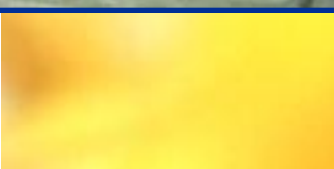
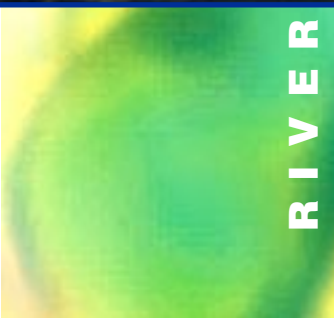




RIVERSIDE PUBLIC UTILITIES



Financial **STATEMENTS**

2001-2002



Mission

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

Vision

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

Core Values

(not in priority order)

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

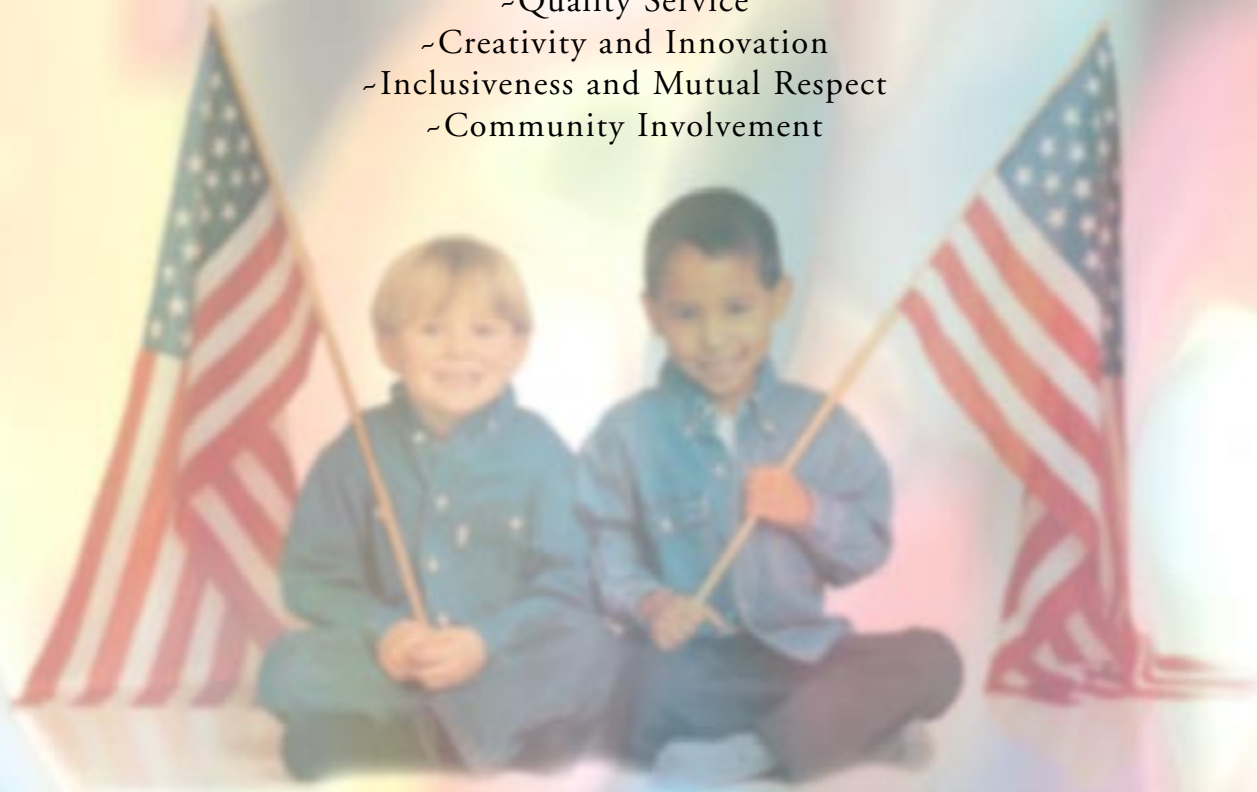


TABLE OF CONTENTS

*To go directly to
a particular section,
click on that section*

Board of Public Utilities and Administration	1
Fiscal Message	2
Electric Utility Independent Auditors' Report	3
Electric Utility Management's Discussion and Analysis	4-7
Electric Utility Financial Statements	
Balance Sheets	8-9
Statements of Revenues, Expenses and Changes in Equity	10
Statements of Cash Flows	11
Notes to the Financial Statements	12-20
Supplementary Information	
Electric Statistics	21-23
Water Utility Independent Auditors' Report	24
Water Utility Management's Discussion and Analysis	25-28
Water Utility Financial Statements	
Balance Sheets	29-30
Statements of Revenues, Expenses and Changes in Equity	31
Statements of Cash Flows	32
Notes to the Financial Statements	33-37
Supplementary Information	
Water Statistics	38-40



BOARD OF PUBLIC UTILITIES AND ADMINISTRATION

RIVERSIDE PUBLIC UTILITIES

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 by the City of Riverside. 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 the Art Pick City Council Chamber at City Hall, 3900 Main Street, Riverside. Board meetings are open to the public.



Lalit N. Acharya
 2001-2002 Board Chairman
 Occupation: Associate Professor Communications
 Riverside Resident: 12 years
 Years of Service: 4



Dee Gipson-Jiminez
 Occupation: Director of Human Resources
 Riverside Resident: 32 years
 Years of Service: 2



Peter G. Hubbard
 Occupation: Director Medical Services
 Riverside Resident: lifetime
 Years of Service: 4



Joe Tavaglione
 Occupation: President of Construction & Development Co.
 Riverside Resident: lifetime
 Years of Service: 2



Conrad Newberry Jr.
 Occupation: Registered Mechanical Engineer
 Riverside Resident: 8 years
 Years of Service: 5



Art Gage
 Occupation: President of Executive Recruiting Firm
 Riverside Resident: 45 years
 Years of Service: 1



James W. Anderson
 Occupation: Retired Attorney, Environmental and Administrative Law
 Riverside Resident: 30 years
 Years of Service: 3

PUBLIC UTILITIES ADMINISTRATION



Thomas P. Evans
 Director

David H. Wright
 Deputy Director
 Marketing & Customer Service

Donna I. Stevener
 Assistant Director, Finance/Resources

Dieter P. Wirtzfeld
 Assistant Director, Water

Steve Badgett
 Assistant Director, Energy Delivery

FISCAL MESSAGE

RIVERSIDE PUBLIC UTILITIES

Giving back to the community. That's what a customer-owned utility is all about. Riverside Public Utilities prides itself on the value provided to the City of Riverside's 265,000 residents. On a daily basis, our 400+ employees are hard at work to provide customers the highest quality water and electric services at the lowest possible rates to benefit the community.

As the fallout from the 2000–2001 California energy crisis continued, Riverside found itself in excellent financial position as shown in this financial report. The ability to supply our own electrical power from a diverse energy portfolio continues to enable us to maintain some of the lowest electric rates in California. This diversity was enhanced by the construction of a 40-megawatt power plant within the Utility's power grid. The new power plant generates peak energy when needed and also provides Riverside with an important source of emergency power.

A key component of our goal to add renewable or green power to our supply portfolio was fulfilled by completion of a 113-kilowatt photovoltaic (solar) carport structure at our Utilities Operations Center. This project provides enough environmentally friendly electricity to power over 100 homes and has paved the way for additional photovoltaic projects to be built in the future.

Safeguarding our precious water supply is a main goal of the water utility. Our water division continued construction of the largest water treatment facility on our system, which is expected to be operational in April 2003. Replacement of major pipelines and enhancement of security systems for water facilities helped ensure our customers receive safe drinking water at all times. Despite rising electricity costs due to the energy crisis, the water utility was able to maintain the lowest water rates in the area.

Giving back to the community is an inherent feature of a community-owned utility. During this fiscal year Riverside Public Utilities transferred \$18.3 million to the City of Riverside in support of valuable community services, including police, fire, library and youth programs. In addition, our customer-owners received a direct "dividend" by way of low rates for electric and water services as compared to surrounding communities.

Excellent financial health, safe, reliable services for our customers, and direct dividends to the community - these are the basic premises of our mission statement. Our goal is to continue to provide these valuable benefits to the citizens of Riverside for many years to come.

Donna I. Stevener
Assistant Director, Finance/Resources

INDEPENDENT AUDITORS' REPORT

CITY OF RIVERSIDE ELECTRIC UTILITY

TO THE HONORABLE CITY COUNCIL AND BOARD OF PUBLIC UTILITIES CITY OF RIVERSIDE, CALIFORNIA

We have audited the accompanying financial statements of the City of Riverside Electric Utility as of and for the years ended June 30, 2002 and 2001, as listed in the table of contents. 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the accompanying financial statements present only the Electric Utility Fund and do not purport to, and do not, present fairly the financial position of the City of Riverside, California, as of June 30, 2002 and 2001, and the changes in its financial position and its cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Riverside Electric Utility as of June 30, 2002 and 2001, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

The supplementary information entitled Electric Statistics as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Electric Utility. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

KPMG LLP

September 30, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Riverside Public Utilities (a department of the City of Riverside), we offer the readers of the City of Riverside Electric Utility financial statements this narrative overview and analysis of the financial activities of the Electric Utility (Utility) for the fiscal year ended June 30, 2002. We encourage readers to consider the information presented here in conjunction with additional information furnished in our fiscal message on page 2 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

The assets of the Electric Utility exceeded its liabilities at the close of the most recent fiscal year by \$152,372 (equity). Of this amount, \$84,035 may be used to meet the Utility's ongoing obligations to creditors and customers.

The Utility's total equity increased by \$2,284 from the prior fiscal year, primarily due to contributions from developers totaling \$5,485 offset by a lower volume of retail and wholesale sales, including a sharp decrease in the price received for sales of excess power.

At the end of the current fiscal year, unrestricted equity represented over 41 percent of annual operating expenses.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The *Balance Sheets* present information on assets and liabilities, with the difference between the two reported as equity. Over

time, increases or decreases in equity may serve as a useful indicator of whether the financial condition of the utility is improving or deteriorating.

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

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

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 12 to 20 of this report.

Utility Financial Analysis

As noted earlier, equity (also called net assets) may serve over time as a useful indicator of the fund's financial position. In the case of Riverside's Electric Utility, assets exceeded liabilities by \$152,372 at the close of the most recent fiscal year.

A portion of the Utility's net assets (29 percent) reflects its investment in capital assets, such as transmission, distribution and generation facilities, less any related outstanding debt used to acquire those assets. The Electric Utility uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since the capital assets themselves cannot be used to liquidate these long-term liabilities.

The unrestricted portion of the Utility's net assets (55 percent) may be used to meet the Utility's ongoing obligations to creditors and customers. This percentage decreased 5 percent over the prior year level primarily due to an increase in the amount restricted for debt service as a result of a \$47 million bond issue in August 2001. Also, excluding the effect of capital contributions, the Utility experienced a \$3.2 million reduction in net assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	2002	2001
Current and other assets	\$186,583	\$184,366
Capital assets	264,309	223,563
Total assets	\$450,892	\$407,929
Long-term debt outstanding	\$232,684	\$191,884
Other liabilities	65,836	65,957
Total liabilities	\$298,520	\$257,841
Equity (net assets):		
Invested in capital assets, net of related debt	\$ 44,614	\$ 43,315
Restricted	23,723	18,426
Unrestricted	84,035	88,347
Total equity (net assets)	\$152,372	\$150,088

An additional portion of the Electric Utility's equity (16 percent) represents resources that are subject to external restrictions on how they may be used. These are reserved for items such as debt repayment and other legally restricted assets. The 29 percent increase over the June 2001 amount is due to additional debt service requirements relating to a \$47 million bond issue in August 2001.

The Electric Utility's equity increased by \$2,284 during the current fiscal year. The Utility received \$5,485 in developer fees and capital contributions due to building activity in Riverside. However, this increase was offset by a lower volume of retail and wholesale sales, including a sharp decrease in the price received for sales of excess power.

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

	2002	2001
Revenues:		
Retail sales	\$166,171	\$168,195
Wholesale sales	46,505	73,090
Ancillary services	1,653	16,164
Investment income	6,670	8,589
Other	3,491	3,060
Total revenues before (reserve)/ recovery	224,490	269,098
Less reserve for bad debt, net of recoveries	1,635	(11,546)
Total revenues before capital contributions	226,125	257,552
Capital contributions	5,485	8,275
Total revenues and capital contributions	231,610	265,827
Expenses:		
Production	150,961	178,265
Transmission	19,004	17,160
Distribution	20,944	21,027
Depreciation	12,787	12,306
Interest expense	10,306	10,827
Total expenses	214,002	239,585
Contributions to the City's general fund	15,324	15,243
Total expenses and contributions to the City's general fund	229,326	254,828
Increase in equity (net assets)	2,284	10,999
Equity, beginning of year	150,088	139,089
Equity, end of year	\$152,372	\$150,088

Retail sales (residential, commercial, industrial and other sales) continue to be the primary revenue source for the electric utility making up 72 percent of total revenue. Retail sales showed a slight decrease from prior year (1.2 percent) due to conservation measures by customers and cooler than normal weather.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Wholesale sales decreased 36 percent below the prior year levels. Although the volume of megawatt-hours (MWhs) sold decreased 21 percent, the primary driver of the decrease in wholesale sales revenue is a more stable energy market. Prices received for sales of excess power to other utilities did not experience the volatility seen in the prior year, and were stabilized due to a Federal Energy Regulatory Commission (FERC) imposed cap on the market price of power.

Investment income decreased by \$1,919, or 22 percent over prior year levels. Although the Electric Utility's cash and investments increased in the current year, the overall market conditions deteriorated, resulting in lower earnings on the Utility's investment portfolio.

Capital contributions decreased 34 percent from prior year levels. The level of building activity in the prior year was unusually robust, although the Utility continues to experience significant building activity.

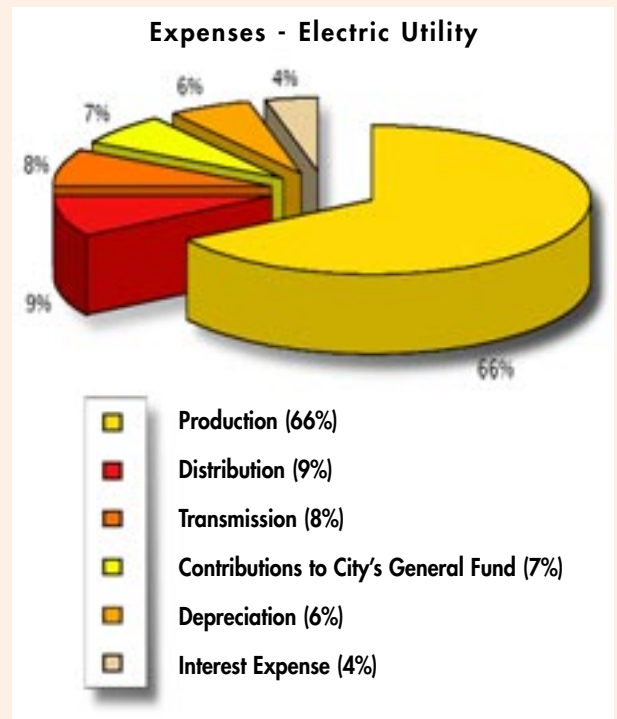
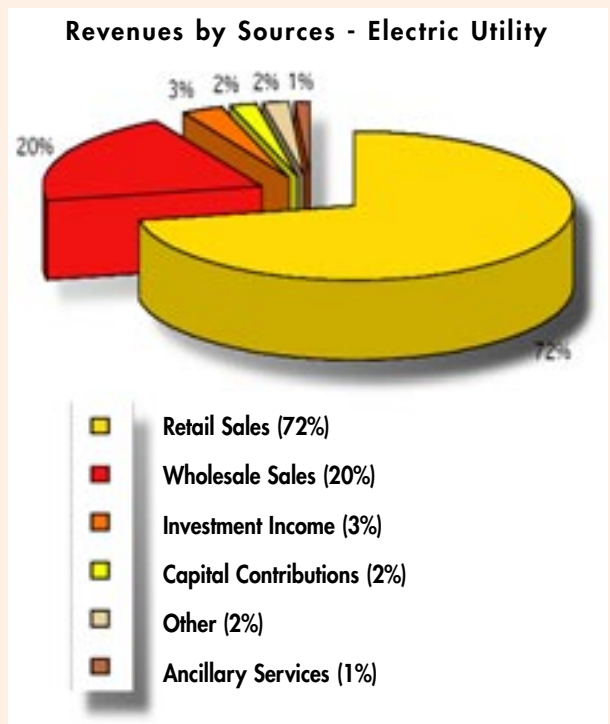
Total expenses for the Electric Utility decreased by 11 percent from last fiscal year. Although the Utility experienced increases in certain operating expenses in the current year (negotiated salary increases with various unions as well as general cost of living type increases for other cost categories), these were more than offset by an overall decrease in power production costs. The prior year expenditures reflect higher power costs from a volatile electric market, as well as additional costs incurred as a result of unplanned outages at several power plants, which required purchasing additional

replacement power at very high prices. In the current year there were no major unplanned plant outages that required the Utility to purchase additional replacement power.

Transmission expenses increased by 11 percent, which is more consistent with historical levels. Prior year lower levels were the result of a refinancing of a bond issue that made funds available from a debt service reserve fund that were used to reduce debt service and operation and maintenance expenses for the Utility's largest transmission entitlement.

Distribution costs were consistent with last fiscal year. Although personnel costs increased due to negotiated salary increases with various bargaining units, these were offset by cost decreases in professional services and charges to/from others.

Contributions to the City's general fund are based on a formula using operating revenues from the prior fiscal year. This amount also increased by \$81 or 0.5 percent.



CAPITAL ASSET AND DEBT ADMINISTRATION

The Electric Utility's investment in capital assets as of June 30, 2002 amounts to \$264,309 (net of accumulated depreciation). This includes investments in production (generation), transmission, and distribution related facilities, as well as general items such as office equipment, furniture, etc. This fiscal year showed a 18.2 percent increase in capital assets over the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Major capital asset events during the current fiscal year included:

- Various capital additions at the City's San Onofre Nuclear Generating Station (SONGS) equal to \$527
- Capital additions to connect new customers to the system totaled \$6,500
- Capital additions to increase system reliability totaled \$1,700
- Capital additions to maintain the obligation to serve and improve community relations totaled \$39,600 (Projects include Photovoltaic Carport and Springs Generation - see discussion below under long-term debt.)

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

	2002	2001
Production	\$ 45,710	\$ 50,139
Transmission	6,938	7,321
Distribution	144,934	131,080
General	14,474	15,369
Construction in progress	50,856	17,589
Nuclear fuel, at amortized costs	1,397	2,065
Total	\$264,309	\$223,563

Additional information regarding capital assets can be found in Note 1 on page 12 and in Note 3 on Page 15 of this report.

Long-term Debt At the end of the current fiscal year, the City of Riverside's Electric Utility had long-term debt outstanding of \$232,684. This debt is backed by the revenue of the utility (revenue bonds), with the exception of \$11, which is a capital lease for office equipment. During the fiscal year, the Electric Utility issued \$47,215 of new bonds, with an interest cost of 4.4 percent to fund the Springs Generation Project, which consists of four natural gas, simple cycle turbine generators, each with a capacity of 10 MW, to be used during periods of peak power demand, or in case of emergency outages of major portions of the electric system. These units, located within the City of Riverside, were substantially completed by June 30, 2002, and commenced operation in October 2002.

City of Riverside Electric Utility's Outstanding Debt (Revenue Bonds and Capital Lease Obligation)

	2002	2001
Revenue bonds	\$238,475	\$198,645
Capital lease obligation	11	22
Less: Current portions	(7,851)	(7,401)
Unamortized premium	2,049	618
Total	\$232,684	\$191,884

The electric utility maintains an "A+" rating from Standard & Poor's and Fitch IBCA, Duff & Phelps for its revenue bonds.

Additional information on the Electric Utility's long-term debt can be found in Note 4 on pages 16 and 17 of this report.

Economic Factors and Rates

While general inflationary trends in the region compare favorably to national indices, the prior year costs for purchased power included in the production expense category reached unprecedented levels. Fortunately, the FERC imposed price caps on purchased power effective June 2001, and market prices stabilized to more historic levels. However, during the volatile market period, when Californians did not see a resolution to their high prices, and FERC had refused to implement price caps, the Utility entered into short term agreements to purchase power at costs in excess of historic market levels. The production costs for the current fiscal year reflect these increased costs. Currently the forward price curves indicate that prices have stabilized, however, regulatory actions and other factors could impact them as well.

In an era that has seen the state's largest investor owned utility file for bankruptcy protection and many other electric companies have had their credit downgraded, the Electric Utility has worked diligently to ensure its financial stability.

In an effort to strengthen its financial stability, the Riverside City Council, after the requisite public hearing, unanimously approved a three year electric rate increase in order to meet increased costs associated with operating the utility, improve system reliability, and increase cash reserve levels. The overall increases are 3.4 percent, 3.1 percent, and 2.2 percent effective November 1, 2002, 2003 and 2004, respectively.

Requests for Information

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

BALANCE SHEETS

ASSETS	JUNE 30 2002	JUNE 30 2001
	<i>(in thousands)</i>	
UTILITY PLANT:		
Production	\$128,009	\$127,482
Transmission	15,025	15,032
Distribution	232,056	212,340
General	24,626	24,549
	<u>399,716</u>	<u>379,403</u>
Less accumulated depreciation	(187,660)	(175,494)
	<u>212,056</u>	<u>203,909</u>
Construction in progress	50,856	17,589
Nuclear fuel, at amortized cost	1,397	2,065
	<u>264,309</u>	<u>223,563</u>
RESTRICTED ASSETS:		
Cash and cash equivalents (Note 2)	38,515	40,626
Investments (Note 2)	39,995	31,881
Public benefit programs receivable	826	626
	<u>79,336</u>	<u>73,133</u>
OTHER NON-CURRENT ASSETS:		
Unamortized purchased power (Note 8)	25,056	25,056
Unamortized bond issuance costs	2,517	2,099
Unamortized bond refunding costs	3,784	3,939
	<u>31,357</u>	<u>31,094</u>
Total other non-current assets	<u>31,357</u>	<u>31,094</u>
Total non-current assets	<u>375,002</u>	<u>327,790</u>
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	45,030	46,801
Accounts receivable, less allowance for doubtful accounts		
2002 \$239; 2001 \$294	19,022	19,718
Accounts receivable other utilities, less allowance for doubtful accounts		
2002 \$8,783; 2001 \$11,037	5,768	7,480
Accrued interest receivable	602	928
Prepaid expenses	4,371	4,188
Nuclear materials inventory	1,097	1,024
	<u>75,890</u>	<u>80,139</u>
Total current assets	<u>75,890</u>	<u>80,139</u>
Total assets	<u>\$450,892</u>	<u>\$407,929</u>

See accompanying notes to the financial statements

BALANCE SHEETS

EQUITY AND LIABILITIES	JUNE 30 2002	JUNE 30 2001
	<i>(in thousands)</i>	
EQUITY:		
Invested in capital assets, net of related debt	\$ 44,614	\$ 43,315
Restricted for debt service (Note 5)	23,723	18,426
Unrestricted	84,035	88,347
Total equity	152,372	150,088
LONG-TERM DEBT, LESS CURRENT PORTION (NOTE 4):	232,684	191,884
OTHER NON-CURRENT LIABILITIES:		
Nuclear decommissioning liability (Notes 1 and 4)	34,855	31,527
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	2,906	2,531
Deferred revenue, public benefit programs	4,291	8,733
Current portion of long-term debt (Note 4)	7,840	7,385
Total current liabilities payable from restricted assets	15,037	18,649
CURRENT LIABILITIES:		
Accounts payable	8,136	9,042
Accrued liabilities	4,684	4,620
Current portion of long-term debt (Note 4)	11	16
Customer deposits	3,113	2,103
Total current liabilities	15,944	15,781
Total liabilities	298,520	257,841
COMMITMENTS AND CONTINGENCIES (NOTES 8 AND 9)		
Total equity and liabilities	\$450,892	\$407,929

See accompanying notes to the financial statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN EQUITY

FOR THE FISCAL YEARS
ENDED JUNE 30
2002 2001
(in thousands)

OPERATING REVENUES:		
Residential sales	\$ 64,625	\$ 65,426
Commercial sales	46,265	45,478
Industrial sales	49,487	51,558
Other sales	5,794	5,733
Wholesale sales	46,505	73,090
Ancillary services	1,653	16,164
Other operating revenue	1,777	1,971
Total operating revenues before (reserve)/recovery	216,106	259,420
Reserve for uncollectible	(1,129)	(11,600)
Bad debt recovery	2,764	54
Total operating revenues, net of (reserve)/recovery	217,741	247,874
OPERATING EXPENSES:		
Production	150,961	178,265
Transmission	19,004	17,160
Distribution	20,944	21,027
Depreciation	12,787	12,306
Total operating expenses	203,696	228,758
Operating income	14,045	19,116
NON-OPERATING REVENUES (EXPENSES):		
Investment income	6,670	8,589
Interest expense	(10,306)	(10,827)
Gain (loss) on retirement of utility plant	223	(220)
Other	1,491	1,309
Total non-operating revenues (expenses)	(1,922)	(1,149)
Income before capital contributions and transfers	12,123	17,967
Capital contributions	5,485	8,275
Transfers out - contributions to the City's general fund	(15,324)	(15,243)
Total capital contributions and transfers out	(9,839)	(6,968)
Increase in equity	2,284	10,999
EQUITY, BEGINNING OF YEAR	150,088	139,089
EQUITY, END OF YEAR	\$152,372	\$150,088

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

**FOR THE FISCAL YEARS
ENDED JUNE 30**
2002 2001
(in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	\$220,959	\$249,243
Cash paid to suppliers and employees	(191,509)	(209,956)
Net cash provided by operating activities	29,450	39,287
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(15,324)	(15,243)
Other non-operating revenue	1,491	1,309
Net cash used by non-capital financing activities	(13,833)	(13,934)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(51,276)	(14,101)
Purchase of nuclear fuel	(944)	(1,545)
Proceeds from the sale of utility plant	285	221
Proceeds from sale of revenue bonds, net of premium	48,617	0
Principal paid on long-term debt	(7,395)	(6,941)
Interest paid on long-term debt	(10,166)	(10,554)
Capital contributions	2,498	4,269
Net cash used by capital and related financing activities	(18,381)	(28,651)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(8,114)	(3,204)
Income from investments	6,996	8,456
Net cash provided (used) by investing activities	(1,118)	5,252
Net increase (decrease) in cash and cash equivalents	(3,882)	1,954
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR¹	87,427	85,473
CASH AND CASH EQUIVALENTS, END OF YEAR¹	\$ 83,545	\$ 87,427
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 14,045	\$ 19,116
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	12,787	12,306
Amortization/burn of nuclear fuel	1,612	970
Provision for (recovery of) uncollectible accounts receivable	(2,309)	10,941
Decrease (increase) in accounts receivable	4,517	(9,211)
Increase in prepaid expenses	(183)	(272)
Increase in nuclear materials inventory	(73)	(35)
Increase (decrease) in accounts payable	(906)	1,664
Increase in accrued liabilities	64	226
Increase (decrease) in public benefit program deferred revenue	(4,442)	716
Increase (decrease) in customer deposits	1,010	(361)
Increase in nuclear decommissioning liability	3,328	3,227
Net cash provided by operating activities	\$ 29,450	\$ 39,287
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions	\$ 2,987	\$ 4,006

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

See accompanying notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

■ **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 \$8,149,000 at June 30, 2002, and \$8,535,000 at June 30, 2001.

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 significant decrease in the allowance for fiscal year 2002 is related to funds recovered from amounts previously considered uncollectible from Southern California Edison for ancillary services (see Note 9).

■ **Utility Plant and Depreciation** Utility plant assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Costs include labor; materials; 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 assets are valued at 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	3-15 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 and certain trust agreements. Cash accounts for all City funds are pooled for investment purposes to enhance safety and liquidity while maximizing interest earnings. Interest income earned on pooled cash is allocated monthly to the various funds of the City based on the month-end cash balances. Cash and investments held by fiscal agents are credited directly to the related accounts.

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

■ **Bond Discounts and Issuance Costs** Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount, whereas issuance costs are recorded as other assets.

■ **Nuclear Decommissioning Liability** Federal regulations require the Electric Utility to provide for the future decommissioning of its ownership share of the nuclear units at San Onofre. The Electric Utility has established a trust account to accumulate resources for the decommissioning of the nuclear power plant and restoration of the beachfront at San Onofre. 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 \$34,855,000 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. The plant site easement at San Onofre terminates May 2050. The plant must be decommissioned and the site restored by the time the easement terminates.

■ **Competitive Transition Account** A Competitive Transition Account (CTA) was established in June 1998 after approval by the Board of Public Utilities and the City Council. This new account was funded by a transfer of \$23.5 million from a rate stabilization account and \$10 million from an operating cash reserve account. The CTA is an internally restricted asset and the Board and City Council will approve usage of funds on an annual or as-needed basis for purposes of handling competitive financial issues. This account was established for a short-term period (five years) during the anticipated phase-in of retail

competition in the electric utility industry. Possible fund uses include early pay down of generation-related debt or long-term contracts, rate stabilization or other competitive purposes. The balance in the CTA at June 30, 2002 and 2001, was \$27.9 and \$20.7 million, respectively, and is reflected as a current asset in the accompanying financial statements as part of cash and cash equivalents.

■ **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, 2002 and 2001, was \$3,113,000 and \$2,103,000, respectively.

■ **Compensated Absences** The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due employees at June 30, 2002 and 2001. The Electric Utility treats compensated absences due employees as a current liability. The amount accrued for compensated absences was \$4,317,000 at June 30, 2002, and \$4,233,000 at June 30, 2001, and is included in accrued liabilities in the accompanying balance sheets.

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

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

■ **Self-Insurance Program** The 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, 2002, is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. Premiums paid to the City by the Electric Utility were \$306,000 and \$405,000 for the years ended June 30, 2002 and 2001. Any losses above the City's reserves would be covered through increased rates charged to the Electric Utility in future years.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Citywide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the year ended June 30, 2002, 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, 2002.

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2002 and 2001, consist of the following (in thousands):

Deposits with City Treasurer's investment pool
Cash and investments at fiscal agent

June 30, 2002	June 30, 2001
Fair Value	
\$ 67,078	\$ 72,957
56,462	46,351
\$123,540	\$119,308

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

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

June 30, 2002	June 30, 2001
\$ 45,030	\$ 46,801
38,515	40,626
39,995	31,881
78,510	72,507
\$123,540	\$119,308

■ **Contributions to the City's General Fund** Pursuant to the City Charter, the Electric Utility may transfer up to 11.5 percent of its prior year's gross operating revenues to the City's general fund. In fiscal years 2001-02 and 2000-01, the Electric Utility transferred approximately 9.0 percent of gross operating revenues, or \$15,324,000 and \$15,243,000, 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 in June each year via a resolution.

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

■ **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, Carrying Amount and Market Value of Deposits and Investments** Cash and non-negotiable certificates of deposit are classified in three categories of custodial 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 custodial 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 investment pool at June 30, 2002, represents approximately 26 percent or \$123,540,000 of the City's total cash and investments of \$478,609,000. 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, 2002. Cash and investments at fiscal agent are insured or registered, or held in the name of the Electric Utility or its agent (category 1), or are not subject to risk categorization.

NOTE 3. UTILITY PLANT

The following is a summary of changes in utility plant during the fiscal year ended June 30, 2002 and 2001 (in thousands):

	Balance, As of 7/1/2000	Additions	Deletions/ Transfers	Balance, As of 6/30/2001	Additions	Deletions/ Transfers	Balance, As of 6/30/2002
Production	\$126,850	\$ 632	\$ 0	\$127,482	\$ 527	\$ 0	\$128,009
Transmission	15,021	11	0	15,032	6	(13)	15,025
Distribution	201,339	11,774	(773)	212,340	19,941	(225)	232,056
General	24,471	587	(509)	24,549	520	(443)	24,626
Construction in progress	12,483	18,244	(13,138)	17,589	54,280	(21,013)	50,856
Nuclear fuel	1,490	1,545	(970)	2,065	944	(1,612)	1,397
Subtotal	381,654	32,793	(15,390)	399,057	76,218	(23,306)	451,969
Less accumulated depreciation	(164,026)	(12,306)	838	(175,494)	(12,786)	620	(187,660)
Total utility plant	\$217,628	\$20,487	(\$14,552)	\$223,563	\$63,432	(\$22,686)	\$264,309

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2002 and 2001 (in thousands):

	Balance, As of 7/1/2000	Additions	Reductions	Balance, As of 6/30/2001	Additions	Reductions	Balance, As of 6/30/2002
Revenue bonds	\$206,141	\$ 0	(\$6,878)	\$199,263	\$48,618	(\$7,357)	\$240,524
Capital leases	32	0	(10)	22	0	(11)	11
Nuclear decommissioning liability (Note 1)	28,300	3,227	0	31,527	3,328	0	34,855
Total long-term obligations	\$234,473	\$3,227	(\$6,888)	\$230,812	\$51,946	(\$7,368)	\$275,390

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

■ Capital Lease

Equipment Purchased Through Capital Lease:

\$54,339 capital lease due in monthly installments of \$1,115 through December 31, 2002, interest at 8.5 percent

Total capital lease

■ Revenue Bonds Payable

\$68,175,000 1991 Electric Revenue Bonds: \$27,395,000 serial bonds due in annual installments of \$1,955,000 through October 1, 2002, interest at 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 \$5,735,000 to \$8,005,000 through October 1, 2010, interest from 4.6 percent to 5.3 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 \$150,000 to \$220,000 through July 1, 2010, interest from 5.3 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

\$47,215,000 2001 Electric Revenue Bonds: \$47,215,000 serial bonds due in annual installments from \$2,855,000 to \$4,750,000 through October 1, 2016, interest from 2.9 percent to 5.25 percent

	June 30, 2002	June 30, 2001
Total capital lease	\$ 11	\$ 22
	11	22
\$68,175,000 1991 Electric Revenue Bonds:	1,955	3,690
\$118,550,000 1993 Electric Refunding Revenue Bonds:	87,115	92,625
\$4,100,000 1994 FARECal Electric Revenue Bonds:	3,460	3,600
\$98,730,000 1998 Electric Refunding/Revenue Bonds:	98,730	98,730
\$47,215,000 2001 Electric Revenue Bonds:	47,215	0
Total electric revenue bonds payable	238,475	198,645
Total debt	238,486	198,667
Unamortized bond premium (discount)	2,049	618
Total long-term debt, net of bond premium (discount)	240,535	199,285
Less: current portion	(7,851)	(7,401)
Total long-term debt	\$232,684	\$191,884

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

Annual debt service requirements to maturity, excluding amounts for nuclear decommissioning liability, as of June 30, 2002, are as follows (in thousands):

	2003	2004	2005	2006	2007	2008-2012	2013-2017	2018-2022	2023-2027	Total
Principal	\$ 7,851	\$10,780	\$14,140	\$14,775	\$15,475	\$ 87,520	\$67,965	\$16,220	\$3,760	\$238,486
Interest	11,564	11,123	10,579	9,940	9,241	33,840	12,297	3,048	94	101,726
Unamortized bond (discount) premium	(18)	84	143	144	145	731	689	109	22	2,049
Total	\$19,397	\$21,987	\$24,862	\$24,859	\$24,861	\$122,091	\$80,951	\$19,377	\$3,876	\$342,261

■ **Debt Service Coverage Ratio** The Electric Utility's bond indentures require the Electric Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants, of 1.25. The Electric Utility's debt service coverage ratio was 2.27 at June 30, 2002, and 2.69 at June 30, 2001.

NOTE 5. RESTRICTED EQUITY

Pursuant to applicable bond indentures, a reserve for debt service has been established by restricting assets and reserving a portion of equity. Bond indentures for Riverside's electric revenue and refunding bonds require reserves that equate to the maximum annual debt service required in future years plus three months interest and nine months principal due in the next fiscal year. 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. As of July 2001, the cities of Cerritos and San Marcos were admitted as members of SCPPA. 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 2001-02 and 2000-01 fiscal years, the Electric Utility paid approximately \$20,700,000 and \$18,600,000, 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 production expense 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. Effective June 30, 2001, PAC was placed in an inactive status by the Board of Directors. The Agency can only be reactivated by authorization of the Agency Board.

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7. JOINTLY-OWNED UTILITY PROJECT

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

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 \$128,009,000 and \$127,482,000 for fiscal years ended June 30, 2002 and 2001, respectively. The accumulated depreciation amounted to \$82,300,000 and \$77,343,000 for the fiscal years ended June 30, 2002 and 2001, respectively. The Electric Utility made provisions during fiscal years 2001-02 and 2000-01 for nuclear fuel burn of \$1,612,000 and \$970,000, respectively, and for future decommissioning costs of \$1,581,000 for 2001-02 and 2000-01 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 purchase contract with Intermountain Power Agency (IPA) for the delivery of electric power. The Electric Utility's share of IPA power is equal to 7.6 percent, or approximately 126.4 MW, of the generation output of IPA's 1,660 megawatt coal-fueled generating station located in central Utah. The contract expires in 2027 and the debt fully matures in 2024.

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

The Electric Utility is a member of the Southern California Public Power Authority (SCPPA), a joint powers agency (see Note 6). SCPPA provides for the financing and construction of electric generating and transmission projects for participation by some or all of its members. To the extent the Electric Utility participates in projects developed by SCPPA, the Electric Utility will be obligated for its proportionate share of the project cost.

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

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

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

Interest rates on the outstanding debt associated with the take-or-pay obligations range from 3.0 percent to 6.9 percent. The schedule below details the amount of principal and interest that is due and payable by the Electric Utility as part of the take-or-pay contract for each project in the fiscal year indicated.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8. COMMITMENTS (CONTINUED)

DEBT SERVICE PAYMENTS

(in thousands)
Year Ending June 30

	IPA	SCPPA					TOTAL
	Intermountain Power Project	Palo Verde Nuclear Generating Station	Southern Transmission System	Hoover Dam Upgrading	Mead-Phoenix Transmission	Mead-Adelanto Transmission	All Projects
2003	\$ 8,125	\$ 4,384	\$ 6,942	\$ 627	\$ 156	\$ 1,651	\$ 21,885
2004	27,109	4,405	7,203	705	156	1,651	41,229
2005	25,836	4,417	6,983	704	156	1,651	39,747
2006	26,349	1,620	7,224	704	156	1,651	37,704
2007	26,376	1,620	7,447	700	272	2,956	39,371
2008-2012	129,612	12,030	33,930	3,491	1,411	14,719	195,193
2013-2017	126,812	15,528	37,806	3,439	1,364	14,724	199,673
2018-2022	103,189	23,303	38,958	681	1,030	11,624	178,785
2023-2027	17,734	0	13,412	0	0	0	31,146
Total	\$491,142	\$67,307	\$159,905	\$11,051	\$4,701	\$50,627	\$784,733

In addition to debt service, Riverside's entitlement requires the payment for fuel costs, operating and maintenance, administrative and general and other miscellaneous costs associated with the generation and transmission facilities discussed above. These costs do not have a similar structured payment schedule as debt service and vary each year. The costs incurred for the years ended June 30, 2002 and 2001, are as follows:

FISCAL YEAR	Intermountain Power Project	Palo Verde Nuclear Generating Station	Southern Transmission System	Mead-Adelanto Transmission	Mead-Phoenix Transmission	Hoover Dam Upgrading	TOTAL
2002	\$17,832	\$2,040	\$1,607	\$209	\$45	\$99	\$21,832
2001	20,158	2,103	1,177	209	48	106	23,801

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

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

Minimum Obligations 2002-2003 (in thousands)

SUPPLIER	CAPACITY	ENERGY	TOTAL
Deseret	\$3,463	\$1,771	\$5,234
CDWR III	508	0	508
CDWR IV	662	0	662
BPA (two agreements)	971*	0	971
Total	\$5,604	\$1,771	\$7,375

*Estimated

The agreement with Deseret is for five megawatts of capacity and associated energy from January 1, 1992, through December 31, 1994, then increasing to 52 megawatts of

capacity and associated energy through December 31, 2009. A notice of termination of the power purchase agreement was provided to Deseret effective March 31, 1998, resulting in litigation which was settled on July 31, 1999. Under the terms of the settlement agreement, the notice of termination was rescinded and the power purchase agreement was amended to reflect substantial price reductions after fiscal year 2001 through the term of the agreement in 2009. In exchange, Riverside Public Utilities paid Deseret \$25 million from Electric fund reserves, which is reflected on the Balance Sheet as Unamortized purchased power. On July 1, 2002, the Electric utility will begin to realize the benefits related to the price reductions, and will amortize the \$25 million over the remaining term of the agreement using the straight-line method.

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8. COMMITMENTS (CONTINUED)

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

■ **Construction Commitments** As of June 30, 2002, the Electric Utility had major commitments of approximately \$5,000,000, with respect to unfinished capital projects, all of which is expected to be funded by bond proceeds.

NOTE 9. LITIGATION

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

On April 6, 2001, PG&E filed for voluntary protection under Chapter 11 of the federal Bankruptcy Code. The bankruptcy proceedings (PG&E Bankruptcy) are pending in U.S. Bankruptcy Court in San Francisco, California. During the PG&E Bankruptcy, PG&E's operations are expected to continue under current management, while the Bankruptcy Court decides on the allocation of PG&E's available cash flow and assets among its various creditors. PG&E was the largest purchaser of electricity from the Independent System Operator (ISO) and the Power Exchange (PX), and is therefore the largest creditor to the ISO and PX. Riverside is owed approximately \$1 million by the PX and approximately \$300,000 by the ISO, primarily related to PG&E. This amount was fully reserved with an allowance for potentially uncollectible receivables in fiscal year 2001, and any amounts subsequently collected will be included in earnings in the period collected. The various creditors' classes recently voted on plans of reorganization prepared by PG&E and by the California Public Utilities Commission (CPUC). Each plan provides for 100 percent repayment to creditors for allowed claims. Legal challenges associated with the voting process for the plans has delayed the bankruptcy court's selection and approval of one of the plans. This in turn delays any payments to Riverside under the selected plan.

On November 20, 2001, the City filed a lawsuit in Los Angeles County Superior Court against Southern California Edison (SCE). The suit alleges that SCE has failed to make monthly payments to the City since December 2000 for ancillary services as required under the Restructuring Agreement between the City and SCE. The complaint seeks damages of approximately \$8.5 million, including interest. SCE responded to the lawsuit with a cross complaint against the City alleging the City overcharged SCE by approximately \$6.8 million. At June 30, 2002, amounts owed the City by SCE were fully reserved with an allowance for potentially uncollectible receivables. Binding arbitration of this case is scheduled for late 2002.

NOTE 10. SUBSEQUENT EVENTS

The City began participating in the ISO markets when the ISO began operations in 1998. Riverside is a Scheduling Coordinator and Utility Distribution Company under the ISO Tariff, and has not turned over the rights to use its transmission entitlements due to a variety of legal, financial and operational concerns. Currently the entities that have committed the operational control of their transmission assets or entitlements (also known as a Participating Transmission Owner, or (PTO) to the ISO include Southern California Edison, Pacific Gas & Electric, San Diego Gas & Electric and the City of Vernon.

The City has filed an application and notice of intent to join the ISO as a PTO effective January 1, 2003. As a PTO, the City would commit the operational control of certain transmission entitlements to the ISO, while still maintaining its ownership-like interest in various transmission projects. In anticipation of becoming a PTO and to resolve its legal concerns, the City participated in requesting and receiving a private letter ruling from the Internal Revenue Service (IRS) stating that committing tax-exempt bond-financed transmission entitlements to the ISO would not constitute a private use under current IRS regulations. The City has conditioned its application to join the ISO, on the ISO, FERC, and other PTO's agreeing that the Utility may withdraw from the agreement in the event that SCPPA's bond counsel finds that the tax exempt status of the City's bonds that financed the transmission facilities is jeopardized by the ISO's continued exercise of operational control. The City believes that the aforementioned financial and operational concerns have been resolved.

STATISTICS

POWER SUPPLY (MWH)	2001/02¹	2000/01¹	1999/00	1998/99	1997/98
San Onofre	312,100	250,100	342,000	288,800	291,900
Intermountain Power	1,027,000	1,028,600	1,006,900	1,009,100	920,000
Palo Verde	94,700	94,800	97,900	96,500	92,200
Hoover	40,200	41,100	43,500	46,100	42,500
Springs	1,300	0	0	0	0
Firm contracts	1,008,300	1,160,300	877,000	504,300	385,100
Net Exchanges In/(Out)	(57,700)	300	(93,000)	(33,700)	6,900
Non-firm contracts	1,300	13,300	61,000 ²	53,000 ²	110,800
Southern California Edison	0	0	0	0	500
Total	2,427,200	2,588,500	2,335,300	1,964,100	1,849,900
System peak (MW)	446.6	463.8	473.1	479.2	458.5

¹Energy shown before losses.

²Certain reclasses have occurred due to deregulation of the electric industry.

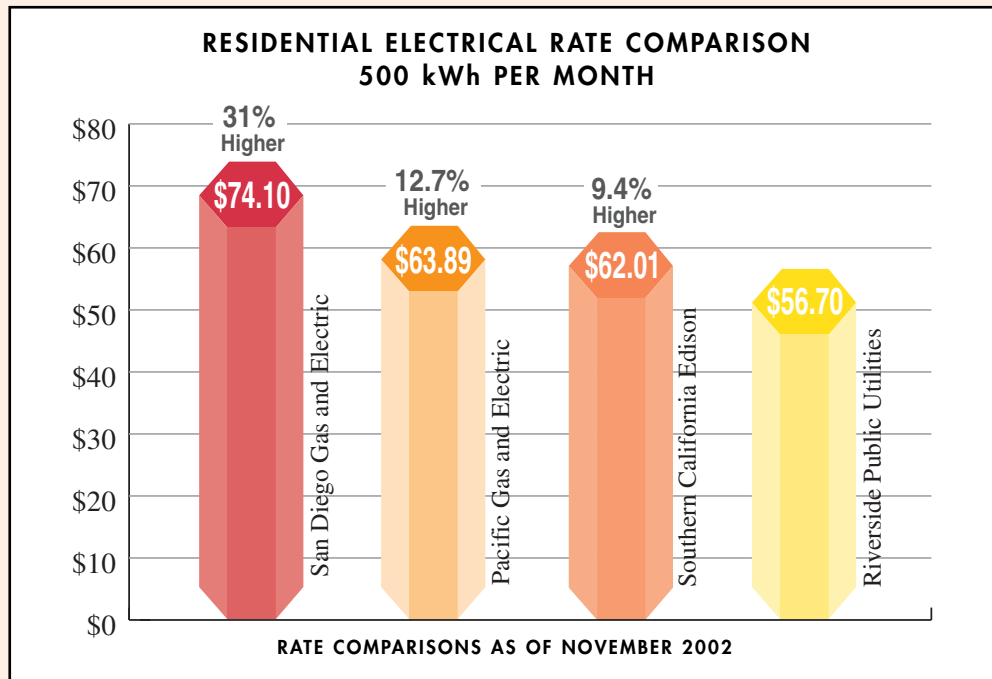
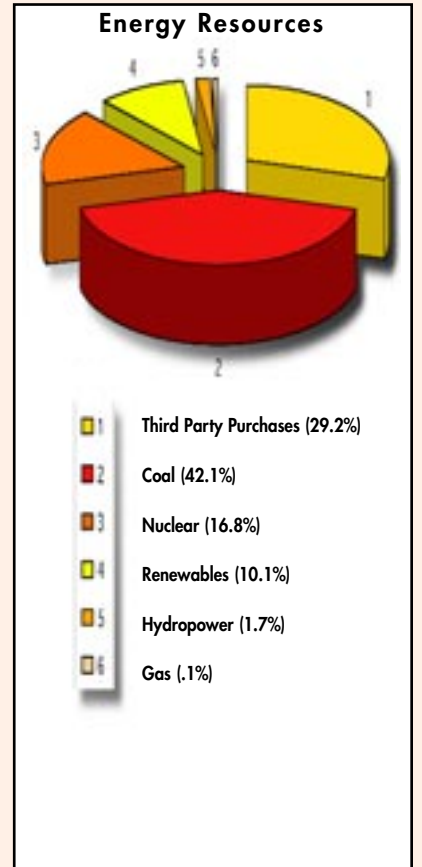
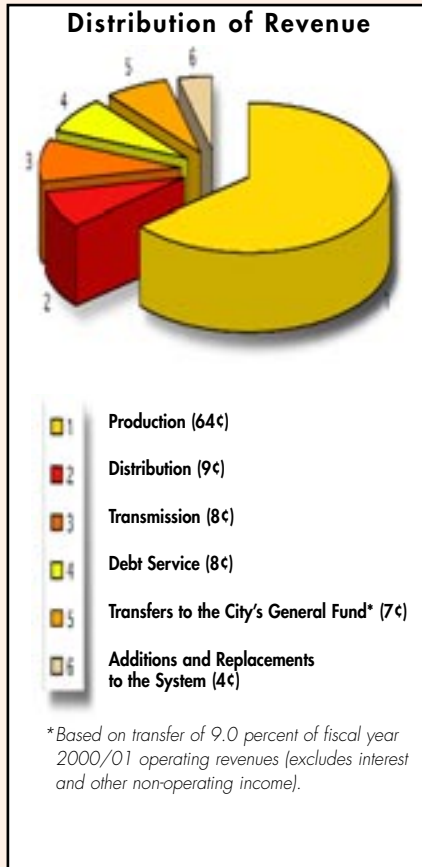
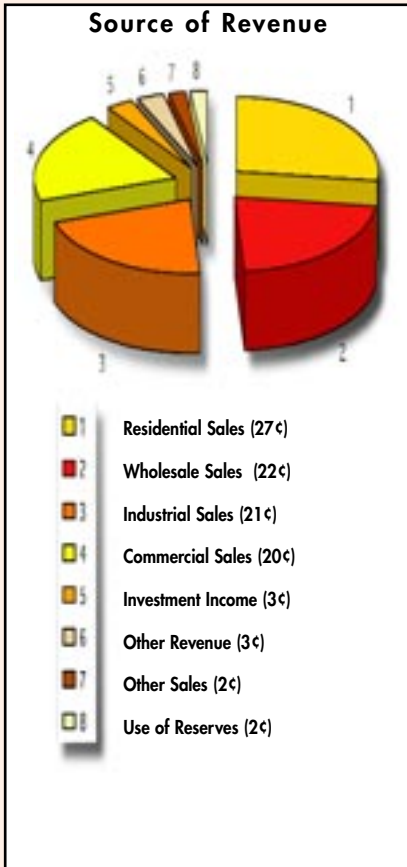
ELECTRIC USE	2001/02¹	2000/01¹	1999/00	1998/99	1997/98
Average number of customers					
Residential	86,874	85,584	83,637	82,937	81,640
Commercial	9,092	9,087	9,050	8,859	8,650
Industrial	398	393	324	292	203
Other	139	140	136	125	116
Total	96,503	95,204	93,147	92,213	90,609
Millions of kilowatt-hours sales					
Residential	600	610	594	575	555
Commercial	434	432	436	406	404
Industrial	629	654	651	619	620
Wholesale Sales	471	600	419	151	135
Other	53	54	53	46	45
Total	2,187	2,350	2,153	1,797	1,759

ELECTRIC FACTS	2001/02¹	2000/01¹	1999/00	1998/99	1997/98
Average annual kWh per residential customer	6,905	7,125	7,105	6,938	6,796
Average price (cents/kWh) per residential customer	10.77	10.73	10.83	10.73	10.78
Debt service coverage ratio	2.27	2.69	2.76	2.01	3.76
Operating income as a percent of operating revenues	6.5%	7.7%	12.9%	6.3%	11.4%
Employees ³	283	281	277	274	278

³Approved positions

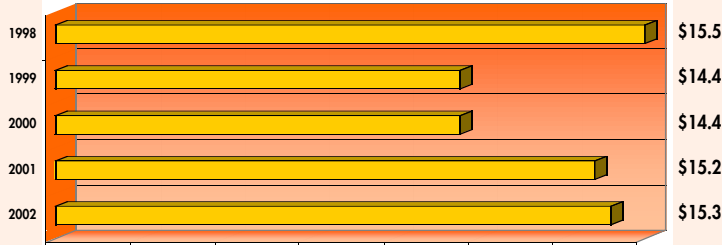
STATISTICS

2001/02 ELECTRIC REVENUE AND RESOURCES

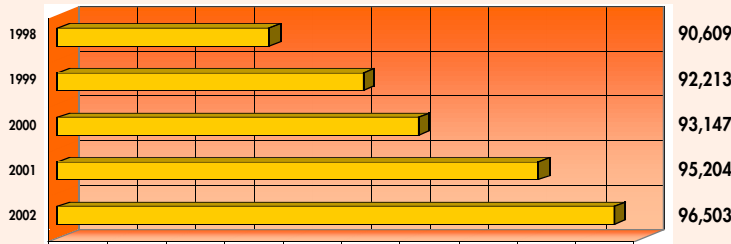


STATISTICS

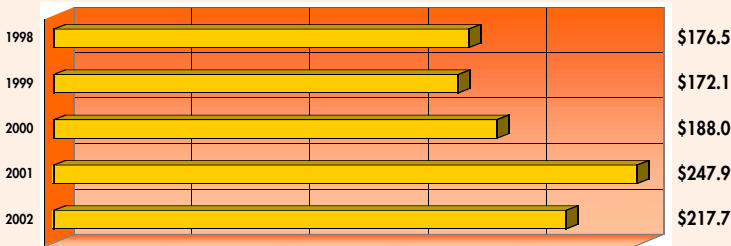
General Fund Transfer (in millions)



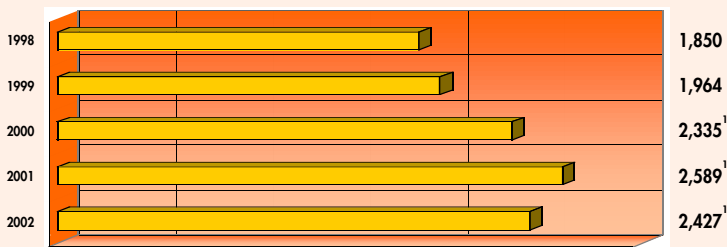
Average Number of Customers



Total Operating Revenue (in millions)

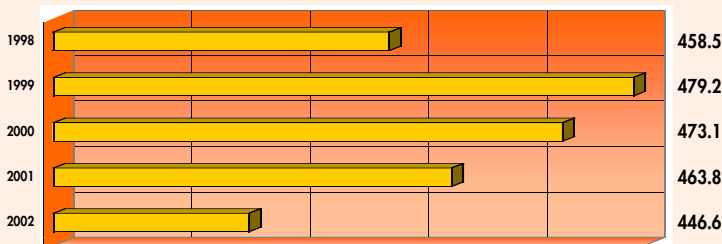


Production (in million kilowatt-hours)



¹ Energy shown before losses.

Peak Day Demand (in megawatts)



ELECTRIC FACTS AND SYSTEM STATISTICS

Established: 1895

Service Area Population: 265,700

Service Area Size (square miles): 78.7

System Statistics:

Transmission lines (circuit miles): 85.3

Distribution lines (circuit miles): 1,115

Number of substations: 14

2001-02 Peak Day (megawatts): 447

Highest single hourly use:
8/14/01, 4pm, 105 degrees

Historical peak (megawatts): 479

Highest single hourly use:
8/31/98, 3pm, 107 degrees

BOND RATINGS

FITCH IBCA, DUFF & PHELPS A+

STANDARD & POOR'S A+

INDEPENDENT AUDITORS' REPORT

TO THE HONORABLE CITY COUNCIL AND BOARD OF PUBLIC UTILITIES CITY OF RIVERSIDE, CALIFORNIA

We have audited the accompanying financial statements of the City of Riverside Water Utility as of and for the years ended June 30, 2002 and 2001, as listed in the table of contents. 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the accompanying financial statements present only the Water Utility Fund and do not purport to, and do not, present fairly the financial position of the City of Riverside, California, as of June 30, 2002 and 2001, and the changes in its financial position and its cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Riverside Water Utility as of June 30, 2002 and 2001, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

The supplementary information entitled Water Statistics as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Water Utility. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

KPMG LLP

September 30, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Riverside Public Utilities (a department of the City of Riverside), we offer the readers of the City of Riverside Water Utility financial statements this narrative overview and analysis of the financial activities of the Water Utility (Utility) for the fiscal year ended June 30, 2002. We encourage readers to consider the information presented here in conjunction with additional information furnished in our fiscal message on page 2 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

The assets of the Water Utility exceeded its liabilities at the close of the most recent fiscal year by \$174,102 (equity). Of this amount, \$28,839 may be used to meet the Utility's ongoing obligations to creditors and customers.

The Utility's total equity increased by \$16,014 from the prior fiscal year, primarily due to a large negotiated settlement of \$7,900 and capital contributions from developer fees totaling \$7,044.

At the end of the current fiscal year, unrestricted equity represented over 118 percent of annual operating expenses for 2002.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 33 to 37 of this report.

Utility Financial Analysis

As noted earlier, equity (also called net assets) may serve over time as a useful indicator of the fund's financial position. In the case of Riverside's Water Utility, assets exceeded liabilities by \$174,102 at the close of the most recent fiscal year.

The largest portion of the Utility's net assets (78 percent) reflects its investment in capital assets, such as transmission, distribution and production facilities, less any related debt used to acquire those assets that remains outstanding. The Utility uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since the capital assets themselves cannot be used to liquidate these long-term liabilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The unrestricted portion of the Utility's net assets (17 percent) may be used to meet the Utility's ongoing obligations to creditors and customers.

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

	2002	2001
Current and other assets	\$ 61,745	\$ 39,147
Capital assets	193,244	181,771
Total assets	\$254,989	\$220,918
Long-term debt outstanding	\$ 72,071	\$ 55,048
Other liabilities	8,816	7,782
Total liabilities	\$ 80,887	\$ 62,830
Equity (net assets):		
Invested in capital assets, net of related debt	\$136,888	\$125,343
Restricted	8,375	6,478
Unrestricted	28,839	26,267
Total equity (net assets)	\$174,102	\$158,088

An additional portion of the Utility's equity (5 percent) represents resources that are subject to external restrictions on how they may be used. These are reserved for items such as debt repayment and other legally restricted assets.

The Utility's equity increased by \$16,014 during the current fiscal year. About 44 percent of this increase relates to receiving developer fees and other capital contributions due to increased building activity in Riverside. In addition, the payments received on litigation settled from a 1998 agreement has provided monies to pay for water treatment projects amounting to \$7,900 (49 percent) in the 2003 fiscal year.

Key elements of the increase in equity are as follows:

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

	2002	2001
Revenues:		
Retail sales	\$ 27,517	\$ 25,196
Wholesale sales	663	754
Litigation settlements	7,900	2,982
Investment income	2,384	2,547
Other	2,439	1,606
Total revenues before (reserve)/ recovery	40,903	33,085
Less reserve for bad debt, net of recoveries	(79)	(92)
Total revenues before capital contributions	40,824	32,993
Capital contributions	7,044	11,109
Total revenues and capital contributions	47,868	44,102
Expenses:		
Operations	11,572	11,051
Maintenance	2,971	3,047
Purchased energy	3,536	3,398
Purchased water	1,067	1,048
Depreciation	5,378	5,129
Interest expense	4,356	3,686
Total expenses	28,880	27,359
Contributions to the City's general fund	2,974	3,023
Total expenses and contributions to the City's General Fund	31,854	30,382
Increase in equity (net assets)	16,014	13,720
Equity, beginning of year	158,088	144,368
Equity, end of year	\$174,102	\$158,088

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Retail sales (residential, commercial and other sales) continue to be the primary revenue source for the water utility making up 57 percent of total revenue. Retail sales showed an increase from prior year (9.2 percent) due to a 2.4 percent and 4.0 percent rate increase on February 28, 2001 and March 1, 2002, respectively, as well as an increase in the number and average consumption of customers.

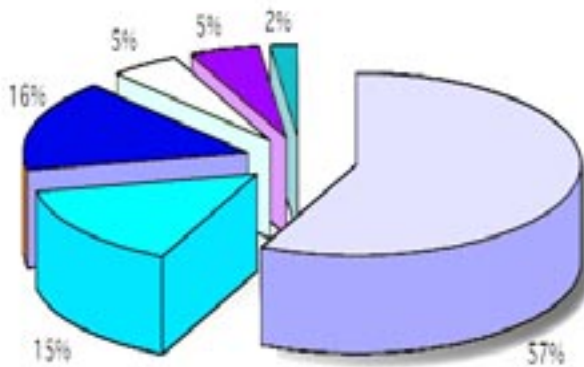
Investment income decreased by \$163 although the water utility had of an overall increase in the size of its investment portfolio, this was more than offset by a weaker investment market.

Capital contributions decreased 36.6 percent from prior year levels. The level of building activity in the prior year was unusually robust, although the Utility continues to experience significant building activity.

Total expenses show a 5 percent increase over the prior fiscal year, with the primary increase coming from increased operation and maintenance costs. Included in the operation and maintenance category are increases due to negotiated salary increases with various unions and general cost of living type increases for other operating expenses.

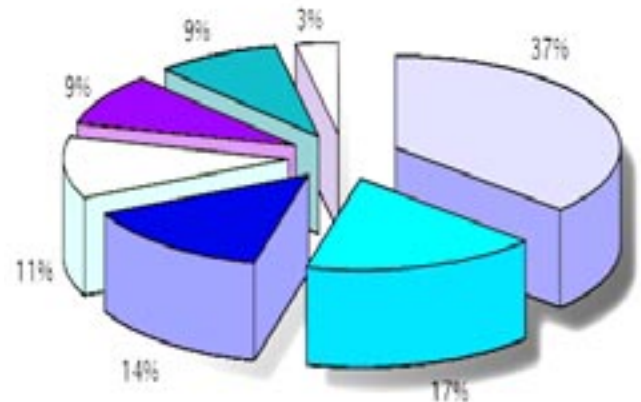
Contributions to the City's general fund are based on a formula using 11.5 percent of operating revenues from the prior fiscal year. This amount decreased by \$49 or 1.6 percent.

Revenues by Sources - Water Utility



- Retail Sales (57%)
- Capital Contributions (15%)
- Settlements (16%)
- Investment Income (5%)
- Other (5%)
- Wholesale Sales (2%)

Expenses - Water Utility



- Operations (37%)
- Depreciation (17%)
- Interest Expense (14%)
- Purchased Energy (11%)
- Maintenance (9%)
- Contributions to the City's General Fund (9%)
- Purchased Water (3%)

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSET AND DEBT ADMINISTRATION

The Water Utility's investment in capital assets as of June 30, 2002 amounts to \$193,244 (net of accumulated depreciation). This includes investments in production, transmission, and distribution related facilities, as well as general items such as office equipment, furniture, etc. This fiscal year showed a 6.3 percent increase in capital assets over the prior year. Major capital asset events during the current fiscal year included:

- Capital additions to connect new customers to the system totaled \$1,100
- Capital additions to maintain and improve water quality totaled \$2,600
- Capital additions for water main replacement totaled \$3,900
- Capital additions to update service standards totaled \$3,900

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

	2002	2001
Source of supply	\$ 18,069	\$ 17,774
Pumping	3,381	3,538
Treatment	7,951	8,120
General	1,770	2,091
Transmission & distribution	137,417	133,110
Intangible	6,269	6,152
Construction in progress	18,387	10,986
Total	\$193,244	\$181,771

Additional information regarding capital assets can be found in Note 1 on page 33 and Note 3 on Page 35 of this report.

Long-term Debt At the end of the current fiscal year, the City of Riverside's Water Utility had long-term debt of \$72,071. This debt is backed by the revenue of the utility (revenue bonds), with the exception of \$11 which is a capital lease for office equipment. During the fiscal year, the water utility issued \$20 million of new bonds to fund capital improvements to the distribution system. The interest cost for this issue is 5.07%.

City of Riverside Water Utility's Outstanding Debt (Revenue Bonds and Capital Lease Obligation)

	2002	2001
Revenue bonds	\$82,915	\$66,130
Contracts payable/Capital lease obligation	1,132	1,223
Less: unamortized bond discount/capital appreciation	(7,970)	(8,924)
Less: current portion	(4,006)	(3,381)
Total	\$72,071	\$55,048

The water utility maintains an "AA" rating from Standard & Poor's and Fitch IBCA, Duff Phelps for its revenue bonds.

Additional information on the water Utility's long-term debt can be found in Note 4 on pages 36 and 37 of this report.

Economic Factors and Rates

While general inflationary trends in the region compare favorably to national indices, an inflationary rate increase has been approved for fiscal 2003 to provide for increased costs in all functional areas, such as salaries and expenses impacted by general inflation. In addition, a one percent adder was approved to help fund the pipeline replacement program. The inflationary increase (3 percent) and the one percent adder, for a total of 4 percent, became effective March 1, 2002.

Requests for Information

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

BALANCE SHEETS

ASSETS	JUNE 30 2002	JUNE 30 2001
	<i>(in thousands)</i>	
UTILITY PLANT:		
Source of supply	\$ 26,389	\$ 25,784
Pumping	8,640	8,606
Treatment	8,560	8,560
Transmission and distribution	201,448	193,082
General	6,354	6,411
Intangible	6,269	6,152
	<u>257,660</u>	<u>248,595</u>
Less accumulated depreciation	(82,803)	(77,810)
	<u>174,857</u>	<u>170,785</u>
Construction in progress	18,387	10,986
	<u>193,244</u>	<u>181,771</u>
Total utility plant (Note 3)		
RESTRICTED ASSETS:		
Cash and cash equivalents (Note 2)	22,784	4,477
Investments (Note 2)	4,128	3,013
	<u>26,912</u>	<u>7,490</u>
Total restricted assets		
OTHER NON-CURRENT ASSETS:		
Unamortized bond issuance costs	907	670
Unamortized bond refunding costs	578	604
	<u>1,485</u>	<u>1,274</u>
Total other non-current assets		
Total non-current assets	<u>221,641</u>	<u>190,535</u>
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	28,879	25,774
Accounts receivable, less allowance for doubtful accounts		
2002 \$70; 2001 \$76	4,050	4,061
Accrued interest receivable	335	443
Advances to the City's general fund	84	105
	<u>33,348</u>	<u>30,383</u>
Total current assets		
Total assets	<u>\$254,989</u>	<u>\$220,918</u>

See accompanying notes to the financial statements

Continued

BALANCE SHEETS

EQUITY AND LIABILITIES	JUNE 30 2002	JUNE 30 2001
	<i>(in thousands)</i>	
EQUITY:		
Invested in capital assets, net of related debt	\$136,888	\$125,343
Restricted for debt service (Note 5)	8,375	6,478
Unrestricted	28,839	26,267
Total equity	174,102	158,088
 LONG-TERM DEBT, LESS CURRENT PORTION (NOTE 4):	 72,071	 55,048
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	697	534
Current portion of long-term debt (Note 4)	3,845	3,215
Total current liabilities payable from restricted assets	4,542	3,749
 CURRENT LIABILITIES:		
Accounts payable	1,709	1,664
Accrued liabilities	2,085	1,893
Current portion of long-term debt (Note 4)	161	166
Customer deposits	319	310
Total current liabilities	4,274	4,033
Total liabilities	80,887	62,830
 COMMITMENTS AND CONTINGENCIES (NOTE 7)		
Total equity and liabilities	\$254,989	\$220,918

See accompanying notes to the financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN EQUITY

FOR THE FISCAL YEARS
ENDED JUNE 30
2002 2001
(in thousands)

OPERATING REVENUES:		
Residential sales	\$ 18,144	\$ 16,515
Commercial sales	8,414	7,896
Other sales	959	785
Wholesale sales	663	754
Other operating revenue	1,347	647
	29,527	26,597
Total operating revenues before (reserve)/recovery		
Reserve for uncollectible	(98)	(101)
Bad debt recovery	19	9
	29,448	26,505
OPERATING EXPENSES:		
Operations	11,572	11,051
Maintenance	2,971	3,047
Purchased energy	3,536	3,398
Purchased water	1,067	1,048
Depreciation	5,378	5,129
	24,524	23,673
Total operating expenses		
Operating income	4,924	2,832
NON-OPERATING REVENUES (EXPENSES):		
Investment income	2,384	2,547
Interest expense and fiscal charges	(4,356)	(3,686)
Gain (loss) on retirement of utility plant	43	(27)
Other	1,049	986
	(880)	(180)
Total non-operating revenues (expenses)		
Income before capital contributions and transfers	4,044	2,652
Capital contributions	7,044	11,109
Transfers out - contributions to the City's general fund	(2,974)	(3,023)
	4,070	8,086
Total capital contributions and transfers out		
Income before special item	8,114	10,738
SPECIAL ITEM:		
Litigation settlements (Note 8)	7,900	2,982
Increase in equity	16,014	13,720
EQUITY, BEGINNING OF YEAR	158,088	144,368
EQUITY, END OF YEAR	\$174,102	\$158,088

See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS

**FOR THE FISCAL YEARS
ENDED JUNE 30**
2002 2001
(in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	\$29,468	\$26,443
Cash paid to suppliers and employees	(18,909)	(17,236)
Net cash provided by operating activities	10,559	9,207
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(2,974)	(3,023)
Other non-operating revenue	1,049	986
Net cash flows used by non-capital financing activities	(1,925)	(2,037)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(12,189)	(9,354)
Proceeds from the sale of utility plant	89	77
Principal paid on long-term debt	(3,306)	(3,000)
Interest paid on long-term debt	(3,156)	(2,512)
Proceeds from sale of revenue bonds, net of discount	19,706	0
Capital contributions	2,336	3,139
Litigation settlements	7,900	2,982
Net cash provided (used) by capital and related financing activities	11,380	(8,668)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Reductions (increases) in advances to the City's general fund	21	(59)
Maturities (purchases) of investment securities	(1,115)	78
Income from investments	2,492	2,475
Net cash provided by investing activities	1,398	2,494
Net increase in cash and cash equivalents	21,412	996
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR¹	30,251	29,255
CASH AND CASH EQUIVALENTS, END OF YEAR¹	\$51,663	\$30,251
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 4,924	\$ 2,832
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	5,378	5,129
Provision for uncollectible accounts receivable	(6)	(9)
Decrease in accounts receivable	17	10
Increase in accounts payable	45	1,141
Increase in accrued liabilities	192	167
Increase (decrease) in customer deposits	9	(63)
Net cash provided by operating activities	\$10,559	\$9,207
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions	\$ 4,708	\$ 7,970

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

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

■ **Revenue Recognition** The Water Utility uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Water Utility customers are billed monthly. Unbilled water service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled \$1,578,000 at June 30, 2002, and \$1,640,000 at June 30, 2001.

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

■ **Utility Plant and Depreciation** Utility plant assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Costs include labor; materials; 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 assets are valued at 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	3-50 years

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

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

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

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.

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

■ **Customer Deposits** The City holds customer deposits as security for the payment of utility bills. The Water Utility's portion of these deposits as of June 30, 2002 and 2001, was \$319,000 and \$310,000, respectively.

■ **Compensated Absences** The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due employees at June 30, 2002 and 2001. The Water Utility treats compensated absences due employees as a current liability. The amount accrued for compensated absences was \$1,930,000 at June 30, 2002, and \$1,735,000 at June 30, 2001, and is included in accrued liabilities in the accompanying balance sheets.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Although the ultimate amount of losses incurred through June 30, 2002, is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. Premiums paid to the City by the Water Utility were \$179,000 and \$237,000 for the years ended June 30, 2002 and 2001. Any losses above the City's reserves would be covered through increased rates charged to the Water Utility in future years.

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

All permanent full-time and selected part-time employees are eligible for participation in PERS. Benefits vest after five years of service and are determined by a formula that considers the

employee's age, years of service and salary. Employees may retire at age 55 and receive 2 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 of their annual covered salary. The Water Utility is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The Water Utility pays both the employee and employer contributions.

Citywide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the fiscal year ended June 30, 2002, 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, 2002.

■ Contributions to the City's General Fund

Pursuant to the City Charter, the Water Utility may transfer up to 11.5 percent of its prior year's gross operating revenues to the City's general fund. In fiscal years 2001-02 and 2000-01, the Water Utility transferred 11.5 percent of gross operating revenues, or \$2,974,000 and \$3,023,000, 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 in June each year via a resolution.

■ Reclassifications

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

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2002 and 2001, consist of the following (in thousands):

Deposits with City Treasurer's investment pool
Cash and investments at fiscal agent

June 30, 2002	June 30, 2001
Fair Value	
\$33,421	\$29,523
22,370	3,741
<u>\$55,791</u>	<u>\$33,264</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, 2002	June 30, 2001
\$28,879	\$25,774
22,784	4,477
4,128	3,013
<u>26,912</u>	<u>7,490</u>
<u>\$55,791</u>	<u>\$33,264</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

■ **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 deposit
- Repurchase agreements
- Banker's acceptances
- Mutual funds
- Commercial paper of "prime" quality
- Medium-term corporate notes

■ **Credit Risk, Carrying Amount and Market Value of Deposits and Investments** Cash and non-negotiable certificates of deposit are classified in three categories of custodial 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 custodial 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 investment pool at June 30, 2002, represents approximately 12 percent or \$55,791,000 of the City's total cash and investments of \$478,609,000. 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, 2002. Cash and investments at fiscal agent are insured or registered, or held in the name of the Water Utility or its agent (category 1), or are not subject to risk categorization.

NOTE 3. UTILITY PLANT

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2002 and 2001 (in thousands):

	Balance, As of 7/1/2000	Additions	Deletions/ Transfers	Balance, As of 6/30/2001	Additions	Deletions/ Transfers	Balance, As of 6/30/2002
Source of supply	\$ 25,729	\$ 74	\$ (19)	\$ 25,784	\$ 605	\$ 0	\$ 26,389
Pumping	8,614	0	(8)	8,606	34	0	8,640
Treatment	1,796	6,764	0	8,560	0	0	8,560
Transmission and distribution	184,083	9,157	(158)	193,082	8,502	(136)	201,448
General	6,183	466	(238)	6,411	237	(294)	6,354
Intangible	5,709	443	0	6,152	117	0	6,269
Construction in progress	10,562	11,853	(11,429)	10,986	17,014	(9,613)	18,387
Subtotal	242,676	28,757	(11,852)	259,581	26,509	(10,043)	276,047
Less accumulated depreciation	(72,996)	(5,129)	315	(77,810)	(5,378)	385	(82,803)
Total utility plant	\$169,680	\$23,628	(\$11,537)	\$181,771	\$21,131	(\$9,658)	\$193,244

NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2002 and 2001 (in thousands):

	Balance, As of 7/1/2000	Additions	Reductions	Balance, As of 6/30/2001	Additions	Reductions	Balance, As of 6/30/2002
Revenue bonds	\$58,997	\$ 0	(\$1,791)	\$57,206	\$19,706	(\$1,967)	\$74,945
Capital leases	32	0	(10)	22	0	(11)	11
Water stock acquisition rights	1,237	0	(36)	1,201	0	(80)	1,121
Total long-term obligations	\$60,266	\$ 0	(\$1,837)	\$58,429	\$19,706	(\$2,058)	\$76,077

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

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

■ Contracts Payable/Capital Lease

Water Stock Acquisitions: Payable on demand to various water companies

Equipment Purchased Through Capital Lease: \$54,340 capital lease due in monthly installments of \$1,115 through December 31, 2002, interest at 8.5 percent

Total contracts payable and capital lease

■ Revenue Bonds Payable

\$69,840,000 1991 Water Revenue Bonds: \$25,050,000 serial bonds due in annual installments of \$3,100,000 through October 1, 2002, interest at 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)

\$4,710,000 1994 FARECal Revenue Bonds: \$2,420,000 serial bonds due in annual installments from \$170,000 to \$255,000 through July 1, 2010, interest from 5.3 percent to 5.9 percent; \$2,290,000 term bonds due July 1, 2017, at 6.0 percent

\$30,965,000 1998 Water Refunding/Revenue Bonds: \$15,055,000 serial bonds due in annual installments from \$230,000 to \$4,055,000 through October 1, 2013, interest from 4.2 percent to 5.38 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

\$20,000,000 2001 Water Revenue Bonds: \$10,070,000 serial bonds due in annual installments from \$345,000 to \$745,000 through October 1, 2021, interest from 2.6 percent to 5.0 percent; \$4,345,000 term bonds due October 1, 2026, interest at 5.0 percent; \$5,585,000 term bonds due October 1, 2031, interest at 5.0 percent

Total water revenue bonds payable

Total debt

Unamortized capital appreciation
Unamortized bond discount

Total debt, net of bond discount and capital appreciation

Less: current portion

Total long-term debt

June 30, 2002 June 30, 2001

\$ 1,121	\$ 1,201
11	22
1,132	1,223
29,000	31,830
3,965	4,130
29,950	30,170
20,000	0
82,915	66,130
84,047	67,353
(7,243)	(8,460)
(727)	(464)
76,077	58,429
(4,006)	(3,381)
\$72,071	\$55,048

Annual debt service requirements to maturity, as of June 30, 2002, are as follows (in thousands):

	2003	2004	2005	2006	2007	2008-2012	2013-2017	2018-2022	2023-2027	2028-2032	Total
Principal	\$4,006	\$4,160	\$4,195	\$4,225	\$4,265	\$21,656	\$21,500	\$ 5,995	\$ 7,685	\$6,360	\$ 84,047
Interest	2,795	2,628	2,597	2,565	2,338	11,997	7,566	4,310	2,589	745	40,130
Unamortized bond (discount) premium	(1,338)	(1,321)	(1,190)	(1,048)	(892)	(1,806)	(178)	(72)	(72)	(53)	(7,970)
Total	\$5,463	\$5,467	\$5,602	\$5,742	\$5,711	\$31,847	\$28,888	\$10,233	\$10,202	\$7,052	\$116,207

■ **Debt Service Coverage Ratio** The Water Utility's bond indentures require the Water Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants, of 1.25. The Water Utility's debt service coverage ratio was 3.89 at June 30, 2002, and 3.31 at June 30, 2001.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5. RESTRICTED EQUITY

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

NOTE 6. JOINTLY-GOVERNED ORGANIZATIONS

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

NOTE 7. LITIGATION

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

NOTE 8. SPECIAL ITEM

In May 2001, the City received \$3,000,000 in settlement of a lawsuit it had brought against certain manufacturers and distributors of dibromochloropropane ("DBCP"). DBCP, a pesticide that the Environmental Protection Agency banned in the mid 1970's, was detected in certain City-owned potable wells. The forty-year settlement agreement with the Dow Chemical Company, Shell Oil Company, Shell Chemical Company, Occidental Chemical Company, The Best Fertilizer Company and Occidental Petroleum Corporation (the "DBCP" defendants) provides for the DBCP Defendants to compensate the City for the costs of constructing, installing, maintaining, testing and operating granular activated carbon treatment facilities to remove DBCP from certain City wells. The settlement agreement is expected to cover the majority of such treatment costs and will help the City maintain a potable water supply that does not exceed federal and state limits for DBCP.

On May 17, 2002, the City received a payment from Lockheed Martin in the amount of \$7,900,000 as partial payment for obligations owed by Lockheed Martin to the City under the 1998 settlement agreement related to TCE- contamination in certain City wells. The obligation related to the construction of certain pipelines for the treatment of the contaminant. Other obligations owed by Lockheed Martin under this agreement are still ongoing.

NOTE 9. COMMITMENTS

As of June 30, 2002, the Water Utility had major commitments of approximately \$10,300,000 with respect to unfinished capital projects, which is expected to be funded by water revenues and bond proceeds.

STATISTICS

WATER SUPPLY (ACRE FEET)					
	2001/02	2000/01	1999/00	1998/99	1997/98
Pumping	79,937	74,647	78,639	74,638	71,597
Purchases	900	498	68	275	252
Total	80,837	75,145	78,707	74,913	71,849
Percentage pumped	98.9%	99.3%	99.9%	99.6%	99.7%
System peak day (gallons)	102,241,000	99,861,000	101,119,000	101,924,000	96,015,000

WATER USE					
	2001/02	2000/01	1999/00	1998/99	1997/98
Average number of customers					
Residential	54,468	54,200	53,879	53,774	53,387
Commercial/industrial	4,356	4,365	4,355	4,104	4,164
Other	352	341	304	505	664
Total	59,176	58,906	58,538	58,383	58,215
*CCF sales					
Residential	18,653,037	17,517,449	18,708,750	16,778,949	15,518,199
Commercial/industrial	9,820,471	9,577,374	9,873,278	8,570,558	8,289,294
Other	945,519	949,425	702,983	1,428,037	1,117,661
Total	29,419,027	28,044,248	29,285,011	26,777,544	24,925,154

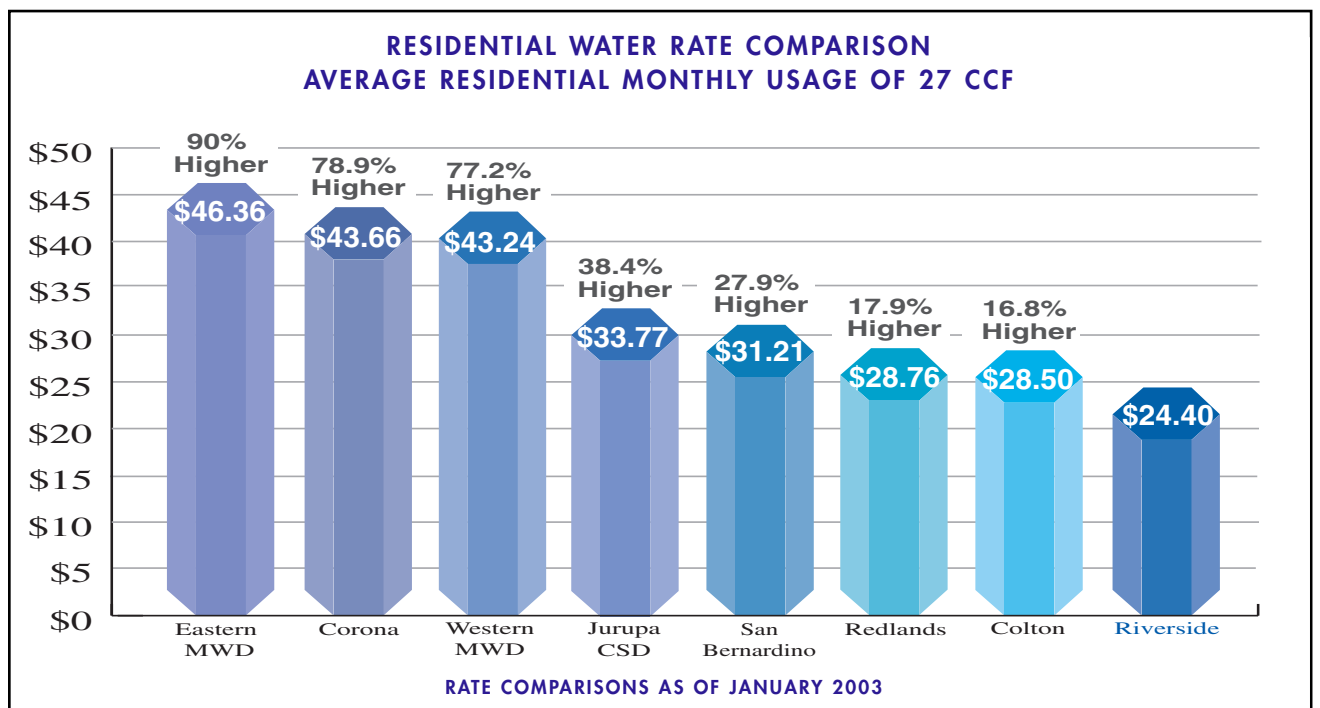
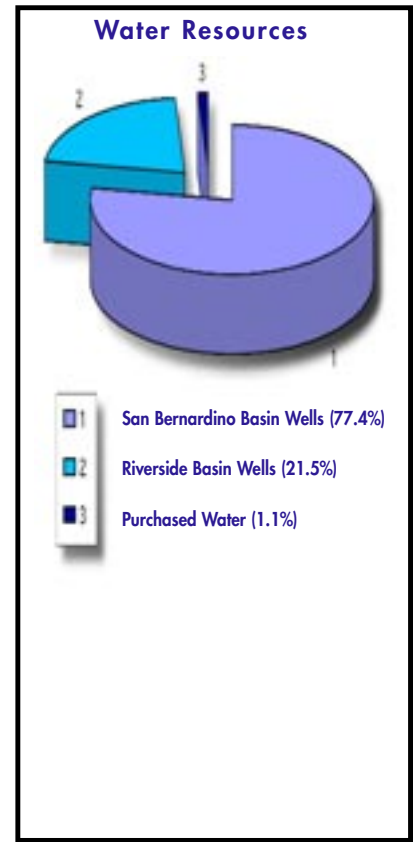
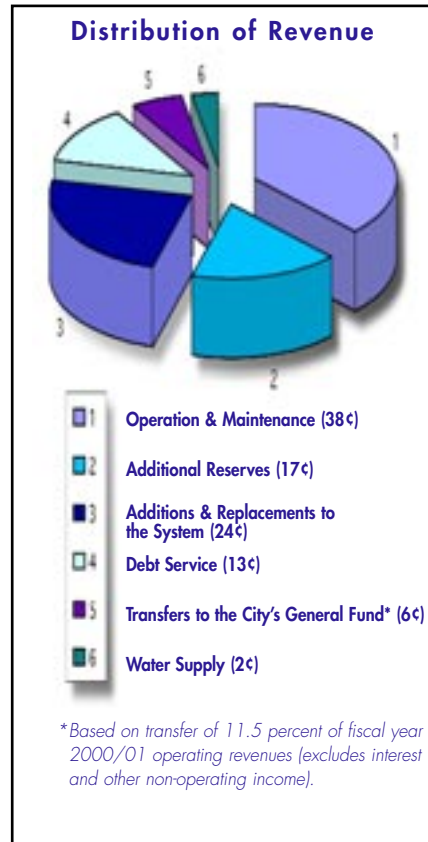
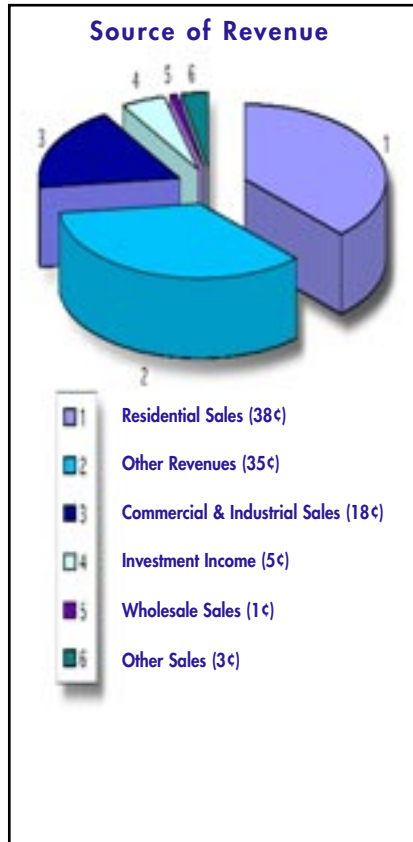
*(CCF equals 100 cubic feet)

WATER FACTS					
	2001/02	2000/01	1999/00	1998/99	1997/98
Average annual CCF per residential customer	343	323	347	312	291
Average price (cents/CCF) per residential customer	97.3	94.3	93.2	93.0	91.7
Debt service coverage ratio	3.89	3.31	3.17	2.77	2.30
Employees ¹	123	122	121	119	128

¹Approved positions

STATISTICS

2001/02 WATER REVENUE AND RESOURCES



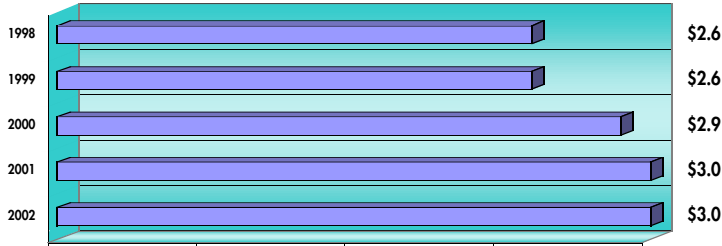
STATISTICS

UTILITY

WATER

CITY OF RIVERSIDE

General Fund Transfer (in millions)



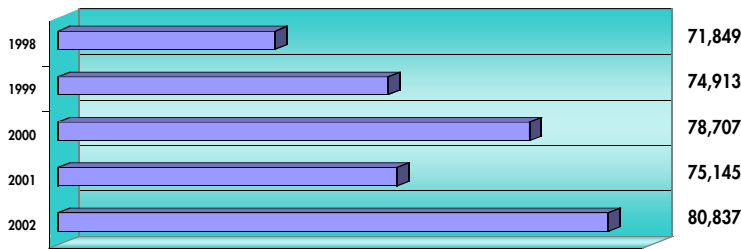
Average Number of Customers



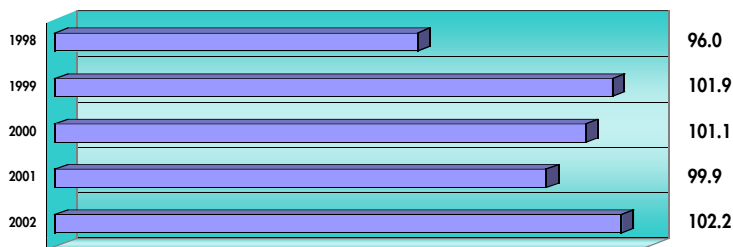
Total Operating Revenue (in millions)



Production (in acre feet)



Peak Day Demand (in million gallons)



WATER FACTS AND SYSTEM STATISTICS

Established:	1913
Service Area Population:	265,700
Service Area Size (square miles):	73.9
System Statistics:	
Smallest pipeline:	1.0"
Largest pipeline:	72.0"
Miles of pipeline:	938
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:	6,715
Daily average production (gallons):	72,084,500
2001-02 Peak day (gallons):	102,241,000
7/2/01, 102 degrees	
Historical peak (gallons):	102,241,000
7/2/01, 102 degrees	

BOND RATINGS

FITCH IBCA, DUFF & PHELPS	AA
STANDARD & POOR'S	AA

If you have questions on this report or would like to request a copy on CD-ROM, please call Riverside Public Utilities Administration Department at (909) 826-5789.