

Independent Auditors' Report

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

We have audited the accompanying balance sheets of the City of Riverside Water Utility as of June 30, 2001 and 2000, and the related statements of revenues, expenses, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Water Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 Enterprise Fund and are not intended to present fairly the financial position of the City of Riverside, California, and the results of its operations and cash flows of its business type activities 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, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Water Utility adopted Governmental Accounting Standards Board (GASB) Statements No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*, No. 37, *Basic Financial Statements- and Management's Discussion and Analysis for State and Local Governments: Omnibus* and No. 38, *Certain Financial Statement Note Disclosures*, effective July 1, 1999.

Also described in Note 1 to the financial statements, the Water Utility changed its policy for capitalization of fixed assets. As a result of this change, equity of the Water Utility as of July 1, 1999 was decreased by \$276,000.

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

The 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

December 14, 2001

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 for the fiscal year ended June 30, 2001. 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 \$158,088 (equity). Of this amount, \$27,541 may be used to meet the utility's ongoing obligations to creditors and customers.

The utility's total equity increased by \$13,720 from the prior fiscal year, primarily due to a large litigation settlement (\$2,982) and contributed capital from developer fees (\$11,109), offset by a slight loss (\$371) from ongoing operations.

At the end of the current fiscal year, unrestricted equity represented over 116 percent of annual operating expenses for 2001.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City of Riverside Water Utility basic financial statements. The Water Utility is a department of the City of Riverside, and its activities are recorded in a separate fund. Because the utility is a business-type activity of the City of Riverside, an enterprise fund is used to account for its electric utility operations. 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 only result in cash flows in future fiscal periods, i.e. accounts payable and accounts receivable. This is called 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 investments, 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 32 to 36 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 \$158,088 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 Water 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)

	2001	2000
Current and other assets	\$ 39,147	\$ 38,170
Capital assets	181,771	169,680
Total assets	220,918	207,850
Long-term debt outstanding	55,048	57,137
Other liabilities	7,782	6,345
Total liabilities	62,830	63,482
Equity (net assets):		
Invested in capital assets, net of related debt	124,069	112,046
Restricted	6,478	6,351
Unrestricted	27,541	25,971
Total equity (net assets)	\$158,088	\$144,368

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

The Water Utility's equity increased by \$13,720 during the current fiscal year. About 81percent of this increase relates to receiving one-time developer fees and other contributed capital due to increased building activity in Riverside. In addition, settlement of several different lawsuits has provided monies to pay for water treatment projects amounting to \$2,982 in the 2001 fiscal year.

Key elements of the increase in equity are as follows:

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

	2001	2000
Revenues:		
Retail sales, net of reserve	\$ 25,095	\$ 26,325
Wholesale sales	754	993
Legal settlement	2,982	0
Interest income	2,547	1,626
Other	1,615	1,452
Total revenues	32,993	30,396
Contributions in aid of construction	11,109	8,402
Total revenues and contributions in aid of construction	44,102	38,798
Expenses:		
Operations	11,051	9,814
Maintenance	3,047	2,524
Purchased energy	3,398	3,237
Purchased water	1,048	735
Depreciation	5,129	5,250
Interest expense	3,686	3,828
Total expenses	27,359	25,388
Contributions to the City's general fund	3,023	2,943
Total expenses and contributions to the City's General Fund	30,382	28,331
Increase in equity (net assets)	13,720	10,467
Equity, beginning of year	144,368	133,901
Equity, end of year	\$158,088	\$144,368

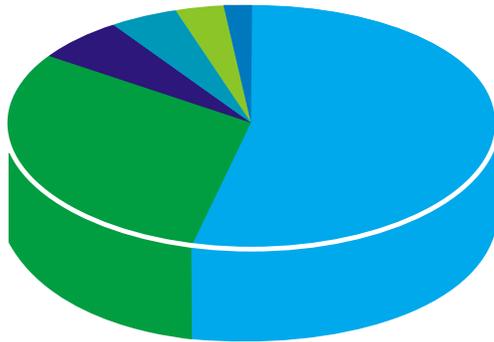
Management's Discussion and Analysis

Retail sales (residential, commercial and other sales) continue to be the primary revenue source for the water utility making up 56 percent of total revenue. Retail sales showed a slight decrease from prior year (4.7percent) due to cooler than normal weather.

Interest income increased by \$921 because of an overall increase in the size of the investment portfolio, as well as a stronger market.

Capital contributions reflect increased building activity in the area and a large legal settlement from various lawsuits, showing a combined increase of 68 percent over prior year results.

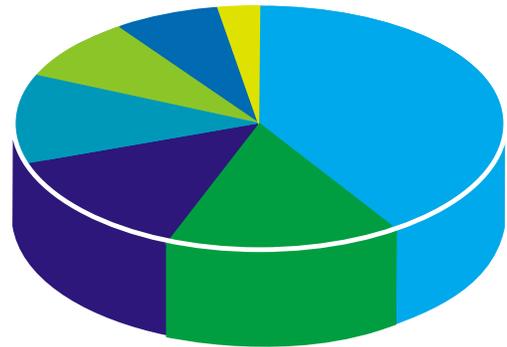
Revenues by Sources - Water Utility



Total expenses show a 7 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 also increased by \$80 or 2.7 percent.

Expenses - Water Utility



Management's Discussion and Analysis

CAPITAL ASSET AND DEBT ADMINISTRATION

The Water Utility's investment in capital assets as of June 30, 2001 amounts to \$181,771 (net of accumulated depreciation). This includes investments in production, transmission, and distribution related facilities, as well as general items such as office equipment, furniture, etc. This fiscal year showed a 7.1 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 \$6,600
- Capital additions for water main replacement totaled \$4,000
- Capital additions to update service standards totaled \$4,000

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

	2001	2000
Source of supply	\$ 17,774	\$ 18,024
Pumping	3,538	3,727
Treatment	8,120	1,457
General	2,091	2,224
Transmission & distribution	133,110	127,977
Intangible	6,152	5,709
Construction in progress	10,986	10,562
Total	<u>\$181,771</u>	<u>\$169,680</u>

Additional information regarding capital assets can be found in Note 1 on pages 32 and 33 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 outstanding of \$55,048. This debt is backed by the revenue of the utility (revenue bonds), with the exception of \$22, which is a capital lease for office equipment. No major changes occurred in the utilities long-term debt during this fiscal year. The small decrease is due to regularly scheduled principal payments on the outstanding debt.

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

	2001	2000
Revenue bonds	\$66,130	\$69,085
Contracts payable/Capital lease obligation	1,223	1,269
Less: unamortized assets	(8,924)	(10,089)
Less: current portion	(3,381)	(3,128)
Total	<u>\$55,048</u>	<u>\$57,137</u>

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

In August 2001, the water utility issued \$20,000 additional revenue bonds to finance additional capital projects for the water system.

Additional information on the water utility's long-term debt can be found in Note 4 on page 35 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 2002 and 2003 to provide for increased costs in all functional areas, such as salaries and expenses impacted by general inflation.

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 Chief Financial Officer, Riverside Public Utilities, 3900 Main Street, 4th floor, Riverside, CA 92522.

Balance Sheets

	JUNE 30 2001	JUNE 30 2000
	<i>(in thousands)</i>	
ASSETS		
UTILITY PLANT:		
Source of supply	\$ 25,784	\$ 25,729
Pumping	8,606	8,614
Treatment	8,560	1,796
Transmission and distribution	193,082	184,083
General	6,411	6,183
Intangible	6,152	5,709
	248,595	232,114
Less accumulated depreciation	(77,810)	(72,996)
	170,785	159,118
Construction in progress	10,986	10,562
Total utility plant (Note 3)	181,771	169,680
RESTRICTED ASSETS:		
Cash and cash equivalents (Note 2)	4,477	5,083
Investments (Note 2)	3,013	3,091
Total restricted assets	7,490	8,174
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	25,774	24,172
Accounts receivable, less allowance for doubtful accounts 2001 \$76; 2000 \$85	4,061	4,062
Accrued interest receivable	443	371
Advances to the City's general fund	105	46
Total current assets	30,383	28,651
OTHER NON-CURRENT ASSETS:		
Unamortized bond issuance costs	670	717
Unamortized bond refunding costs	604	628
Total other non-current assets	1,274	1,345
Total assets	\$ 220,918	\$ 207,850

See accompanying notes to the financial statements.

Continued

Balance Sheets

	JUNE 30 2001	JUNE 30 2000
	<i>(in thousands)</i>	
EQUITY AND LIABILITIES		
EQUITY:		
Invested in capital assets, net of related debt	\$ 124,069	\$ 112,046
Restricted for debt service (Note 5)	6,478	6,351
Unrestricted	27,541	25,971
Total equity	158,088	144,368
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4):		
Total equity and long-term obligations	55,048	57,137
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	534	595
Current portion of long-term obligations (Note 4)	3,215	2,955
Total current liabilities payable from restricted assets	3,749	3,550
CURRENT LIABILITIES:		
Accounts payable	1,664	523
Accrued liabilities	1,893	1,726
Current portion of long-term obligations (Note 4)	166	173
Customer deposits	310	373
Total current liabilities	4,033	2,795
COMMITMENTS AND CONTINGENCIES		
Total equity and liabilities	\$ 220,918	\$ 207,850

See accompanying notes to the financial statements.

Statements of Revenues, Expenses and Changes in Equity

FOR THE FISCAL YEARS
ENDED JUNE 30
2001 2000
(in thousands)

OPERATING REVENUES:		
Residential sales	\$ 16,515	\$ 17,428
Commercial sales	7,896	8,056
Other sales	785	928
Wholesale sales	754	993
Other operating revenue	647	406
Total operating revenues before reserve	26,597	27,811
Reserve for uncollectible	(101)	(87)
Total operating revenues, net of reserve	26,496	27,724
OPERATING EXPENSES:		
Operations	11,051	9,814
Maintenance	3,047	2,524
Purchased energy	3,398	3,237
Purchased water	1,048	735
Depreciation	5,129	4,974
Total operating expenses	23,673	21,284
Operating income	2,823	6,440
NON-OPERATING REVENUES (EXPENSES):		
Investment income	2,547	1,626
Interest expense and fiscal charges	(3,686)	(3,828)
Gain (loss) on retirement of utility plant	(27)	7
Other	995	1,039
Total non-operating revenues (expenses)	(171)	(1,156)
Income before contributions and transfers	2,652	5,284
Contributions in aid of construction	11,109	8,402
Transfers out - contributions to the City's general fund	(3,023)	(2,943)
Total contributions and transfers out	8,086	5,459
Income before special item	10,738	10,743
SPECIAL ITEM:		
Legal settlements	2,982	0
Increase in equity	13,720	10,743
EQUITY, BEGINNING OF YEAR, AS RESTATED	144,368	133,625
EQUITY, END OF YEAR	\$ 158,088	\$ 144,368

See accompanying notes to the financial statements.

Statements of Cash Flows

FOR THE FISCAL YEARS
ENDED JUNE 30
2001 2000
(in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	\$ 26,434	\$ 27,789
Cash paid to suppliers and employees	(17,236)	(16,561)
Other non-operating revenue	995	1,039
Net cash provided by operating activities	10,193	12,267
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(3,023)	(2,943)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(9,354)	(6,605)
Proceeds from the sale of utility plant	77	46
Principal paid on long-term obligations	(3,000)	(2,767)
Interest paid on long-term obligations	(2,512)	(2,705)
Contributed capital and special item	6,121	2,851
Net cash used by capital and related financing activities	(8,668)	(9,180)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Advances to the City's general fund	(59)	0
Maturities of investment securities	78	(560)
Income from investments	2,475	1,504
Net cash provided by investing activities	2,494	944
Net increase in cash and cash equivalents	996	1,088
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR¹	29,255	28,167
CASH AND CASH EQUIVALENTS, END OF YEAR¹	\$ 30,251	\$ 29,255
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 2,823	\$ 6,440
Adjustments to reconcile operating income to net cash provided by operating activities:		
Other non-operating revenue	995	1,039
Depreciation	5,129	4,974
Provision for uncollectible accounts receivable	(9)	(17)
(Increase) decrease in accounts receivable	10	(53)
Increase (decrease) in accounts payable	1,141	(281)
Increase in accrued liabilities	167	117
Increase (decrease) in customer deposits	(63)	48
Net cash provided by operating activities	\$ 10,193	\$ 12,267
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Contributions in aid of construction	\$ 7,970	\$ 5,551

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.

■ Accounting Changes and Restatements

On July 1, 1999, the Water Utility adopted four new accounting statements issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions;
- Statement No. 34, Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments;
- Statement No. 37, Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments: Omnibus;
- Statement No. 38, Certain Financial Statement Disclosures.

Statement No. 33 prescribes standards for recording nonexchange transactions on the modified accrual and accrual bases of accounting. This standard required capital contributions from external parties to be recorded separately on the Statement of Revenues, Expenses and Changes in Equity rather than as a direct addition to equity. There was no effect on equity as a result of implementation of this standard as of July 1, 1999.

Statement No. 34 (as amended by Statement No. 37) resulted in minor changes in the financial reporting model used by the Water Utility. Statement No. 34 also requires, as required supplementary information, Management's Discussion and Analysis, which includes an analytical overview of the Water Utility's financial activities.

Statement No. 38 requires certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34. While this Statement does not affect amounts reported in the financial statements of the Utility, certain note disclosures have been added and or amended.

On July 1, 1999, the Water Utility also decided to change its capitalization threshold from \$1,000 to \$5,000. The Utility wrote-off all capital assets under \$5,000 and as a result beginning equity was decreased by \$276,000.

■ **Revenue Recognition** The Water Utility uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Water Utility customers are billed monthly. Unbilled water service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled \$1,640,000 at June 30, 2001, and \$1,641,000 at June 30, 2000.

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. 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,

Notes to the Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

including governmental external investment pools, to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. 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.

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

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

■ **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, 2001 and 2000, was \$310,000 and \$373,000, respectively.

■ **Compensated Absences** The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due employees at June 30, 2001 and 2000.

The Water Utility treats compensated absences due employees as a current liability. The amount accrued for compensated absences was \$1,735,000 at June 30, 2001, and \$1,575,000 at June 30, 2000, and is included in current liabilities in the accompanying balance sheets.

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

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

■ **Self-Insurance Program** The Water Utility participates in a self-insurance program for worker's

compensation and general liability coverage that is administered by the City. The Water Utility pays an amount to the City representing an estimate of amounts to be paid for reported claims incurred and incurred but unreported claims based upon past experience, modified for current trends and information.

Although the ultimate amount of losses incurred through June 30, 2001, is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. 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. 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, 2001, 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, 2001.

■ **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 2000-01 and 1999-00, the Water Utility transferred 11.5 percent of gross operating revenues, or \$3,023,000 and \$2,943,000, respectively.

■ **Budgets and Budgetary Accounting** The Water Utility presents, and the City Council adopts, an annual budget. The proposed budget includes estimated expenses and forecasted revenues. The City Council adopts the Water Utility's budget at its last meeting in June via an adopting resolution.

■ **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

Cash and investments at June 30, 2001 and 2000, consist of the following (in thousands):

	June 30, 2001	June 30, 2000
	Fair Value	
Pooled investments with City Treasurer	\$29,523	\$27,722
Cash and investments at fiscal agent	3,741	4,624
	<u>\$33,264</u>	<u>\$32,346</u>

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

	June 30, 2001	June 30, 2000
Cash and cash equivalents	\$25,774	\$24,172
Restricted assets:		
Cash and cash equivalents	4,477	5,083
Investments	3,013	3,091
	<u>7,490</u>	<u>8,174</u>
	<u>\$33,264</u>	<u>\$32,346</u>

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

- Securities of the U.S. government, or its agencies
- Local agency investment fund (state pool) deposits
- Small Business Administration loans
- Passbook savings account demand deposits
- Negotiable certificates of 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 investments at June 30, 2001, represents approximately 8 percent or \$33,264,000 of the City's total cash and investments of \$428,998,000. 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, 2001. 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 year ended June 30, 2001 and 2000 (in thousands):

	(Restated) Balance, As of 7/1/1999	Additions	Deletions	Balance, As of 6/30/2000	(Restated) Balance, As of 7/1/2000	Additions	Deletions	Balance, As of 6/30/2001
Source of supply	\$25,616	\$ 113	\$ 0	\$25,729	\$25,729	\$ 74	\$ (19)	\$25,784
Pumping	8,613	8	(7)	8,614	8,614	0	(8)	8,606
Treatment	1,796	0	0	1,796	1,796	6,764	0	8,560
Transmission and distribution	176,477	7,681	(75)	184,083	184,083	9,157	(158)	193,082
General	5,854	428	(99)	6,183	6,183	466	(238)	6,411
Intangible	5,597	112	0	5,709	5,709	443	0	6,152
Construction in progress	6,747	12,259	(8,444)	10,562	10,562	11,853	(11,429)	10,986
Subtotal	230,700	20,601	(8,625)	242,676	242,676	28,757	(11,852)	259,581
Less accumulated depreciation	(68,163)	(4,974)	141	(72,996)	(72,996)	(5,129)	315	(77,810)
Total utility plant	<u>\$162,537</u>	<u>\$ 15,627</u>	<u>(\$ 8,484)</u>	<u>\$169,680</u>	<u>\$169,680</u>	<u>\$ 23,628</u>	<u>(\$ 11,537)</u>	<u>\$181,771</u>

Notes to the Financial Statements

NOTE 4. LONG-TERM OBLIGATIONS

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

	June 30, 2001	June 30, 2000
■ Contracts Payable/Capital Lease		
Water Stock Acquisitions: Payable on demand to various water companies	\$ 1,201	\$ 1,237
Water Utility's Share of Equipment Purchased Through Capital Lease: \$79,468 capital lease due in monthly installments of \$2,230 through December 31, 2002, interest at 8.5 percent	22	32
Total contracts payable and capital lease	1,223	1,269
■ Revenue Bonds Payable		
\$69,840,000 1991 Water Revenue Bonds: \$25,050,000 serial bonds due in annual installments from \$2,830,000 to \$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)	31,830	34,420
\$4,710,000 1994 FARECal Revenue Bonds: \$2,420,000 serial bonds due in annual installments from \$165,000 to \$255,000 through July 1, 2010, interest from 5.2 percent to 5.9 percent; \$2,290,000 term bonds due July 1, 2017, at 6.0 percent	4,130	4,285
\$30,965,000 1998 Water Refunding/Revenue Bonds: \$15,055,000 serial bonds due in annual installments from \$220,000 to \$4,055,000 through October 1, 2013, interest from 4.1 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	30,170	30,380
Total water revenue bonds payable	66,130	69,085
Total obligations	67,353	70,354
Unamortized capital appreciation	(8,460)	(9,599)
Unamortized bond discount	(464)	(490)
Total obligations, net of bond discount and capital appreciation	\$ 58,429	\$ 60,265
Less: Current portion	(3,381)	(3,128)
Total long-term obligations	\$ 55,048	\$ 57,137

Annual debt service requirements to maturity as of June 30, 2001, are as follows (in thousands):

	2002	2003	2004	2005	2006	2007-2011	2012-2016	2017-2021	2022-2026	2027-2031	Total
Principle	\$ 3,381	\$ 3,656	\$ 3,805	\$ 3,830	\$ 3,850	\$ 19,346	\$ 21,925	\$ 2,870	\$ 3,180	\$ 1,510	\$ 67,353
Interest	2,165	1,880	1,722	1,701	1,680	8,018	4,883	1,518	791	76	24,434
Unamortized bond (discount) premium	(1,243)	(1,328)	(1,311)	(1,181)	(1,038)	(2,608)	(157)	(24)	(24)	(10)	(8,924)
Total	\$ 4,303	\$ 4,208	\$ 4,216	\$ 4,350	\$ 4,492	\$ 24,756	\$ 26,651	\$ 4,364	\$ 3,947	\$ 1,576	\$ 82,863

■ 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 3.31 at June 30, 2001, and 3.17 at June 30, 2000.

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

NOTE 9. SUBSEQUENT EVENT

On August 2, 2001, the City issued \$20,000,000 of water revenue bonds due in annual installments from \$345,000 to \$1,230,000 through October 1, 2031, interest from 2.6 percent to 5.0 percent.

Statistics

WATER SUPPLY (ACRE FEET)					
	2000/01	1999/00	1998/99	1997/98	1996/97
Pumping	74,647	78,639	74,638	71,597	73,266
Purchases	498	68	275	252	68
Total	75,145	78,707	74,913	71,849	73,334
Percentage pumped	99.3%	99.9%	99.6%	99.7%	99.9%
System peak day (gallons)	99,861,000	101,119,000	101,924,000	96,015,000	93,400,000

WATER USE					
	2000/01	1999/00	1998/99	1997/98	1996/97
Average number of customers					
Residential	54,200	53,879	53,774	53,387	53,432
Commercial/industrial	4,365	4,355	4,104	4,164	4,054
Other	341	304	505	664	760
Total	58,906	58,538	58,383	58,215	58,246
*CCF sales					
Residential	17,517,449	18,708,750	16,778,949	15,518,199	17,833,655
Commercial/industrial	9,577,374	9,873,278	8,570,558	8,289,294	9,386,127
Other	949,425	702,983	1,428,037	1,117,661	1,436,177
Total	28,044,248	29,285,011	26,777,544	24,925,154	28,655,959

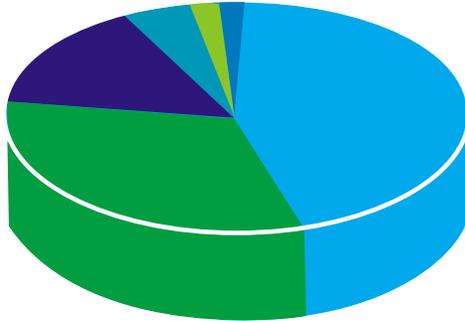
**(CCF equals 100 cubic feet)*

WATER FACTS					
	2000/01	1999/00	1998/99	1997/98	1996/97
Average annual CCF per residential customer	323	347	312	291	361
Average price (cents/CCF) per residential customer	94.3	93.2	93.0	91.7	85.7
Debt as a percent of net plant	32.1%	35.5%	38.0%	40.3%	34.4%
Employees	122	121	119	128	136

Statistics

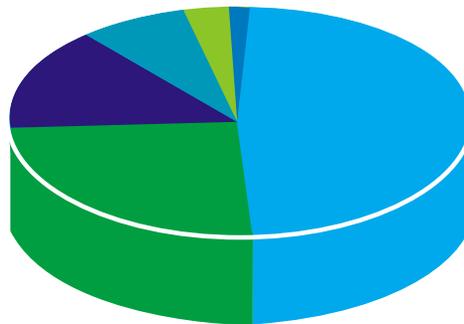
2000/01 WATER REVENUE AND RESOURCES

Source of Revenue



- Residential Sales (37¢)
- Other Revenue (35¢)
- Commercial and Industrial Sales (18¢)
- Investment Income (6¢)
- Wholesale Sales (2¢)
- Other Sales (2¢)

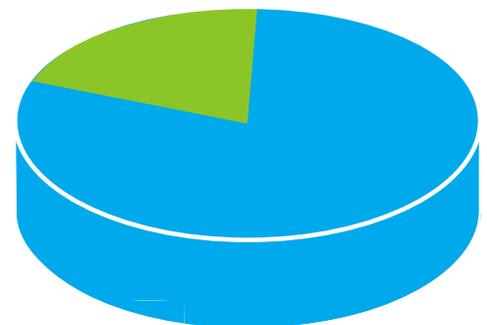
Distribution of Revenue



- Operation & Maintenance (40¢)
- Additional Reserves (22¢)
- Additions and Replacements to the System (17¢)
- Debt Service (12¢)
- Transfers to the City's General Fund (7¢)*
- Water Supply (2¢)

*Based on transfer of 11.5 percent of fiscal year 1999/00 operating revenues (excludes interest and other non-operating income).

Water Resources



- San Bernardino Basin Wells (84.8%)
- Riverside Basin Wells (13.5%)

Purchased water was less than 1 percent for 2000/01

Statistics

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:	262,335
Service Area Size (square miles):	76.4
System Statistics:	
Smallest pipeline:	1.0"
Largest pipeline:	72.0"
Miles of pipeline:	928
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:	6,566
Daily average production	(gallons):66,839,000
2000-01 Peak day	(gallons):99,861,000
7/20/00, 106 degrees	
Historical peak	(gallons):101,924,000
8/4/98, 106 degrees	

BOND RATINGS

FITCH IBCA	AA
STANDARD & POOR'S CORP.	AA

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