



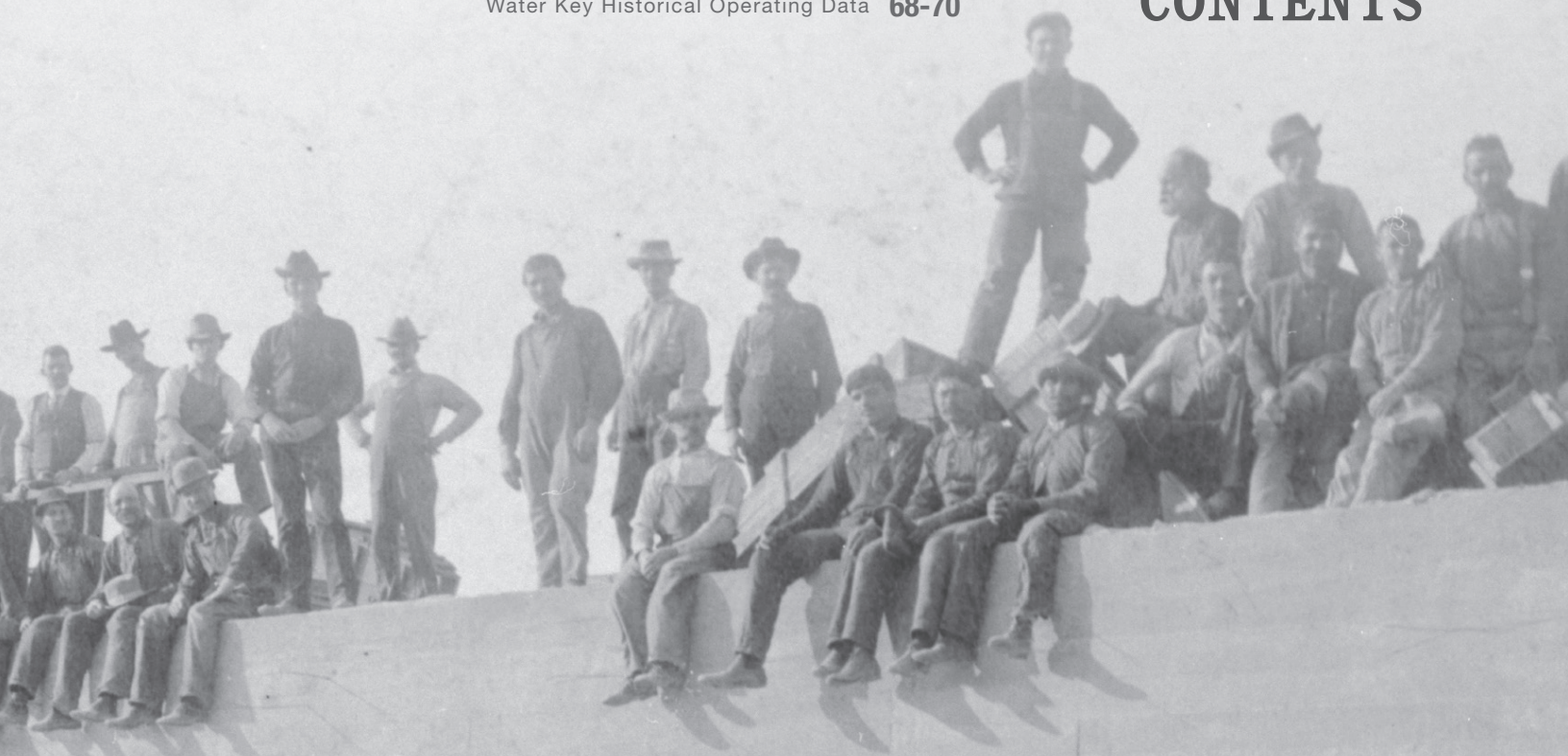
# FINANCIAL REPORT 2008-2009



# RIVERSIDE PUBLIC UTILITIES

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# RIVERSIDE PUBLIC UTILITIES

## 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

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





## RIVERSIDE PUBLIC UTILITIES

# BOARD OF PUBLIC UTILITIES

The Board of Public Utilities is composed of nine citizen-volunteers appointed by the City Council to four-year terms without compensation. Board members oversee the utility's

policies, operations, revenues, expenditures, planning, and regulatory compliance. In addition to bi-weekly Board meetings, members also serve on subcommittees to provide input on the development of new facilities and equipment; performance measures; programs to conserve energy and water resources; and appropriate technology to protect our water supply and secure our energy resources. The citizen-volunteers who serve on the Board of Public Utilities provide an ongoing, year-round review of all actions by Riverside Public Utilities before any measure is sent to the elected City Council representatives for final determination. The Board of Public Utilities meets at 8:30 a.m. on the first and third Fridays of each month in the Public Utilities Board Room at 3901 Orange Street, Riverside. Board meetings are open to the public.



**ROBERT A. STOCKTON**  
Board Chair  
Occupation: Vice President, Civil Engineering Consulting  
Years of Service: 5



**KEN SUTTER**  
Board Vice Chair  
Occupation: Retired Architect  
Years of Service: 4



**MARY H. CURTIN**  
Occupation: Teacher of English, RCC and Executive Director Riverside & San Bernardino Central Labor  
Years of Service: 3



**IAN J. DAVIDSON**  
Occupation: Owner/President IDLA, Inc.  
Years of Service: 2



**ROBERT C. ELLIOTT**  
Occupation: Retired San Bernardino Public Employee's Association General Manager  
Years of Service: 3



**MANNY SANCHEZ**  
Occupation: President, Terra Solutions, Inc.  
Years of Service: 1



**JUSTIN SCOTT-COE**  
Occupation: Public Affairs Specialist, Monte Vista Water District  
Years of Service: New Member



**GUSTAVO SEGURA**  
Occupation: Instructional Media Broadcast Coordinator, Riverside Community College  
Years of Service: New Member



**BERNIE TITUS**  
Occupation: President/CEO of Service Plus Credit Union  
Years of Service: 3

## PUBLIC UTILITIES ADMINISTRATION



**DAVID H. WRIGHT**  
General Manager



**STEPHEN H. BADGETT**  
Deputy General Manager  
Energy Delivery



**KEVIN S. MILLIGAN**  
Assistant General Manager  
Water



**GARY L. NOLFF**  
Assistant General Manager  
Resources



**REIKO A. KERR**  
Assistant General Manager  
Finance and Customer Services



## *Since 1895, delivering what matters most: Water. Energy. Life.*

Despite a climate of economic uncertainty, statewide drought, and a variety of regulatory challenges, our financial position remains very strong--as evidenced by our AA-/AA- and AA+/AA ratings from Standard & Poor's and Fitch Ratings for the Electric and Water Utilities, respectively. Maintaining strong financial performance and prudent fiscal planning allows continued investment in our community and infrastructure to ensure reliability of essential utility services.

To enhance reliability, the Water Utility continued its accelerated main pipeline replacement.. Over the past year, improvements to the water system included approval and construction of the Riverside Recycled Water Project to replace potable water supplies with recycled wastewater to irrigate parks, medians, and commercial/industrial properties and completion of the John W. North Water Treatment Plant to convert four existing irrigation wells to a potable water supply. Both of these accomplishments have enabled Riverside to become "water independent" and free of reliance on imported State Water Project and Colorado River water supplies.

The Electric Utility continues to work to increase reliability and ensure service delivery by doubling the City's power import capability through construction of a second interconnection with the state's transmission grid via the Riverside Transmission Reliability Project and awarding a contract to construct an additional 98 megawatts (MW) of internal peaking generation for system emergencies and to help meet the City's high summer demands during periods of peak usage.

The resources division took steps towards providing an astonishing 50% of retail needs served with renewable energy by 2013 by entering into two, thirty-year geothermal contracts for 96 MW of renewable energy with delivery over the City's existing Southern Transmission System. The resources division also helped insure reliable power delivery through its active participation and strategy development in the California Independent System Operator's Market Redesign and Technology Upgrade, which went live on April 1, 2009, after years of development.

During these tough times, the Utility's efforts to give back to the community through its Public Benefits rebates and assistance programs are more important than ever, and is a principal advantage of having a locally-owned utility. As a result of strong fiscal performance, the Utility transferred over \$34 million to the City's General Fund to help provide public safety, parks and recreation, museums, libraries, and other valuable City services.

Careful management of assets and constant movement toward a sustainable future, ensures we will be an industry leader committed to our customer-owners for generations to come.



Reiko Kerr  
Assistant General Manager, Finance and Customer Services

*The information contained in this report would not be possible without the outstanding leadership by Dora Burns and Brian Seinturier, as well as substantial contributions by Aileen Ma, Shelly Almgren, and Renee Moorhouse. Thank you for all your efforts throughout the year.*

# INDEPENDENT AUDITORS' REPORT: ELECTRIC



## Mayer Hoffman McCann P.C.

An Independent CPA Firm

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

### **INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying financial statements of the City of Riverside, California, Electric Utility, an enterprise fund of the City, as of and for the year ended June 30, 2009 as listed in the table of contents. These financial statements are the responsibility of the City of Riverside Electric Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year partial comparative information has been derived from the financial statements of the Electric Utility for the year ended June 30, 2008 and, in our report dated October 3, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 to the financial statements, the financial statements of the City of Riverside, California, Electric Utility are intended to present the financial position and the changes in financial position and cash flows for the City of Riverside, California, Electric Utility, a fund of the City, and do not purport to, and do not, present fairly the financial position of the City of Riverside, California, and the changes in its financial position and its cash flows, where applicable, 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, California, Electric Utility, as of June 30, 2009, 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, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



# INDEPENDENT AUDITORS' REPORT: ELECTRIC



To the Honorable City Council and Board of Public Utilities  
City of Riverside  
Page 2

Our audits were conducted for the purpose of forming an opinion on the financial statements that comprise the City of Riverside, California, Electric Utility's basic financial statements. The supplementary information entitled Electric Key Historical Data, as listed in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2009 on our consideration of the City of Riverside's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Mayer Hoffman Me Cann P.C.*

San Jose, California  
October 29, 2009





## MANAGEMENT'S DISCUSSION AND ANALYSIS: ELECTRIC

As management of Riverside Public Utilities (a department of the City of Riverside), we offer the readers of Riverside's Electric Utility financial statements, an enterprise fund of the City, this narrative overview and analysis of the financial activities of the Electric Utility (Utility) for the fiscal years ended June 30, 2009 and 2008. We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, which begin on page 18 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

### FINANCIAL HIGHLIGHTS

Fiscal years 2009 and 2008 reflected strong operating results for the Electric Utility, with each year's retail revenues exceeding the previous all-time record, primarily from an expanded customer base and the effects of rate increases.

- Retail sales, net of reserve/recovery were \$272,298 and \$257,120 for years ended June 30, 2009 and 2008, respectively.
- The assets of the Electric Utility exceeded its liabilities (equity) at the close of fiscal years 2009 and 2008 by \$398,266 and \$356,297, respectively. Of this amount, \$164,762 and \$146,440, respectively, may be used to meet the Utility's ongoing obligations to creditors and customers.
- The Utility's overall equity increased by \$41,969 and \$30,810 for fiscal years ended June 30, 2009 and 2008 due to positive operating results from the historic levels of retail sales and other items discussed in this report.
- As of June 30, 2009 and 2008, unrestricted equity represented over 67% and 58% of annual operating expenses, respectively.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is 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's "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 historical sales, operating, and other relevant data.

Included as part of the financial statements are three separate statements, which collectively provide an indication of the Electric Utility's financial health.

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, e.g., 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 22 to 38 of this report.

# MANAGEMENT'S DISCUSSION AND ANALYSIS: ELECTRIC

## 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 (equity) by \$398,266 and \$356,297 at the close of the fiscal years 2009 and 2008, respectively.

The following table summarizes the Utility's financial condition as of June 30, 2009, 2008 and 2007:

### CONDENSED STATEMENTS OF EQUITY (NET ASSETS)

	2009	2008	2007
Current and other assets	\$ 462,012	\$ 498,822	\$ 318,076
Capital assets	565,894	505,444	452,712
Total assets	1,027,906	1,004,266	770,788
Long-term debt outstanding	506,208	528,030	334,751
Other liabilities	123,432	119,939	110,550
Total liabilities	629,640	647,969	445,301
Invested in capital assets, net of related debt	204,902	181,966	162,384
Restricted	28,602	27,891	25,395
Unrestricted	164,762	146,440	137,708
Total equity (net assets)	\$ 398,266	\$ 356,297	\$ 325,487

### ASSETS

**Fiscal Year 2009** The Utility's total assets of \$1,027,906 reflect an increase of \$23,640 (2.4%), mainly due to the following:

- Total assets less Utility plant decreased by \$36,810, of which \$49,583 relates to decreases in restricted assets offset by an increase of \$12,773 in unrestricted and other non-current assets.
- The decrease of \$49,583 in restricted assets is primarily due to a \$5,301 increase in nuclear decommissioning reserve offset by a \$55,136 reduction in 2008 bond proceeds used to fund capital projects.
- Unrestricted and other non-current assets increased by \$12,773 mostly due to \$56,196 in unrestricted cash from the City's repayment of its advances of \$33,586, increases of \$7,610 in operating cash, and \$15,000 in operating reserves resulting from positive operating results, offset by \$42,413 from net decreases in advances receivable from the City, deferred purchased power, accrued interest and accounts receivable, and prepaid expenses.
- The increase in net capital assets (Utility plant) of \$60,450 was due to an increase in completed distribution system assets of \$32,596 resulting from continued improvements to the Electric Utility's distribution system and increases in construction in progress of \$32,488 due to the continued construction of the RERC units 3 and 4, offset by the current year impact of depreciation. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section of the financial analysis.

**Fiscal Year 2008** Total assets were \$1,004,266, an increase of \$233,478 (30.3%), comprised of a \$52,732 increase in Utility plant for improvements to the distribution system, including \$15,083 for construction in progress, and \$180,746 of non-Utility plant increases. The \$180,746 increase in non-Utility plant was primarily due to the increase in restricted assets of \$165,578 due to the receipt of bond proceeds from the issuance of the 2008 Electric Revenue Series D Bonds in the amount of \$209,740 and the use of \$51,763 in bond proceeds for capital projects. Unrestricted and non-current assets increased by \$15,168. Within this category, unrestricted cash and cash equivalents decreased \$26,701 due to Advances to the City of \$39,504 offset by a \$12,153 increase in operating cash due to positive operating results.

## MANAGEMENT'S DISCUSSION AND ANALYSIS: ELECTRIC

### LIABILITIES

**Fiscal Year 2009** The Utility's total liabilities were \$629,640, a decrease of \$18,329 (2.8%), due to the following:

- Long-term debt outstanding decreased by \$21,822, primarily due to principal repayments and the amortization of bond premiums and deferred bond refunding costs.
- Other liabilities increased by \$3,493, primarily due to increases of \$4,549 in nuclear decommissioning, \$955 in the current portion of long-term obligations, \$1,653 in accrued interest payable, \$2,433 in capital leases payable and \$624 in postemployment benefits payable, offset by a \$6,835 combined decrease in accounts payable and accrued liabilities.

**Fiscal Year 2008** Total liabilities were \$647,969, an increase of \$202,668 (45.5%), due to an increase in long-term debt outstanding of \$193,279, resulting from the issuance of new bonds in the amount of \$209,740 offset by \$19,460 in principal repayments, and the amortization of bond premiums and deferred bond refunding costs. Other liabilities increased by \$9,389, mainly due to increases of \$3,917 in nuclear decommissioning and \$3,291 in accounts payable.

### EQUITY (NET ASSETS)

**Fiscal Year 2009** The Utility's equity, which represents the difference between the Utility's resources and its obligations, totaled \$398,266, an increase of \$41,969 (11.8%), primarily the result of retail revenues reaching an historic high and is comprised of the following:

- A portion of the Utility's equity (51.4%) reflects its investment in capital assets, such as production, transmission, and distribution facilities, less any related outstanding debt used to acquire those assets. This portion totaled \$204,902, an increase of \$22,936 (12.6%), primarily due to the amount of capital assets constructed or purchased that were not bond financed. 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 capital assets themselves cannot be used to liquidate these long-term obligations. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.
- The restricted portion totaled \$28,602 (7.2% of total equity), and represents resources that are subject to internal and external restrictions on how they may be used. These are reserved for items such as debt repayment, Public Benefit Programs, and other legally restricted assets. This portion increased by \$711 (2.5%) due to an increase in the required debt service reserve offset by a decrease in Public Benefits Programs' assets.
- The unrestricted portion equals \$164,762 (41.4% of total equity), an increase of \$18,322 (12.5%), and is primarily attributable to positive operating results. This portion may be used to meet the Utility's ongoing obligations to creditors and customers.

**Fiscal Year 2008** Electric fund equity increased by \$30,810 (9.5%) to a total of \$356,297. The portion of equity investment in capital assets, net of related debt, increased by \$19,582 primarily due to the amount of capital assets constructed or purchased that were not bond financed. The restricted portion increased by \$2,496 due to an increase in the required debt service reserve as a result of the \$209,740 bond issue and the \$119,115 refunding bond issue. The unrestricted portion increased by \$8,732 and was attributable to positive operating results.



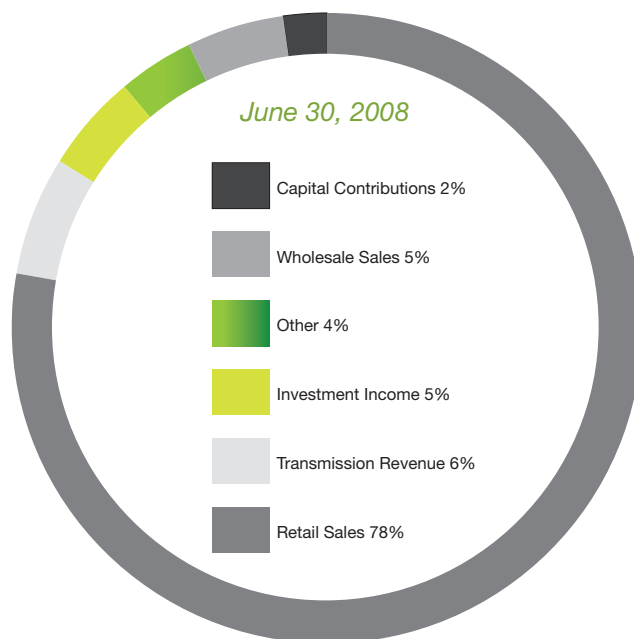
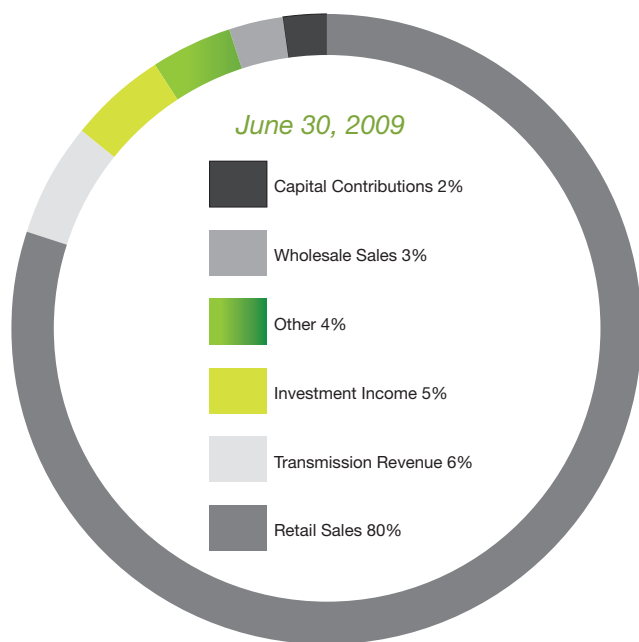
## MANAGEMENT'S DISCUSSION AND ANALYSIS: ELECTRIC

Positive operating results in the Electric Utility increased equity by \$41,969 and \$30,810 during fiscal years 2009 and 2008, respectively, as reflected in the following Condensed Statements of Changes in Equity:

### CONDENSED STATEMENTS OF CHANGES IN EQUITY (NET ASSETS)

	2009	2008	2007
<b>Revenues:</b>			
Retail sales, net	\$ 272,298	\$ 257,120	\$ 238,658
Wholesale sales	9,400	14,805	9,913
Transmission revenues	18,673	19,211	20,097
Investment income	17,625	16,380	11,118
Other operating revenues	14,162	14,242	11,372
Capital contributions	7,060	6,076	9,781
<b>Total revenues</b>	<b>339,218</b>	<b>327,834</b>	<b>300,939</b>
<b>Expenses:</b>			
Production and purchased power	140,673	151,451	129,981
Transmission	32,677	31,288	29,902
Distribution	47,808	48,749	36,341
Depreciation	23,091	22,193	20,836
Interest expense and fiscal charges	23,417	15,972	14,602
<b>Total expenses</b>	<b>267,666</b>	<b>269,653</b>	<b>231,662</b>
Transfers to the City's general fund	(29,583)	(27,371)	(27,393)
<b>Changes in equity</b>	<b>41,969</b>	<b>30,810</b>	<b>41,884</b>
Equity, July 1	356,297	325,487	283,603
Equity, June 30	\$ 398,266	\$ 356,297	\$ 325,487

### REVENUES BY SOURCES



## MANAGEMENT'S DISCUSSION AND ANALYSIS: ELECTRIC

**Fiscal Year 2009** Total revenues for the years ended June 30, 2009 and 2008 were \$339,218 and \$327,834, respectively, an increase of \$11,384 (3.5%), with changes in the following:

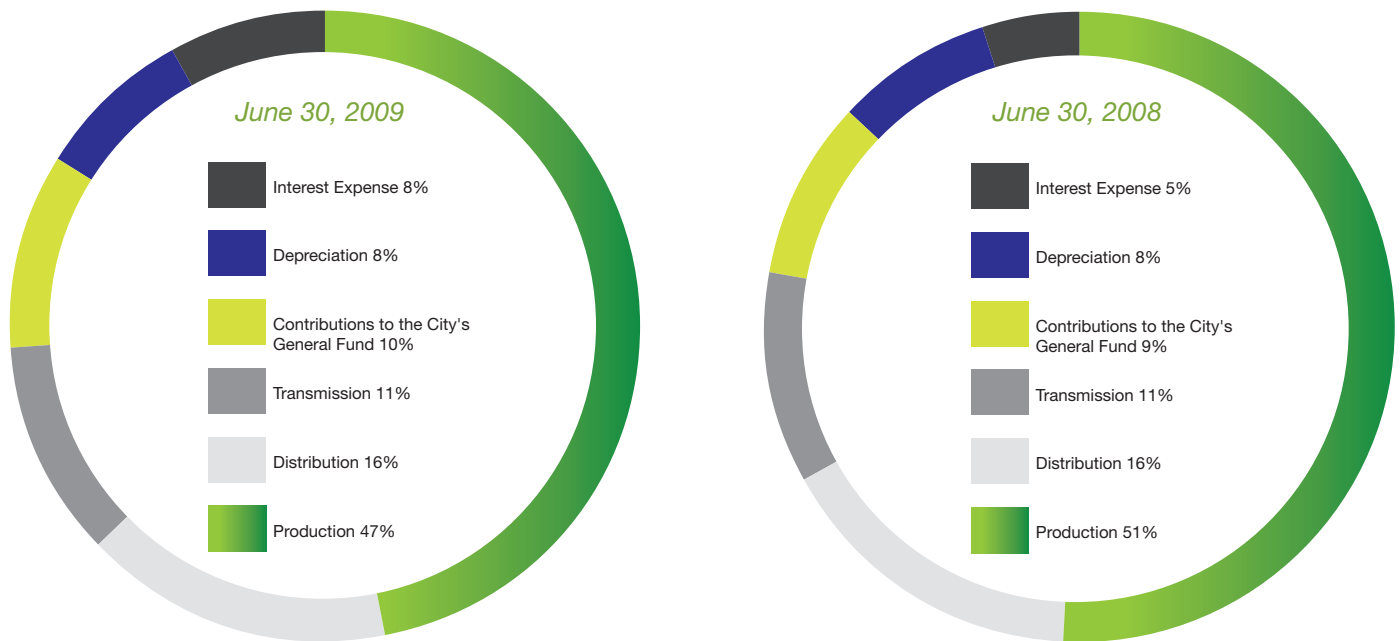
- Retail sales (residential, commercial, industrial, and other sales), net of reserve/recovery, totaled \$272,298, a \$15,178 (5.9%) increase. Retail sales continue to be the primary revenue source for the Electric Utility, accounting for 80.3% of total revenues. The \$15,178 increase was primarily due to the positive effects of rate increases on January 1, 2008 and January 1, 2009 as a result of the Electric Rate Plan.
- Wholesale sales of \$9,400 decreased by \$5,405 (36.5%), due to a lower volume of "excess" power available for sale, as well as lower prices received for market sales as a result of lower prices for natural gas.
- Investment income of \$17,625 reflects an increase of \$1,245 (7.6%), due to an increase in the size of the investment portfolio from positive operating results offset by a lower overall earnings rate of 3.9% in the current fiscal year.

**Fiscal Year 2008** Total revenues were \$327,834, an increase of \$26,895 (8.9%), with significant changes in the following areas:

- Net retail sales of \$257,120 (78.4% of total revenues) increased by \$18,462 (7.7%). The \$18,462 increase was primarily due to rate increases on January 1, 2007 and January 1, 2008. The rate increase on January 1, 2008 reflects the first year of the three year Electric Rate Plan.
- Wholesale sales were \$14,805, an increase of \$4,892 (49.3%), due to higher than expected volume of "excess" power available for sale, as well as higher prices received for market sales.
- Investment income was \$16,380, an increase of \$5,262 (47.3%), predominantly due to an overall higher investment earnings rate of 4.6% (compared to 4.1% in prior year), a net increase in fair value of investments of \$2,516, as well as an increase in the size of the investment portfolio from the new bond issue and positive operating results.
- Capital contributions were \$6,076, a decrease of \$3,705 (37.9%), reflecting a lower level of construction projects funded by others.
- Other operating revenues were \$14,242, an increase of \$2,870 (25.2%), primarily due to increases in Public Benefits Program revenues of \$788 and settlement reimbursements of \$1,343.

# MANAGEMENT'S DISCUSSION AND ANALYSIS: ELECTRIC

## EXPENSES BY SOURCES



**Fiscal Year 2009** Total expenses for the years ended June 30, 2009 and 2008 were \$267,666 and \$269,653, respectively, a decrease of \$1,987 (0.7%). The decrease was primarily due to the following:

- Production and purchased power costs of \$140,673 decreased by \$10,778 (7.1%), primarily due to lower generation costs due to excess market supply in a weakening economy and decreases in natural gas prices.
- Interest expense and fiscal charges of \$23,417 increased by \$7,445 (46.6%), primarily due to an entire year of interest expense related to the 2008 Electric Revenue Series D Bonds.

**Fiscal Year 2008** Total expenses were \$269,653, an increase of \$37,991 (16.4%), due to items discussed below:

- Production and purchased power costs of \$151,451 increased by \$21,470 (16.5%), primarily due to the increase in spot and term market costs and the increase in natural gas prices for internal generation.
- Distribution expense of \$48,749 increased by \$12,408 (34.1%), predominantly from increases in personnel-related expenses, professional services, and increased rebate and incentive activity of the Public Benefits Program.

## TRANSFERS

Transfers to the City's general fund are limited to a maximum of 11.5% of the prior year gross operating revenues by Section 1204(f) of the City Charter. The City uses these funds to help provide needed public services to the residents of the City, including police, fire, parks, libraries and other benefits.

**Fiscal Year 2009** The Electric Utility transferred \$29,583, an increase of \$2,212 (8.1%). This amount is approximately 10.5% of prior year's gross operating revenues less wholesale sales and Public Benefit Program revenues.

**Fiscal Year 2008** The Electric Utility transferred \$27,371. This amount was approximately 10.5% of prior year's operating revenues less wholesale sales and Public Benefit Program revenues.



## MANAGEMENT'S DISCUSSION AND ANALYSIS: ELECTRIC

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### CAPITAL ASSETS

The Electric Utility's investment in Capital Assets includes investments in production, transmission, and distribution related facilities, land, construction in progress, nuclear fuel, as well as general items such as office equipment, furniture, etc.

The following table summarizes the Utility's capital assets, net of accumulated depreciation at June 30:

	2009	2008	2007
Production	\$ 129,051	\$ 135,200	\$ 140,402
Transmission	16,003	16,046	16,206
Distribution	283,558	259,902	217,684
General	23,470	13,806	14,063
Land	7,612	7,149	7,049
Construction in progress	102,234	69,746	54,663
Nuclear fuel, at amortized costs	3,966	3,595	2,645
Total	\$ 565,894	\$ 505,444	\$ 452,712

**Fiscal Year 2009** The Electric Utility's investment in capital assets, net of accumulated depreciation, was \$565,894, an increase of \$60,450 (12.0%). The increase resulted primarily from the following significant capital projects:

- \$3,820 for the City's portion of capital additions at the San Onofre Nuclear Generating Station ("SONGS"), including costs to replace the steam generators which will extend the life of the plant.
- \$36,554 of expenses related to the Riverside Energy Resource Center Units 3 and 4 which will provide the Utility with 98 MW of additional generation facilities within the City limits.
- \$2,946 for the initial stages of the Riverside Transmission Reliability Project and related reliability improvements to the City's sub-transmission system for additional generation import capability by construction of a second point of interconnection with the state's high voltage transmission grid to serve future retail needs.
- \$23,742 in additions and improvements to Electric facilities to serve existing and connect new customers.
- \$3,015 for the purchase of facilities to provide additional centrally located office space for the Utility.

**Fiscal Year 2008** The Electric Utility's investment in capital assets, net of accumulated depreciation, was \$505,444, an increase of \$52,732 (11.6%). The increase resulted from \$3,409 in expenses for the City's portion of capital additions at SONGS, \$32,293 of expenses related to the Riverside Energy Resource Center Units 3 and 4, \$3,144 for the initial stages of the Riverside Transmission Reliability Project, and \$28,425 in additions and improvements to Electric facilities to serve existing and connect new customers.

Additional information regarding capital assets can be found in Note 3 on Page 29 of this report.

# MANAGEMENT'S DISCUSSION AND ANALYSIS: ELECTRIC

## DEBT ADMINISTRATION

The following table summarizes outstanding long-term debt (revenue bonds) as of June 30:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Revenue bonds	\$ 524,780	\$ 545,125	\$ 352,830
Unamortized premium	9,760	10,931	7,469
Less:			
Current portion	(21,300)	(20,345)	(19,460)
Unamortized bond refunding costs	(7,032)	(7,681)	(6,088)
Total	<u>\$ 506,208</u>	<u>\$ 528,030</u>	<u>\$ 334,751</u>

The Electric Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants, of 1.10. The Electric Utility's debt service coverage ratio was 2.60, 2.62, and 3.09 at June 30, 2009, 2008 and 2007, respectively. This debt is backed by the revenues of the Utility (revenue bonds).

**Fiscal Year 2009** Total long-term debt decreased \$21,822 (4.1%) to \$506,208, due to \$20,345 in principal repayments, and the amortization of bond premiums and deferred refunding costs.

**Fiscal Year 2008** Total long-term debt increased \$193,279 (57.7%) to \$528,030, due to the May 8, 2008 issuance of new 2008 Electric Revenue Series D Bonds in the amount of \$209,740 offset by \$19,460 in principal repayments, and amortization of bond premiums and deferred refunding costs. On April 25, 2008, the Utility also issued the 2008 Electric Refunding/Revenue Series A, B, and C Bonds to advance refund the 2004 Electric Revenue Series B Bonds and the 2005 Electric Refunding/Revenue Series A and B Bonds.

Additional information on the Electric Utility's long-term debt can be found in Note 4 on pages 29 through 33 of this report.

## CREDIT RATINGS

In April 2008, Standard & Poor's raised the rating of the Electric Utility's bonds to "AA-" from "A+", reflecting "RPU's very strong and improving financial performance, continued willingness to adjust rates, and prudent investment in renewable energy resources that position RPU's resource portfolio well for the future given increasingly stringent regulatory and environmental pressures facing California electric utilities."

Also in April 2008, Fitch Ratings reaffirmed its "AA-" rating of the Electric Utility's bonds, with a stable outlook, citing the Utility's credit strengths as its "competitive power resource mix relative to the California market and early investment in renewable energy contracts, the addition of local peaking generation for improved system reliability, diverse customer base with the top five customers accounting for 11% of revenues and the largest single user at less than 3%, strong financial margins that have allowed the Utility to build cash reserves and reinvest in the system and steady load growth."

## MANAGEMENT'S DISCUSSION AND ANALYSIS: ELECTRIC

### OTHER DEVELOPMENTS

#### ENVIRONMENTAL MATTERS

The City has a 7.6% contractual entitlement to the output of Units 1 and 2 at the Intermountain Power Project (see Note 8 for additional discussions), a 1,800 MW coal-fueled power plant located in Delta, Utah. Recent developments in federal and state environmental laws and regulations may impact operations at the plant, and could require significant capital expenditures at these facilities. The City will continue to monitor these laws and assess the impacts, if any, they will have on the operation of the plant through the contract expiration in 2027.

#### CLIMATE CHANGE

Cities have a compelling interest in reducing greenhouse gas emissions at the local level, especially as stakeholders and state agencies are working towards implementation of the California Global Warming Solutions Act (AB32, 2006).

Riverside Public Utilities (RPU) is committed to meeting or exceeding the Renewable Portfolio Standard (RPS) established by the State of California, as required of investor-owned utilities by the Public Utilities Code (SB 1078, 2002) and in keeping with the letter and spirit of the Public Utilities Code and the Health and Safety Code relating to air pollution (AB 32, 2006). With execution of two renewable geothermal energy contracts with the Northwestern Band of Shoshone Nation (See Note 8 for discussions on Renaissance contracts), RPU has increased its current supply of electricity from renewable sources and RPU anticipates exceeding its 2020 target of 33 percent of the City's electricity originating from renewable resources by reaching 50 percent in 2013.

Senate Bill 1368 pertains specifically to power generation and long-term procurement of electricity, and requires the California Public Utilities Commission and the California Energy Commission to adopt GHG performance standards applicable to investor and publicly owned utilities. Baseload resources, greater than 5 MW and exceeding five years duration, must equal the performance of a combined-cycle gas turbine generator (e.g., emissions are limited to 1,100 pounds of carbon dioxide per megawatt hour).

On December 17, 2007, the City Council approved the Clean and Green Sustainable Riverside Action Plan to ensure sustainable growth while preserving the health of the local environment in Riverside for generations. On February 3, 2009, Riverside was the first California City to be designated as an "Emerald City" through the State of California Department of Conservation's Comprehensive Recycling Community Program which focuses on environmental priorities including water conservation, energy efficiency, improved air quality, protection of agricultural and open-space lands, solid waste reduction, motor vehicle and fuel use reduction, smart growth, sustainable land-use development principles, and economic development.

Riverside continues to invest significant resources in providing energy supplies through clean natural resources and to explore new ideas and technologies that support the City's Clean and Green goal to become one of California's leading municipal power agencies in the use of renewable energy and reduction of greenhouse gas emissions. The City of Riverside is committed to working with regional, state and federal regulators to achieve this goal.

### ECONOMIC FACTORS AND RATES

Although inflationary trends in the Riverside region generally compare favorably to the national indices, history has shown that certain costs such as purchased power during the California energy crisis can exponentially exceed inflation.

The FERC imposed \$400/MWh price cap on purchased power (June 2001) expired with the California Independent System Operator's (CAISO) successful launch of the Market Redesign and Technology Upgrade ("MRTU") on April 1, 2009, in order to implement a day-ahead wholesale electricity market, improve electricity grid management reliability, operational efficiencies and related technology infrastructure. In general, the energy bid cap is initially set at \$500/MWh and will increase over time to \$1,000/MWh. However, under certain transmission constraints prices could exceed that amount, and are limited by the CAISO's price floor of (\$2,500)/MWh and a price cap of \$2,500/MWh, authorized by the FERC with a yet-to-be-determined sunset date. The CAISO continues to monitor and test the extreme price swings to ensure they aren't caused by the CAISO's very complex software systems. The new markets under MRTU present both risks and opportunities and are expected to impact costs to the City. The City is seizing the new opportunities without assuming additional risks in order to reduce overall costs to its ratepayers. The Utility continues to be

## MANAGEMENT'S DISCUSSION AND ANALYSIS: ELECTRIC

vigilant in monitoring the MRTU outcomes, its active participation in the new market initiatives, and to implement changes to the appropriate systems, software and market strategies in the MRTU.

Initial indications from the MRTU markets are favorable to load serving entities such as the City, although the power markets haven't been stressed due to generally milder weather patterns, low natural gas prices due to excess supply, and more importantly, the availability of excess generation due to the economic downturn and its impact on load reduction due to reduced power usage and high vacancies. Forward price curves have stabilized. However, regulatory actions and other factors, including volatility in natural gas and coal prices, low snowpack in the Pacific Northwest, high temperatures in Southern California, and transmission constraints or system integration under the complex CAISO business systems under a "stressed" MRTU market environment could impact future power rates.

The City Council approved the Electric Reliability Rate Plan, establishing rate increases for three consecutive years effective January 1, 2007, 2008 and 2009. The Electric Reliability Rate Plan would fund system improvements including additional internal generation, a second interconnection with the state's transmission grid, and replacement of expiring power contracts. The rate increases would also help strengthen the Utility's financial stability by meeting the expected increased costs to operate the Utility, improve system reliability, and build liquidity by increasing cash reserves.

On August 14, 2007, the City Council repealed the previously approved increases in the tiered portion of the residential rates contained in the Electric Reliability Rate Plan, and directed staff to return with another rate proposal that would lessen the impacts to this customer class and more equitably allocate the increase across all rate classes. On December 4, 2007 the City Council approved a revised Electric Rate Plan that incorporates a reliability charge to all customer classes, a restructuring of the tiered residential rates, and established rate increases for three consecutive years effective January 1, 2008, 2009, and 2010. The Electric Rate Plan will provide equitable rates, system reliability, additional generation and transmission resources, emergency preparedness, and sound financial planning.

Proposals in the state and federal legislatures and other external factors could impact the revenues or costs of, and/or rates charged by the Utility depending on whether they are ultimately enacted and how they are implemented. These include a state, federal and/or regional cap and trade program (including the allocation of emission credits, availability of offsets, and the phase-in period to meet specific GHG emission reduction targets); additional renewable portfolio standard mandates—including eligibility requirements such as "simultaneous delivery", or in-state generation; feed-in-tariffs for local renewable photovoltaic generation; demand response and energy efficiency programs; cost allocation for federal and state high-voltage transmission infrastructure expansion, grid reliability enhancements, and renewable integration; continued disruption in the financial markets; California's MRTU markets under stressed conditions or impacts from future initiatives, and technological advances for carbon capture and geologic sequestration. Although the financial impacts to the Utility cannot be determined at this time, management is diligent in monitoring and analyzing these and other factors that could impact Utility operations, and proactively advocates solutions most beneficial or least harmful to its ratepayers.

### 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 General Manager Finance/Customer Services, Riverside Public Utilities, 3901 Orange Street, Riverside, CA 92501. Additional financial information can also be obtained by visiting [www.RiversidePublicUtilities.com](http://www.RiversidePublicUtilities.com).



## BALANCE SHEETS: ELECTRIC

ASSETS	June 30, 2009	June 30, 2008
	(in thousands)	
<b>UTILITY PLANT:</b>		
Production	\$ 266,470	\$ 262,563
Transmission	27,544	26,972
Distribution	426,515	393,919
General	38,752	28,623
	<u>759,281</u>	<u>712,077</u>
Less accumulated depreciation	(307,199)	(287,123)
	<u>452,082</u>	<u>424,954</u>
Land	7,612	7,149
Construction in progress	102,234	69,746
Nuclear fuel, at amortized cost	3,966	3,595
	<u>565,894</u>	<u>505,444</u>
<b>RESTRICTED ASSETS:</b>		
Cash and cash equivalents (Note 2)	20,477	18,981
Cash and investments at fiscal agent (Note 2)	222,538	273,488
	<u>243,015</u>	<u>292,469</u>
<b>OTHER NON-CURRENT ASSETS:</b>		
Advances to City	5,918	37,724
Deferred pension costs	13,260	13,439
Deferred purchased power (Note 8)	1,670	5,011
Deferred bond issuance costs	7,523	8,183
	<u>28,371</u>	<u>64,357</u>
Total other non-current assets	<u>28,371</u>	<u>64,357</u>
Total non-current assets	<u>837,280</u>	<u>862,270</u>
<b>CURRENT ASSETS:</b>		
<i>Unrestricted assets:</i>		
Cash and cash equivalents (Note 2)	134,883	78,687
Accounts receivable, less allowance for doubtful accounts 2009 \$490; 2008 \$548	27,140	30,354
Accounts receivable other utilities and governments, less allowance for doubtful accounts 2009 \$1,515; 2008 \$1,668	10,870	10,307
Advances to City	-	1,780
Accrued interest receivable	745	2,794
Prepaid expenses	6,224	7,010
Nuclear materials inventory	1,750	1,921
	<u>181,612</u>	<u>132,853</u>
Total unrestricted current assets	<u>181,612</u>	<u>132,853</u>
<i>Restricted assets:</i>		
Cash and cash equivalents (Note 2)	8,328	8,321
Public Benefit Programs receivable	686	822
	<u>9,014</u>	<u>9,143</u>
Total restricted current assets	<u>9,014</u>	<u>9,143</u>
Total current assets	<u>190,626</u>	<u>141,996</u>
Total assets	<u>\$ 1,027,906</u>	<u>\$ 1,004,266</u>

\* See accompanying notes to the financial statements

## BALANCE SHEETS: ELECTRIC

EQUITY AND LIABILITIES	June 30, 2009	June 30, 2008
	(in thousands)	
<b>EQUITY:</b>		
Invested in capital assets, net of related debt	\$ 204,902	\$ 181,966
Restricted for:		
Debt service (Note 5)	20,477	18,981
Public Benefit Programs	8,125	8,910
Unrestricted	164,762	146,440
Total equity	<u>398,266</u>	<u>356,297</u>
<b>LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4)</b>	<u>506,208</u>	<u>528,030</u>
<b>OTHER NON-CURRENT LIABILITIES:</b>		
Pension obligation (Notes 1 and 4)	12,979	13,206
Nuclear decommissioning liability (Notes 1 and 4)	59,072	54,523
Postemployment benefits payable (Notes 1 and 4)	1,229	605
Capital leases payable (Notes 1 and 4)	2,073	-
Total non-current liabilities	<u>75,353</u>	<u>68,334</u>
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:</b>		
Accrued interest payable	4,454	2,801
Public Benefit Programs payable	888	233
Current portion of long-term obligations (Note 4)	21,300	20,345
Total current liabilities payable from restricted assets	<u>26,642</u>	<u>23,379</u>
<b>CURRENT LIABILITIES:</b>		
Accounts payable	13,933	18,905
Accrued liabilities	4,364	6,227
Capital leases payable (Notes 1 and 4)	360	-
Customer deposits	2,780	3,094
Total current liabilities	<u>21,437</u>	<u>28,226</u>
Total liabilities	<u>629,640</u>	<u>647,969</u>
<b>COMMITMENTS AND CONTINGENCIES (NOTES 8 AND 9)</b>	-	-
Total equity and liabilities	<u>\$ 1,027,906</u>	<u>\$ 1,004,266</u>

\* See accompanying notes to the financial statements

# STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN EQUITY: ELECTRIC

For the Fiscal Years  
Ended June 30,  
2009                      2008  
(in thousands)

**OPERATING REVENUES:**

Residential sales	\$ 105,525	\$ 99,981
Commercial sales	65,532	60,768
Industrial sales	97,100	92,697
Other sales	5,684	5,425
Wholesale sales	9,400	14,805
Transmission revenue	18,673	19,211
Other operating revenue	12,250	12,405
	314,164	305,292
Total operating revenues before (reserve)/recovery		
Reserve for uncollectible, net of bad debt recovery	(1,543)	(1,751)
	312,621	303,541

**OPERATING EXPENSES:**

Production and purchased power	140,673	151,451
Transmission	32,677	31,288
Distribution	47,808	48,749
Depreciation	23,091	22,193
	244,249	253,681
Total operating expenses		
Operating income	68,372	49,860

**NON-OPERATING REVENUES (EXPENSES):**

Investment income	17,625	16,380
Interest expense and fiscal charges	(23,417)	(15,972)
Gain on retirement of utility plant	210	171
Other	1,702	1,666
	(3,880)	2,245
Total non-operating revenues (expenses)		
Income before capital contributions and transfers	64,492	52,105
Capital contributions	7,060	6,076
Transfers out - contributions to the City's general fund	(29,583)	(27,371)
	(22,523)	(21,295)
Total capital contributions and transfers out		
Increase in equity	41,969	30,810
<b>EQUITY, BEGINNING OF YEAR</b>	<b>356,297</b>	<b>325,487</b>
<b>EQUITY, END OF YEAR</b>	<b>\$ 398,266</b>	<b>\$ 356,297</b>

\* See accompanying notes to the financial statements

# STATEMENTS OF CASH FLOWS: ELECTRIC

For the Fiscal Years  
Ended June 30,  
2009                      2008  
(in thousands)

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash received from customers and users	\$	315,095	\$ 300,101
Cash paid to suppliers and employees		(215,839)	(219,735)
Other receipts		1,702	1,666
Net cash provided by operating activities		100,958	82,032
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>			
Transfers out - contributions to the City's general fund		(29,583)	(27,371)
Principal paid on pension obligation bonds		(227)	(184)
Advances to City		33,586	(39,503)
Net cash provided (used) by non-capital financing activities		3,776	(67,058)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Purchase of utility plant		(72,900)	(68,573)
Purchase of nuclear fuel		(2,221)	(2,046)
Proceeds from the sale of utility plant		558	916
Deposit to escrow account for advanced bond refunding		-	(197,100)
Proceeds from revenue bonds, including premium		-	413,404
Principal paid on long-term obligations		(20,639)	(19,460)
Interest paid on long-term obligations		(23,950)	(16,194)
Capital contributions		1,493	4,030
Bond issuance costs		-	(5,100)
Net cash provided (used) by capital and related financing activities		(117,659)	109,877
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of investment securities		(4,186)	(5,955)
Income from investments		19,674	13,970
Net cash provided by investing activities		15,488	8,015
Net increase in cash and cash equivalents		2,563	132,866
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (including \$212,733 and \$53,166 at June 30, 2008 and June 30, 2007, respectively, reported in restricted accounts)</b>			
		291,420	158,554
<b>CASH AND CASH EQUIVALENTS, END OF YEAR (including \$159,100 and \$212,733 at June 30, 2009 and June 30, 2008, respectively, reported in restricted accounts)</b>			
	\$	293,983	\$ 291,420
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>			
Operating income	\$	68,372	\$ 49,860
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		23,091	22,193
Amortization of deferred charges-pension costs		179	131
Amortization of nuclear fuel/purchased power		5,191	4,437
(Decrease) increase in allowance for uncollectible accounts		(211)	846
Decrease (increase) in accounts receivable		2,998	(4,800)
Decrease (increase) in prepaid expenses		786	(580)
Decrease (increase) in nuclear materials inventory		171	(386)
(Decrease) increase in accounts payable		(4,972)	3,292
Increase in postemployment benefits payable		624	604
(Decrease) increase in accrued liabilities		(1,863)	285
Increase in Public Benefit Programs		655	53
(Decrease) increase in customer deposits		(314)	514
Increase in decommissioning liability		4,549	3,917
Other receipts		1,702	1,666
Net cash provided by operating activities	\$	100,958	\$ 82,032
<b>SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:</b>			
Capital contributions - capital assets		5,565	4,992
Borrowing under capital lease		2,433	-
Increase in fair value of investments		748	1,014

\* See accompanying notes to the financial statements



# NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

## 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 Electric Utility uses the accrual basis of accounting as required for enterprise funds with accounting principles generally accepted in the United States of America as applicable to governments. The accounting records of the Electric Utility are also 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.

### USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during a reporting period. Actual results could differ from those estimates.

### REVENUE RECOGNITION

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 \$12,609 at June 30, 2009, and \$13,876 at June 30, 2008.

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; interest during construction; allocated indirect charges such as engineering, supervision, construction and transportation equipment; retirement plan contributions and other fringe benefits. Contributed plant assets are valued at estimated fair 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.....	13-30 years
Transmission and distribution plant.....	20-50 years
General plant and equipment.....	3-50 years

### NUCLEAR FUEL

The Electric Utility amortizes and charges to expense, the cost of nuclear fuel, on the basis of actual thermal energy produced relative to total thermal energy expected to be produced over the life of the fuel. In accordance with the Nuclear Waste Disposal Act of 1982, the Electric Utility is charged one dollar per megawatt-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 nuclear fuel. The Electric Utility pays this fee to its operating agent, Southern California Edison Co (SCE), on a quarterly basis (see Note 7).

## NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### 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 Sheets 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 on the Balance Sheets, Statements of Revenues, Expenses and Changes in Equity, and Statements of Cash Flows.

#### CASH AND INVESTMENTS

In accordance with Utility policy, the Utility's cash and investments, except for cash and investments with fiscal agents, are invested in a pool managed by the Treasurer of the City. The Utility does not own specific, identifiable investments of the pool. The pooled interest earned is allocated monthly based on the month end cash balances.

The City values its cash and investments in accordance with the provisions of the Government 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 Statement of Net Assets/Balance Sheets 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.

Cash accounts of all funds are pooled for investment purposes to enhance safety and liquidity, while maximizing interest earnings.

City-wide information concerning cash and investments for the year ended June 30, 2009, including authorized investments, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and investments may be found in the notes to the City's "Comprehensive Annual Financial Report."

#### CASH AND INVESTMENTS AT FISCAL AGENTS

Cash and investments maintained by fiscal agents are considered restricted by the Utility and are pledged as collateral for payment of principal and interest on outstanding bonds, or for use on construction of capital assets.

#### ADVANCES

Advances have been recorded as a result of agreements between the Electric Utility and the City. There are two advances with terms that range from no specified term to a five year term with interest payable annually at a rate equal to the rate of interest earned on the investment pool managed by the Treasurer of the City. The balance of Advances to the City was \$5,918 at June 30, 2009 and \$39,504 at June 30, 2008.

#### BOND PREMIUMS, ISSUANCE COSTS, GAINS AND LOSSES ON REFUNDING

Bond premiums, issuance costs, and gains and losses on refunding are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums and gain or loss on refunding, whereas issuance costs are recorded as other assets.

## NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### 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. Based on the most recent site specific cost estimate as of February 2009 prepared by ABZ Incorporated, the Electric Utility plans to set aside approximately \$1,600 per year to fund this obligation. The funding will occur over the useful life of the generating plant or until the account is fully funded.

Increases to the trusts are from amounts set aside and investment earnings. The investment earnings are included in investment income in the Utility's financial statements. These amounts, as well as amounts set aside, are contributed to the trusts and reflected as decommissioning expense, which are considered part of power supply costs. The total amounts held in the trust accounts are classified as restricted assets and other non-current liability in the accompanying Balance Sheets. To date, the Electric Utility has set aside \$59,072 in cash investments with the trustee as Riverside's estimated share of the decommissioning cost of San Onofre. 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.

#### CAPITAL LEASES

The City of Riverside Public Utilities has entered into eight capital lease agreements as a lessee for financing eight compressed natural gas heavy duty service trucks. These leases have seven year terms with monthly payments with interest rates ranging from 3.24% to 5.87%. The total gross value of the leases is \$2,728 with depreciation provided over the seven year terms of the leases using the straight-line method.

For fiscal year ended June 30, 2009, the total liability was \$2,433. The minimum annual lease payments for the life of the leases are \$446 annually through fiscal year ended June 30, 2014, \$432 in the fiscal year ended June 30, 2015, and \$65 in the fiscal year ended June 30, 2016. Total future minimum lease payments are \$2,727, with \$294 representing interest and \$2,433 representing the present value of the net minimum lease payments.

#### INTERNALLY RESTRICTED CASH RESERVES

Effective July 1, 2003, the City Council approved a Regulatory Risk Reserve Account of \$4,000, an Energy Risk Management Reserve Account of \$11,000, and an Operating Reserve Account of \$14,000, all of which are considered internally restricted assets. The balance as of June 30, 2009 and 2008 respectively are as follows: Regulatory Risk Reserve \$4,000 and \$4,000, Energy Risk Management Reserve \$11,000 and \$11,000 and Operating Reserve \$86,531 and \$37,946, for a combined total of \$101,531 and \$52,946 and are reflected in cash and cash equivalents in the accompanying Balance Sheets. (See Note 9 for additional discussion on cash reserves)

#### 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, 2009 and 2008 was \$2,780 and \$3,094, respectively.

## NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due employees at June 30, 2009 and 2008. The Electric Utility treats compensated absences due employees as an expense and a current liability. The amount accrued for compensated absences was \$3,868 at June 30, 2009, and \$5,828 at June 30, 2008, 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 accrual 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, certain employees or their estates receive a percentage of unused sick leave paid in a lump sum based on longevity.

#### INSURANCE PROGRAMS

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 based on actuarial estimates of the amounts needed to fund prior and current year claims and incidents that have been incurred but not reported. The City maintains property insurance on most City property holdings, including Utility Plant with a limit of \$1 billion.

City-wide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risk for the year ended June 30, 2009, may be found in the notes to the City's "Comprehensive Annual Financial Report."

Although the ultimate amount of losses incurred through June 30, 2009 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 \$652 and \$709 for the years ended June 30, 2009 and 2008, respectively. Any losses above the City's reserves would be covered through increased rates charged to the Electric 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 2.7 percent of their highest 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 8.0 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 employer portion of the PERS funding as of June 30, 2009 and 2008 was 14.17 percent and 13.29 percent, respectively, of annual covered payroll. The Electric Utility pays both the employee and employer contributions. The total Electric Utility's contribution to PERS as of June 30, 2009 and 2008 was \$5,733 and \$5,018, respectively.

City-wide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the year ended June 30, 2009 and recent trend information may be found in the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2009.



## NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### PENSION OBLIGATION BONDS

In 2005, the City issued Pension Obligations Bonds in the amount of \$60,000, of which the Electric Utility's share is \$13,690 as reflected in the accompanying Balance Sheets as deferred pension costs and a corresponding long-term obligation. The deferred charge relating to the net pension asset will be amortized over 19 years in accordance with the method used by PERS for calculating actuarial gains and losses. The Bonds will be used to fund the unfunded actuarial accrued liability for non-safety employees and the proceeds were deposited with PERS. The balance in deferred pension costs as of June 30, 2009 and 2008 was \$13,260 and \$13,439, respectively. For more discussion relating to the City's issue see the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2009.

#### OTHER POSTEMPLOYMENT BENEFITS

The City contributes to two single-employer defined benefit healthcare plans: Stipend Plan (SP) and the Implied Subsidy Plan (ISP). The plans provide other postemployment health care benefits (OPEB) for eligible retirees and beneficiaries.

The Stipend Plan is available to eligible retirees and beneficiaries pursuant to their collective bargaining agreements. The Electric Utility currently contributes to two bargaining units through the International Brotherhood of Electrical Workers General Trust (IBEW) and Service Employee's International Union General Trust (SEIU). Benefit provisions for the Stipend Plan for eligible retirees and beneficiaries are established and amended through the various memoranda of understanding (MOU). The MOU's are agreements established between the City and the respective employee associations. The City does not issue separate stand-alone financial reports for the plans, instead financial information for the trust funds can be obtained by contacting the individual association.

The Electric Utility also provides benefits to retirees in the form of an implicit rate subsidy (Implied Subsidy). Under an implied rate subsidy, retirees and current employees are insured together as a group, thus creating a lower rate for retirees than if they were insured separately. Although the retirees are solely responsible for the cost of their health insurance benefits through this plan, the retirees are receiving the benefit of a lower rate.

The contribution requirements of the Electric Utility for the Stipend Plan are established and may be amended through the memoranda of understanding (MOU) between the City and the unions. The Electric Utility's contribution is financed on a "pay-as-you-go-basis" and the current contribution is unfunded. The contribution requirements of the Electric Utility's Implied Subsidy Plan are established by the City Council. The Electric Utility is not required by law or contractual agreement to provide funding other than the pay-as-you-go amount necessary to provide current benefits to eligible retirees and beneficiaries.

The Electric Utility's annual OPEB cost (expense) for each plan is calculated based on annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) (UAAL) over a period not to exceed thirty years. The Electric Utility's OPEB liability as of June 30, 2009 and 2008, was \$1,229 and \$605, respectively.

City-wide information concerning the description of the plans, funding policy and annual OPEB cost, funding status and funding progress, and actuarial methods and assumptions for the year ended June 30, 2009 can be found in the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2009.

## NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### EQUITY

The Electric Utility's equity consists of its net assets (assets less liabilities) which are classified into the following three components:

**Invested in capital assets, net of related debt** – this component consists of capital assets (net of accumulated depreciation) and unamortized debt expenses reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**Restricted** – this component consists of net assets on which constraints are placed as to their use. Constraints include those imposed by creditors (such as through debt covenants), contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or through enabling legislation.

**Unrestricted** – this component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

#### 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 ended June 30, 2009 and 2008 the Electric Utility transferred approximately 10.5 percent of gross operating revenues less wholesale sales and Public Benefit Program revenues, or \$29,583 and \$27,371, respectively.

#### CASH AND CASH EQUIVALENTS

For the Statements of Cash Flows, cash and cash equivalents include all unrestricted and restricted highly liquid investments with original purchase maturities of three months or less, and all bond construction proceeds available for capital projects. Pooled cash and investments in the City's Treasury represent monies in a cash management pool. Such accounts are similar in nature to demand deposits, and are classified as cash equivalents for the purpose of presentation in the Statements of Cash Flows.

#### 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 resolution.

#### RECLASSIFICATION

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

#### PRIOR YEAR DATA

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's prior year financial statements, from which this selected financial data was derived.

# NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

## NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2009 and 2008, consist of the following (in thousands):

	June 30, 2009	June 30, 2008
	Fair Value	
Equity interest in City Treasurer's investment pool	\$ 163,688	\$ 105,989
Investments at fiscal agent	222,538	273,488
Total cash and investments	\$ 386,226	\$ 379,477

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

	June 30, 2009	June 30, 2008
Unrestricted cash and cash equivalents	\$ 134,883	\$ 78,687
Restricted cash and cash equivalents	28,805	27,302
Restricted cash and investments at fiscal agent	222,538	273,488
Total cash and investments	\$ 386,226	\$ 379,477

Cash and investments distribution by maturities as of year end are as follows:

Investment Type	Total	Remaining Maturity (in Months)			
		12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months
Held by fiscal agent					
Money market funds	\$ 381	\$ 381	\$ -	\$ -	\$ -
Federal agency securities	38,548	1,062	5,675	16,229	15,582
Investment contracts <sup>1</sup>	161,365	-	130,295	7,541	23,529
Corp medium term notes	22,244	-	-	4,216	18,028
City Treasurer's investment pool <sup>2</sup>					
Money market funds	18,779	18,779	-	-	-
Federal agency securities	90,152	18,621	13,955	57,576	-
Corp medium term notes	14,161	-	4,762	9,399	-
State investment pool	40,596	40,596	-	-	-
Total	\$ 386,226	\$ 79,439	\$ 154,687	\$ 94,961	\$ 57,139

Presented below is the actual ratings as of year end for each investment type:

Investment Type	Total	Rating as of Year End		
		AAA	AA+	Unrated
Held by fiscal agent				
Money market funds	\$ 381	\$ 320	\$ -	\$ 61
Federal agency securities	38,548	38,548	-	-
Investment contracts	161,365	-	-	161,365
Corp medium term notes	22,244	-	22,244	-
City Treasurer's investment pool <sup>2</sup>				
Money market funds	18,779	-	-	18,779
Federal agency securities	90,152	90,152	-	-
Corp medium term notes	14,161	14,161	-	-
State investment pool	40,596	-	-	40,596
Total	\$ 386,226	\$ 143,181	\$ 22,244	\$ 220,801

<sup>1</sup> Amounts related to bond construction proceeds are invested in specific maturities but are available for construction of capital assets as funding is needed.

<sup>2</sup> Additional information on investment types and credit risk may be found in the City's "Comprehensive Annual Financial Report."

## NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

### NOTE 3. UTILITY PLANT

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2009 and 2008 (in thousands):

	Balance, As of 6/30/2007	Additions	Retirements/ Transfers	Balance, As of 6/30/2008	Additions	Retirements/ Transfers	Balance, As of 6/30/2009
Production	\$ 257,980	\$ 4,583	\$ -	\$ 262,563	\$ 3,907	\$ -	\$ 266,470
Transmission	26,522	450	-	26,972	572	-	27,544
Distribution	341,836	53,314	(1,231)	393,919	34,819	(2,223)	426,515
General	28,154	1,190	(721)	28,623	11,305	(1,176)	38,752
Depreciable utility plant	654,492	59,537	(1,952)	712,077	50,603	(3,399)	759,281
Less accumulated depreciation:							
Production	(117,578)	(9,785)	-	(127,363)	(10,056)	-	(137,419)
Transmission	(10,316)	(610)	-	(10,926)	(615)	-	(11,541)
Distribution	(124,152)	(10,378)	513	(134,017)	(10,816)	1,876	(142,957)
General	(14,091)	(1,420)	694	(14,817)	(1,604)	1,139	(15,282)
Accumulated depreciation	(266,137)	(22,193)	1,207	(287,123)	(23,091)	3,015	(307,199)
Net depreciable utility plant	388,355	37,344	(745)	424,954	27,512	(384)	452,082
Land	7,049	100	-	7,149	463	-	7,612
Construction in progress	54,663	74,720	(59,637)	69,746	83,555	(51,067)	102,234
Nuclear fuel	2,645	2,046	(1,096)	3,595	1,504	(1,133)	3,966
Nondepreciable utility plant	64,357	76,866	(60,733)	80,490	85,522	(52,200)	113,812
Total utility plant	\$ 452,712	\$ 114,210	\$ (61,478)	\$ 505,444	\$ 113,034	\$ (52,584)	\$ 565,894

### NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2009 and 2008 (in thousands):

	Balance, As of 6/30/2007	Additions	Reductions	Balance, As of 6/30/2008	Additions	Reductions	Balance, As of 6/30/2009	Due Within One Year
Revenue bonds	\$ 354,211	\$ 407,969	\$ (213,805)	\$ 548,375	\$ -	\$ (20,867)	\$ 527,508	\$ 21,300
Pension obligation	13,390	-	(184)	13,206	-	(227)	12,979	274
Postemployment benefits payable	-	605	-	605	624	-	1,229	-
Nuclear decommissioning liability	50,606	3,917	-	54,523	4,549	-	59,072	-
Capital leases	-	-	-	-	2,728	(295)	2,433	360
Total long-term obligations	\$ 418,207	\$ 412,491	\$ (213,989)	\$ 616,709	\$ 7,901	\$ (21,389)	\$ 603,221	\$ 21,934

## NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

### NOTE 4. LONG-TERM OBLIGATIONS *(continued)*

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

#### Revenue Bonds Payable

	June 30, 2009	June 30, 2008
<b>\$98,730 1998 Electric Refunding/Revenue Bonds:</b> \$63,165 serial bonds due in annual installments from \$3,200 to \$7,085 through October 1, 2013, interest 5.38 percent; \$21,595 term bonds due October 1, 2018, interest at 5.0 percent; \$13,970 term bonds due October 1, 2022; (partially advance refunded in 2005)	\$ 35,125	\$ 41,410
<b>\$47,215 2001 Electric Revenue Bonds:</b> \$47,215 serial bonds due in annual installments from \$3,370 to \$4,280 through October 1, 2014, interest from 3.8 percent to 5.25 percent; (partially advance refunded in 2005)	22,740	25,990
<b>\$75,405 2003 Electric Refunding/Revenue Bonds:</b> \$75,405 serial bonds due in annual installments from \$6,880 to \$8,535 through October 1, 2013, interest from 4.0 percent to 5.0 percent	39,305	46,710
<b>\$110,000 2004 Electric Revenue Bonds:</b>		
<b>A - \$27,500 2004 Series A Bonds</b> - Serial bonds due in annual installments from \$2,645 to \$3,695 through October 1, 2014, interest from 5.0 percent to 5.5 percent	19,305	22,160
<b>\$199,115 2008 Electric Refunding/Revenue Bonds:</b>		
<b>A - \$84,515 2008 Series A Bonds</b> - Variable rate bonds due in annual installments from \$1,250 to \$7,835 from October 1, 2014 through October 1, 2029. Interest rate is subject to weekly repricing (rate at June 24, 2009 was 3.5 percent)	84,515	84,515
<b>B - \$57,275 2008 Series B Bonds</b> - Variable rate bonds due in annual installments from \$275 to \$5,175 from October 1, 2008 through October 1, 2035. Interest rate is subject to weekly repricing (rate at June 24, 2009 was 3.6 percent)	57,000	57,275
<b>C - \$57,325 2008 Series C Bonds</b> - Variable rate bonds due in annual installments from \$300 to \$5,200 from October 1, 2009 through October 1, 2035. Interest rate is subject to weekly repricing (rate at June 24, 2009 was 3.6 percent)	57,050	57,325
<b>\$209,740 2008 Electric Revenue Series D Bonds:</b> \$66,740 serial bonds due in annual installments from \$125 to \$7,735 from October 1, 2017 through October 1, 2038, interest from 3.63 percent to 5.0 percent; \$48,015 term bonds due October 1, 2033, interest at 5.0 percent; \$94,985 term bonds due October 1, 2038, interest at 5.0 percent	209,740	209,740
Total electric revenue bonds payable	524,780	545,125
Unamortized deferred bond refunding costs	(7,032)	(7,681)
Unamortized bond premium	9,760	10,931
Total electric revenue bonds payable, net of deferred bond refunding costs and bond premium	527,508	548,375
Less current portion	(21,300)	(20,345)
Total long-term electric revenue bonds payable	\$ 506,208	\$ 528,030



## NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

### NOTE 4. LONG-TERM OBLIGATIONS *(continued)*

*Annual debt service requirements to maturity, excluding amounts for nuclear decommissioning liability, as of June 30, 2009, are as follows (in thousands):*

	2010	2011	2012	2013	2014	2015-2019	2020-2024	2025-2029	2030-2034	2035-2039	Total
Principal	\$ 21,300	\$ 22,295	\$ 21,050	\$ 22,040	\$ 21,080	\$ 66,230	\$ 63,970	\$ 77,070	\$ 94,000	\$ 115,745	\$ 524,780
Interest	21,735	20,709	19,693	18,692	17,640	78,514	67,585	54,104	36,768	14,449	349,889
Total	\$ 43,035	\$ 43,004	\$ 40,743	\$ 40,732	\$ 38,720	\$ 144,744	\$ 131,555	\$ 131,174	\$ 130,768	\$ 130,194	\$ 874,669

The Electric Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants, of 1.10. The Electric Utility's debt service coverage ratio was 2.60 and 2.62 at June 30, 2009 and 2008, respectively. This debt is backed by the revenues of the Utility (revenue bonds).

#### PRIOR YEAR DEFEASANCE OF DEBT

In prior years the Electric Utility defeased certain Revenue Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Electric Utility's financials statements. At fiscal year ended June 30, 2009, \$9,260 of bonds outstanding are considered defeased.

#### 2008 ELECTRIC REFUNDING/REVENUE BONDS

The City entered into a refunding transaction during the prior fiscal year in response to unusual market conditions brought about by the downgrade of several of the leading municipal bond insurers. These companies provided insurance for the City's Auction Rate Securities ("ARS"). The market that routinely absorbed these instruments through a weekly auction process discontinued their interest in the product and the result was excessively high interest rates, often to the default rate (defined in the bond documents) as the auction "failed," having insufficient bids to clear the auction.

The City's ARS debt was layered with "synthetic fixed rate" swaps designed to maintain the overall cost of funds at a level considered to be in the City's best interest. The unusual market conditions resulted in the swaps not performing as intended and thus the ARS debt was refunded with Variable Rate Demand Notes ("VRDNs"). The notional values of the original swaps remained in place. The transactions were completed (as described below), and the variable rates received on the VRDNs as of June 30, 2009 have resulted in the swaps again functioning as intended, to control the cost of funds on the outstanding variable rate debt.

Because one variable rate debt product was exchanged for another, the typical refunding disclosure measuring the difference in aggregate debt service and calculating an economic gain or loss is less relevant, as the future cash flows of each leg of the calculation are uncertain. For this reason, only the terms of the transaction are described.

On April 25, 2008, \$84,515 of Electric Refunding/Revenue Series A Bonds were sold with a true interest cost of 3.14% to refund \$82,500 of previously outstanding 2004 Electric Revenue Bonds. Also on April 25, 2008, \$114,600 of Electric Refunding/Revenue Series B and C Bonds were sold with a true interest cost of 3.22% to refund \$114,600 of previously outstanding 2005 Electric Refunding/Revenue Series A and B Bonds. The refunding resulted in a combined difference between the reacquisition prices and the net carrying amounts of the old debt of \$5,435. The difference is being charged to operations using the proportional method. The City completed the refunding to eliminate its investment in ARS and reduce its exposure in ARS markets.

On May 8, 2008, the Electric Utility also issued \$209,740 of Electric Revenue Series D Bonds to finance additional capital projects of the City's Capital Improvement Program of the Electric System. Series D is comprised of: \$66,740 serial bonds, with principal payments from October 1, 2017 through October 1, 2038 ranging from \$125 to \$7,735 at interest rates between 3.63 percent and 5.0 percent; \$48,015 term bonds, maturing on October 1, 2033 with interest rate at 5.0 percent; \$94,985 term bonds, maturing on October 1, 2038 with interest rate at 5.0 percent.

## NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

### NOTE 4. LONG-TERM OBLIGATIONS *(continued)*

#### INTEREST RATE SWAPS ON REVENUE BONDS

**Objective:** As a means to lower borrowing costs, when compared against fixed-rate bonds at the time of issuance of the ARS in 2004 and 2005, the City entered into interest rate swap agreements in connection with its \$82,500 2004 Revenue Series B Bonds and \$115,725 2005 Refunding/Revenue Series A and B Bonds. The intention of the swap was to effectively change the City’s variable interest rate on the bonds to a synthetic fixed rate of 3.11% for Series A and 3.20% for Series B and C.

**Terms:** Under the swaps, the City pays the counterparty a fixed payment as noted above and receives a variable payment computed as 62.68% of the London Interbank Offering Rate (“LIBOR”) one month index plus 12 basis points. The swaps have notional amounts equal to the principal amounts stated above. Starting in fiscal year 2015 and 2009, respectively, the notional value of the 2008 Series A, B and C swaps and the principal amount of the associated debt decline by \$1,250 to \$7,000 (Series A), \$275 to \$5,175 (Series B) and \$275 to \$5,200 (Series C), respectively, until the debt is completely retired in fiscal years 2030 (Series A) and 2036 (Series B and C), respectively.

*The bonds and the related swap agreements for the 2008 Electric Refunding/Revenue Series A Bonds mature on October 1, 2029 and Series B and C Bonds mature on October 1, 2035. As of June 30, 2009, rates were as follows:*

Interest rate swap:	Terms	2008 Electric Refunding/ Revenue Series A Bonds	2008 Electric Refunding/ Revenue Series B Bonds	2008 Electric Refunding/ Revenue Series C Bonds
		Rates	Rates	Rates
Fixed payment to counterparty	Fixed	3.11100%	3.20100%	3.20400%
Variable payment from counterparty	62.68 LIBOR + 12bps	(2.50897%)	(2.49327%)	(2.48821%)
Net interest rate swap payments		0.60203%	0.70773%	0.71579%
Variable-rate bond coupon payments		2.76583%	2.79314%	2.79678%
Synthetic interest on bonds		3.36786%	3.50087%	3.51257%

**Fair value:** As of June 30, 2009, in connection with all swap agreements, the transactions had a total negative fair value of (\$12,865). Because the coupons on the City’s variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was developed by a pricing service using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

**Credit risk:** As of June 30, 2009, the City was not exposed to credit risk because the swap had a negative fair value. The swap counterparties, J.P. Morgan Chase Bank and Merrill Lynch Capital Services, were rated A+ and A, respectively by Standard & Poor’s. To mitigate the potential for credit risk, the swap agreements require the fair value of the swap to be collateralized by the counterparty with U.S. Government securities if the counterparties’ rating decreases to negotiated trigger points. Collateral would be posted with a third-party custodian. At June 30, 2009, there is no requirement for collateral posting for any of the outstanding swaps.

**Basis risk:** As noted above, the swaps expose the City to basis risk should the relationship between LIBOR and the variable rate converge, changing the synthetic rate on the bonds. If a change occurs that results in the rates moving to convergence, the expected cost savings may not be realized.

**Termination risk:** The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an “additional termination event.” That is, a swap may be terminated by the City if either counterparty’s credit quality falls below “BBB-” as issued by Standard & Poor’s. The City or the counterparty may terminate a swap if the other party fails to perform under the terms of the contract. If a swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination a swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap’s fair value.

## NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

### NOTE 4. LONG-TERM OBLIGATIONS *(continued)*

*Swap payments and associated debt: As of June 30, 2009, the debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are summarized as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.*

Fiscal Year Ending June 30,	Variable-Rate Bonds			
	Principal	Interest	Interest Rate Swaps, Net	Total
2010	\$ 575	\$ 5,509	\$ 1,316	\$ 7,400
2011	575	5,493	1,312	7,380
2012	2,650	5,419	1,294	9,363
2013	2,750	5,342	1,274	9,366
2014	2,850	5,262	1,254	9,366
2015-2019	41,100	22,797	5,423	69,320
2020-2024	42,075	17,035	4,078	63,188
2025-2029	39,630	11,569	2,836	54,035
2030-2034	45,985	5,456	1,389	52,830
2035-2036	20,375	290	74	20,739
Total	\$ 198,565	\$ 84,172	\$ 20,250	\$ 302,987

### 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 2008 Refunding/Revenue Series A, B and C Bonds require 110% of the monthly accrued interest be included in the reserve. Additional reserves for the 2008 Revenue Series D Bonds and the 1998 Revenue Bonds are not required due to the purchase of surety bonds to cover the 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. In August 2003, the Authority rescinded the membership of the City of San Marcos, as the City no longer met the criteria for membership. 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 2008-09 and 2007-08 fiscal years, the Electric Utility paid approximately \$17,792 and \$17,074, 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 and purchased power or transmission expense in the financial statements.

#### POWER AGENCY OF CALIFORNIA

On July 1, 1990, the City of Riverside joined with the cities 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 consist 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.

## NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

### 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.

The original operating license for SONGS units 2 and 3 was set to expire in 2013; however, this was subsequently extended due to a construction recapture provision, and now expires February 16, 2022 and November 15, 2022 for Units 2 and 3 respectively.

SCE, as operating agent, has declared an “operating impairment” due to deterioration of the steam generators (“SGs”), which would likely result in permanent shutdown of the plant in the 2009-2010 timeframe. The estimated costs to replace the SGs is \$680,000 in 2004 dollars, of which approximately \$12,200 would represent the City’s share. Replacement of the SGs is expected to enable plant operations through at least 2022, and perhaps beyond if Nuclear Regulatory Commission approval is obtained. Although the City Council has approved participation in the replacement of the SGs, Anaheim has opted not to participate. During 2006, the FERC, Nuclear Regulatory Commission and the California Public Utility Commission (CPUC) approved the transfer of Anaheim’s shares to SCE, and as a result, SCE’s ownership was increased to 78.21 percent in units 2 and 3 of SONGS.

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 \$146,027 and \$142,120 for fiscal years ended June 30, 2009 and 2008, respectively. During fiscal year ended June 30, 2006, the City Council approved participation in SONGS through the extended operations date. As a result, all acquisitions are now depreciated through 2022, to include the construction recapture extension period. The accumulated depreciation amounted to \$120,549 and \$114,511 for the fiscal years ended June 30, 2009 and 2008, respectively. The Electric Utility made provisions for future decommissioning costs of \$1,581 for both fiscal years plus earnings on the Decommissioning Trust Fund of \$2,968 and \$2,336 for fiscal years June 30, 2009 and June 30, 2008, respectively (see Note 1). The Electric Utility’s portion of current and long-term debt associated with SONGS is included in the accompanying financial statements.

### 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 137.1 MW, of the net generation output of IPA’s 1,800 MW 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, it has entered into Power Purchase or Transmission Service Agreements, entitling the Electric Utility to the power output or transmission service, as applicable, and the Electric Utility will be obligated for its proportionate share of the project costs whether or not such generation output of transmission service is available.

## NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

### NOTE 8. COMMITMENTS *(continued)*

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	195.0 MW	2027	2027
Hoover Dam Upgrading	31.9 percent	30.0 MW	2017	2017
Mead-Phoenix Transmission	4.0 percent	12.0 MW	2020	2030
Mead-Adelanto Transmission	13.5 percent	118.0 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 3.50 percent to 6.38 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.

Debt Service Payment (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
	2010	\$ 19,926	\$ 692	\$ 6,457	\$ 708	\$ 229	\$ 2,454
2011	25,742	662	7,538	708	319	3,100	38,069
2012	23,323	666	7,936	706	318	3,090	36,039
2013	20,116	669	9,614	704	318	3,087	34,508
2014	22,918	672	8,764	705	318	3,092	36,469
2015-2019	101,907	2,725	43,378	2,803	1,311	14,833	166,957
2020-2024	63,356	-	37,809	-	515	5,820	107,500
2025-2029	-	-	21,044	-	-	-	21,044
Total	\$ 277,288	\$ 6,086	\$ 142,540	\$ 6,334	\$ 3,328	\$ 35,476	\$ 471,052

In addition to debt service, Riverside's entitlements require the payment of 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 year ended June 30, 2009 and 2008, are as follows (in thousands):

FISCAL YEAR	Intermountain Power Project	Palo Verde Nuclear Generating Station	Southern Transmission System	Hoover Dam Upgrading	Mead-Phoenix Transmission	Mead-Adelanto Transmission	TOTAL
2009	\$ 28,010	\$ 3,044	\$ 1,975	\$ 81	\$ 121	\$ 243	\$ 33,474
2008	\$ 27,759	\$ 2,758	\$ 2,181	\$ 88	\$ 97	\$ 248	\$ 33,131

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



## NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

### NOTE 8. COMMITMENTS *(continued)*

#### POWER PURCHASE AGREEMENTS

The Electric Utility has executed three firm power purchase agreements. The agreements are with Deseret Generation and Transmission Cooperative (Deseret) of Murray, Utah and Bonneville Power Administration (BPA). The minimum annual obligations under each of these contracts are shown in the following table.

#### MINIMUM OBLIGATIONS 2009-2010 *(in thousands):*

Supplier	Capacity	Energy	Total
Deseret	\$ 1,732	\$ 1,143	\$ 2,875
BPA (two agreements)	1,096	-	1,096
Total	\$ 2,828	\$ 1,143	\$ 3,971

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 2002 through the term of the agreement in 2009. In exchange, Riverside Public Utilities paid Deseret \$25,000 from Electric fund reserves, which is reflected on the Balance Sheets as Deferred purchased power. On July 1, 2002, the Electric Utility began to amortize the \$25,000, and will continue to amortize the remaining balance over the term of the agreement using the straight-line method.

As of June 30, 2009 and 2008, Deferred purchased power was \$1,670 and \$5,011, respectively, and the Utility had recorded amortization of \$3,341 in both fiscal years.

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 second 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 second agreement.

#### NUCLEAR INSURANCE

The Price-Anderson Act ("the Act") requires that all utilities with nuclear generating facilities purchase the maximum private primary nuclear liability insurance available (\$300 Million) and participate in the industry's secondary financial protection plan. The secondary financial protection program is the industry's retrospective assessment plan that uses deferred premium charges from every licensed reactor owner if claims and/or costs resulting from a nuclear incident at any licensed reactor in the United States were to exceed the primary nuclear insurance at that plant's site. The Act limits liability from third-party claims to approximately \$12.5 billion per incident. Under the industry wide retrospective assessment program provided for under the Act, assessments are limited to \$117.5 million per reactor for each nuclear incident occurring at any nuclear reactor in the United States, with payments under the program limited to \$17.5 million per reactor, per year, per event to be indexed for inflation every five years. The next inflation adjustment will occur no later than October 2013. Based on the Electric Utility's interest in Palo Verde and ownership in SONGS, the Utility would be responsible for a maximum assessment of \$5,331, limited to payments of \$794 per incident, per year. If the public liability limit above is insufficient, federal regulations may impose further revenue-raising measures to pay claims, including a possible additional assessment on all licensed reactor operators.

## NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

### NOTE 8. COMMITMENTS *(continued)*

#### RENEWABLE PORTFOLIO STANDARD (“RPS”)

On June 6, 2003 and July 8, 2003, the Public Utilities Board and the City Council respectively, adopted a RPS to increase procurement of renewable resources to reach a target of 20% of the Utility’s energy by 2015. On March 16, 2007, the Public Utilities Board approved a new RPS, increasing the targets to 20% and 25% by 2010 and 2015, respectively. On May 4, 2007, the Public Utilities added an additional target of 33% by 2020. The City Council, on December 9, 2008, unanimously approved the revised RPS.

The contracts in the following table were executed as part of compliance with this standard. The Utility also has an agreement with Bonneville Power Administration for the purchase of energy credits that add to the total renewable portfolio. In the current year, renewable resources provided 11% of retail energy requirements of total power produced or purchased.

#### *Long-term renewable power purchase agreements (in thousands):*

Supplier	Type	Maximum Contract	Contract Expiration	Estimated Annual Cost For 2010
Salton Sea Power LLC	Geothermal	46.0 MW	5/31/2020	22,123
Wintec	Wind	8.0 MW	11/10/2021	233
Total		54.0 MW		\$ 22,356

*All contracts are contingent on energy production from specific related generating facilities. Riverside has no commitment to pay any amounts except for energy produced on a monthly basis from these facilities.*

On August 23, 2005, the City Council approved an amendment to the Power Purchase Agreement between Salton Sea and the City. The agreement increases the amount of renewable energy available to the City from 20 MW to 46 MW effective June 1, 2009 through May 31, 2020, at the same price under the current contract until 2013, with escalation thereafter based on an inflationary type index. Similar to other renewable power purchase agreements, the City is only obligated for purchases of energy delivered to the City.

On November 10, 2006, the City of Riverside entered into a second Renewable Power Purchase Agreement with Wintec Energy, Ltd for wind generation capacity of up to 8 MW. The contract term is for 15 years, with additional capacity available upon completion of Wintec’s Facility II Wind Turbine Project.

On June 19, 2008, and December 12, 2008, respectively the City of Riverside entered into two separate Renewable Power Purchase Agreements with Shoshone Renaissance, LLC (“Renaissance”). The contract term for each agreement is 30 years, and provide a combined 96 megawatts of geothermal energy. Like the majority of renewable projects, Renaissance has had difficulty completing the financing due to the meltdown in the financial markets. The agreements have been extended to allow Renaissance additional time to secure financing to begin drilling and ultimately constructing the projects. Renaissance is confident about ultimately securing the necessary financing, and expects that the power delivery should commence in late 2011 with project completion approximately one year later. Similar to its other renewable power purchase agreements, Riverside’s payment obligation is limited to the amount of energy delivered. Including the renewable power from these contracts, Riverside expects to serve 50% of its retail customer needs with renewable power in 2013.

#### CONSTRUCTION COMMITMENTS

As of June 30, 2009, the Electric Utility had major commitments of approximately \$17,207 with respect to unfinished capital projects, of which \$16,560 is expected to be funded by bonds and \$647 funded by rates .

#### FORWARD PURCHASE AGREEMENTS

In order to meet summer peaking requirements, the Utility may contract on a monthly or quarterly basis, for natural gas, electricity and/or capacity products on a short term horizon. As of June 30, 2009, the Electric Utility has summer peaking commitments for fiscal year 2010, of approximately \$4,727, with a market value of \$3,076.

### NOTE 9. LITIGATION

The City continues to participate in key FERC dockets impacting the City's Electric Utility, such as the California Independent System Operator's (CAISO) Market Redesign and Technology Upgrade (MRTU).

On January 1, 2003, the City became a Participating Transmission Owner (PTO) with the CAISO, entitling the City to receive compensation for use of its transmission facilities committed to the CAISO's operational control. The compensation is based on the City's Transmission Reserve Requirements (TRR) as approved by the FERC. After numerous FERC hearings, briefings, and decisions on this TRR issue, FERC issued a final order in favor of the City in late 2006. CDWR appealed this order to the U.S. Court of Appeals for the D.C. Circuit, but CDWR subsequently withdrew this petition, and the court issued an order dismissing the case on July 9, 2007. As a result of this dismissal, approximately \$49 million collected from the CAISO through June 30, 2007 but previously held in reserves, has now been released to the Electric Utility's unrestricted operating cash reserve account, and is available for current operations or other strategic purposes upon approval of the Public Utilities Board and the City Council.

On May 6, 2009, Riverside filed a revised TRR at FERC. In its filing, Riverside updated its projected transmission costs and proposed an automatic adjustment mechanism to reflect its actual costs incurred under existing transmission contracts with Southern California Edison which have become the most volatile component of its TRR. Numerous parties filed timely motions to intervene, with some parties protesting various portions of the TRR. On August 28, 2009, FERC accepted Riverside's TRR filing and ordered Riverside's TRR to be incorporated in CAISO rates effective July 1, 2009, subject to hearing and settlement judge procedures to determine the appropriate rates. Although the ultimate outcome cannot be predicted, Riverside is currently receiving the full TRR amount requested, and will be required to refund, with interest, amounts collected in excess of the settlement process.

During the California Energy Crisis of 2001-2002, the City made numerous power sales into the California centralized markets. Due to financial problems experienced by numerous market participants, notably Pacific Gas & Electric (PG&E) and the California Power Exchange (Cal PX) who filed for Chapter 11 bankruptcy in 2001, the City was not paid for many of these transactions. On June 4, 2008, the FERC approved a settlement agreement between the City and numerous California entities, including all of the Investor-Owned Utilities and the California Attorney General, under which the City was paid all of its unpaid receivables, plus interest, minus \$1.27 million in refunds. The net payout to the City was \$3.7 million (including all unpaid receivables, including interest and its deposit with the Cal PX, minus \$269,000 paid to the City of Banning for transactions made on its behalf by the City). Under the settlement, the City may receive additional distributions of refunds from other sellers. The City also may be responsible for paying its allocated portion (as determined by FERC) of payments due to other sellers for any Emissions Offset, Fuel Cost Allowance, or Cost Offset associated with sales by such other sellers during the energy crisis. It is not possible at this time to estimate the net effect of any such future distributions to or payments by the City.

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

## KEY HISTORICAL OPERATING DATA: ELECTRIC

### POWER SUPPLY (MWH)

	2008/09	2007/08	2006/07	2005/06	2004/05
Nuclear					
San Onofre	281,400	286,500	310,400	275,100	282,700
Palo Verde	97,700	85,200	90,000	72,600	87,500
Coal					
Intermountain Power	1,051,200	1,094,100	1,130,000	1,091,000	1,081,600
Deseret	406,000	427,600	400,000	396,000	432,200
Hoover (Hydro)	32,500	33,700	34,500	35,100	28,100
Gas					
Springs	3,300	2,300	1,600	1,600	1,700
RERC	48,700	46,800	62,000	9,300	0
Renewable Resources	233,000	247,800	245,000	264,000	270,200
Other purchases	479,900	594,100	462,000	517,300	440,000
Exchanges In	90,000	115,700	107,400	89,900	83,300
Exchanges Out	(160,600)	(202,600)	(191,900)	(174,600)	(79,100)
<b>Total:</b>	<b>2,563,100</b>	<b>2,731,200</b>	<b>2,651,000</b>	<b>2,577,300</b>	<b>2,628,200</b>
System peak (MW)	534.1	604.4	586.3	550.6	519.1

### ELECTRIC USE

Number of meters as of year end	2008/09	2007/08	2006/07	2005/06	2004/05
Residential	95,214	94,691	94,232	93,607	92,914
Commercial	10,178	10,258	10,063	10,038	10,060
Industrial	904	978	837	496	344
Other	89	88	94	153	145
<b>Total:</b>	<b>106,385</b>	<b>106,015</b>	<b>105,226</b>	<b>104,294</b>	<b>103,463</b>
Millions of kilowatt-hours sales					
Residential	733	734	748	697	675
Commercial	433	441	456	474	530
Industrial	946	960	924	810	707
Other	33	34	39	57	50
<b>Subtotal:</b>	<b>2,145</b>	<b>2,169</b>	<b>2,167</b>	<b>2,038</b>	<b>1,962</b>
Wholesale	309	357	295	321	470
<b>Total:</b>	<b>2,454</b>	<b>2,526</b>	<b>2,462</b>	<b>2,359</b>	<b>2,432</b>

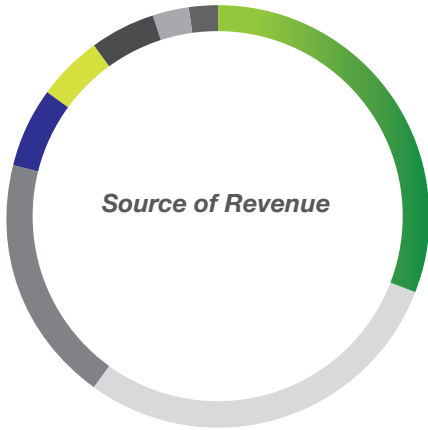
### ELECTRIC FACTS

	2008/09	2007/08	2006/07	2005/06	2004/05
Average annual kWh per residential customer	7,739	7,779	7,959	7,515	7,424
Average price (cents/kWh) per residential customer	14.39	13.61	12.62	12.22	11.81
Debt service coverage ratio	2.60	2.62	3.09	2.67	3.68
Operating income as a percent of operating revenues	21.9%	16.4%	22.0%	18.2%	25.4%
Employees <sup>1</sup>	416	405	367	338	307

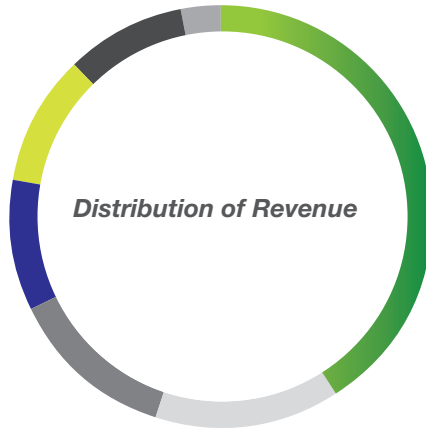
<sup>1</sup> Approved Positions

# KEY HISTORICAL OPERATING DATA: ELECTRIC

## 2008/2009 ELECTRIC REVENUE AND RESOURCES



- Other Sales 2¢
- Wholesale Sales 3¢
- Investment Income 5¢
- Transmission Revenue 5¢
- Other Revenue 6¢
- Commercial Sales 19¢
- Industrial Sales 29¢
- Residential Sales 31¢



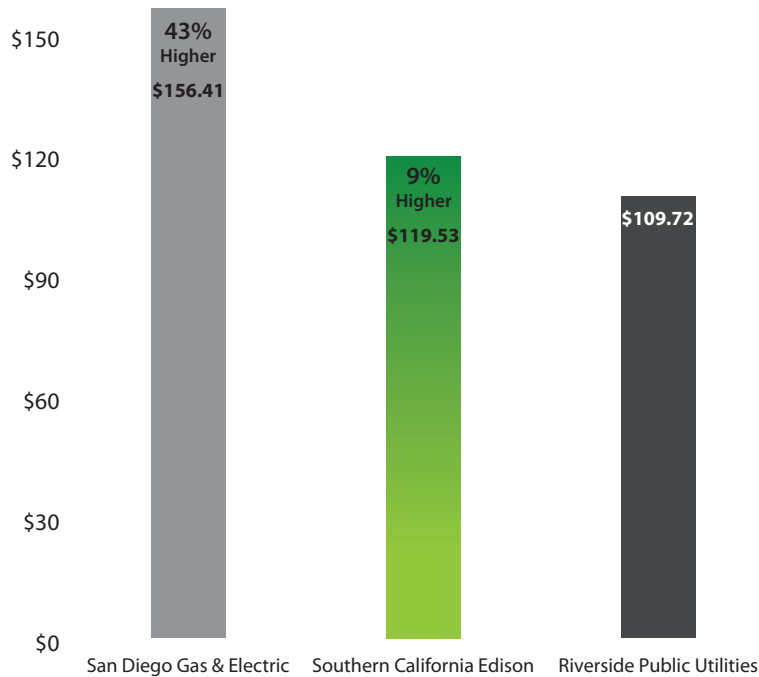
- Additions & Replacements to the System 3¢
- Transfers to the City's General Fund\* 9¢
- Additional Reserves 10¢
- Transmission 10¢
- Debt Service 13¢
- Distribution 14¢
- Production 41¢



- Hydropower 1%
- Gas 2%
- Renewables 9%
- Nuclear 14%
- Other Purchases 17%
- Coal 57%

\* BASED ON TRANSFER OF 10.5% OF FISCAL YEAR 2007/2008 REVENUES (EXCLUDES WHOLESale SALES, INTEREST AND OTHER NON-OPERATING INCOME).

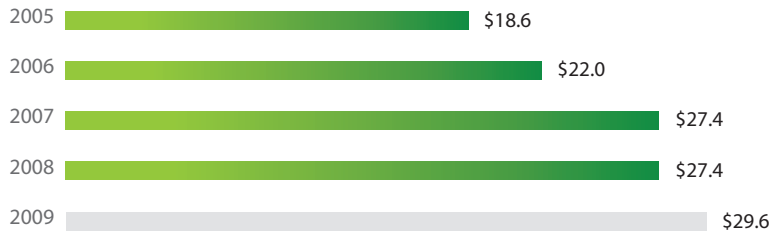
## SINGLE FAMILY RESIDENTIAL ELECTRIC RATE COMPARISON – 750 KWH PER MONTH (AS OF JUNE 30, 2009)



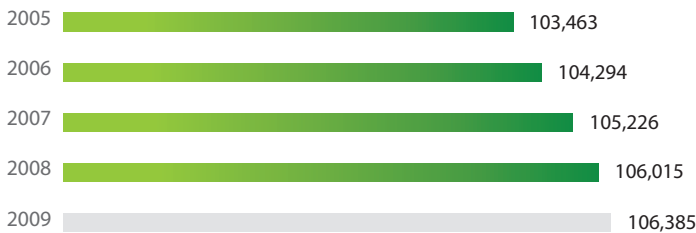


## KEY HISTORICAL OPERATING DATA: ELECTRIC

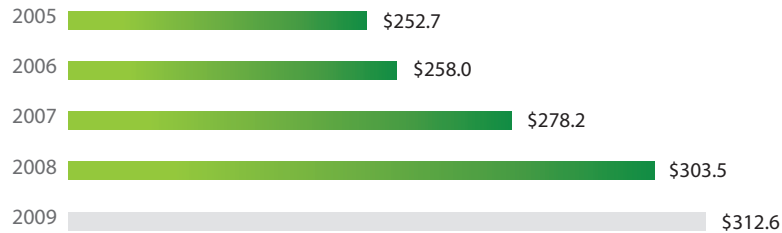
### GENERAL FUND TRANSFER *(in millions)*



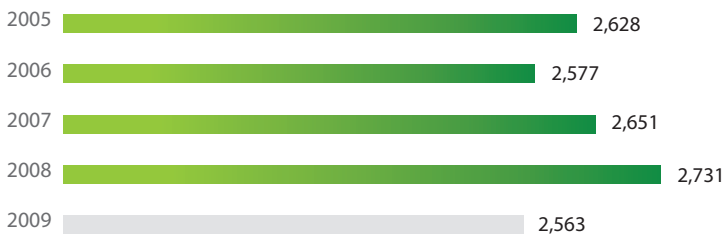
### NUMBER OF METERS AT YEAR END



### TOTAL OPERATING REVENUE *(in millions)*

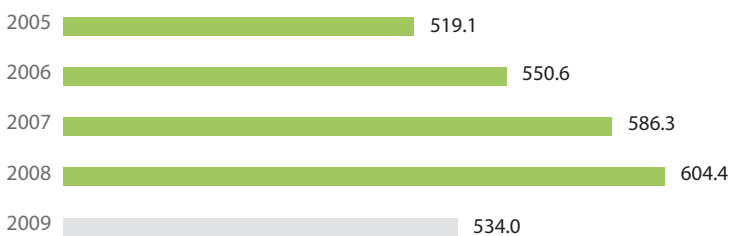


### PRODUCTION *(in million kilowatt-hours)\**



\* ENERGY SHOWN BEFORE LOSSES NET OF EXCHANGES

### PEAK DAY DEMAND *(in megawatts)*



### ELECTRIC FACTS AND SYSTEM DATA

Established	1895
Service Area Population	300,430
Service Area Size (square miles)	81.5
System Data:	
Transmission lines (circuit miles)	91.1
Distribution lines (circuit miles)	1,291
Number of substations	14
2008-2009 Peak day (megawatts):	534
Highest single hourly use:	
8/26/2008, 4pm, 97 degrees	
Historical peak (megawatts):	604
8/31/07, 4pm, 106 degrees	

### BOND RATINGS

FITCH RATINGS	AA-
STANDARD & POOR'S	AA-
Debt Derivative Profile Score	2



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

**INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying financial statements of the City of Riverside, California, Water Utility, an enterprise fund of the City, as of and for the year ended June 30, 2009 as listed in the table of contents. These financial statements are the responsibility of the City of Riverside Water Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year partial comparative information has been derived from the financial statements of the Water Utility for the year ended June 30, 2008 and, in our report dated October 3, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 to the financial statements, the financial statements of the City of Riverside, California, Water Utility are intended to present the financial position and the changes in financial position and cash flows for the City of Riverside, California, Water Utility, a fund of the City, and do not purport to, and do not, present fairly the financial position of the City of Riverside, California, and the changes in its financial position and its cash flows, where applicable, 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, California, Water Utility, as of June 30, 2009 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, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



To the Honorable City Council and Board of Public Utilities  
City of Riverside  
Page 2

Our audits were conducted for the purpose of forming an opinion on the financial statements that comprise the City of Riverside, California, Water Utility's basic financial statements. The supplementary information entitled Water Key Historical Data, as listed in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2009 on our consideration of the City of Riverside's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Mayer Hoffman Mc Cann P.C.*

San Jose, California  
October 29, 2009



## MANAGEMENT'S DISCUSSION AND ANALYSIS: WATER

As management of Riverside Public Utilities (a department of the City of Riverside), we offer the readers of Riverside's Water Utility financial statements, an enterprise fund of the City, this narrative overview and analysis of the financial activities of the Water Utility (Utility) for the fiscal years ended June 30, 2009 and 2008. We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, which begin on page 52 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

### FINANCIAL HIGHLIGHTS

Fiscal years 2009 and 2008 reflected strong operating results for the Water Utility, with retail sales exceeding the previous year's results, primarily from an expanded customer base and the effects of rate increases offset by a decrease in consumption.

- Retail sales, net of reserve/recovery were \$49,591 and \$46,164 for the years ended June 30, 2009 and 2008, respectively. The increase in sales was primarily due to recent rate increases to support the Water Utility's Water Master, Water Supply and Asset Management Plans, offset by a 2.5% reduction in retail consumption.
- The assets of the Water Utility exceeded its liabilities (equity) at the close of fiscal years 2009 and 2008 by \$275,143 and \$274,487, respectively. Of this amount, \$30,911 and \$37,884, respectively, may be used to meet the Utility's ongoing obligations to creditors and customers.
- The Utility's total equity as of June 30, 2009 and 2008 increased by \$656 and \$20,570 from fiscal years ended June 30, 2008 and 2007, respectively. The 2009 increase was significantly impacted by the effects of the Special Item (see Note 8).
- As of June 30, 2009 and 2008, unrestricted equity represented over 67% and 88% of annual operating expenses, respectively.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is 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's "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 with additional information about the Water Utility, including key historical operating and other relevant data.

Included as part of the financial statements are three separate statements, which collectively provide an indication of the Water Utility's financial health.

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, e.g., 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS: WATER

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 Water Utility's financial statements. The notes to the financial statements can be found on pages 56 to 67 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 \$275,143 and \$274,487 at the close of the fiscal years 2009 and 2008, respectively.

The following table summarizes the Water Utility's financial condition as of June 30, 2009, 2008 and 2007:

#### CONDENSED STATEMENTS OF EQUITY (NET ASSETS)

	2009	2008	2007
Current and other assets	\$ 82,220	\$ 117,858	\$ 77,827
Capital assets	356,089	324,636	286,396
Total assets	438,309	442,494	364,223
Long-term debt outstanding	143,522	147,349	91,568
Other liabilities	19,644	20,658	18,738
Total liabilities	163,166	168,007	110,306
Invested in capital assets, net of related debt	237,188	230,347	208,882
Restricted	7,044	6,256	5,328
Unrestricted	30,911	37,884	39,707
Total equity (net assets)	\$ 275,143	\$ 274,487	\$ 253,917

### ASSETS

**Fiscal Year 2009** Total assets of \$438,309 reflect a decrease of \$4,185 (1.0%), mainly due to the following:

- Current and other assets, which comprise of restricted and unrestricted assets, reflect a net decrease of \$35,638 due to the use of \$28,284 of bonds proceeds for capital projects. Accounts receivable from other utilities and governments decreased by \$7,032 primarily due to the reduction of a receivable from the State of California for reimbursement for capital construction projects.
- The increase in net capital assets (Utility plant) of \$31,453 was a result of significant investment in the pipeline replacement program, system expansion and improvements, and construction of treatment facilities as discussed in the "Capital Assets and Debt Administration" section on page 50 of this report.

**Fiscal Year 2008** Total assets of \$442,494 reflect an increase of \$78,271 (21.5%), due to a \$38,240 increase in net capital assets (Utility plant) primarily relating to the pipeline replacement program, system expansion and improvements, and construction of treatment facilities (of which approximately 50% was funded by the State of California Proposition 50 grant funds). Current and other assets reflect a net increase of \$40,031 due to the issuance of the 2008 Water Revenue Series B Bonds which resulted in an increase in bond proceeds offset by the use of bond proceeds for capital projects and a decrease in operating cash used for capital construction projects eligible for reimbursement from the State.



## MANAGEMENT'S DISCUSSION AND ANALYSIS: WATER

### LIABILITIES

**Fiscal Year 2009** The Utility's total liabilities were \$163,166, a decrease of \$4,841 (2.9%), due to the following:

- Long-term debt outstanding decreased by \$3,827 due to principal repayments, amortization of deferred bond refunding costs, capital appreciation, and bond discounts and premiums.
- Other liabilities decreased by \$1,014 primarily from a \$911 decrease in payables and accrued liabilities.

**Fiscal Year 2008** The Utility's total liabilities increased by \$57,701 (52.3%) to \$168,007. Long-term debt outstanding increased by \$55,781 primarily due to the issuance of the 2008 Water Revenue Series B Bonds offset by principal repayments. Other liabilities increased by \$1,920 due to an increase in accounts payable and accrued liabilities offset by a decrease in customer deposits.

### EQUITY (NET ASSETS)

**Fiscal Year 2009** The Water Utility's equity, which represents the difference between the Utility's resources and its obligations, totaled \$275,143, an increase of \$656 (less than 1.0%), is comprised of the following:

- The largest portion of the Utility's equity is \$237,188 (86.2%), and reflects its investment in capital assets, such as treatment, pumping, source of supply, transmission and distribution facilities, less any related outstanding debt used to acquire those assets. This portion increased by \$6,841 (3.0%) over prior fiscal year due to the amount of capital assets constructed or purchased that were not bond financed. 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 Sheets must come from other sources such as operations, since the capital assets themselves cannot be used to liquidate these long-term obligations. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.
- The restricted portion totaled \$7,044 (2.6% of total equity), and represents resources that are subject to internal and external restrictions on how they may be used. These are reserved for items such as debt repayment and funds collected for the Water Conservation and Reclamation programs. This portion increased by \$788 from prior fiscal year primarily due to increases in Water Conservation and Reclamation program assets.
- The unrestricted portion totaled \$30,911 (11.2% of total equity), a decrease of \$6,973, primarily attributable to the results of positive operations offset by the effects of the Special Item (see Note 8) and the use of unrestricted equity to fund capital projects. This portion may be used to meet the Utility's ongoing obligations to creditors and customers.

**Fiscal Year 2008** Total Water fund equity increased \$20,570 (8.1%) to \$274,487. The largest portion of the equity, \$230,347 (83.9%), is represented by investment in capital assets, which increased by \$21,465 (10.3%) due to the amount of capital assets constructed or purchased that were not bond funded. The restricted portion increased by \$928 primarily due to increases in Water Conservation and Reclamation program assets. The unrestricted portion decreased by \$1,823 due to positive operating results for fiscal year 2008, offset by the use of unrestricted equity to fund capital projects and additional debt service reserves.

## MANAGEMENT'S DISCUSSION AND ANALYSIS: WATER

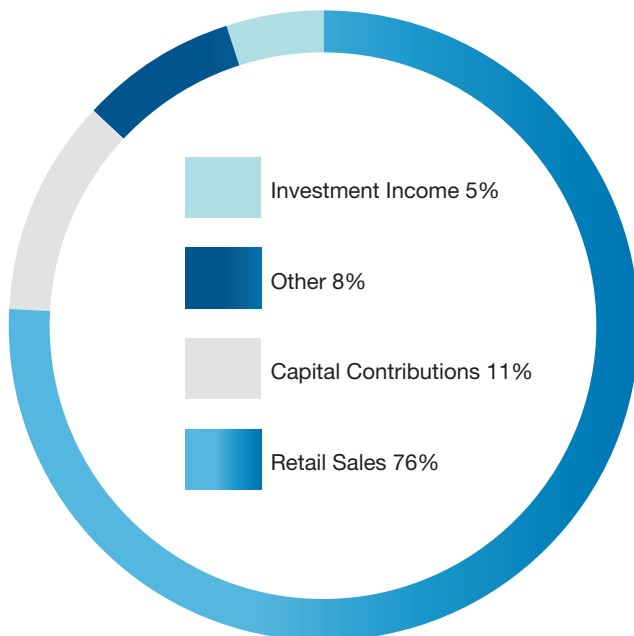
The Water Utility's overall increase in equity of \$656 and \$20,570 during fiscal years 2009 and 2008, respectively, was due to positive operating results that can be further explained in the following Condensed Statements of Changes in Equity:

### CONDENSED STATEMENTS OF CHANGES IN EQUITY (NET ASSETS)

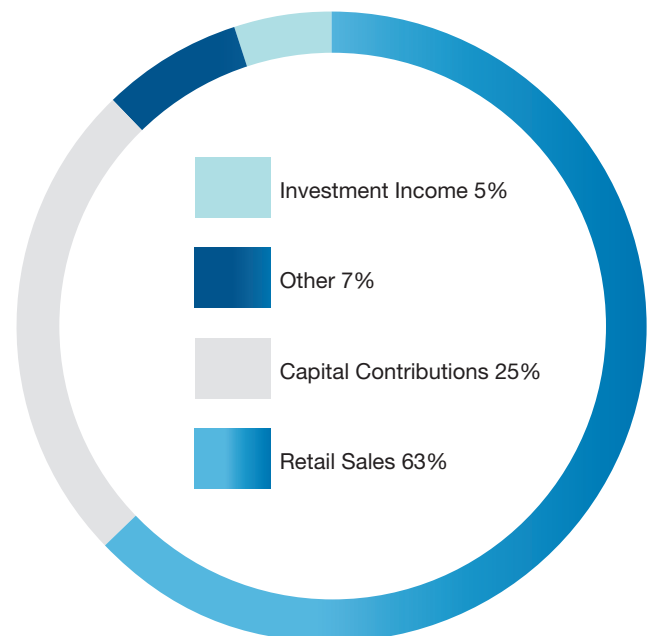
	2009	2008	2007
<b>Revenues:</b>			
Retail sales, net	\$ 49,591	\$ 46,164	\$ 43,403
Other revenues	5,311	5,206	4,491
Investment income	3,169	3,357	2,931
Capital contributions	7,148	18,116	20,074
<b>Total revenues</b>	<b>65,219</b>	<b>72,843</b>	<b>70,899</b>
<b>Expenses:</b>			
Operations and maintenance	29,678	27,795	23,449
Purchased energy and water	6,401	6,316	6,233
Depreciation	9,771	8,806	7,783
Interest expense and fiscal charges	7,049	4,401	4,469
<b>Total expenses</b>	<b>52,899</b>	<b>47,318</b>	<b>41,934</b>
Transfers to the City's general fund	(5,276)	(4,955)	(3,928)
Special item	(6,388)	-	-
<b>Changes in equity</b>	<b>656</b>	<b>20,570</b>	<b>25,037</b>
Equity, July 1	274,487	253,917	228,880
Equity, June 30	\$ 275,143	\$ 274,487	\$ 253,917

### REVENUES BY SOURCES

June 30, 2009



June 30, 2008



## MANAGEMENT'S DISCUSSION AND ANALYSIS: WATER

**Fiscal Year 2009** Total revenues of \$65,219 decreased by \$7,624 (10.5%) from prior fiscal year, due to the following major changes:

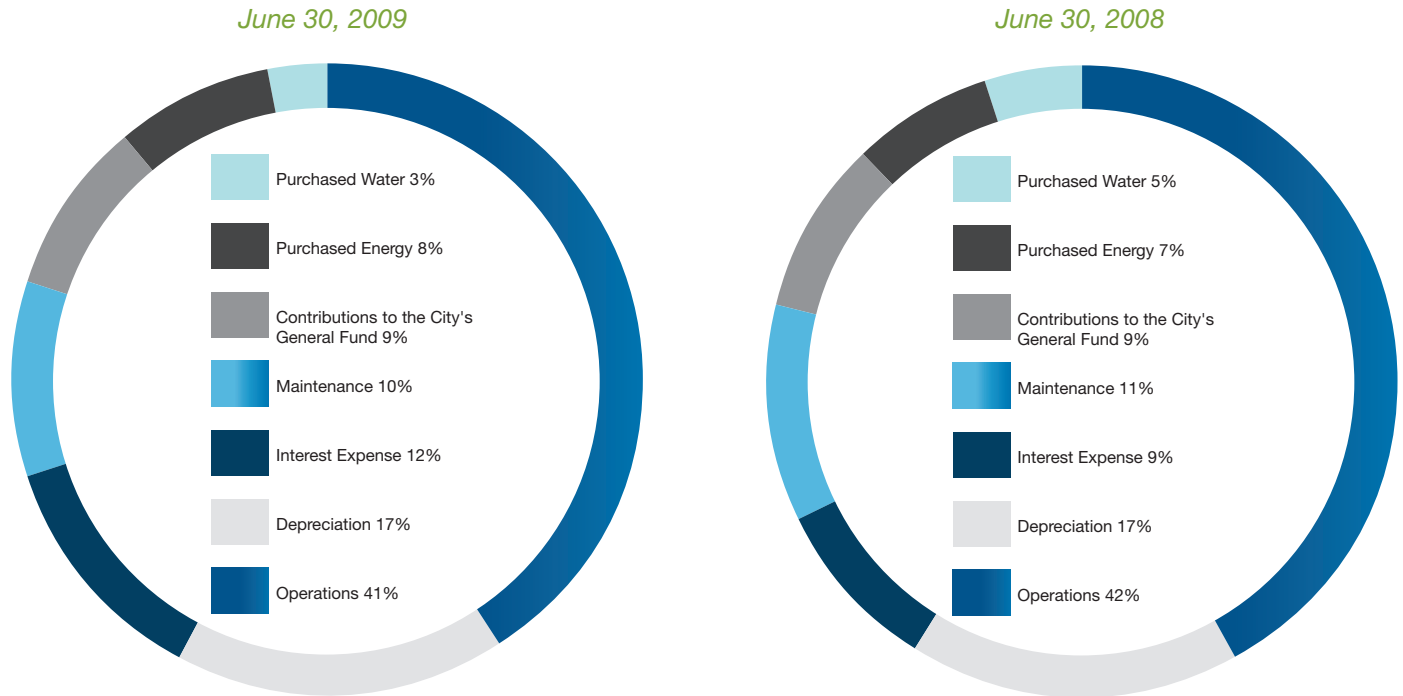
- Retail sales (residential, commercial, industrial, and other sales), net of reserve/recovery, totaled \$49,591, an increase of \$3,427 (7.4%) over the prior fiscal year. Retail sales continue to be the primary revenue source for the Water Utility, making up 76.0% of total revenues. The increase in retail sales was primarily due to a 10.0% rate increase that became effective November 1, 2008 as part of the SAFE W.A.T.E.R. Plan, offset by a 2.5% decrease in retail consumption.
- Other revenues of \$5,311 increased by \$105 (2.0%) predominantly due to an increase in wholesales sales attributed to our Wheeling agreement.
- Investment income of \$3,169 reflects a decrease of \$188 (5.6%), due to an overall decrease of \$644 in the fair market value and interest from investments, offset by an increase of \$456 on interest earned on bond construction cash.
- Capital contributions were \$7,148 and reflect a decrease of \$10,968 (60.5%), primarily due to a decrease of \$7,512 in contributions from State grants for reimbursable capital project costs, decreases of \$1,307 in non-cash developer contributions, and \$1,558 from developers for construction projects due to the slowdown in development related activities.

**Fiscal Year 2008** Total revenues of \$72,843 increased by \$1,944 (2.7%) from prior fiscal year, due to the following major changes:

- Net retail sales were \$46,164, 63.3% of total revenues, reflecting an increase of \$2,761 (6.4%) in net retail sales from the prior fiscal year primarily due to a 10.0% rate increase that became effective November 1, 2007 as part of the SAFE W.A.T.E.R. Plan, offset by a 6.1% decrease in retail consumption.
- Other revenues of \$5,206 increased by \$715 (15.9%) predominantly due to gains on the sale of assets.
- Investment income of \$3,357 reflects an increase of \$426 (14.5%), primarily due to a net increase in the fair market value of investments.
- Capital contributions were \$18,116 and reflect a decrease of \$1,958 (9.8%), primarily due to an increase of \$10,047 in contributions from State grants for reimbursable capital project costs, offset by a decrease of \$6,168 in non-cash contributions for treatment facilities from settlement agreements with parties responsible for contaminating the Water Utility's ground water resources, and a decrease of \$5,837 in construction projects funded by developers.

# MANAGEMENT'S DISCUSSION AND ANALYSIS: WATER

## EXPENSES BY SOURCES



**Fiscal Year 2009** Total expenses were \$52,899, an increase of \$5,581 (11.8%), due to the items discussed below:

- Operations and maintenance costs were \$29,678, and reflect an increase of \$1,883 (6.8%), primarily due to increases in personnel-related expenses and general operating expenses. Overall purchased energy and water costs were consistent with prior year; however, electricity costs increased \$928 due to pumping water from deeper ground levels due to ongoing drought conditions. Although the Utility did not purchase any water in the current year, it recorded \$1,823 (\$843 lower than prior year) primarily for over-pumping its entitlement in local ground water in previous years and to pay availability charges related to pumping rights.
- Interest expense and fiscal charges were \$7,049, and reflect an increase of \$2,648 (60.2%), due to a full year of interest costs associated with the 2008 Water Revenue Series B bonds.
- Depreciation expense of \$9,771 increased \$965 (11.0%) primarily due to the completion of \$45,307 of capital projects that were included as depreciable capital assets.

**Fiscal Year 2008** Total expenses were \$47,318, reflecting an increase of \$5,384 (12.8%), due to an increase in personnel-related expenses, professional service costs, maintenance expenses and the cost of electricity and gas necessary for operations, offset by a reduction in purchased water costs.

## TRANSFERS

Transfers to the City's general fund are limited to a maximum of 11.5% of the prior year gross operating revenues by Section 1204(f) of the City Charter. The City uses these funds to help provide needed public services to the residents of the City, including police, fire, parks, libraries and other benefits.

**Fiscal Year 2009** The Water Utility transferred the maximum allowable by the City Charter to the City's general fund, or \$5,276, an increase of \$321, primarily the result of a \$2,761 increase in retail sales for fiscal year 2008. See also Note 8 regarding a Special Item transaction with the City's general fund.

**Fiscal Year 2008** Transfers to the City's general fund of \$4,955 increased by \$1,027, primarily the result of increased retail sales of \$9,102 for fiscal year 2007.

## MANAGEMENT'S DISCUSSION AND ANALYSIS: WATER

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### CAPITAL ASSETS

The Water Utility's investment in Capital Assets includes investments in source of supply, pumping, treatment, transmission and distribution facilities, and construction in progress, as well as general items such as office equipment, furniture, etc.

The following table summarizes the Utility's capital assets, net of depreciation as of June 30:

	2009	2008	2007
Source of supply	\$ 49,485	\$ 24,719	\$ 22,266
Pumping	13,534	11,451	7,641
Treatment	19,843	20,613	20,293
Transmission and distribution	226,454	217,071	195,557
General	5,542	5,253	3,680
Land	10,809	7,682	3,923
Intangible	6,015	5,969	5,969
Construction in progress	24,407	31,878	27,067
<b>Total</b>	<b>\$ 356,089</b>	<b>\$ 324,636</b>	<b>\$ 286,396</b>

**Fiscal Year 2009** The Water Utility's investment in capital assets, net of accumulated depreciation was \$356,089, an increase of \$31,453 (9.7%). The increase resulted primarily from the following significant capital projects:

- \$6,642 for continued pipeline replacement programs.
- \$23,638 for system expansion and improvements including pump station replacements, reservoir construction and facilities rehabilitation.
- \$4,129 for completion of the John W. North Treatment facility which will greatly increase the water supply and was one of the recommended system improvements in the SAFE W.A.T.E.R. Plan.
- \$2,661 for property acquisitions for future reservoirs, booster stations and other system expansion or improvement projects (see Note 8).

**Fiscal Year 2008** Investment in capital assets, net of accumulated depreciation, for the Water Utility increased \$38,240 (13.4%), for a total of \$324,636. Major capital projects included \$6,156 for continued pipeline replacement programs, \$10,768 for system expansion and improvements to water facilities, and \$20,463 for the John W. North Treatment facility.

#### DEBT ADMINISTRATION

The following table summarizes outstanding long-term debt (revenue bonds) as of June 30:

	2009	2008	2007
Revenue bonds	\$ 149,020	\$ 153,395	\$ 99,515
Contracts payable	949	964	974
Less:			
Current portion	(4,565)	(4,525)	(4,505)
Unamortized deferred bond refunding costs	(3,101)	(3,198)	(2,510)
Unamortized capital appreciation	(427)	(938)	(1,629)
Unamortized bond premium (discount)	1,646	1,651	(277)
<b>Total</b>	<b>\$ 143,522</b>	<b>\$ 147,349</b>	<b>\$ 91,568</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS: WATER

The Water Utility's bond indentures require the 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 2.25, 3.88, and 3.38 at June 30, 2009, 2008, and 2007, respectively. The debt is backed by the revenues of the Utility (revenue bonds).

**Fiscal Year 2009** Total long-term debt decreased by \$3,827 (2.6%) to a total of \$143,522, due to \$3,787 of principal repayments, amortization of deferred bond refunding costs, capital appreciation, and bond discounts and premiums.

**Fiscal Year 2008** Long-term debt of \$147,349 increased by \$55,781 (60.9%), due to the May 15, 2008 issuance of the 2008 Water Revenue Series B Bonds in the amount of \$58,235, offset by \$4,364 of principal repayments, amortization of deferred bond refunding costs, capital appreciation, and bond discounts and premiums.

Additional information on the Water Utility's long-term debt can be found in Note 4 on pages 62 to 66 of this report.

### CREDIT RATINGS

The Water Utility maintains an "AA+" credit rating from Standard & Poor's and "AA" from Fitch Ratings for its revenue bonds.

## ECONOMIC FACTORS AND RATES

Although inflationary trends in the Riverside region continue to compare favorably to the national indices, the Water Utility's escalation in costs are not strictly attributable to inflation. One of the primary drivers of the increase in costs relates to the Water Utility's aging infrastructure.

To address this concern, in March 2006, the Board of Public Utilities, after the requisite public hearing, adopted and the City Council unanimously approved, the SAFE W.A.T.E.R. (Water Available to Everyone in Riverside) Plan. This plan implements system improvements contained in the Water Master, Water Supply and Asset Management Plans. The SAFE W.A.T.E.R. Plan is initially funded by a fifty-two percent, five-year water rate increase, consisting of a twelve percent and four-ten percent increases effective November 1, 2006, 2007, 2008, 2009, and 2010, respectively.

The Utility is impacted by the recent economic decline affecting virtually all industries in the United States, with retail consumption decreasing 2.5% and 6.1% in fiscal years 2009 and 2008, respectively, over the previous year levels. In addition, the water revenues are dependent on weather conditions, with significant wet weather years impacting revenue as residents reduce water used for outdoor landscaping.

The state has reduced water exports from northern to southern California which has significantly increased the costs for imported water. With completion of the John W. North Water Treatment Plant, Riverside is water independent and does not expect any increase costs to its customers due to the curtailment of water deliveries to Southern California. This new plant created a new source of supply and the City has executed an agreement with another local water supplier which is expected to produce additional revenue of \$1.5 to \$2.0 million per year.

In addition to inflation, management continually plans for and identifies issues or potential contingencies that could impact future rates such as reclaimed water, infrastructure needs—both locally and at the state level if such state-wide costs are ultimately passed through to all Californians, system growth, source of supply, ground water contamination, stricter contaminant guidelines, legislative mandates, and others. In an effort to control costs to its customers, the Utility is aggressive in pursuing outside parties, and holding them responsible for any negative effects they may cause to Riverside's water quality.

### 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 General Manager Finance/Customer Services, Riverside Public Utilities, 3901 Orange Street, Riverside, CA 92501. Additional financial information can also be obtained by visiting [www.RiversidePublicUtilities.com](http://www.RiversidePublicUtilities.com).



## BALANCE SHEETS: WATER

<b>ASSETS</b>	<b>June 30, 2009</b>	<b>June 30, 2008</b>
	<b>(in thousands)</b>	
<b>UTILITY PLANT:</b>		
Source of supply	\$ 61,392	\$ 35,880
Pumping	20,782	18,219
Treatment	23,772	23,772
Transmission and distribution	327,189	311,288
General	13,275	12,288
	<u>446,410</u>	<u>401,447</u>
Less accumulated depreciation	(131,552)	(122,340)
	<u>314,858</u>	<u>279,107</u>
Land	10,809	7,682
Intangible	6,015	5,969
Construction in progress	24,407	31,878
	<u>356,089</u>	<u>324,636</u>
<b>TOTAL UTILITY PLANT (Note 3)</b>		
	<u>356,089</u>	<u>324,636</u>
<b>RESTRICTED ASSETS:</b>		
Cash and cash equivalents (Note 2)	5,156	4,862
Cash and investments at fiscal agent (Note 2)	27,726	56,694
	<u>32,882</u>	<u>61,556</u>
<b>TOTAL RESTRICTED NON-CURRENT ASSETS</b>		
	<u>32,882</u>	<u>61,556</u>
<b>OTHER NON-CURRENT ASSETS:</b>		
Deferred pension costs	5,705	5,782
Deferred bond issuance costs	1,624	1,702
	<u>7,329</u>	<u>7,484</u>
<b>TOTAL OTHER NON-CURRENT ASSETS</b>		
	<u>7,329</u>	<u>7,484</u>
<b>TOTAL NON-CURRENT ASSETS</b>		
	<u>396,300</u>	<u>393,676</u>
<b>CURRENT ASSETS:</b>		
<i>Unrestricted assets:</i>		
Cash and cash equivalents (Note 2)	29,679	29,577
Accounts receivable, less allowance for doubtful accounts 2009 \$99; 2008 \$121	5,580	5,860
Accounts receivable, other utilities and governments, less allowance for doubtful accounts 2009 \$115; 2008 \$179	4,686	11,718
Accrued interest receivable	146	260
Prepaid expenses	7	6
	<u>40,098</u>	<u>47,421</u>
<b>TOTAL UNRESTRICTED CURRENT ASSETS</b>		
	<u>40,098</u>	<u>47,421</u>
<i>Restricted assets:</i>		
Cash and cash equivalents (Note 2)	1,761	1,249
Conservation and Reclamation Programs receivable	150	148
	<u>1,911</u>	<u>1,397</u>
<b>TOTAL RESTRICTED CURRENT ASSETS</b>		
	<u>1,911</u>	<u>1,397</u>
<b>TOTAL CURRENT ASSETS</b>		
	<u>42,009</u>	<u>48,818</u>
<b>TOTAL ASSETS</b>		
	<u>\$ 438,309</u>	<u>\$ 442,494</u>

\* See accompanying notes to the financial statements

## BALANCE SHEETS: WATER

<b>EQUITY AND LIABILITIES</b>	<b>June 30, 2009</b>	<b>June 30, 2008</b>
	<b>(in thousands)</b>	
<b>EQUITY:</b>		
Invested in capital assets, net of related debt	\$ 237,188	\$ 230,347
Restricted for:		
Debt service (Note 5)	5,156	4,862
Conservation and Reclamation Programs	1,888	1,394
Unrestricted	30,911	37,884
Total equity	<u>275,143</u>	<u>274,487</u>
<b>LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4)</b>	<u>143,522</u>	<u>147,349</u>
<b>OTHER NON-CURRENT LIABILITIES:</b>		
Pension obligation (Notes 1 and 4)	5,584	5,682
Postemployment benefits payable (Notes 1 and 4)	526	250
Total other non-current liabilities	<u>6,110</u>	<u>5,932</u>
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:</b>		
Accrued interest payable	1,156	568
Conservation and Reclamation Programs payable	23	3
Current portion of long-term obligations (Note 4)	4,415	4,375
Total current liabilities payable from restricted assets	<u>5,594</u>	<u>4,946</u>
<b>CURRENT LIABILITIES:</b>		
Accounts payable	5,768	6,862
Accrued liabilities	1,461	2,142
Current portion of long-term obligations (Note 4)	150	150
Customer deposits	561	626
Total current liabilities	<u>7,940</u>	<u>9,780</u>
Total liabilities	<u>163,166</u>	<u>168,007</u>
<b>COMMITMENTS AND CONTINGENCIES (NOTES 6 AND 7)</b>	-	-
Total equity and liabilities	<u>\$ 438,309</u>	<u>\$ 442,494</u>

\* See accompanying notes to the financial statements

# STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN EQUITY: WATER

	For the Fiscal Years Ended June 30,	
	2009	2008
	(in thousands)	
<b>OPERATING REVENUES:</b>		
Residential sales	\$ 32,368	\$ 30,046
Commercial sales	15,928	14,615
Other sales	1,763	1,755
Wholesale sales	802	206
Conservation and Reclamation Programs	934	825
Other operating revenue	3,128	2,408
	<hr/>	<hr/>
Total operating revenues before (reserve)/recovery	54,923	49,855
Reserve for uncollectible, net of bad debt recovery	(468)	(252)
	<hr/>	<hr/>
Total operating revenues, net of (reserve)/recovery	54,455	49,603
	<hr/>	<hr/>
<b>OPERATING EXPENSES:</b>		
Operations	23,647	21,971
Maintenance	5,590	5,540
Purchased energy	4,578	3,650
Purchased water	1,823	2,666
Conservation and Reclamation Programs	441	284
Depreciation	9,771	8,806
	<hr/>	<hr/>
Total operating expenses	45,850	42,917
	<hr/>	<hr/>
Operating income	8,605	6,686
	<hr/>	<hr/>
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
Investment income	3,169	3,357
Interest expense and fiscal charges	(7,049)	(4,401)
Gain (loss) on sale of capital assets	(598)	164
Gain on sale of land	34	12
Other	1,011	1,591
	<hr/>	<hr/>
Total non-operating revenues (expenses)	(3,433)	723
	<hr/>	<hr/>
Income before contributions and transfers	5,172	7,409
	<hr/>	<hr/>
Capital contributions	7,148	18,116
Transfers out - contributions to the City's general fund	(5,276)	(4,955)
	<hr/>	<hr/>
Total capital contributions and transfers out	1,872	13,161
	<hr/>	<hr/>
Income before special item	7,044	20,570
	<hr/>	<hr/>
<b>SPECIAL ITEM:</b>		
Intra-entity property acquisition	(6,388)	-
	<hr/>	<hr/>
Increase in equity	656	20,570
	<hr/>	<hr/>
<b>EQUITY, BEGINNING OF YEAR</b>	274,487	253,917
	<hr/>	<hr/>
<b>EQUITY, END OF YEAR</b>	\$ 275,143	\$ 274,487
	<hr/>	<hr/>

\* See accompanying notes to the financial statements

## STATEMENTS OF CASH FLOWS: WATER

For the Fiscal Years  
Ended June 30,  
2009                      2008  
(in thousands)

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash received from customers and users	\$ 54,045	\$ 48,533	
Cash paid to suppliers and employees	(37,948)	(31,450)	
Other receipts	1,011	1,591	
Net cash provided by operating activities	17,108	18,674	
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>			
Transfers out - contributions to the City's general fund	(5,276)	(4,955)	
Intra-entity property acquisition	(6,388)	-	
Principal paid on pension obligation bonds	(98)	(79)	
Net cash used by non-capital financing activities	(11,762)	(5,034)	
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Purchase of utility plant	(37,714)	(42,031)	
Proceeds from the sale of utility plant	128	306	
Principal paid on long-term obligations	(4,390)	(4,364)	
Interest paid on long-term obligations	(6,582)	(3,820)	
Proceeds from revenue bonds, including premium	-	120,430	
Deposit to escrow account for advance bond refunding	-	(60,300)	
Bond issuance costs	-	(1,435)	
Capital contributions	11,871	3,531	
Net cash provided (used) by capital and related financing activities	(36,687)	12,317	
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Reduction in advances to the City's general fund	-	20	
Purchases of investment securities	684	27	
Income from investments	3,281	3,080	
Net cash provided by investing activities	3,965	3,127	
Net increase (decrease) in cash and cash equivalents	(27,376)	29,084	
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (including \$54,356 and \$14,722 at June 30, 2008 and June 30, 2007, respectively, reported in restricted accounts)</b>	83,933	54,849	
<b>CASH AND CASH EQUIVALENTS, END OF YEAR (including \$26,878 and \$54,356 at June 30, 2009 and June 30, 2008, respectively, reported in restricted accounts)</b>	\$ 56,557	\$ 83,933	
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>			
Operating income	\$ 8,605	\$ 6,686	
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	9,771	8,806	
Amortization of deferred charges-pension costs	77	56	
(Decrease) increase in allowance for uncollectible accounts	(86)	87	
(Increase) in accounts receivable	(726)	(693)	
(Increase) in prepaid expenses	(1)	(4)	
(Decrease) increase in accounts payable	(1,095)	2,427	
(Decrease) increase in accrued liabilities	(681)	183	
Increase in postemployment benefits payable	276	250	
Increase in Conservation & Reclamation Programs	23	-	
(Decrease) in customer deposits	(66)	(715)	
Other receipts	1,011	1,591	
Net cash provided by operating activities	\$ 17,108	\$ 18,674	
<b>SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:</b>			
Capital contributions - capital assets	3,399	4,706	
Decrease in fair value of investments	-	(1)	

\* See accompanying notes to the financial statements

# NOTES TO THE FINANCIAL STATEMENTS: WATER

## 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, except for certain areas served by another water utility.

### BASIS OF ACCOUNTING

The Water Utility uses the accrual basis of accounting as required for enterprise funds with accounting principles generally accepted in the United States of America as applicable to governments. The accounting records of the Water Utility are also 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.

### USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during a reporting period. Actual results could differ from those estimates.

### REVENUE RECOGNITION

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 \$2,737 at June 30, 2009, and \$2,961 at June 30, 2008.

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 costs or estimated historical cost, if actual historical cost is not available. Costs include labor; materials; interest during construction; allocated indirect charges such as engineering, supervision, construction and transportation equipment, retirement plan contributions and other fringe benefits. Contributed plant assets are valued at estimated fair 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.....	15-60 years
Transmission and distribution plant.....	25-50 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 Sheets because their use is limited by applicable bond covenants.

In June 2004, the City began collecting a surcharge for water conservation and reclamation programs. This surcharge was approved by the City Council and was phased in over a three-year period with a 0.5%, 1.0% and 1.5% surcharge effective June 1, 2004, 2005 and 2006, respectively. The programs and services offered include conservation, education, and water use efficiency programs; programs to encourage the use of reclaimed water; research, development and demonstration programs to advance science and technology with respect to water conservation and reclamation; and water service provided to low-income customers. This surcharge is scheduled to be in effect for services rendered on or after June 1, 2004 through May 31, 2014. The activity associated with the surcharge for water conservation and reclamation programs is reflected in the accompanying financial statements on the Balance Sheets, Statements of Revenues, Expenses and Changes in Equity, and Statements of Cash Flows.



## NOTES TO THE FINANCIAL STATEMENTS: WATER

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### CASH AND INVESTMENTS

In accordance with Water Utility policy, the Water Utility's cash and investments, except for cash and investments with fiscal agents, are invested in a pool managed by the Treasurer of the City. The Water Utility does not own specific, identifiable investments of the pool. The pooled interest earned is allocated monthly based on the month end cash balances.

The City values its cash and investments 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 Statements of Net Assets/Balance Sheets and recognize the corresponding change in the fair value of investments in the year in which the change occurred. Fair value is determined using published market prices.

Cash accounts of all funds are pooled for investment purposes to enhance safety and liquidity while maximizing interest earnings. Investments are stated at fair value.

City-wide information concerning cash and investments for the year ended June 30, 2009, including authorized investments, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and investments may be found in the notes to the City's "Comprehensive Annual Financial Report."

#### CASH AND INVESTMENTS AT FISCAL AGENTS

Cash and investments maintained by fiscal agents are considered restricted by the Utility and are pledged as collateral for payment of principal and interest on outstanding bonds, or for use on construction of capital assets.

#### BOND PREMIUM/DISCOUNTS, CAPITAL APPRECIATION, ISSUANCE COSTS, GAINS AND LOSSES ON REFUNDING

Bond premium/discounts, capital appreciation, issuance costs and gains and losses on refunding are deferred and amortized over the term of the bonds using the effective interest method. Bond premium/discounts, capital appreciation, and gains and losses on refunding 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 pre-determined 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, 2009 and 2008, respectively, was \$561 and \$626 (including \$109 and \$104, respectively, held on behalf of La Sierra Water Company pending dissolution and distribution of remaining cash asset to shareholders, of which the City is the largest owner).

#### COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due employees at June 30, 2009 and 2008. The Water Utility treats compensated absences due employees as an expense and a current liability. The amount accrued for compensated absences was \$1,266 at June 30, 2009, and \$1,993 at June 30, 2008, 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 accrual 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, certain employees or their estates receive a percentage of unused sick leave paid in a lump sum based on longevity.

## NOTES TO THE FINANCIAL STATEMENTS: WATER

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### INSURANCE PROGRAMS

The Water Utility participates in a self-insurance program for workers' compensation and general liability coverage that is administered by the City. The Water Utility pays an amount to the City based on actuarial estimates of the amounts needed to fund prior and current year claims and incidents that have been incurred but not reported. The City maintains property insurance on most City property holdings, including Utility plant with a limit of \$1 billion.

City-wide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risks for the year ended June 30, 2009, may be found in the notes to the City's "Comprehensive Annual Financial Report."

Although the ultimate amount of losses incurred through June 30, 2009 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 \$380 and \$490 for the years ended June 30, 2009 and 2008, respectively. 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 2.7 percent of their highest 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 8.0 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 employer portion of PERS funding as of June 30, 2009 and 2008, was 14.17 percent and 13.29 percent, respectively, of annual covered payroll. The Water Utility pays both the employee and employer contributions. The total Water Utility's contribution to PERS as of June 30, 2009 and 2008, was \$2,138 and \$1,842, respectively.

City-wide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the fiscal year ended June 30, 2009, and recent trend information may be found in the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2009.

#### PENSION OBLIGATION BONDS

In 2005, the City issued Pension Obligation Bonds in the amount of \$60,000, of which the Water Utility's share is \$5,890 as reflected in the accompanying Balance Sheet as deferred pension costs and a corresponding long-term obligation. The deferred charge relating to the net pension asset will be amortized over 19 years in accordance with the method used by PERS for calculating actuarial gains and losses. The Bonds will be used to fund the unfunded actuarial accrued liability for non-safety employees and the proceeds were deposited with PERS. The balance in deferred pension costs as of June 30, 2009 and 2008 was \$5,705 and \$5,782, respectively. For more discussion relating to the City's issue, see the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2009.

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### OTHER POSTEMPLOYMENT BENEFITS

The City contributes to two single-employer defined benefit healthcare plans: Stipend Plan (SP) and the Implied Subsidy Plan (ISP). The plans provide other postemployment health care benefits (OPEB) for eligible retirees and beneficiaries.

The Stipend Plan is available to eligible retirees and beneficiaries pursuant to their collective bargaining agreements. The Water Utility currently contributes to a bargaining unit through the Service Employee's International Union General Trust (SEIUG). Benefit provisions for the Stipend Plan for eligible retirees and beneficiaries are established and amended through the various memoranda of understanding (MOU). The MOU's are agreements established between the City and the respective employee associations. The City does not issue separate stand-alone financial reports for the plans, instead financial information for the trust funds can be obtained by contacting the individual association.

The Water Utility also provides benefits to retirees in the form of an implicit rate subsidy (Implied Subsidy). Under an implied rate subsidy, retirees and current employees are insured together as a group, thus creating a lower rate for retirees than if they were insured separately. Although the retirees are solely responsible for the cost of their health insurance benefits through this plan, the retirees are receiving the benefit of a lower rate.

The contribution requirements of the Water Utility for the Stipend Plan are established and may be amended through the memoranda of understanding (MOU) between the City and the unions. The Water Utility's contribution is financed on a "pay-as-you-go-basis" and the current contribution is unfunded. The contribution requirements of the Water Utility's Implied Subsidy Plan are established by the City Council. The Water Utility is not required by law or contractual agreement to provide funding other than the pay-as-you-go amount necessary to provide current benefits to eligible retirees and beneficiaries.

The Water Utility's annual OPEB cost (expense) for each plan is calculated based on annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) (UAAL) over a period not to exceed thirty years. The Water Utility's OPEB liability as of June 30, 2009 and 2008 was \$526 and \$250, respectively.

City-wide information concerning the description of the plans, funding policy and annual OPEB cost, funding status and funding progress, and actuarial methods and assumptions for the year ended June 30, 2009 can be found in the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2009.

## NOTES TO THE FINANCIAL STATEMENTS: WATER

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### EQUITY

The Water Utility's equity consists of its net assets (assets less liabilities) which are classified into the following three components:

**Invested in capital assets, net of related debt** – this component consists of capital assets (net of accumulated depreciation) and unamortized debt expenses reduced by the outstanding balance of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**Restricted** – this component consists of net assets on which constraints are placed as to their use. Constraints include those imposed by creditors (such as through debt covenants), contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or through enabling legislation.

**Unrestricted** – this component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

#### 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 ended June 30, 2009 and 2008, the Water Utility transferred 11.5 percent of gross operating revenues, or \$5,276 and \$4,955, respectively.

#### CASH AND CASH EQUIVALENTS

For the Statements of Cash Flows, cash and cash equivalents include all unrestricted and restricted highly liquid investments with original purchase maturities of three months or less, and all bond construction proceeds available for capital projects. Pooled cash and investments in the City's Treasury represent monies in a cash management pool. Such accounts are similar in nature to demand deposits, and are classified as cash equivalents for the purpose of presentation in the Statements of Cash Flows.

#### 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 resolution.

#### RECLASSIFICATIONS

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

#### PRIOR YEAR DATA

Selected information regarding the prior year have been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's prior year financial statements, from which this selected financial data was derived.

# NOTES TO THE FINANCIAL STATEMENTS: WATER

## NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2009 and 2008, consist of the following (in thousands):

	June 30, 2009	June 30, 2008
	(Fair Value)	
Equity interest in City Treasurer's investment pool	\$ 36,596	\$ 35,688
Investments at fiscal agent	24,691	54,260
	<u>61,287</u>	<u>89,948</u>
Deposits with financial institutions	3,035	2,434
Total cash and investments	<u>\$ 64,322</u>	<u>\$ 92,382</u>

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

	June 30, 2009	June 30, 2008
Unrestricted cash and cash equivalents	\$ 29,679	\$ 29,577
Restricted cash and cash equivalents	6,917	6,111
Restricted cash and investments at fiscal agent	27,726	56,694
Total cash and investments	<u>\$ 64,322</u>	<u>\$ 92,382</u>

Cash and investments distribution by maturities as of year end are as follows:

Investment Type	Total	Remaining Maturity (in Months)			
		12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months
Held by fiscal agent					
Money market funds	\$ 312	\$ 312	\$ -	\$ -	\$ -
Investment contracts <sup>1</sup>	24,379	19,961	-	-	4,418
City Treasurer's investment pool <sup>2</sup>					
Money market funds	4,199	4,199	-	-	-
Federal agency securities	20,155	4,163	3,120	12,872	-
Corp medium term notes	3,166	-	1,065	2,101	-
State investment pool	9,076	9,076	-	-	-
Total	<u>\$ 61,287</u>	<u>\$ 37,711</u>	<u>\$ 4,185</u>	<u>\$ 14,973</u>	<u>\$ 4,418</u>

Presented below is the actual ratings as of year end for each investment type:

Investment Type	Total	Rating as of Year End	
		AAA	Unrated
Held by fiscal agent			
Money market funds	\$ 312	\$ 312	\$ -
Investment contracts	24,379	-	24,379
City Treasurer's investment pool <sup>2</sup>			
Money market funds	4,199	-	4,199
Federal agency securities	20,155	20,155	-
Corp medium term notes	3,166	3,166	-
State investment pool	9,076	-	9,076
Total	<u>\$ 61,287</u>	<u>\$ 23,633</u>	<u>\$ 37,654</u>

<sup>1</sup> Amounts related to bond construction proceeds are invested in specific maturities but are available for construction of capital assets as funding is needed.

<sup>2</sup> Additional information on investment types and credit risk may be found in the City's "Comprehensive Annual Financial Report."



## NOTES TO THE FINANCIAL STATEMENTS: WATER

### NOTE 3. UTILITY PLANT

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2009 and 2008 (in thousands):

	Balance, As of 6/30/07			Balance, As of 6/30/08			Balance, As of 6/30/09		
	Additions	Retirements/ Transfers		Additions	Retirements/ Transfers		Additions	Retirements/ Transfers	
Source of supply	\$ 32,822	\$ 3,058	\$ -	\$ 35,880	\$ 25,942	\$ (430)	\$ 61,392		
Pumping	14,053	4,166	-	18,219	2,563	-	20,782		
Treatment	22,697	1,075	-	23,772	-	-	23,772		
Transmission and distribution	284,010	27,901	(623)	311,288	16,313	(412)	327,189		
General	10,045	2,407	(164)	12,288	1,400	(413)	13,275		
Depreciable utility plant	363,627	38,607	(787)	401,447	46,218	(1,255)	446,410		
Less accumulated depreciation:									
Source of supply	(10,556)	(610)	5	(11,161)	(779)	33	(11,907)		
Pumping	(6,412)	(356)	-	(6,768)	(480)	-	(7,248)		
Treatment	(2,404)	(755)	-	(3,159)	(770)	-	(3,929)		
Transmission and distribution	(88,453)	(6,251)	487	(94,217)	(6,630)	112	(100,735)		
General	(6,365)	(833)	163	(7,035)	(1,112)	414	(7,733)		
Accumulated depreciation	(114,190)	(8,805)	655	(122,340)	(9,771)	559	(131,552)		
Net depreciable utility plant	249,437	29,802	(132)	279,107	36,447	(696)	314,858		
Land	3,923	3,759	-	7,682	3,127	-	10,809		
Intangible	5,969	-	-	5,969	46	-	6,015		
Construction in progress	27,067	44,888	(40,077)	31,878	41,930	(49,401)	24,407		
Nondepreciable utility plant	36,959	48,647	(40,077)	45,529	45,103	(49,401)	41,231		
Total utility plant	\$ 286,396	\$ 78,449	\$ (40,209)	\$ 324,636	\$ 81,550	\$ (50,097)	\$ 356,089		

### NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2009 and 2008 (in thousands):

	As of 6/30/2007			As of 6/30/2008			As of 6/30/2009		Due Within One Year
	Additions	Reductions		Additions	Reductions				
Revenue bonds	\$ 95,099	\$ 117,527	\$ (61,716)	\$ 150,910	\$ -	\$ (3,772)	\$ 147,138	\$ 4,415	
Pension obligation	5,761	-	(79)	5,682	-	(98)	5,584	119	
Postemployment benefits payable	-	250	-	250	276	-	526	-	
Water stock acquisition rights	974	-	(10)	964	-	(15)	949	150	
Arbitrage liability	416	9	(425)	-	-	-	-	-	
Total long-term obligations	\$ 102,250	\$ 117,786	\$ (62,230)	\$ 157,806	\$ 276	\$ (3,885)	\$ 154,197	\$ 4,684	

## NOTES TO THE FINANCIAL STATEMENTS: WATER

### NOTE 4. LONG-TERM OBLIGATIONS *(continued)*

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

#### Contracts Payable

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Water Stock Acquisitions: Payable on demand to various water companies	\$ 949	\$ 964
Total contracts payable	949	964

#### Revenue Bonds Payable

<b>\$69,840 1991 Water Revenue Bonds:</b> \$25,900 serial capital appreciation bonds due in annual installments from \$3,235 to \$3,240 through October 1, 2010 (partially advance refunded in 1998)	6,475	9,710
<b>\$30,965 1998 Water Refunding/Revenue Bonds:</b> \$15,055 serial bonds due in annual installments from \$315 to \$3,690 through October 1, 2013, interest from 4.70 percent to 5.38 percent; \$10,155 term bonds due October 1, 2018, interest at 5.0 percent; \$5,755 term bonds due October 1, 2027 (partially advance refunded in 2005)	20,405	20,705
<b>\$20,000 2001 Water Revenue Bonds:</b> \$10,070 serial bonds due in annual installments from \$435 to \$585 through October 1, 2016, interest from 3.75 percent to 4.75 percent; \$4,345 term bonds due October 1, 2026 and \$5,585 term bonds due October 1, 2031 were advance refunded in 2005	4,030	4,445
<b>\$60,300 2008 Water Refunding/Revenue Series A Bonds:</b> \$60,300 variable rate bonds due in annual installments from \$425 to \$3,950 from October 1, 2008 through October 1, 2035. Interest rate is subject to weekly repricing (rate at June 25, 2009 was 3.6 percent)	59,875	60,300
<b>\$58,235 2008 Water Revenue Series B Bonds:</b> \$19,890 serial bonds due in annual installments from \$1,210 to \$2,585 from October 1, 2016 through October 1, 2028, interest from 4.0 percent to 5.0 percent; \$11,810 term bonds due October 1, 2033, interest at 5.0 percent; \$26,535 term bonds due October 1, 2038, interest at 5.0 percent	58,235	58,235
Total water revenue bonds payable	149,020	153,395
Total water revenue bonds and contracts payable	149,969	154,359
Unamortized deferred bond refunding costs	(3,101)	(3,198)
Unamortized capital appreciation	(427)	(938)
Unamortized bond premium	1,646	1,651
Total water revenue bonds and contracts payable, net of deferred bond refunding costs, capital appreciation, and bond premium	148,087	151,874
Less current portion	(4,565)	(4,525)
Total long-term water revenue bonds and contracts payable	\$ 143,522	\$ 147,349

*Annual debt service requirements to maturity, as of June 30, 2009, are as follows (in thousands):*

		2010	2011	2012	2013	2014	2015-2019	2020-2024	2025-2029	2030-2034	2035-2039	Total
Principal	\$	4,565	4,615	4,740	4,970	5,200	21,049	19,275	23,160	28,085	34,310	149,969
Interest		5,939	5,892	5,939	5,709	5,289	23,255	19,677	15,675	10,638	4,235	102,248
Total	\$	10,504	10,507	10,679	10,679	10,489	44,304	38,952	38,835	38,723	38,545	252,217

## NOTES TO THE FINANCIAL STATEMENTS: WATER

### NOTE 4. LONG-TERM OBLIGATIONS *(continued)*

The Water Utility's bond indentures require the 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 2.25 and 3.88 at June 30, 2009 and 2008, respectively. The debt is backed by the revenues of the Utility (revenue bonds).

#### PRIOR YEAR DEFEASANCE OF DEBT

In prior years the Water Utility defeased certain Revenue Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Water Utility's financial statements. At fiscal year ended June 30, 2009, \$13,320 of bonds outstanding is considered defeased.

#### 2008 WATER REFUNDING/REVENUE BONDS

The City entered into a refunding transaction during the prior fiscal year in response to unusual market conditions brought about by the downgrade of several of the leading municipal bond insurers. These companies provided insurance for the City's Auction Rate Securities ("ARS"). The market that routinely absorbed these instruments through a weekly auction process discontinued their interest in the product and the result was excessively high interest rates, often to the default rate (defined in the bond documents) as the auction "failed," having insufficient bids to clear the auction.

The City's ARS debt was layered with "synthetic fixed rate" swaps designed to maintain the overall cost of funds at a level considered to be in the City's best interest. The unusual market conditions resulted in the swaps not performing as intended and thus the ARS debt was refunded with Variable Rate Demand Notes ("VRDNs"). The notional values of the original swaps remained in place. The transaction was completed (as described below), and the variable rates received on the VRDNs as of June 30, 2009 have resulted in the swaps again functioning as intended, to control the cost of funds on the outstanding variable rate debt.

Because one variable rate debt product was exchanged for another, the typical refunding disclosure measuring the difference in aggregate debt service and calculating an economic gain or loss is less relevant, as the future cash flows of each leg of the calculation are uncertain. For this reason, only the terms of the transaction are described.

On May 7, 2008 \$60,300 of Water Refunding/Revenue Series A Bonds were sold with a true interest cost of 3.22% to refund \$60,300 of previously outstanding 2005 Water Refunding/Revenue Bonds. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2,905. The difference is being charged to operations using the proportional method. The City completed the refunding to eliminate its investment in ARS and mitigate exposure to the volatile ARS market.

On May 15, 2008, the Water Utility also issued \$58,235 of Water Revenue Series B Bonds to finance additional capital projects of the City's Capital Improvement Program of the Water System. Series B is comprised of: \$19,890 serial bonds, with principal payments from October 1, 2016 through October 1, 2028 ranging from \$1,210 to \$2,585 at interest rates between 4.0 percent and 5.0 percent; \$11,810 term bonds, maturing on October 1, 2033 with interest rate at 5.0 percent; \$26,535 term bonds, maturing on October 1, 2038 with interest rate at 5.0 percent.

#### INTEREST RATE SWAPS ON REVENUE BONDS

**Objective:** As a means to lower borrowing costs, when compared against fixed-rate bonds the City entered into interest rate swap agreements in connection with its \$60,300 2005 Water Refunding/Revenue Series A Bonds. The intention of the swap was to effectively change the City's variable interest rate on the bonds to a synthetic fixed rate of 3.20%.

**Terms:** Under the swaps, the City pays the counterparty a fixed payment as noted above and receives a variable payment computed as 62.68% of the London Interbank Offering Rate ("LIBOR") one month index plus 12 basis points. The swaps have notional amounts equal to the principal amounts stated above. Starting in fiscal year 2009, the notional value of the swaps and the principal amounts of the associated debt decline by \$425 to \$3,950 until the debt is completely retired in fiscal year 2036.

## NOTES TO THE FINANCIAL STATEMENTS: WATER

### NOTE 4. LONG-TERM OBLIGATIONS *(continued)*

The bonds and the related swap agreements for the 2008 Water Refunding/Revenue Series A Bonds mature on October 1, 2035. As of June 30, 2009, rates were as follows:

Interest rate swap:	Terms	Rates
Fixed payment to counterparty	Fixed	3.20000%
Variable payment from counterparty	62.68 LIBOR + 12bps	(2.50962%)
Net interest rate swap payments		0.69038%
Variable-rate bond coupon payments		2.72754%
Synthetic interest on bonds		3.41792%

**Fair value:** As of June 30, 2009, in connection with all swap agreements, the transactions had a total negative fair value of (\$4,265). Because the coupons on the City's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was developed by a pricing service using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

**Credit risk:** As of June 30, 2009, the City was not exposed to credit risk because the swap had a negative fair value. The swap counterparty, J.P. Morgan Chase Bank was rated A+ by Standard & Poor's. To mitigate the potential for credit risk, the swap agreements require the fair value of the swap to be collateralized by the counterparty with U.S. Government securities if the counterparty's rating decreases to negotiated trigger points. Collateral would be posted with a third-party custodian. At June 30, 2009, there is no requirement for collateral posting for any of the outstanding swaps.

**Basis risk:** As noted above, the swaps expose the City to basis risk should the relationship between LIBOR and the variable rates converge, changing the synthetic rate on the bonds. If a change occurs that results in the rates moving to convergence, the expected cost savings may not be realized.

**Termination risk:** The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination event." That is, a swap may be terminated by the City if the counterparty's credit quality falls below "BBB-" as issued by Standards & Poor's. The City or the counterparty may terminate a swap if the other party fails to perform under the terms of the contract. If a swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination a swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

## NOTES TO THE FINANCIAL STATEMENTS: WATER

### NOTE 4. LONG-TERM OBLIGATIONS *(continued)*

*Swap payments and associated debt: As of June 30, 2009, the debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are summarized as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.*

<b>Variable-Rate Bonds</b>				
Fiscal Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2010	\$ 425	\$ 1,622	\$ 410	\$ 2,457
2011	450	1,609	407	2,466
2012	800	1,587	402	2,789
2013	825	1,565	396	2,786
2014	850	1,542	390	2,782
2015-2019	5,575	7,306	1,849	14,730
2020-2024	12,700	5,932	1,502	20,134
2025-2029	14,200	4,038	1,022	19,260
2030-2034	16,275	1,943	492	18,710
2035-2036	7,775	108	27	7,910
Total	\$ 59,875	\$ 27,252	\$ 6,897	\$ 94,024

### 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 2008 Refunding/Revenue Series A Bonds require 110% of the monthly accrued interest be included in the reserve. Additional reserves for the 2008 Revenue Series B Bonds and the 1998 Revenue Bonds are not required due to the purchase of surety bonds to cover the reserve requirements.

### NOTE 6. 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.

The Water Utility is also a plaintiff in a lawsuit against the manufacturers and distributors of methyl tertiary-butyl ether (MTBE) and its by-products, and of fuel containing these chemicals, arising out of the threat to the Water Utility wells of contamination with those chemicals from leaking underground storage tanks.

The defendants removed this lawsuit to federal court and then transferred the case to the Judicial Panel on Multidistrict Litigation, New York, where it was consolidated with all other pending MTBE water contamination litigation cases in the country. Although the City has tentatively settled with a number of the defendants, the settlement has not been approved by the court and there is no trial date for the remainder of the case.



## NOTES TO THE FINANCIAL STATEMENTS: WATER

### NOTE 7. CONSTRUCTION COMMITMENTS

As of June 30, 2009, the Water Utility had major commitments of approximately \$8,663 with respect to unfinished capital projects, of which \$8,000 is expected to be funded by bonds and \$663 funded by rates.

### NOTE 8. SPECIAL ITEM

On December 6, 2005, the City Council adopted a resolution approving a fair market value transfer to the General Fund of approximately 190 acres out of a 227-acre parcel owned by the Utility's Water Fund. The transfer was facilitated by a loan from the Electric Fund to the General Fund. The transfer was intended to assist in the collaborative development of the property in conjunction with other entities, which have now been hampered by the current economic downturn that is particularly impacting the construction industry.

On June 16, 2009, the Water Utility reacquired the 190-acres from the City and rescinded the original transaction. The City's Water Utility desires to improve its groundwater resources which are critically important to avoid dependence on high-priced imported water. The Utility anticipates using the property for projects such as water production and groundwater replenishment facilities that will be critical to the City's use of the Riverside Groundwater Basin.

The Utility reacquired the land for a price of \$8,980. The original and current carrying value of the land in the Water Utility's capital assets remains at \$2,592. The balance between the purchase price and the carrying value of \$6,388 is recorded as a special item.

## KEY HISTORICAL OPERATING DATA: WATER

### WATER SUPPLY (acre feet)

	2008/09	2007/08	2006/07	2005/06	2004/05
Pumping	76,830	80,974	85,299	76,605	73,732
Purchases	0	1,643	2,092	2,670	4,137
Total:	76,830	82,617	87,391	79,275	77,869
Percentage pumped	100.00%	98.0%	97.6%	96.6%	94.7%
System peak day (gallons)	105,780,000	111,300,000	109,200,000	118,782,000	112,094,000

### WATER USE

	2008/09	2007/08	2006/07	2005/06	2004/05
Number of meters as of year end					
Residential	58,152	57,694	57,666	57,308	56,916
Commercial/Industrial	5,519	5,446	5,279	5,204	5,114
Other	391	354	486	473	462
Total:	64,062	63,494	63,431	62,985	62,492
*CCF sales					
Residential	17,898,798	18,483,522	19,848,653	17,702,717	17,245,315
Commercial/Industrial	10,342,284	10,510,953	10,817,783	9,822,196	9,252,639
Other	983,553	970,239	1,243,927	1,157,130	1,199,448
Subtotal:	29,224,635	29,964,714	31,910,363	28,682,043	27,697,402
Wholesale	496,601	618,552	199,845	182,987	177,851
Total:	29,721,236	30,583,266	32,110,208	28,865,030	27,875,253

\*(CCF equals 100 cubic feet)

### WATER FACTS

	2008/09	2007/08	2006/07	2005/06	2004/05
Average annual CCF per residential customer	308	320	345	312	308
Average price (\$/CCF) per residential customer	\$1.80	\$1.63	\$1.43	\$1.26	\$1.16
Debt service coverage ratio	2.25	3.88	3.38	5.11	2.85
Employees <sup>1</sup>	167	167	165	137	130

<sup>1</sup>Approved positions

# KEY HISTORICAL OPERATING DATA: WATER

## 2008/2009 WATER REVENUE AND RESOURCES



- Other Sales 3¢
- Investment Income 5¢
- Other Revenues 19¢
- Commercial Sales 24¢
- Residential Sales 49¢



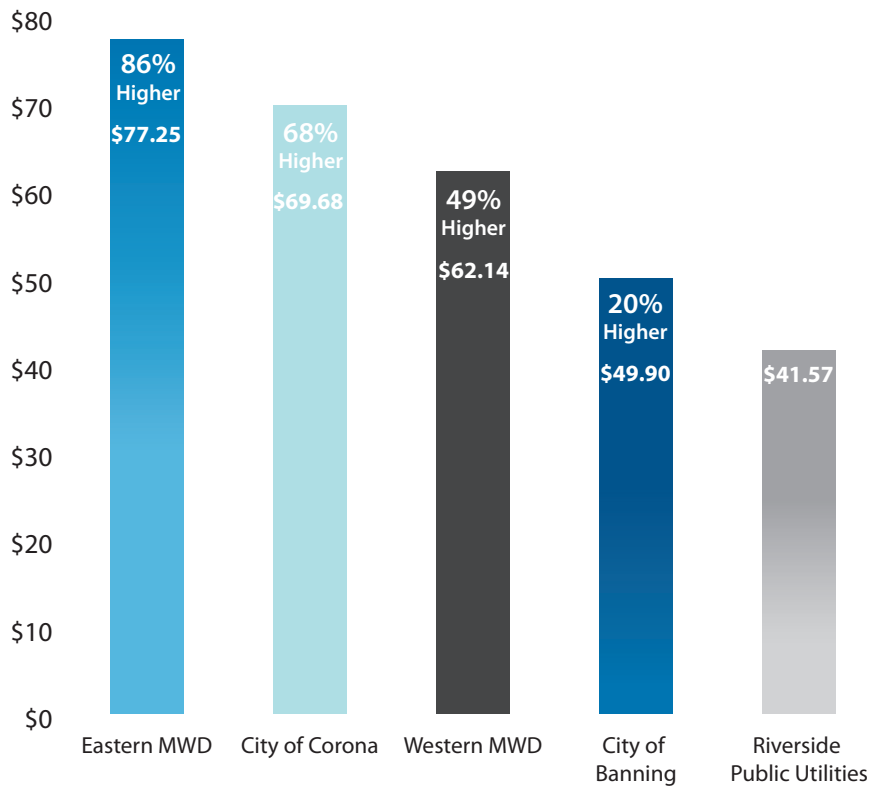
- Water Supply 3¢
- Additional Reserves 7¢
- Transfers to the City's General Fund\* 8¢
- Additions & Replacements to the System 12¢
- Debt Services 17¢
- Operations & Maintenance 53¢



- Purchased Water 0%
- Riverside Basin Wells 42%
- San Bernardino Basin Wells 58%

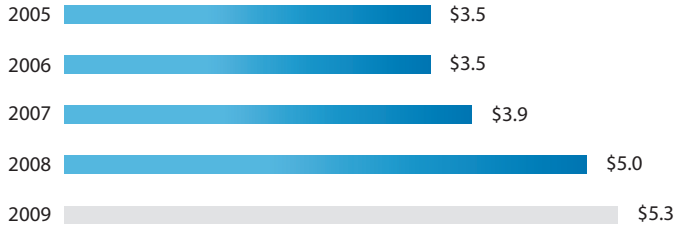
\* BASED ON TRANSFER OF 11.5% OF FISCAL YEAR 2007/2008 REVENUES.

## RESIDENTIAL WATER RATE COMPARISON – 26 CCF PER MONTH (AS OF JUNE 30, 2009)

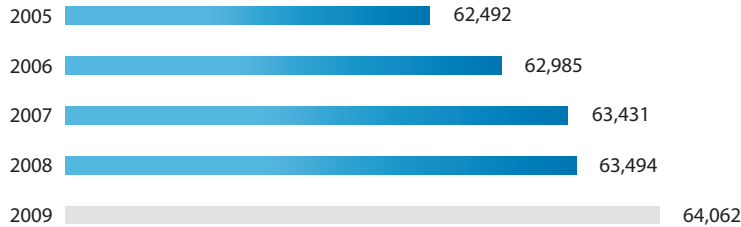


# KEY HISTORICAL OPERATING DATA: WATER

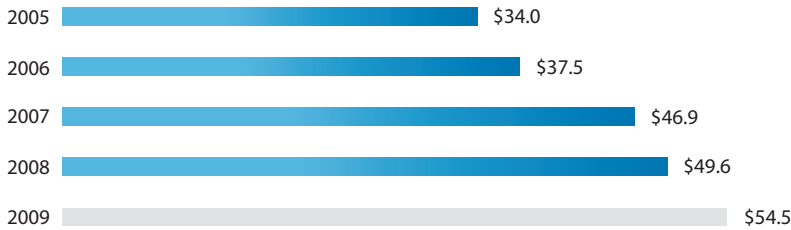
## GENERAL FUND TRANSFER *(in millions)*



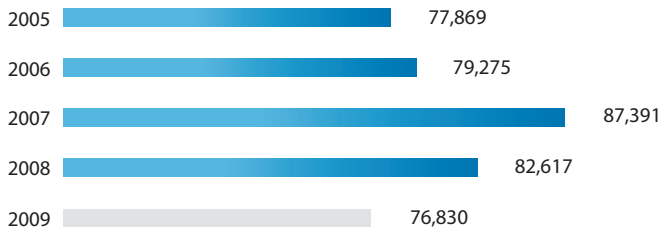
## NUMBER OF METERS AT YEAR END



## TOTAL OPERATING REVENUE *(in millions)*



## PRODUCTION *(in acre feet)*



## PEAK DAY DEMAND *(in million gallons)*



## WATER FACTS AND SYSTEM DATA

Established	1913
Service Area Population	300,430
Service Area Size (square miles)	73.8
System Data:	
Smallest pipeline	2.0"
Largest pipeline	72.0"
Miles of pipeline	993
Number of domestic wells	55
Number of active reservoirs	15
Total reservoir capacity (gallons)	99,990,000
Number of treatment plants	7
Number of treatment vessels	99
Miles of canal	14
Number of fire hydrants	7,523
Daily average production (gallons)	68,812,439
2008-2009 Peak day (gallons):	105,780,000
7/2/08, 101 degrees	
Historical peak (gallons):	118,782,000
8/9/05, 99 degrees	

## BOND RATINGS

FITCH RATINGS	AA
STANDARD & POOR'S	AA+