfaction are important. And that really does make a difference. It's part of the reason why major customers are signing long-term agreements with Riverside Public Utilities, including the University of California at Riverside, Kaiser Permanente-Riverside, BF Goodrich Aerospace, and an aggregated customer agreement between Riverside Community Hospital, The Press-Enterprise and Riverside Community College.

"The main strength of our agreement is its partnership aspect. The three agencies involved could not have achieved the same results on their own. By joining forces, we put together an economic and competitive agreement with Riverside Public Utilities that serves everyone's interests."
—Robert Krull, Riverside Community Hospital

"This alliance is an example of both sides contributing to a long lasting, positive result that benefits the community. It's a footprint for other businesses to follow. For us to prosper as a city, we must partner in issues such as this for the benefit of all."
—Michael A. Miskus, The Press-Enterprise

"We have worked together in an unspoken informal partnership for the past 12 years. Our agreement only formalizes that arrangement. It creates a win-win environment for both partners at all levels. It's a unique and unprecedented pact that benefits the community and local economy."
—Greg Murphy, University of California at Riverside

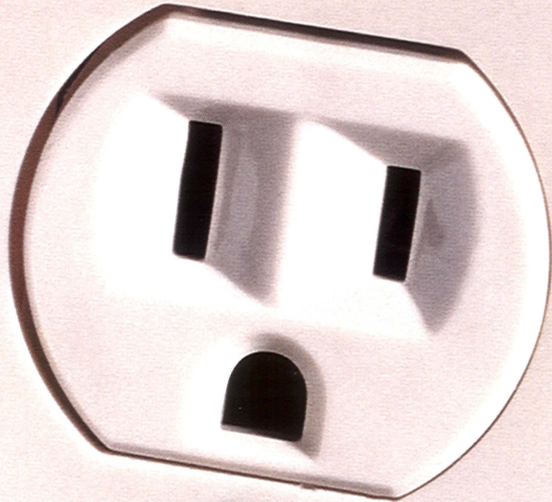
Riverside Public Utilities is committed to fulfilling the needs of its many publics, from industry to civic to customer responsibilities. On the electric side, we're installing a new customer information system to meet Year 2000 and deregulation billing requirements, unbundling rates, forming new alliances and restructuring for greater efficiencies. In the water industry, the new millennium could usher in groundwater regulations that may impact the cost of providing drinking water. Riverside Public Utilities has actively participated in industry-wide efforts to secure \$2 million in federal funds for arsenic and radon research, and to ensure water quality parameters that are scientifically sound and protect the public.


Riverside Public Utilities
Mission Statement

To provide water, electric and other related services for our customers in a safe, reliable, environmentally sensitive, and fiscally responsible manner that furthers the immediate and long-term goals of the city.

Electric System Established 1895
Water System Established 1913

It's about
RELIABILITY.





It's about that unspoken level of
comfort which results naturally
from years of dependable service.

One of our customers summed it up best: "Sometimes not having to think about water and electricity is the best compliment you could pay your utility." In addition to our ability to provide superior service now, it's imperative that you have confidence in Riverside Public Utilities' ability to meet your future needs. Here are some behind-the-scene achievements that have made valuable contributions to enhancing the excellence of Riverside's electric and water systems:

Electric Utility Achievements

- » Formed a power resource alliance with Avista Energy Inc., the nation's 14th largest energy marketer, to optimize our power supply, leverage our market position and lower our energy costs, which will help keep electric rates down.
- » Adopted policies and procedures for Power Supply Management and Operations that set limits, controls, tracking mechanisms, risk management parameters and organizational oversight to help ensure sound business decisions in the open marketplace.
- » Became the first customer-owned electric utility certified as a Scheduling Coordinator with the Independent System Operator (ISO), allowing us to deal directly on the open market to sell and purchase power, which will help keep costs low.
- » Continued to implement work practices under the Workforce 2000 Plan to improve flexibility, customer service and cost savings, while meeting quality and safety standards. Crews now log faster emergency response times due to increased 24-hour onsite staffing.

Water Utility Achievements

- » Steadfastly defended Riverside's groundwater from two advancing contaminant plumes—the Norton Air Force Base Plume and Redlands-Crafton Plume. Worked cooperatively with the responsible parties to ensure acceptable clean-up plans and water quality, which has given Riverside greater satisfaction in the results without costly litigation.
- » Brought on-line our first water treatment plant, Raub 5, in April 1998 to treat water affected by the Norton Air Force Base Plume. While Riverside Public Utilities operates the plant, the Air Force has financed its construction and ongoing costs.
- » Collected and tested nearly 10,000 water samples. Riverside's drinking water continues to meet or exceed all state and federal standards.

Superior Service and Reliability

Riverside Water System

- » 99.99% system availability
- » 33% faster emergency response time

Riverside Power System

- » 99.98% system availability
- » Almost four times faster service restoration

Statistics based on recent industry comparison against investor-owned utilities.

It's about your
BOTTOM LINE.



It's about striving to keep water and electric rates low for all our customers.



If our community prospers, we prosper. If a business fails or a homeowner declares bankruptcy, the effects ripple throughout the city. As a community agency, Riverside Public Utilities is not immune to these effects. The decisions you reach regarding the purveyor of your water and electric services could also have a far greater impact than just the company name on the invoice. Earning your loyalty is one of our top priorities. Here are some steps we've taken to help reach that goal:

- » *Riverside boasts water rates that are among the lowest in Southern California and lower electric rates for residential and small commercial customers than the nearest private competitor. For larger accounts, we offer competitive long-term power agreements and cost-based industry specific rates for aggregated customer groups.*
- » *Specialized services for business customers including economic development incentives, expansion assistance, conservation programs, account management, and a designated customer service telephone line and walk-up window.*

Minding your bottom line also means minding ours. In May 1998, Riverside Public Utilities issued \$98.7 million in electric revenue bonds and \$31 million in water revenue bonds to refinance a portion of its debt at a lower interest rate and fund new distribution projects, saving \$3.3 million over the life of the bonds. Additionally, water and electric operating and capital expenses for 1997-98 were lower than projected targets, resulting in savings of \$12 million. These cost-cutting measures enabled a rollover budget for 1998-99 that will absorb inflationary increases instead of passing them along to consumers.

Riverside Public Utilities consistently reviews all options prior to recommending a rate increase. As a result, electric rates have remained stable during the past six years. In August 1997, the City Council approved an 8.5 percent water rate increase in order to maintain water bond covenants and the water utility's financial stability. Despite this increase, Riverside Public Utilities' water rates are still among the lowest in the region.

Power supply costs remain the electric utility's largest expense, accounting for 54 percent of expenditures. Riverside Public Utilities continues to work with its joint project participants to reduce debt obligations at the Intermountain Power Project, Palo Verde Nuclear Generating Station and San Onofre Nuclear Generating Station. In June 1998, a competitive transition account was established to provide for early debt retirement, pay-off of above market contracts, rate stabilization and system emergencies.



1997-98 Customer Service Statistics

- » 268,140 telephone calls answered with the majority picked up in five seconds or less.
- » 111,262 walk-in customers assisted at two office locations.
- » 153,000 meters read monthly at an annual cost of \$6.65 per meter, down from \$9.08 just three years ago.

It's about making Riverside a **BETTER PLACE** to live.



To help fulfill cultural, educational and entertainment needs for Riverside families, Riverside Public Utilities sponsored the Power Point and WaterWorks exhibits at KidZone, Riverside's first youth museum, which opened in October 1997. The utility also continued to support local schools by delivering energy and water materials and services to nearly 24,000 students at 83 schools last year.

As a customer-owned utility, Riverside Public Utilities' underlying purpose is community service. One way we help make Riverside a better community is by returning a portion of electric and water revenues to the general fund for vital city services such as police, fire, library, museum and youth programs. In 1997-98, Riverside Public Utilities returned more than \$18 million for such valuable community assets.

In addition to providing essential water and electric services to more than 250,000 people, Riverside Public Utilities has offered energy and water conservation programs since the 1970s when the oil crisis and periods of drought brought these concerns to the forefront. One program that continues to reduce costs for customers and the utility is Riverside Public Utilities' Thermal Energy Storage (TES) Rebate. This program encourages customers on time-of-use rates to reduce operating and capital costs through off-peak cooling, which shifts large power demands to less expensive off-peak hours and helps stabilize electric rates for all customers. During the past year, two projects, one at the Riverside County Farm Office Complex and the other at Riverside City Hall, received TES rebates.

Today, there is a greater push to promote energy-related programs due to deregulation of the electric industry. Riverside Public Utilities is currently developing \$4.5 million in public benefit programs in accordance with California Assembly Bill 1890, which established a public benefits charge (PBC) in January 1998 on electric revenues to support socially beneficial energy programs. Since Riverside owns its electric utility, our PBC funds remain here to meet the local needs of residential, commercial and industrial customers. Kick-off of the first of three program phases occurred during the latter part of 1998.

Another way Riverside Public Utilities and its employees reach out to the community is by contributing to local events and organizations including the United Way, Orange Blossom Festival, Riverside Wednesday Night, Festival of Lights, Second Harvest Food Bank, Inland Empire Jazz & Art Festival, Mayor's Ball for the Arts, and American Youth Soccer Organization.

Because, at Riverside Public Utilities, our story wouldn't be complete without supporting the community we call home.



Complementing the Marketplace redevelopment, Riverside Public Utilities opened the "Power Works" Interpretive Center in April 1998. The center provides an historical and educational glimpse at the Riverside Substation through three windows and hands-on viewing scopes. It's part of the utility's ongoing efforts to construct facilities that are sensitive to the surrounding environment.

RIVERSIDE



PUBLIC UTILITIES

RIVERSIDE PUBLIC UTILITIES

3900 MAIN STREET

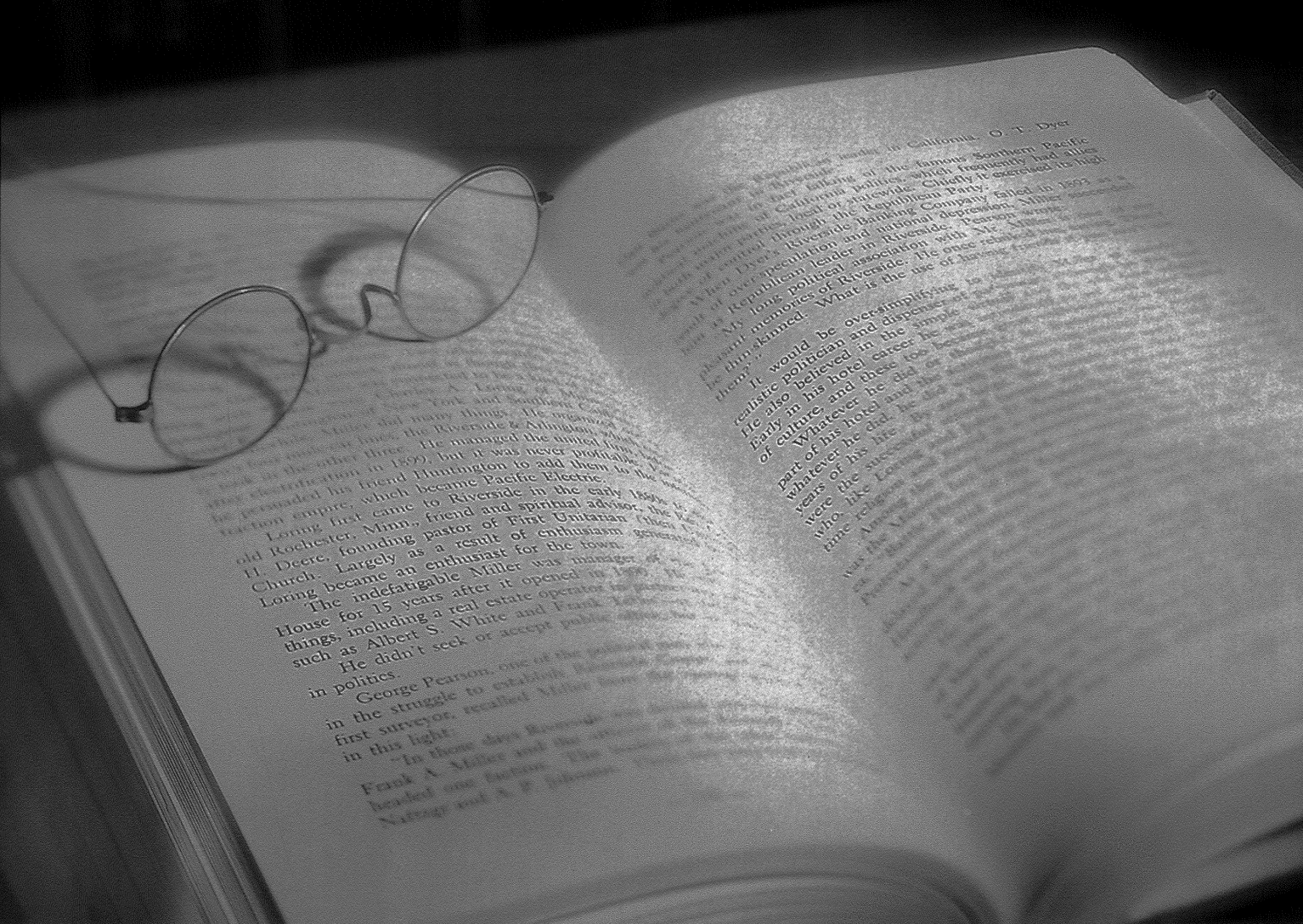
RIVERSIDE, CA 92522

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The financial side of our story.



...in California. O. T. Deer
 ...of the famous Southern Pacific
 ...frequently had allies
 ...Chiefly it exceeded its high
 ...Republican Party.
 ...Banking Company failed in 1893
 ...and national depression. After
 ...Riverside. Pearson, a
 ...with Mr. Miller
 ...of Riverside. He once
 ...What is the use of having friends
 ...It would be over-impulsive
 ...realistic politician and dispenser
 ...He also believed in the simple
 ...Party in his hotel career he
 ...of culture and these too
 ...Whatever he did he
 ...part of his hotel and
 ...whatever he did, he
 ...years of his life he
 ...who, like Louis
 ...time relations
 ...Among the
 ...was the Miller
 ...Pearson
 ...in politics.
 ...George Pearson, one of the
 ...the struggle to establish
 ...first survivor, recalled Miller
 ...in this light:
 ..."In those days Riverside
 ...Frank A. Miller and the
 ...headed one scheme. The
 ...Nitzberg and A. P. Johnson

TABLE OF CONTENTS

Fiscal Message1

Electric and Water Statistics2-7

Electric Utility Financial Statements

 Balance Sheets.....8-9

 Statements of Operations
 and Retained Earnings.....10

 Statements of Cash Flows11

 Notes to the Financial Statements12-21

 Independent Auditors' Report.....21

Water Utility Financial Statements

 Balance Sheets22-23

 Statements of Operations
 and Retained Earnings.....24

 Statements of Cash Flows25

 Notes to the Financial Statements26-30

 Independent Auditors' Report.....30

Governing Bodies and Administration31

Riverside Public Utilities Employees32-33

Acknowledgements33

Our financial statements have an

As a customer-owned water and electric utility, Riverside Public Utilities' top priorities include adding value to our customers' day-to-day lives, upholding our superior service reliability, supporting our commitment to our community, and helping our customers and our company maintain positive bottom lines. These basic tenets create a story that's worth telling – one that covers more than just the delivery of water and electricity. It's a story about real people providing real customers with real benefits.

important story to tell. They're a

The financial statements are an integral chapter of our story. They are a strong reflection of Riverside Public Utilities' strategic plans, management and operations, resources, organizational structure and fiscal health. In 1997-98, a departmental reorganization, which resulted in staff reductions of almost 13 percent, was among the operational efficiencies implemented by the management team. On the electric side, the primary focus remains preparation for the competitive marketplace. In the water arena, drinking water standards and the preservation of water quality are top priorities.

detailed accounting of the breadth

The comprehensive financial strategy completed for the Electric Utility during the previous fiscal year remains the basis for actions aimed at reducing costs and maintaining competitive rates. Completed action items include a \$98 million bond issue that provided funding for capital projects and refinanced outstanding bonds at a lower interest rate, resulting in several million dollars of future savings. The bond rating agencies continue to rate Riverside's Electric Utility as a strong contender.

of our water and electric utilities,

As we continue to prepare financially for electric competition, Riverside's joint action with other utilities has resulted in savings that will reduce future costs to our customers. In 1997-98, another significant step that was taken to help position the Electric Utility for the open market was the establishment of a competitive transition account. With a beginning balance of more than \$33 million, these monies have been specifically reserved for competitive purposes such as early debt retirement.

the hard work we've accomplished,

Riverside's water system continues its strong financial performance due in part to a rate increase during the early part of the fiscal year that significantly improved the financial stability of the Water Utility. Despite this increase, Riverside's water rates remain among the lowest in Southern California. Riverside water customers also continue to enjoy the advantages of a public water system whose reliability, service response and water quality meet or exceed industry standards and regulations.

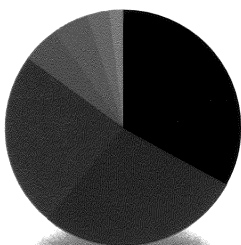
and our competitive posture.

ELECTRIC STATISTICS

On August 6, 1997, in 112° weather, Riverside set a new hourly electric peak of 459 megawatts. That's enough power to serve an average Riverside household for 77 years.

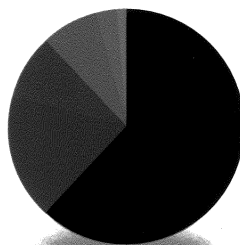
1997/98 ELECTRIC DOLLAR AND RESOURCES

SOURCE OF REVENUE



- Residential Sales (33¢)
- Industrial Sales (28¢)
- Commercial Sales (24¢)
- Rate Stabilization Account Funds (5¢)
- Other Sales (5¢)
- Interest Income (3¢)
- Other Revenue (2¢)

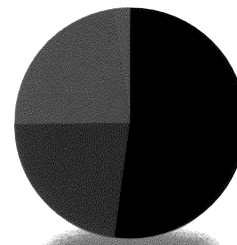
DISTRIBUTION OF REVENUE



- Purchased Power Supply (62¢)
- Operation & Maintenance (17¢)
- Debt Service (9¢)
- Transfer to City General Fund (8¢)*
- Additional Reserves (3¢)
- Additions & Replacements to the System (1¢)

*Based on transfer of 9.5 percent of fiscal year 1996-97 operating revenues (excludes interest and other non-operating income).

ENERGY RESOURCES

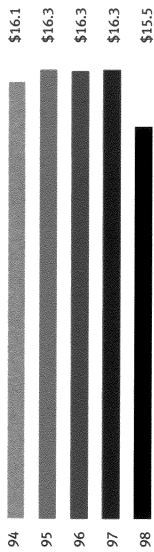


- Coal (52.1%)
- Nuclear (22.7%)
- Third Party Purchases (22.6%)
- Hydropower (2.6%)

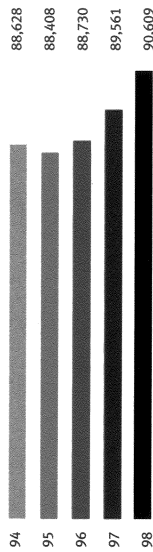


ELECTRIC STATISTICS

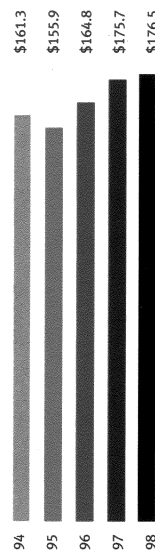
GENERAL FUND TRANSFER
(in millions)



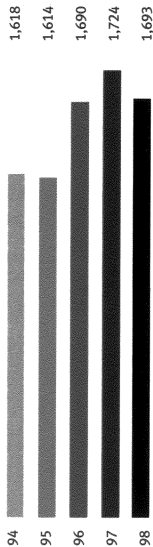
AVERAGE NUMBER OF CUSTOMERS
(in thousands)



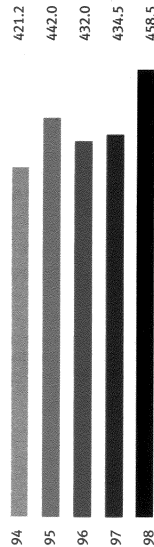
TOTAL OPERATING REVENUE
(in millions)



PRODUCTION
(in million kilowatt-hours)



PEAK DAY DEMAND
(in megawatts)



ELECTRIC FACTS AND SYSTEM STATISTICS

ESTABLISHED:	1895
SERVICE AREA POPULATION:	250,799
SERVICE AREA SIZE (square miles):	78.1
SYSTEM STATISTICS:	
TRANSMISSION LINES (circuit miles):	88.2
DISTRIBUTION LINES (circuit miles):	1,041.2
NUMBER OF SUBSTATIONS:	15
1997-98 PEAK DAY (megawatts):	459
Highest single hourly use:	
8/6/97, 4pm, 112 degrees	
HISTORICAL PEAK (megawatts):	459
Highest single hourly use:	
8/6/97, 4pm, 112 degrees	

BOND RATINGS

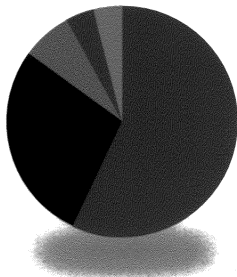
FITCH IBCA	STANDARD & POOR'S CORP.
A+	A+

WATER STATISTICS

Riverside reached a record-setting peak day for water use of 96 million gallons on August 6, 1997. That's enough water to wash 1.9 million loads of laundry.

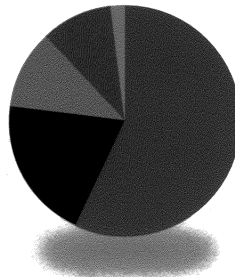
1997/98 WATER DOLLAR AND RESOURCES

SOURCE OF REVENUE



- Residential Sales (57¢)
- Commercial & Industrial Sales (28¢)
- Other Revenue (7¢)
- Interest Income (4¢)
- Other Sales (4¢)

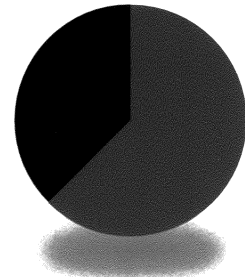
DISTRIBUTION OF REVENUE



- Operation & Maintenance (57¢)
- Debt Service (20¢)
- Transfer to City General Fund (11¢)*
- Additional Reserves (10¢)
- Water Supply (2¢)

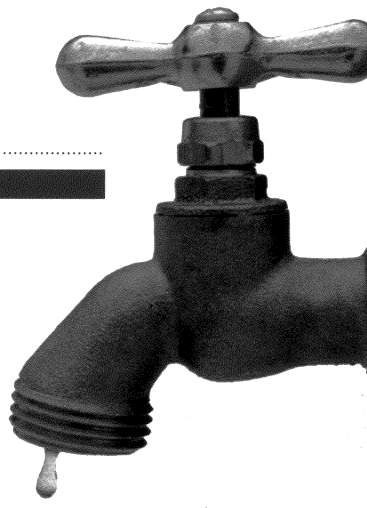
*Based on transfer of 11.5 percent of fiscal year 1996-97 operating revenues (excludes interest and other non-operating income).

WATER RESOURCES



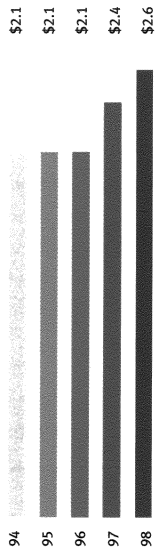
- San Bernardino Basin Wells (74.8%)
- Riverside Basin Wells (24.9%)

Purchased water was 0.3 percent for 1997-98.

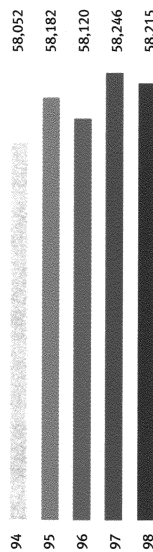


WATER STATISTICS

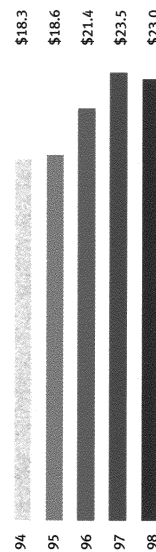
GENERAL FUND TRANSFER
(in millions)



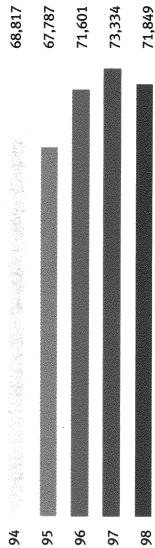
AVERAGE NUMBER OF CUSTOMERS
(in thousands)



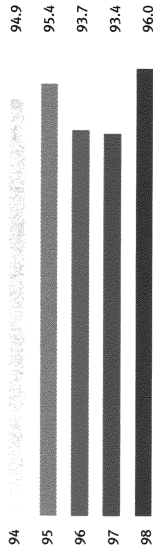
TOTAL OPERATING REVENUE
(in millions)



PRODUCTION
(in acre feet)



PEAK DAY DEMAND
(in million gallons)



WATER FACTS AND SYSTEM STATISTICS

ESTABLISHED:	1913
SERVICE AREA POPULATION:	250,799
SERVICE AREA SIZE (square miles):	76.4
SYSTEM STATISTICS:	
SMALLEST PIPELINE:	1.0"
LARGEST PIPELINE:	72.0"
MILES OF PIPELINE:	861
NUMBER OF DOMESTIC WELLS:	47
NUMBER OF ACTIVE RESERVOIRS:	16
TOTAL RESERVOIR CAPACITY	
(gallons):	100,400,000
MILES OF CANAL:	12
NUMBER OF FIRE HYDRANTS:	6,176
DAILY AVERAGE PRODUCTION	
(gallons):	57,068,000
1997-98 PEAK DAY (gallons):	96,015,000
8/6/97, 112 degrees	
HISTORICAL PEAK (gallons):	96,015,000
8/6/97, 112 degrees	

BOND RATINGS

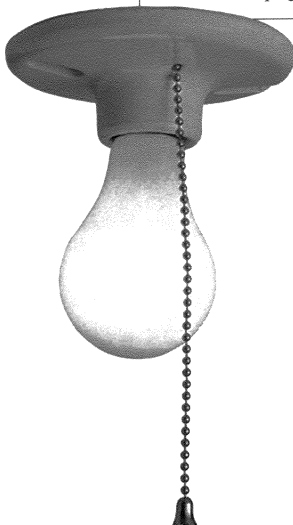
FITCH IBCA	STANDARD & POOR'S CORP.
AA	AA

ELECTRIC STATISTICS					
POWER SUPPLY (MWh)	1997/98	1996/97	1995/96	1994/95	1993/94
San Onofre	291,900	227,200	299,100	272,000	269,400
Intermountain Power	882,900	899,300	566,600	743,200	842,100
Palo Verde	92,200	94,300	88,400	83,400	58,500
Hoover	42,500	37,700	39,500	33,500	36,300
Firm contracts	272,800	267,300	248,400	276,800	278,100
Non-firm contracts	110,500	196,200	446,400	203,400	130,100
Southern California Edison	500	1,500	1,100	2,000	3,400
Total	1,693,300	1,723,500	1,689,500	1,614,300	1,617,900
System peak (MW)	458.5	434.5	432.0	442.0	421.2

ELECTRIC USE	1997/98	1996/97	1995/96	1994/95	1993/94
Average number of customers					
Residential	81,640	80,656	79,904	79,749	79,879
Commercial	8,650	8,577	8,500	8,337	8,424
Industrial	203	200	199	201	198
Other	116	128	127	121	127
Total	90,609	89,561	88,730	88,408	88,628
Millions of kilowatt-hours sales					
Residential	555	563	566	544	517
Commercial	404	408	414	391	383
Industrial	620	618	606	574	586
Other	45	49	46	45	43
Total	1,624	1,638	1,632	1,554	1,529

ELECTRIC FACTS	1997/98	1996/97	1995/96	1994/95	1993/94
Average annual kWh per residential customer	6,796	6,984	7,090	6,823	6,475
Average price (cents/kWh) per residential customer	10.78	10.69	10.86	10.58	10.70
Debt as a percent of net plant ¹	101%	80.3%	82.4%	88.2%	90.3%
Operating income as a percent of operating revenues	11.4%	14.0%	12.6%	8.0%	16.2%
Employees	278	298	313	311	285

¹Net plant includes nuclear fuel inventory and work in progress.



WATER STATISTICS					
WATER SUPPLY (acre feet)	1997/98	1996/97	1995/96	1994/95	1993/94
Pumping	71,597	73,266	71,316	67,636	68,779
Purchases	252	68	285	151	38
Total	71,849	73,334	71,601	67,787	68,817
Percentage pumped	99.7%	99.9%	99.6%	99.8%	99.9%
System peak day (gallons)	96,015,000	93,400,000	93,699,000	95,400,000	94,868,000

WATER USE	1997/98	1996/97	1995/96	1994/95	1993/94
Average number of customers					
Residential	53,387	53,432	53,351	53,473	53,328
Commercial/industrial	4,164	4,054	4,138	4,118	4,115
Other	664	760	631	591	609
Total	58,215	58,246	58,120	58,182	58,052
CCF sales					
Residential	15,518,199	17,833,655	17,848,356	16,113,649	15,858,173
Commercial/industrial	8,289,294	9,386,127	9,176,633	8,529,614	8,009,188
Other	1,117,661	1,436,177	1,369,939	1,221,898	1,822,448
Total	24,925,154	28,655,959	28,394,928	25,865,161	25,689,809

WATER FACTS	1997/98	1996/97	1995/96	1994/95	1993/94
Average annual CCF per residential customer	291	361	335	301	297
Average price (cents/CCF) per residential customer	91.7	85.7	79.5	75.5	75.7
Debt as a percent of net plant	40.3%	34.4%	35.3%	37.3%	37.0%
Employees	128	136	137	137	137



BALANCE SHEETS		
ASSETS	June 30 1998	June 30 1997
	<i>(In Thousands)</i>	
UTILITY PLANT:		
Production	\$125,424	\$124,684
Transmission	15,017	15,005
Distribution	186,913	179,215
General	22,171	22,232
	<u>349,525</u>	<u>341,136</u>
Less accumulated depreciation and amortization	(141,269)	(130,844)
	208,256	210,292
Construction in progress	7,158	7,770
Nuclear fuel, at amortized cost	1,945	2,955
Total utility plant	<u>217,359</u>	<u>221,017</u>
RESTRICTED ASSETS:		
Cash and cash equivalents	49,566	21,390
Investments	22,411	23,333
Public benefit programs receivable	471	0
Total restricted assets	<u>72,448</u>	<u>44,723</u>
CURRENT ASSETS:		
Cash and cash equivalents	64,178	37,588
Accounts receivable, less allowance for doubtful accounts 1998 \$478,000; 1997 \$777,000	21,465	19,004
Note receivable	0	16,000
Accrued interest receivable	689	598
Prepaid expenses	4,578	7,836
Nuclear materials inventory	989	1,007
Total current assets	<u>91,899</u>	<u>82,033</u>
OTHER ASSETS:		
Unamortized project costs	101	202
Unamortized bond issuance costs	2,448	1,709
Unamortized bond refunding costs	4,390	0
Total other assets	<u>6,939</u>	<u>1,911</u>
Total assets	<u>\$388,645</u>	<u>\$349,684</u>

See accompanying notes to the financial statements.



BALANCE SHEETS		
CAPITALIZATION AND LIABILITIES	June 30 1998	June 30 1997
	<i>(In Thousands)</i>	
EQUITY:		
Retained earnings:		
Reserved for debt service	\$ 18,099	\$ 24,298
Unreserved	70,126	39,919
Total retained earnings	88,225	64,217
Contributed capital	43,470	41,588
Total equity	131,695	105,805
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION		
Total capitalization	212,672	170,856
	344,367	276,661
OTHER NON-CURRENT LIABILITIES:		
Decommissioning liability	22,401	19,586
Rate stabilization account, less current portion	0	24,189
Total non-current liabilities	22,401	43,775
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	2,604	2,406
Deferred revenue, public benefit programs	1,308	0
Current portion of long-term obligations	6,555	6,635
Total current liabilities payable from restricted assets	10,467	9,041
CURRENT LIABILITIES:		
Accounts payable	5,094	4,464
Accrued liabilities	4,017	4,362
Rate stabilization account	0	9,221
Current portion of long-term obligations	19	4
Customer deposits	2,280	2,156
Total current liabilities	11,410	20,207
COMMITMENTS AND CONTINGENCIES		
Total capitalization and liabilities	<u>\$388,645</u>	<u>\$349,684</u>

See accompanying notes to the financial statements.

STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

For the Fiscal Years Ended June 30
1998 1997
(In Thousands)

OPERATING REVENUES:		
Residential sales	\$ 59,827	\$ 60,246
Commercial sales	43,262	43,669
Industrial sales	51,588	53,164
Other sales	4,901	5,079
Sales to other utilities	4,899	649
Provision for rate stabilization	10,300	11,000
Other operating revenue	1,675	1,844
Total operating revenues	176,452	175,651
OPERATING EXPENSES:		
Purchased power	112,864	105,354
Operations	26,373	27,549
Maintenance	5,903	7,073
Depreciation and amortization	11,283	11,031
Total operating expenses	156,423	151,007
Operating income	20,029	24,644
NON-OPERATING REVENUES (EXPENSES):		
Interest income	5,411	5,495
Interest expense	(10,917)	(10,416)
Gain (loss) on retirement of utility plant	94	(163)
Other	1,413	1,971
Total non-operating revenues (expenses)	(3,999)	(3,113)
Income before operating transfer	16,030	21,531
OPERATING TRANSFER OUT:		
Contribution to the City's general fund	(15,491)	(16,320)
Net income before extraordinary item	539	5,211
Extraordinary item — transfer of rate stabilization funds to competitive transition account (see Note 1)	23,469	0
Net income	24,008	5,211
RETAINED EARNINGS, BEGINNING OF YEAR	64,217	59,006
RETAINED EARNINGS, END OF YEAR	\$ 88,225	\$ 64,217

See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS

For the Fiscal Years Ended June 30
1998 1997
(In Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	\$163,703	\$164,947
Cash paid to suppliers and employees	(136,263)	(144,434)
Other non-operating revenue	1,413	1,971
Net cash provided by operating activities	28,853	22,484
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Operating transfers out	(15,491)	(16,320)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(8,007)	(9,543)
Purchase of nuclear fuel	(183)	(1,419)
Proceeds from the sale of utility plant	315	250
Proceeds from the sale of revenue bonds	99,689	0
Deposit to escrow account for advance refunding of revenue bonds	(56,232)	0
Principal paid on long-term obligations	(6,641)	(6,226)
Interest paid on long-term obligations	(9,472)	(10,059)
Bond issuance costs	(1,496)	0
Contributed capital	1,189	815
Net cash provided (used) by capital and related financing activities	19,162	(26,182)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Reduction in note receivable to Riverside Redevelopment Agency	16,000	1,049
(Purchase) maturity of investment securities	922	(2,545)
Income from investments	5,320	5,881
Net cash provided by investing activities	22,242	4,385
Net increase (decrease) in cash and cash equivalents	54,766	(15,633)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR¹	58,978	74,611
CASH AND CASH EQUIVALENTS, END OF YEAR¹	\$113,744	\$ 58,978
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 20,029	\$ 24,644
Adjustments to reconcile operating income to net cash provided by operating activities:		
Other non-operating revenue	1,413	1,971
Depreciation and amortization expense	11,283	11,031
Amortization (burn) of nuclear fuel	1,193	2,012
Provision for uncollectible accounts receivable	(299)	(182)
(Increase) decrease in accounts receivable	(2,633)	444
(Increase) decrease in prepaid expenses	3,258	(6,449)
(Increase) decrease in nuclear materials inventory	18	(9)
Increase (decrease) in accounts payable	630	(2,641)
Increase (decrease) in accrued liabilities	(345)	101
Increase in public benefits charge deferred revenue	1,308	0
Increase in customer deposits	124	34
Increase in decommissioning liability	2,815	2,528
Decrease in rate stabilization account	(9,941)	(11,000)
Net cash provided by operating activities	\$ 28,853	\$ 22,484
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Contributions in aid of construction	\$ 693	\$ 357
Purchase of equipment through capital lease	\$ 55	\$ 0

¹ Cash and cash equivalents also includes cash and cash equivalents in restricted assets.

See accompanying notes to the financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Electric Utility exists under, and by virtue of, the City Charter enacted in 1883, 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 accounting records of the Electric Utility are in accordance with generally accepted accounting principles as applicable to governments and substantially in conformity with the Uniform System of Accounts 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. The Electric Utility is not required to and does not elect to implement the pronouncements of the Financial Accounting Standards Board issued after November 1989.

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 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 Co. (SCE), on a quarterly basis (see Note 7).

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

In January 1998, the Electric Utility began collecting a surcharge for public benefit programs on customer utility

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

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

Effective July 1, 1997, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 31: Accounting and Financial Reporting for Certain Investments and External Investment Pools (GASB 31), which requires governmental entities, including governmental external investment pools, to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB 31, the City has stated certain investments at fair value and has calculated the cumulative effect of the prior year's change to equity as of July 1, 1997, and found it to be immaterial. As required by GASB 31, investments with maturities greater than one year at the date of purchase are stated at fair value while those with maturities of less than one year are stated at cost or amortized cost.

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 for the purpose of presentation 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 in 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 other assets.

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

During the year, contributed capital increased by the following amounts (in thousands):

	1998	1997
Balance, July 1	\$41,588	\$40,416
Impact fees	1,189	815
Contributed plant	693	357
Balance, June 30	\$43,470	\$41,588

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 trust account to accumulate resources for the decommissioning of the nuclear power plant and restoration of the beachfront at San Onofre. Each year the Electric Utility recognizes an expense in the amount of the contribution to the trust account. The funding will occur over the useful life of the generating plant. Amounts held in the trust account are classified as restricted assets in the accompanying balance sheet. To date, the Electric Utility has set aside \$22,401,000 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 \$1.6 million per year to fund this obligation. Decommissioning is expected to commence around the year 2015.

Rate Stabilization Account The Electric Utility has adhered to Statement of Financial Accounting Standards No. 71: Accounting for the Effects of Certain Types of Regulation (FASB 71), which provides generally that the effects of the rate-making process be considered in determining accounting policies for the recognition of affected costs and revenues. Specifically, FASB 71 provides that a gain may be given to customers over future periods by amortizing the gain over those future periods and reducing rates to decrease revenues in approximately the amount of amortization. The recognized gain is not in income of the current period; instead it is recorded as a liability for future reductions of customer charges.

Accordingly, the Electric Utility's rates and regulations provided for a rate stabilization account (RSA) that was 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 were recorded in the RSA. Use of amounts set aside in the RSA requires specific approval of the Board of Public Utilities and City Council.

In the current year, as a result of market forces and the effects of deregulation, the City no longer meets the criteria of FASB 71. Therefore, the provisions of Statement of Financial Accounting Standards No. 101: Regulated Enterprises — Accounting for the Discontinuation of Application of FASB Statement No. 71 (FASB 101), apply. As a result, management of the City eliminated the use of the RSA. Instead, refunds and other sources of gains previously deferred in the RSA are redirected for early retirement of debt, or for the repair of the utility plant in the event of a natural disaster or other emergency. In accordance with the provisions of FASB 101, the balances in the RSA of \$23,469,000 have been recorded in the Electric Utility's statements of operations and retained earnings as an extraordinary item. During the year, the RSA changed by the following amounts (in thousands):

	1998	1997
Balance, July 1	\$33,410	\$44,410
Refunds from SCE	359	0
Current year provision	(10,300)	(11,000)
Extraordinary item ¹	(23,469)	0
Balance, June 30	\$ 0	\$33,410

¹As discussed above, the balance in the RSA of \$23,469,000 was transferred on June 16, 1998, to a competitive transition account (CTA).

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, 1998 and 1997, was \$2,280,000 and \$2,156,000, 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 \$7,780,000 at June 30, 1998, and \$7,557,000 at June 30, 1997.

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 \$478,000 at June 30, 1998, and \$777,000 at June 30, 1997.

Compensated Absences The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due employees at June 30, 1998 and 1997. The Electric Utility treats compensated absences due employees as a current liability. The amount accrued for compensated absences was \$3,838,000 at June 30, 1998, and \$4,233,000 at June 30, 1997, and is included in current liabilities in the accompanying balance sheets.

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 is paid in cash upon separation.

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

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

Although the ultimate amount of losses incurred through June 30, 1998, 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 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 a result of changes under the Small Business Job Protection Act of 1996, all amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts must be held in a trust, custodial account or annuity contract for the exclusive benefit of the employee participants and their beneficiaries. The new law effectively repeals the requirement that a Section 457 plan sponsored by a governmental entity be solely the property of the employer, subject only to the claims of the employer's general creditors. For plans in existence on the date of enactment of the new law (August 20, 1996), a trust need not be established until January 1, 1999. The City is currently working toward the establishment of the necessary trust.

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 assets and liabilities of the plan are recorded in an agency fund in the City's "Comprehensive Annual Financial Report" and are not reflected on the accompanying balance sheets of the Electric Utility.

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

All permanent full-time and selected part-time employees are eligible for participation in PERS. Benefits vest after five years of service and are determined by a formula that considers the employee's age, years of service and salary. Employees may retire at age 55 and receive 2 percent of their highest average annual salary for each year of service completed. PERS also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute and City ordinance.

Employee contributions are 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 actuarial consultants and adopted by the PERS Board of Administration. The Electric Utility pays both the employee and employer contributions.

The City implemented GASB Statement No. 27: Accounting for Pensions by State and Local Governmental Employers, which establishes standards for the measurement, recognition and display of pension expenditures and related liabilities, assets and note disclosures. The effect of adopting this standard was immaterial to the accompanying financial statements.

Citywide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the year ended June 30, 1998, 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, 1998.

Contribution to the City's General Fund Pursuant to the City Charter, the Electric Utility may transfer up to 11.5 percent of its prior year's gross operating revenues to the City's general fund. In fiscal years 1997-98 and 1996-97, the Electric Utility transferred 9.5 percent and 10.0 percent of gross operating revenues, or \$15,491,000 and \$16,320,000, respectively.

Budgets and Budgetary Accounting The Electric Utility presents, and the City Council adopts, an annual budget. The proposed budget includes estimated expenses and forecasted revenues. The City Council adopts the Electric Utility's budget at its last meeting in June via an adopting resolution. The Electric Utility's budgeted expenses for fiscal years 1997-98 and 1996-97 amounted to \$186,592,000 and \$188,533,000, respectively.

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 1998 and 1997, consist of the following (in thousands):

	June 30, 1998	June 30, 1997
	Fair Value	
Pooled investments with City Treasurer	\$ 82,753	\$57,789
Cash and investments at fiscal agent	53,402	24,522
	<u>\$136,155</u>	<u>\$82,311</u>

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

	June 30, 1998	June 30, 1997
Cash and cash equivalents	\$ 64,178	\$37,588
Restricted assets:		
Cash and cash equivalents	49,566	21,390
Investments	22,411	23,333
	<u>71,977</u>	<u>44,723</u>
	<u>\$136,155</u>	<u>\$82,311</u>

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

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

Credit Risk and Fair Value of Deposits and Investments Cash and non-negotiable certificates of deposit are classified in three categories of credit risk as follows: Category 1—insured or collateralized with securities held by the City or its agent in the City's name; Category 2—collateralized with securities held by the pledging financial institution's trust department or agent in the City's name; Category 3—uncollateralized.

Investments are also classified in three categories of credit risk as follows: Category 1—insured or registered, or securities held by the City or its agent in the City's name; Category 2—uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; Category 3—uninsured and unregistered, with securities held by the counterparty's trust department or agent but not in the City's name. Investments in pools managed by other governments or in mutual funds are not required to be categorized.

The Electric Utility's share of the City's investments at June 30, 1998, represents approximately 31 percent or \$136,155,000 of the City's total cash and investments of \$433,299,000. Information concerning credit risk and fair value of the City's deposits and investments may be found in the notes of the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 1998. Cash and investments at fiscal agent are insured or registered, or held in the name of the Electric Utility or its agent, or are not subject to risk categorization.

The City's portfolio held a limited amount of variable rate securities including floating rate, inverse floating rate and structured notes as a mechanism to protect the portfolio's overall market value. The majority of the City's investment instruments are highly rated federal agency or corporate securities with minimal credit risk. Although variable rate securities may have market fluctuations that are greater than non-variable instruments, the portfolio is highly liquid and diversified and the City does not expect to redeem any securities prior to maturity.

NOTE 3. NOTE RECEIVABLE

On June 18, 1996, \$17,000,000 from the Electric Utility's rate stabilization account was loaned to the Riverside Redevelopment Agency to fund the construction of the U.S. Bankruptcy Court building. The note bears interest at the current citywide investment pool interest rate plus 50 basis

points (.50 percent) and was due and payable in its entirety no later than June 30, 1997. The terms of this note were extended on June 24, 1997, for a period not to exceed six months. The amount receivable under this note, including accrued interest, is \$16,000,000 at June 30, 1997. In September 1997, this note was repaid in full.

NOTE 4. LONG-TERM OBLIGATIONS

Long-term obligations consist of the following (in thousands):

*Capital Lease***Electric Utility's Share of Equipment Purchased Through Capital Lease:**

\$55,100 capital lease due in monthly installments of \$1,121 through November 1, 2002, interest at 8.5 percent

Total capital lease

Revenue Bonds Payable

\$121,025,000 1986 Electric Revenue Refunding Series A Bonds: \$36,410,000 serial bonds, final annual installment of \$800,000 due October 1, 1997, interest at 6.4 percent

\$68,175,000 1991 Electric Revenue Bonds: \$27,395,000 serial bonds due in annual installments from \$1,360,000 to \$1,955,000 through October 1, 2003, interest from 5.9 percent to 6.4 percent (partially advance refunded in 1998)

\$118,550,000 1993 Electric Refunding Revenue Bonds: \$92,245,000 serial bonds due in annual installments from \$4,955,000 to \$8,005,000 through October 1, 2010, interest from 4.0 percent to 8.25 percent; \$26,305,000 term bonds due October 1, 2013, interest at 5.0 percent

\$4,100,000 1994 FARECal Electric Revenue Bonds: \$2,105,000 serial bonds due in annual installments from \$120,000 to \$220,000 through July 1, 2010, interest from 4.9 percent to 5.9 percent; \$1,995,000 term bonds due July 1, 2017, interest at 6.0 percent

\$98,730,000 1998 Electric Refunding/Revenue Bonds: \$63,165,000 serial bonds due in annual installments from \$4,650,000 to \$7,085,000 through October 1, 2013, interest from 4.25 percent to 5.38 percent; \$21,595,000 term bonds due October 1, 2018, interest at 5.0 percent; \$13,970,000 term bonds due October 1, 2022, interest at 5.0 percent.

Total electric revenue bonds payable

Total obligations

Less: Current portion

Unamortized bond (discount) premium

Total long-term obligations

	June 30, 1998	June 30, 1997
	\$ 53	\$ 4
	<u>53</u>	<u>4</u>
	0	800
	8,020	63,705
	108,005	112,005
	3,985	4,100
	98,730	0
	<u>218,740</u>	<u>180,610</u>
	218,793	180,614
	(6,574)	(6,639)
	453	(3,119)
	<u>\$212,672</u>	<u>\$170,856</u>

Annual debt service requirements to maturity as of June 30, 1998, are as follows (in thousands):

	1999	2000	2001	2002	2003	Thereafter	Total
Capital lease	\$ 19	\$ 10	\$ 11	\$ 13	\$ 0	\$ 0	\$ 53
Bond interest requirements	10,620	10,742	10,431	9,982	9,499	71,914	123,188
Bond principal requirements	6,555	6,610	6,930	7,385	12,490	178,770	218,740
Unamortized bond (discount) premium	(62)	(51)	(52)	(57)	(60)	735	453
Total	\$17,132	\$17,311	\$17,320	\$17,323	\$21,929	\$251,419	\$342,434

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 3.76 at June 30, 1998, and 2.86 at June 30, 1997.

Advanced Refundings On May 1, 1998, \$98,730,000 of electric revenue bonds were sold with a true interest cost of 5.01 percent to provide project funds and advance refund \$53,965,000 of previously outstanding electric revenue bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$4,390,000, which is reflected on the balance sheet as other assets. The difference, reported in the statement of cash flows as a deduction from bond proceeds, is being charged to operations through 2016 using a proportional method. The City completed the advance refunding to reduce aggregate debt service payments over the next 18 years by \$1,038,000 and to obtain an economic gain (difference between present value of the old and new debt service payments) of \$3,007,000.

NOTE 5. RESERVED RETAINED EARNINGS

A reserve for debt service has been established pursuant to applicable bond indentures. Bond indentures for Riverside's electric revenue and refunding bonds require reserves that equate to the maximum annual debt service required in future years plus three months interest and nine months principal due in the next fiscal year. The reserve for Riverside's portion of FARECal revenue bonds is equal to 10 percent of the program agreement amounts. Additional reserves for the 1998 and 1991 revenue bonds are not required due to the purchase of surety bonds to cover the required reserve requirements.

NOTE 6. JOINTLY-GOVERNED ORGANIZATIONS

Southern California Public Power Authority On November 1, 1980, the City of Riverside joined with the Imperial Irrigation District and the cities of Los Angeles, Anaheim, Vernon, Azusa, Banning, Colton, Burbank, Glendale and Pasadena to create the Southern California Public Power Authority (SCPPA) by a Joint Powers Agreement under the laws of the state of California. The primary purpose of SCPPA is to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of

electric energy for sale to its participants. SCPPA is governed by a Board of Directors, which consists of one representative for each of the members. During the 1997-98 and 1996-97 fiscal years, the Electric Utility paid approximately \$21,477,000 and \$18,491,000, respectively, to SCPPA under various take-or-pay contracts that are described in greater detail in Note 8. These payments are reflected as a component of purchased power in the financial statements.

Power Agency of California On July 1, 1990, the City of Riverside joined with the cities of Azusa, Banning and Colton to create the Power Agency of California (PAC) by a Joint Powers Agreement under the laws of the state of California. The city of Anaheim joined PAC on July 1, 1996. The primary purpose of PAC is to take advantage of synergies and economies of scale as a result of the five cities acting in concert. PAC has the ability to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. PAC is governed by a Board of Directors, which consists of one representative for each of the members. The term of the Joint Powers Agreement is 50 years. During the fiscal years ended 1997-98 and 1996-97, the Electric Utility paid approximately \$45,000 and \$46,000, respectively, to PAC for administrative expenses and advanced \$285,000 for operating capital.

Financing Authority for Resource Efficiency of California On July 1, 1993, the City of Riverside joined with the cities of Anaheim, Colton, Compton, Healdsburg, Los Angeles, Palo Alto, Pasadena, Redding, Santa Cruz; the North Marin Water District; the Northern California Power Agency; the Sacramento Municipal Utility District; and Turlock Irrigation District to create the Financing Authority for Resource Efficiency of California (FARECal). The primary purpose of FARECal is to issue bonds and use the proceeds to promote, advance, encourage and participate in conservation, reclamation and other programs that are designed to utilize energy or water resources more efficiently. FARECal is administered by a Board of Directors comprised of one representative from each charter member (the cities of Anaheim, Los Angeles, Palo Alto and Riverside and the North Marin Water District) and three voting-based directors, which currently are representatives from Trinity Public Utilities District, Colton and Pasadena.

NOTE 7. JOINTLY-OWNED UTILITY PROJECT

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

There are no separate financial statements for the jointly-owned utility plant since each participant's interests in the utility plant and operating expenses are included in their

respective financial statements. The Electric Utility's 1.79 percent share of the capitalized construction costs for SONGS totaled \$125,424,000 and \$124,683,000 for fiscal years ended June 30, 1998 and 1997, respectively. The accumulated depreciation amounted to \$61,277,000 and \$56,491,000 for the fiscal years ended June 30, 1998 and 1997, respectively. The Electric Utility made provisions during fiscal years 1997-98 and 1996-97 for nuclear fuel burn of \$1,193,000 and \$2,012,000, respectively, and for future decommissioning costs of \$1,581,000 for 1997-98 and 1996-97 fiscal years (see Note 1). The Electric Utility's portion of current and long-term debt associated with SONGS is included in the accompanying financial statements.

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

NOTE 8. COMMITMENTS

Take-or-Pay Contracts The Electric Utility has entered into a power sales contract with Intermountain Power Agency (IPA) for the delivery of electric power. The Electric Utility's share of IPA power is equal to 7.6 percent 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 (see Note 6). SCPPA provides for the financing and construction of electric generating and transmission projects for participation by some or all of its members. To the extent the Electric Utility participates in projects developed by SCPPA, 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	10.2 percent
Hoover Dam Upgrading	31.9 percent
Mead-Phoenix Transmission	4.0 percent
Mead-Adelanto Transmission	13.5 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.

Take-or-pay commitments expire upon final maturity of outstanding bonds for each project. Final maturities are as follows:

PROJECT	EXPIRATION DATE
Intermountain Power Project	2023
Palo Verde Nuclear Generating Station	2017
Southern Transmission System	2023
Hoover Dam Upgrading	2017
Mead-Phoenix Transmission	2020
Mead-Adelanto Transmission	2020

Interest rates on the outstanding debt associated with the take-or-pay obligations range from 3.45 percent to 9.7 percent. The schedule on the following page details the amount of principal that is due and payable by the Electric Utility as part of the take-or-pay contract for each project in the fiscal year indicated.

**PRINCIPAL
PAYMENTS**
(In Thousands)

Year Ending June 30	IPA	SCPPA				TOTAL	
	Intermountain Power Project	Palo Verde* Nuclear Generating Station	Southern Transmission System	Hoover Dam Upgrading	Mead-Phoenix Transmission	Mead-Adelanto Transmission	All Projects
1999	\$ 11,399	\$ 1,729	\$ 2,241	\$ 176	\$ 0	\$ 0	\$ 15,545
2000	11,794	1,906	1,966	185	86	802	16,739
2001	12,562	2,002	2,469	196	93	861	18,183
2002	11,884	1,701	1,959	208	99	921	16,772
2003	11,193	2,174	2,363	365	106	980	17,181
Thereafter	294,318	43,111	107,384	8,597	3,241	34,324	490,975
Subtotal	353,150	52,623	118,382	9,727	3,625	37,888	575,395
Less: Unamortized bond discount	(14,944)	(4,219)	(9,021)	(1,079)	(156)	(1,584)	(31,003)
Refunding charge	(65,422)	0	0	0	0	0	(65,422)
Total	\$272,784	\$48,404	\$109,361	\$8,648	\$3,469	\$36,304	\$478,970

* During the 1997-98 fiscal year, SCPPA issued \$375 million in refunding revenue bonds as part of a restructuring plan to accelerate the payment of all fixed rate bonds by July 1, 2004. Under the restructuring plan, Riverside's payment to SCPPA for the Palo Verde debt service increased by approximately \$3.5 million per year until 2004.

Power Sales Agreements The Electric Utility has executed nine firm power sales agreements. The agreements are with Deseret Generation and Transmission Cooperative (Deseret) of Murray, Utah; California Department of Water Resources (CDWR); Bonneville Power Administration (BPA); Southern California Edison Co. (SCE); and Washington Water Power (WWP). The minimum annual obligations under each of these contracts are shown in the table below.

Minimum Obligations 1998-99 (In Thousands)

SUPPLIER	CAPACITY	ENERGY	TOTAL
Deseret	\$10,504	\$1,286	\$11,790
SCE	1,665	0	1,665
CDWR II	394*	237	631
CDWR III	204*	255	459
CDWR IV	266*	332	598
CDWR V	200*	288	488
BPA (two agreements)	683	0	683
WWP	467	1,017	1,484
Total	\$14,383	\$3,415	\$17,798

* Estimated

The agreement with Deseret is for five megawatts from January 1, 1992, through December 31, 1994, then increasing to 52 megawatts through December 31, 2009. A notice of termination of the power sales agreement was provided to Deseret effective March 31, 1998. As a result of litigation (see Note 9), Riverside has temporarily agreed to perform under the contract as though the contract had not been terminated.

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 monthly amount of firm capacity from SCE is for 38 megawatts during 1997 and 30 megawatts during 1998.

There are four separate agreements with CDWR. CDWR II 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. Riverside has provided CDWR with a notice of termination of this agreement effective May 1, 2000. CDWR III is for the purchase of 23 megawatts of capacity and associated energy from May through October of each year beginning June 1, 1996, for 15 years. CDWR IV is for the purchase of 30 megawatts of capacity and associated energy from May through October beginning June 1, 1996, for 15 years. CDWR V is for the purchase of 50 megawatts of capacity and associated energy from June through September for three years beginning July 16, 1996, and ending September 30, 1998.

The first agreement with BPA is for the purchase of firm capacity (23 megawatts in the summer months and 16 megawatts in the winter months) and associated energy beginning February 1, 1991, for a period of 20 years. The 1996 BPA agreement is for the purchase of capacity (50 megawatts during the summer months and 13 megawatts during the winter months) and associated energy beginning April 30, 1996, for 20 years. Effective May 1, 1998, these summer and winter capacity amounts increased to 60 megawatts and 15 megawatts, respectively, for the remainder of the 1996 agreement. A notice of termination of both power sales agreements (two agreements) was provided to BPA effective March 31, 1998. A short-term contract is currently in effect with an ending date of May 1, 1999, which temporarily extends the otherwise terminated agreements.

The agreement with WWP is for the purchase of 25 megawatts of firm capacity and associated energy during the months of May through October of each year beginning May 1, 1995, for nine years. In accordance with the contract, the Electric Utility discontinued deliveries for the month of May for the remainder of the agreement beginning with May 1997. A notice of termination of the power sales agreement was provided to WWP effective March 31, 1998. A short-term contract is currently in effect with an ending date of May 1, 1999, which temporarily extends the otherwise terminated agreement.

Impact of Electric Utility Deregulation in California Deregulation of the electric industry in California is one of the most significant issues facing the City. Due to long-term contracts with Intermountain Power Agency and Southern California Public Power Authority, most of which obligate the City to purchase power and/or services at a cost that is projected to be higher than the market in a deregulated environment, the City is faced with commitments for purchased power costs in excess of market value. California Assembly Bill 1890 provides for the recovery of this stranded investment through a "competitive transition charge" on each customer's utility bill.

A competitive financial strategy, which includes a 10-year financial planning model, was developed in 1996 and updated in 1997. This strategic plan serves as the blueprint for managing the Electric Utility through the open market transition. The strategy includes recovery and elimination of the excess costs with minor impacts on customer rates over five years. In addition, labor groups and management have been jointly meeting to address deregulation and formulate recommendations to the Board of Public Utilities and City Council.

During the fiscal year, the City obtained the services of Washington International Energy Group to review the current and potential structures of the Electric Utility. The consultant reviewed potential partnerships, alliances, and outsourcing of discreet and multiple functions to increase

competitiveness. The consultant also reviewed stranded investment solutions, financial strategies, governance and operations. Their recommendations, issued in December 1997, include establishing alliances for power marketing and retail value-added services, installation of a new customer information system, and creation of a marketing division. These and other recommendations are currently being implemented as part of Riverside Public Utilities' overall competitive strategic plan.

NOTE 9. LITIGATION

The Electric Utility is a defendant in various lawsuits arising in the normal course of business.

Power Sales Agreement—Deseret Generation and Transmission Cooperative On September 2, 1997, the City filed an action with the Federal Energy Regulatory Commission (FERC) seeking modification of the rates for capacity and energy charged by Deseret under the City's power sales agreement with Deseret (Deseret Agreement). FERC has accepted this case and is setting the matter for hearing in 1999.

On March 26, 1998, the City notified Deseret that the City was exercising its termination rights under the Deseret Agreement effective March 31, 1998. The City has filed suit in the U.S. District Court, Central District of California, seeking an order declaring the contract terminated. Deseret disputes the City's asserted right to terminate the Deseret Agreement and filed an action, which is pending in the U.S. District Court, District of Utah, to enjoin the City from terminating the Deseret Agreement. The City believes its exercise of termination rights under the Deseret Agreement was lawful. While the City cannot predict the outcome of the FERC case or the District Court cases, the City does not believe that such litigation will have an adverse material effect upon the financial condition of the Electric Utility.

Other Litigation Present lawsuits and other claims against the Electric Utility are incidental to the ordinary course of operations of the Electric Utility and are largely covered by the City's self-insurance program. In the opinion of management and the City Attorney, such claims and litigation will not have a materially adverse effect upon the financial position or results of operations of the Electric Utility.

NOTE 10. YEAR 2000 (UNAUDITED)

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect operations in the year 1999 and beyond. Problems affecting a wide range of governmental activities will likely result if computers and other electronic equipment dependent upon date-sensitive coding are not corrected. These problems have the potential to cause a disruption in some operations and may temporarily increase the cost of those operations.

In 1997, the City contracted with a firm to manage its Information Systems Department. With the assistance of this firm, the City developed an "Information Systems Strategic

Plan" for dealing with the Year 2000 issue. An extensive evaluation was performed, the results of which led to the City's decision to purchase replacement hardware and software for all of its financial systems. Additionally, the City identified other critical systems requiring replacement, which included the human resources/payroll system, municipal billing services and cash receipting. The estimated cost of the project is \$10,521,000, which was approved by the City Council in June of this fiscal year. The City spent \$848,000 in 1997-98 with the balance to be expended during the next year. The project is expected to be completed by October 1999. The Electric Utility's share of the estimated cost is \$4,643,000.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of the City of Riverside Electric Utility as of June 30, 1998 and 1997, and the related statements of operations and retained earnings and cash flows for the years 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 audits.

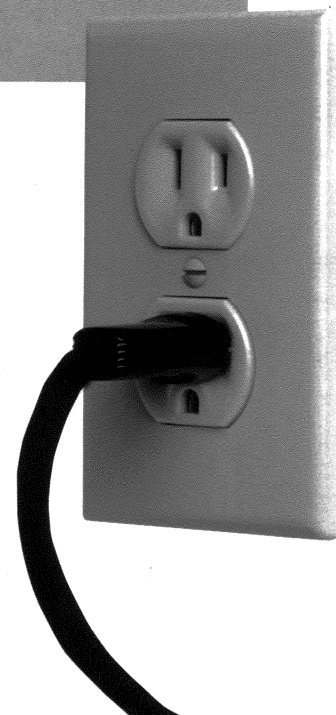
We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence 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 audits provide a reasonable basis for our opinion.

In our opinion, the 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, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note 1 to the financial statements, the City adopted the provisions of the Governmental Accounting Standards Board Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers," and Governmental Accounting Standards Board Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools," in 1998.

KPMG Peat Marwick LLP

October 30, 1998



BALANCE SHEETS

	June 30 1998	June 30 1997
	(In Thousands)	
ASSETS		
UTILITY PLANT:		
Source of supply	\$ 25,549	\$ 23,833
Pumping	8,592	8,172
Treatment	398	398
Transmission and distribution	166,079	161,247
General	5,228	5,202
Intangible	5,534	5,534
	211,380	204,386
Less accumulated depreciation and amortization	(64,158)	(60,144)
	147,222	144,242
Construction in progress	10,580	10,093
Total utility plant	157,802	154,335
RESTRICTED ASSETS:		
Cash and cash equivalents	13,305	5,559
Investments	2,581	2,667
Total restricted assets	15,886	8,226
CURRENT ASSETS:		
Cash and cash equivalents	14,531	13,121
Accounts receivable, less allowance for doubtful accounts		
1998 \$91,000; 1997 \$123,000	3,425	3,262
Accrued interest receivable	144	178
Advances to the City's general fund	56	111
Total current assets	18,156	16,672
OTHER ASSETS:		
Unamortized bond issuance costs	782	704
Unamortized bond refunding costs	679	0
Total other assets	1,461	704
Total assets	\$193,305	\$179,937

See accompanying notes to the financial statements.

BALANCE SHEETS		
	June 30 1998	June 30 1997
CAPITALIZATION AND LIABILITIES		
(In Thousands)		
EQUITY:		
Retained earnings:		
Reserved for debt service	\$ 6,258	\$ 6,983
Unreserved	15,825	15,497
Total retained earnings	22,083	22,480
Contributed capital	104,345	101,013
Total equity	126,428	123,493
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION	60,784	50,773
Total capitalization	187,212	174,266
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	624	597
Current portion of long-term obligations	2,780	2,265
Total current liabilities payable from restricted assets	3,404	2,862
CURRENT LIABILITIES:		
Accounts payable	411	609
Accrued liabilities	1,784	1,752
Current portion of long-term obligations	169	154
Customer deposits	325	294
Total current liabilities	2,689	2,809
COMMITMENTS AND CONTINGENCIES		
Total capitalization and liabilities	\$193,305	\$179,937

See accompanying notes to the financial statements.

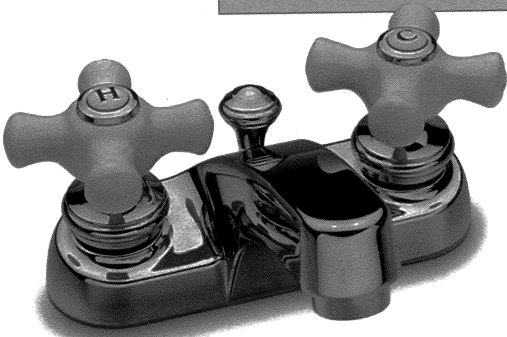


STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

For the Fiscal Years Ended June 30
1998 1997
(In Thousands)

OPERATING REVENUES:		
Residential sales	\$14,226	\$15,280
Commercial sales	6,941	6,938
Other sales	932	624
Other operating revenue	946	651
Total operating revenues	23,045	23,493
OPERATING EXPENSES:		
Operations	9,407	9,236
Maintenance	2,217	2,052
Purchased energy	2,599	3,125
Purchased water	603	600
Depreciation and amortization	4,290	3,993
Total operating expenses	19,116	19,006
Operating income	3,929	4,487
NON-OPERATING REVENUES (EXPENSES):		
Interest income	1,134	1,121
Interest expense	(3,725)	(3,613)
Gain on retirement of utility plant	29	32
Other	885	1,009
Total non-operating revenues (expenses)	(1,677)	(1,451)
Income before operating transfer	2,252	3,036
OPERATING TRANSFER OUT:		
Contribution to the City's general fund	(2,649)	(2,408)
Net income (loss)	(397)	628
RETAINED EARNINGS, BEGINNING OF YEAR	22,480	21,852
RETAINED EARNINGS, END OF YEAR	\$22,083	\$22,480

See accompanying notes to the financial statements.



STATEMENTS OF CASH FLOWS

For the Fiscal Years Ended June 30
1998 1997
(In Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	\$ 22,913	\$ 23,630
Cash paid to suppliers and employees	(14,991)	(14,769)
Other non-operating revenue	885	1,009
Net cash provided by operating activities	8,807	9,870
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Contribution to the City's general fund	(2,649)	(2,408)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(5,531)	(4,677)
Proceeds from the sale of utility plant	73	68
Proceeds from the sale of revenue bonds	30,675	0
Deposit to escrow account for advance refunding of revenue bonds	(19,322)	0
Principal paid on long-term obligations	(2,271)	(2,028)
Interest paid on long-term obligations	(2,679)	(2,683)
Bond issuance costs	(318)	0
Contributed capital	1,062	1,020
Net cash provided (used) by capital and related financing activities	1,689	(8,300)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Reduction in advances to the City's general fund	55	0
Maturities of investment securities	86	1,117
Income from investments	1,168	1,101
Net cash provided by investing activities	1,309	2,218
Net increase in cash and cash equivalents	9,156	1,380
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR ¹	18,680	17,300
CASH AND CASH EQUIVALENTS, END OF YEAR ¹	\$ 27,836	\$ 18,680
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 3,929	\$ 4,487
Adjustments to reconcile operating income to net cash provided by operating activities:		
Other non-operating revenue	885	1,009
Depreciation and amortization	4,290	3,993
Provision for uncollectible accounts receivable	(32)	(38)
(Increase) decrease in accounts receivable	(101)	171
(Increase) in advances to the City's general fund	(29)	0
Increase (decrease) in accounts payable	(198)	333
Increase (decrease) in accrued liabilities	32	(90)
Increase in customer deposits	31	5
Net cash provided by operating activities	\$ 8,807	\$ 9,870
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Contributions in aid of construction	\$ 2,270	\$ 390
Purchase of equipment through capital lease	\$ 55	\$ 0

¹ Cash and cash equivalents also includes cash and cash equivalents in restricted assets.

See accompanying notes to the financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Water Utility exists under, and by virtue of, the City Charter enacted in 1883, 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 accounting records of the Water Utility are in accordance with generally accepted accounting principles as applicable to governments and substantially in conformity with the Uniform System of Accounts 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. The Water Utility is not required to and does not elect to implement the pronouncements of the Financial Accounting Standards Board issued after November 1989.

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

Effective July 1, 1997, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 31: Accounting and Financial Reporting for Certain

Investments and External Investment Pools (GASB 31), which requires governmental entities, including governmental external investment pools, to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB 31, the City has stated certain investments at fair value and has calculated the cumulative effect of the prior year's change to equity as of July 1, 1997, and found it to be immaterial. As required by GASB 31, investments with maturities greater than one year at the date of purchase are stated at fair value while those with maturities of less than one year are stated at cost or amortized cost.

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 Water Utility by the City Treasurer are considered highly liquid and are classified as cash equivalents for the purpose of presentation in the statement of cash flows.

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 in 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 other assets. Capital appreciation is the annual increase in the value of bonds originally issued at a discounted amount. These bonds do not pay annual interest and mature at a predetermined par value.

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

During the year, contributed capital increased by the following amounts (in thousands):

	1998	1997
Balance, July 1	\$101,013	\$ 99,603
Impact fees	1,062	1,020
Contributed plant	2,270	390
Balance, June 30	<u>\$104,345</u>	<u>\$101,013</u>

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, 1998 and 1997, was \$325,000 and \$294,000, respectively.

Contribution to the City's General Fund Pursuant to the City Charter, the Water Utility may transfer up to 11.5 percent of its prior year's gross operating revenues to the City's general fund. In fiscal years 1997-98 and 1996-97, the Water Utility transferred 11.5 percent of gross operating revenues, or \$2,649,000 and \$2,408,000, respectively.

Budgets and Budgetary Accounting The Water Utility presents, and the City Council adopts, an annual budget. The proposed budget includes estimated expenses and forecasted revenues. The City Council adopts the Water Utility's budget at its last meeting in June via an adopting resolution. The Water Utility's budgeted expenses for fiscal year 1997-98 and 1996-97 amounted to \$34,824,000 and \$30,860,000, respectively.

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 1998 and 1997, consist of the following (in thousands):

Pooled investments with City Treasurer
Cash and investments at fiscal agent

	June 30, 1998	June 30, 1997
	Fair Value	
	\$17,935	\$17,094
	12,482	4,253
	<u>\$30,417</u>	<u>\$21,347</u>

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

Cash and cash equivalents
Restricted assets:
 Cash and cash equivalents
 Investments

	June 30, 1998	June 30, 1997
	\$14,531	\$13,121
	13,305	5,559
	2,581	2,667
	<u>15,886</u>	<u>8,226</u>
	<u>\$30,417</u>	<u>\$21,347</u>

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

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

Credit Risk and Fair Value of Deposits and Investments Cash and non-negotiable certificates of deposit are classified in three categories of credit risk as follows: Category 1—insured or collateralized with securities held by the City or its agent in the City's name; Category 2—collateralized with securities held by the pledging financial institution's trust department or agent in the City's name; Category 3—uncollateralized.

Investments are also classified in three categories of credit risk as follows: Category 1—insured or registered, or securities held by the City or its agent in the City's name; Category 2—uninsured and unregistered, with securities held by the

counterparty's trust department or agent in the City's name; Category 3—uninsured and unregistered, with securities held by the counterparty's trust department or agent but not in the City's name. Investments in pools managed by other governments or in mutual funds are not required to be categorized.

The Water Utility's share of the City's investments at June 30, 1998, represents approximately 7 percent or \$30,417,000 of the City's total cash and investments of \$433,299,000. Information concerning credit risk and fair value of the City's deposits and investments may be found in the notes of the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 1998. Cash and investments at fiscal agent are insured or registered, or held in the name of the Water Utility or its agent, or are not subject to risk categorization.

The City's portfolio held a limited amount of variable rate securities including floating rate, inverse floating rate and structured notes as a mechanism to protect the portfolio's overall market value. The majority of the City's investment instruments are highly rated federal agency or corporate securities with minimal credit risk. Although variable rate securities may have market fluctuations that are greater than non-variable instruments, the portfolio is highly liquid and diversified and the City does not expect to redeem any securities prior to maturity.

NOTE 3. LONG-TERM OBLIGATIONS

Long-term obligations consist of the following (in thousands):

	June 30, 1998	June 30, 1997
<i>Contracts Payable and Capital Lease</i>		
Water Stock Acquisitions: Payable on demand to various water companies	\$ 1,258	\$ 1,259
Water Utility's Share of Equipment Purchased Through Capital Lease: \$55,100 capital lease due in monthly installments of \$1,121 through November 1, 2002, interest at 8.5 percent	53	4
Total contracts payable and capital lease	1,311	1,263
<i>Revenue Bonds Payable</i>		
\$69,840,000 1991 Water Revenue Bonds: \$25,050,000 serial bonds due in annual installments from \$2,260,000 to \$3,100,000 through October 1, 2002, interest from 5.9 percent to 9.0 percent; and \$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, at 6.0 percent (partially advance refunded in 1998)	39,080	60,100
\$4,710,000 1994 FARECal Revenue Bonds: \$2,420,000 serial bonds due in annual installments from \$140,000 to \$255,000 through July 1, 2010, interest from 4.9 percent to 5.9 percent; \$2,290,000 term bonds due July 1, 2017, at 6.0 percent	4,575	4,710
\$30,965,000 1998 Water Refunding/Revenue Bonds: \$15,055,000 serial bonds due in annual installments from \$205,000 to \$4,055,000 through October 1, 2013, interest from 4.0 percent to 5.37 percent; \$10,155,000 term bonds due October 1, 2018, interest at 5.0 percent; \$5,755,000 term bonds due October 1, 2027, interest at 5.0 percent	30,965	0
Total water revenue bonds payable	74,620	64,810
Total obligations	75,931	66,073
Less: Current portion	(2,949)	(2,419)
Unamortized capital appreciation	(11,656)	(12,586)
Unamortized bond discount	(542)	(295)
Total long-term obligations	\$ 60,784	\$ 50,773

Annual debt service requirements to maturity as of June 30, 1998, are as follows (in thousands):

	1999	2000	2001	2002	2003	Thereafter	Total
Capital lease	\$ 169	\$ 160	\$ 161	\$ 162	\$ 150	\$ 509	\$ 1,311
Bond interest requirements	2,663	2,633	2,427	2,166	1,880	20,389	32,158
Bond principal requirements	2,780	2,755	2,955	3,215	3,500	59,415	74,620
Unamortized capital and bond discount	(1,021)	(1,090)	(1,164)	(1,243)	(1,328)	(6,352)	(12,198)
Total	\$4,591	\$4,458	\$4,379	\$4,300	\$4,202	\$73,961	\$95,891

Debt Service Coverage Ratio The Water Utility's bond indentures require the Water Utility to maintain a debt service coverage ratio, as defined by the bond covenants, of 1.25. The Water Utility's debt service coverage ratio was 2.30 at June 30, 1998, and 2.52 at June 30, 1997.

Advance Refundings On May 1, 1998, \$30,965,000 of water revenue bonds were sold with a true interest cost of 5.21 percent to provide project funds and advance refund \$18,890,000 of previously outstanding water revenue bonds.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$679,000, which is reflected on the balance sheet as other assets. This difference, reported in the statement of cash flows as a deduction from bond proceeds, is being charged to operations through 2016 using a proportional method. The City completed the advance refunding to reduce aggregate debt service payments over the next 18 years by \$3,558,000 and to obtain an economic gain (difference between present value of the old and new debt service payments) of \$2,301,000.

NOTE 4. RESERVED RETAINED EARNINGS

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

NOTE 5. JOINTLY-GOVERNED ORGANIZATIONS

On July 1, 1993, the City of Riverside joined with the cities of Anaheim, Colton, Compton, Healdsburg, Los Angeles, Palo Alto, Pasadena, Redding, Santa Cruz; the North Marin Water District; the Northern California Power Agency; the Sacramento Municipal Utility District; and Turlock Irrigation District to create the Financing Authority for Resource Efficiency of California (FARECal). The primary purpose of FARECal is to issue bonds and use the proceeds to promote, advance, encourage and participate in conservation, reclamation and other programs that are designed to utilize energy or water resources more efficiently. FARECal is administered by a Board of Directors comprised of one representative from each charter member (the cities of Anaheim, Los Angeles, Palo Alto and Riverside and the North Marin Water District) and three voting-based directors, which currently are representatives from Trinity Public Utilities District, Colton and Pasadena.

NOTE 6. 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.

NOTE 7. YEAR 2000 (UNAUDITED)

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect operations in the year 1999 and beyond. Problems affecting a wide range of governmental activities will likely result if computers and other electronic equipment dependent upon date-sensitive coding are not corrected. These problems have the potential to cause a disruption in some operations and may temporarily increase the cost of those operations.

In 1997, the City contracted with a firm to manage its Information Systems Department. With the assistance of this firm, the City developed an "Information Systems Strategic Plan" for dealing with the Year 2000 issue. An extensive evaluation was performed, the results of which led to the City's decision to purchase replacement hardware and software for all of its financial systems. Additionally, the City identified other critical systems requiring replacement, which included the human resources/payroll system, municipal billing services and cash receipting. The estimated cost of the project is \$10,521,000, which was approved by the City Council in June of this fiscal year. The City spent \$848,000 in 1997-98 with the balance to be expended during the next year. The project is expected to be completed by October 1999. The Water Utility's share of the estimated cost is \$1,465,000.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of the City of Riverside Water Utility as of June 30, 1998 and 1997, and the related statements of operations and retained earnings and cash flows for the years 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the 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, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

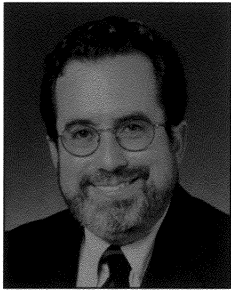
As discussed in Note 1 to the financial statements, the City adopted the provisions of the Governmental Accounting Standards Board Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers," and Governmental Accounting Standards Board Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools," in 1998.

KPMG Peat Marwick LLP

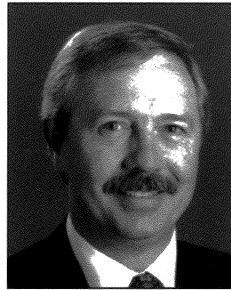
October 30, 1998

BOARD OF PUBLIC UTILITIES

The Board of Public Utilities is composed of seven citizens appointed to four-year terms by City Council to govern utility policies and represent the community. Citizens serve on a voluntary basis without compensation. Applications for new members are solicited annually through an insert with the city services bill. Applicants must be at least 18 years of age and reside within the City of Riverside in order to be eligible to serve on the board. The Board of Public Utilities meets at 8:15 a.m. on the first and third Fridays of each month in City Council Chambers at City Hall, 3900 Main St., Riverside. Board meetings are open to the public.



RAPHAEL DE LA CRUZ
Occupation: Administrative Analyst
Riverside resident: lifetime
Years of service: 5



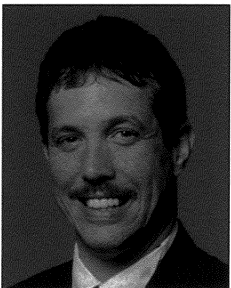
DAVID MACHER
Occupation: Certified Public Accountant
Riverside resident: lifetime
Years of service: 6



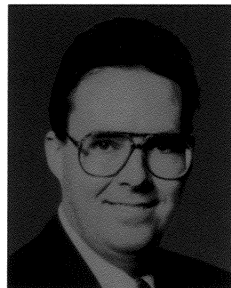
RONALD MCCOY
Occupation: Retired, Former Assistant Chief Engineer – Water
Riverside resident: 17 years
Years of service: 8



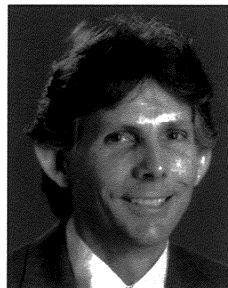
JACQUELINE MIMMS
Occupation: Assistant Vice Chancellor of Campus Relations
Riverside resident: 13 years
Years of service: 7



CONRAD NEWBERRY JR.
Occupation: Registered Mechanical Engineer
Riverside resident: 5 years
Years of service: 1



THOMAS PEVEHOUSE
Occupation: Economic Development Specialist
Riverside resident: 13 years
Years of service: 3



DWIGHT TATE
1997-98 Board Chairman
Occupation: Personal Financial Advisor
Riverside resident: lifetime
Years of service: 4

PUBLIC UTILITIES ADMINISTRATION

- BILL D. CARNAHAN**
Director
- DAVID H. WRIGHT**
Deputy Director,
Marketing and Customer Service
- MICHAEL J. BALDWIN**
Assistant Director, Electric
- DIETER P. WIRTZFELD**
Assistant Director, Water
- DONNA I. STEVENER**
Chief Financial Officer

MAYOR

RONALD LOVERIDGE

CITY MANAGER

JOHN HOLMES

CITY COUNCIL

CHUCK BEATY
Ward 1

AMEAL MOORE
Ward 2

JOY DEFENBAUGH
Ward 3

MAUREEN KANE
Ward 4

ALEX CLIFFORD
Ward 5

TERRI THOMPSON
Ward 6

LAURA PEARSON
Ward 7

RIVERSIDE PUBLIC UTILITIES EMPLOYEES

**YEARS OF SERVICE
TO THE CITY****36 YEARS**

Dennis G. Sims

35 YEARSBarry J. Niemiec
Charlie R. Penunuri
Brian Simpson**34 YEARS**Edward P. Hansen
Delbert L. Schroeder**33 YEARS**

Theresa S. Waldschmitt

32 YEARS

Thomas R. Gibbins

31 YEARSBruce C. Benter
Terry L. Stroud
Ben G. Wong**30 YEARS**Domingo Aguilar
Fernand R. Boucher
Daniel W. Randall
Isac J. Sanchez
Mary T. Whaley
Roberta A. Womack**29 YEARS**Gerald R. Burton
Andrew J. Kirkland Jr.
Henry A. Loya
Gilbert S. Penunuri**28 YEARS**

Joseph A. Garozzo

27 YEARSDoris L. Perry
Dennis J. Stirlen
Walter L. White**26 YEARS**Gerald A. Gandara
David A. Smart
Clarence R. Voll Jr.**25 YEARS**Ruben M. Leivas
Dwight W. Page
Jerry L. Smith**24 YEARS**David A. Alfaro
Michael E. Brown
Ronald D. Frost
Bacilio Gutierrez Jr.
Lester W. Jameson Jr.
Ray D. Neal Jr.
David J. Porchia
Victor G. Velasquez
Karol L. Veu Casovic
Ronald J. White**23 YEARS**Sandra L. Lewis
Arthur P. Madril**22 YEARS**Jeanette E. Barnes
Malcolm N. Duckett
Randall W. Olgren
Adrian Saint**21 YEARS**Richard C. Aguilera
Joseph S. Chavez
Richard S. Drobek
William E. Fagan
James T. Hornbarger
Daniel Hurtado
Ismael E. Mercado
Michael A. Rodgers
Daniel D. Shackelford
Michael J. Torelli
Edward M. Wdowiak**20 YEARS**Del R. Ballard
Brian G. Bozarth
Cindy L. Chan
Linda S. Conerly
Peter E. Diaz
Michael H. Luitwieler
Gregory L. Prator
Joseph M. Tenenbaum
Paul O. Westover Jr.**19 YEARS**Robert S. Ayers Jr.
Craig W. Bostrom
Joseph Chavez
Danny L. Clemons
James H. Deal
Robert Delgado
Richard Gastelum
Paul R. Gearhart
Patrick B. Hannifin
Victor H. Hernandez
Daniel L. McClenathan
Lois G. McGinnis

Peter Nestic

Carol A. Torchia
David C. Wilson
Ralph F. Wollerton
Charles R. Wormington**18 YEARS**Ron W. Barry
Walter N. Bell Jr.
Mark S. Ensign
Wanda F. Hedlund
Robert L. Lucas
Margery I. McDowell
Bonnie C. Negrete
Mildred A. Ridges
Donald C. Rogers
Samuel L. Scarcello
John B. Schwartz
Joey M. Toth**17 YEARS**Gary L. Bender
Cheryl E. Clelland
John J. Enderson
Thomas E. Glass
James P. Henke
Tam T. Huynh
Chris A. Joranco
Darrell R. Otjen
Clyde B. Parker
Richard H. Skelton**16 YEARS**Arthur V. Anaya
Helen M. Azevedo
Linda L. Camacho
Mark S. Connor
Kerry W. Dittler
Stella L. Garcia
Roger L. Hunt
Mary S. Leavitt
Lucinda Norried
Richard M. Ryno
Omar E. Shehab
Roger J. Wagner**15 YEARS**Antoine S. Abu Shabakeh
David R. Knapp
Lena J. Raniada**14 YEARS**Guillermo Armenta
William D. Bedford Jr.
Randell S. Carder
Jackie L. Cunningham
Yolanda C. Garcia Tully
Marilyn J. Grayston
Edward K. Hogerty
Kevin S. Milligan

Linda K. Rogan

Alvin M. Tannenbaum

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Jeffrey D. Clausen
John T. Denham
James G. Grady
Barbara A. Grillo
Gus W. Knie
Kenneth B. McGregor
David M. McLellan
Donald R. Pulsifer
Bruce C. Taylor
Ronald H. Wigg
Brian R. Willis
Alan P. Wohlfarth**12 YEARS**Michael J. Baldwin
Vahid Bazel
Harold J. Bell
Bill D. Carnahan
Thomas J. Collins
Richard J. Dickinson
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Ronald T. Fiske
Robert B. Gill
Edward L. Kostjal Jr.
Jeffrey K. McKown
Martin W. McLeod
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William D. Ryan
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Sammie L. Sheppard
T.D. Sweatt
Maurice S. Taks
Diane J. Tepper
Dieter P. Wirtzfeld**11 YEARS**Christopher Avila
Thomas G. Bradshaw
Gregory M. Diaz
Mercedes P. Diaz
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Thomas D. Garcia
Eugene L. Ginsberg
John W. Hair
Richard E. Holmes
Marvin L. Infante
James E. Johnson
Steven T. Johnson
Randal A. Koers
Jeffery J. Lewis
Arthur R. Montano II
Alvino P. Orozco



Gloria M. Purifoy
David L. Redding
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Candice C. Shih
James R. Sinner
Adrian A. Valdez
Michael J. Vernon
Casey L. Whitney

10 YEARS

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Kevin D. Munns
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Peggy L. Wales
Edward T. Wilks
Karen L. Wood

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Jacqueline M. Bishop
Loretta F. Butler
Alan D. Craig
Daniel P. Duron
Patricia Estrada
Anita L. Gatter
Manuel S. Gray
Jeffrey S. Hill
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David W. Krell
Stephen E. Lafond
Lisa S. Lambert
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Richard G. Mendoza
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Marco J. Sortillon
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Frederick J. Stoiber
Mark Wholley
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8 YEARS

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Joseph Carrasco

Greg H. Coffman
Bobby V. Cordova
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Rick Franke
Kelly L. Heil
Arnold P. Hohl Jr.
Daniel H. Hotchkiss
Bonnie M. Ivy
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William D. Kilpatrick
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Max C. Mendoza
Gary L. Nolf
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Andrew R. Ramos
Julie A. Smith
Arshad J. Syed
Vincent N. Treppe
Richard D. Velasco
Joan C. Worones

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John N. Chapman
Kenneth W. Coffey
Vivian C. DeGeere
Carol J. Fuhrman
Patrick Gonzales
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Steve A. Jones
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Ann L. Pangborn
Frank G. Paz
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Donna I. Stevener
Dona J. Wuister
Edrie V. Yambao

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Micahel R. Mahr
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Gerald L. McGrath
Zahra Panahi
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Angela A. Scarcello
Marta E. Solis

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2 YEARS

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Lilah M. Martinez

1 YEAR

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Karen T. Bergh
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Caterina Williams
Lawrence A. Yao
Felix Zapata

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Gayla D. Branco
Hazel L. Bratcher
Louise I. Brown
Rosalie A. Casioce
Jesus E. Chavez
Braylicet M. Espana
David A. Gilstrap
Harry G. Hanson
Erich J. Heyner
Robert F. Holloway
Jalene L. Isaac
Nichelle L. Johnson
Zulema J. Johnson
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Marcus S. Kugler
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Alan W. Massey
Timothy R. O'Connell
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Bridgett A. Tarpley
Robert D. Tingstrom
Veronica C. Vargas
Misty R. Vassar
Vickie L. Williams

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