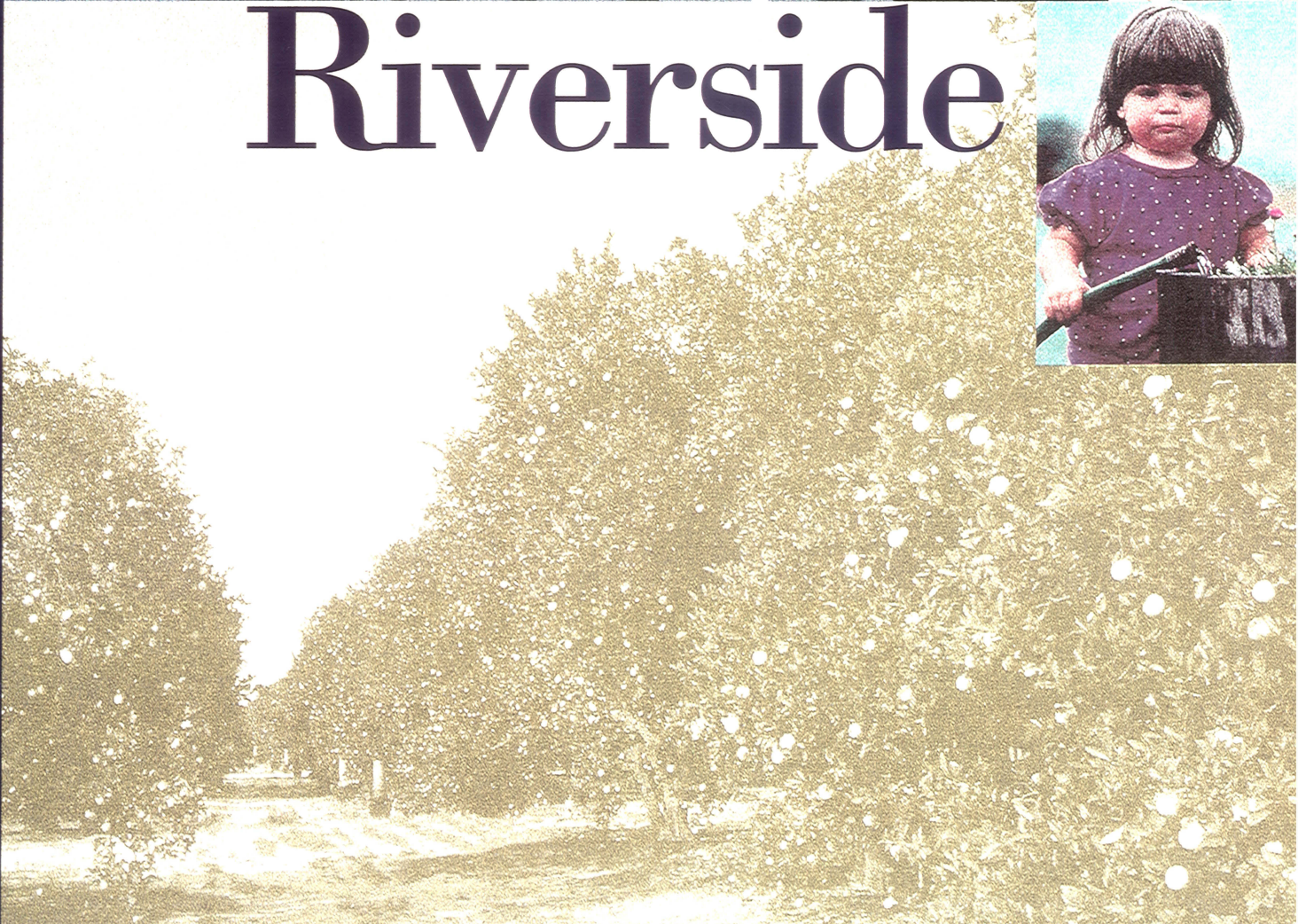
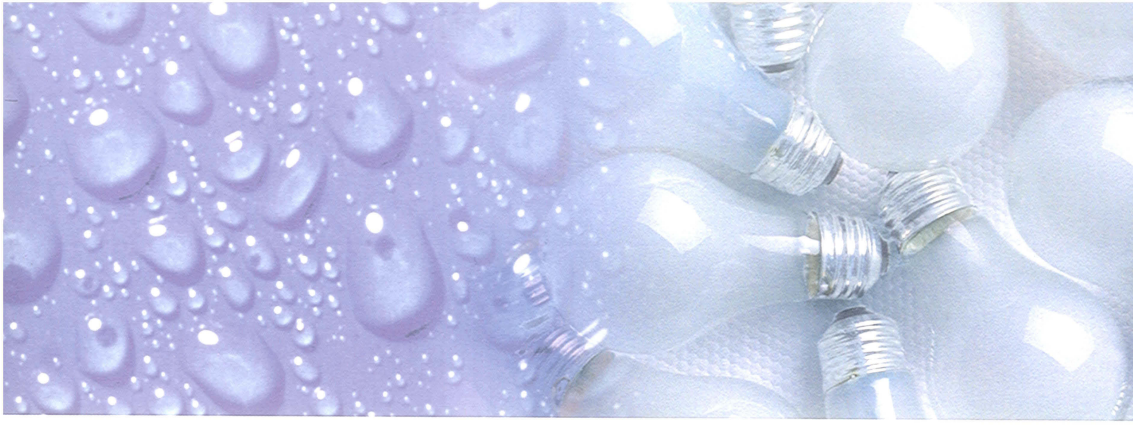


Riverside Public Utilities
1994-95 Annual Report

Choosing Riverside





Director's Message

Whether you're the owner of a home business or the chief executive officer of a large manufacturing firm, your choice when it comes to water and electric services should be Riverside Public Utilities. For reliability, economy, service, value and efficiency, the choice is Riverside.

As a consumer-owned utility, Riverside Public Utilities has always had your best interests as the foundation for service. After all, you are our customers and owners. Our obligation to provide lower rates, reliable services and valuable community programs will not diminish as the utility industry undergoes dramatic changes over the next few years. It's the basis on which the citizens of Riverside founded and continue to support having public water and electric utilities.

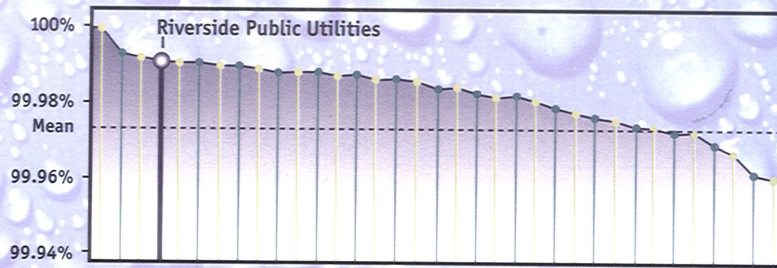
Customers of Riverside Public Utilities have the confidence that comes from knowing their utility has provided quality services to homes and businesses in Riverside for 100 years. And, quite frankly, I believe Riverside Public Utilities will be the provider of choice for at least another 100 years. Today Riverside Public Utilities is taking strategic steps to ensure we remain your first choice for water and electric services. With preparations for new programs and services underway, I welcome and encourage your recommendations.

In the years to come, competitive forces in the utility industry will bring about many changes. Some will be positive, although others may not produce the anticipated results. Unlike investor-owned utilities, Riverside Public Utilities' duty is to serve and protect your interests. This will be a decisive factor when questions arise in the future. What company will provide reliable service? Where can I get the lowest rates? Who will give me the best value for my dollar and my community? Does the company offer the services I need? Will the utility explain how to use my services efficiently or simply encourage me to consume? I believe all your choices will lead to Riverside Public Utilities.

Bill D. Carnahan, Director
Riverside Public Utilities

We appreciate the opportunity to serve you.

WHEN SECONDS COUNT - Service Reliability Index

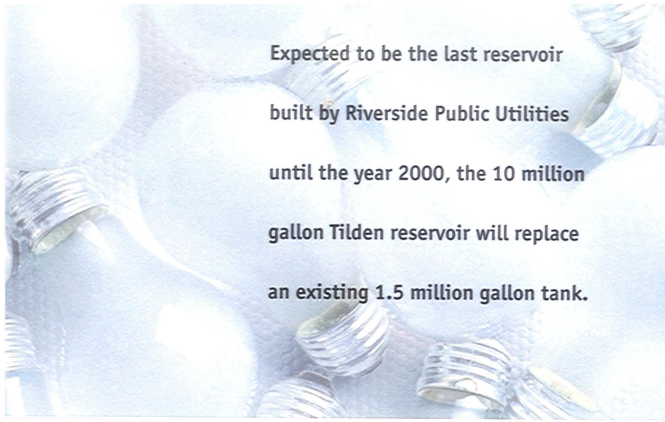


Comparison to 34 Investor-owned Utilities

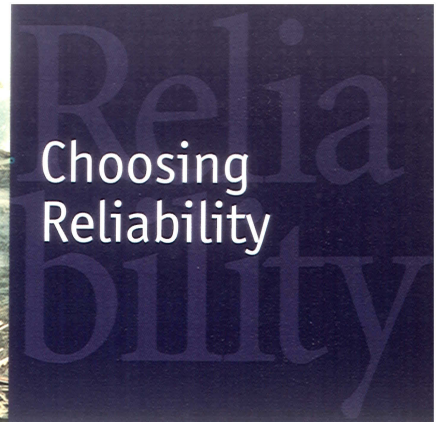
Source: Annual Electric Transmission and Distribution Management Study by Theodore Barry & Associates, December 1994



"As you automate, you put all of your eggs in fewer and fewer baskets," says Bob Weeks, production systems manager for The Press-Enterprise. "If these computers aren't running, we don't produce a paper."



Expected to be the last reservoir built by Riverside Public Utilities until the year 2000, the 10 million gallon Tilden reservoir will replace an existing 1.5 million gallon tank.



Choosing Reliability

For a business that operates 24 hours a day, seven days a week, reliability is the bottom line. “If we lose power, we’re in trouble,” says Duane Hearrell, assistant press room manager for the second largest family-owned paper in Southern California – The Press-Enterprise. “And the trouble can pile up with each additional minute in terms of time, labor and money.”

To ensure the highest level of reliability, The Press-Enterprise, which produces a daily paper for Riverside County with an average readership of 425,000 as well as five weekly regional papers, had Riverside Public Utilities install an automatic transfer switch. The switch connects the company to a secondary power source in the event of a power outage on its preferred source. For Bob Weeks, production systems manager at the paper, the system provides peace of mind and helps avoid costly power outages. Thanks to the quality service provided by Riverside Public Utilities, The Press-Enterprise has never had a major power outage. Adds Weeks, “As production staff, we like to brag that we’ve never missed an edition.”

Safeguarding the reliability of Riverside’s public water system is a top priority. With the completion of three new reservoirs since 1993, Riverside Public Utilities has added a total of 20.5 million gallons of storage capacity. An extra measure of security was also gained with the installation of seismic sensors and actuators on four reservoirs that allow automatic closure of outlet valves after a major earthquake to ensure emergency water supplies.

Among the measures being taken by Riverside Public Utilities to ensure a safe, reliable water supply are

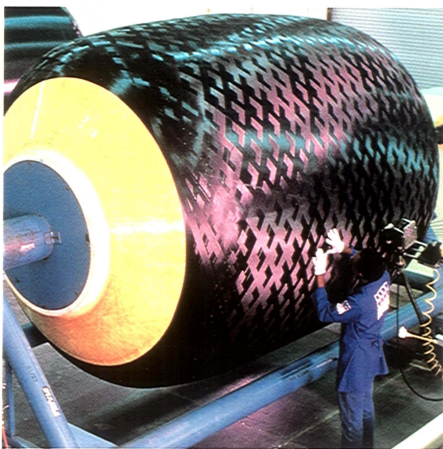
- Water quality that meets or exceeds all federal and state standards
- Construction of new reservoirs
- Installation of seismic sensors and actuators on major reservoirs
- Upgrading of water facilities
- Well improvements
- Replacement of deteriorating water pipelines.

WHICH ELECTRIC BILL WOULD YOU PREFER?

Riverside Public Utilities		
Name and service address	Billing Period	Billing or service questions
BEATRIZ GUTIERREZ 505 N. ORANGE ST. RIVERSIDE, CA 92501	9/14/95 - 10/18/95	CALL (909) 782-0330
Charges & Credits	Energy charge: baseline (250 kWh x 8.072¢)	= \$ 20.18
	+ over baseline (294 kWh x 11.916¢)	= \$ 35.03
	Customer charges	= \$ 3.06
	State energy tax: (544 kWh x 0.02¢)	= \$.11
	Actual energy charges now due >>>	\$ 58.38
Electricity Usage	Current meter reading 10/18/95	- 16694
	Previous meter reading 09/14/95	- 16150
	Electricity used in kWh >	544

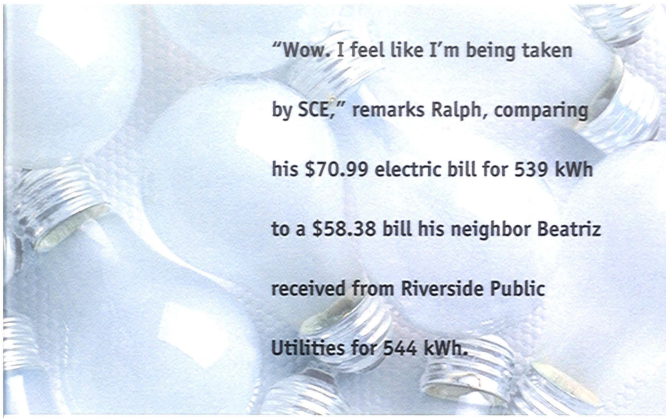
Southern California Edison		
Name and service address	Billing Period	Billing or service questions
VANNATTA, RALPH N 3541 BURL DR RIVERSIDE, CA 92501	10/23/95 - 11/22/95	CALL (800) 684-8123
Charges & Credits	Energy charge: baseline (327 kWh x 12.419¢)	= \$ 70.88
	+ over baseline (212 kWh x 14.2777¢)	= \$.11
	Customer charges	= \$ 70.99
	State energy tax: (539 kWh x 0.02¢)	= \$.11
	Actual energy charges now due >>>	\$ 70.99
Electricity Usage	Current meter reading 11/22/95	- 5371
	Previous meter reading 10/23/95	- 4832
	Electricity used in kWh >	539

What is a Kilowatt-hour (kWh)?
kWh = One 100-watt light bulb burning for 10 hours uses 1,000 kilowatts or one kilowatt-hour (kWh) of electricity.

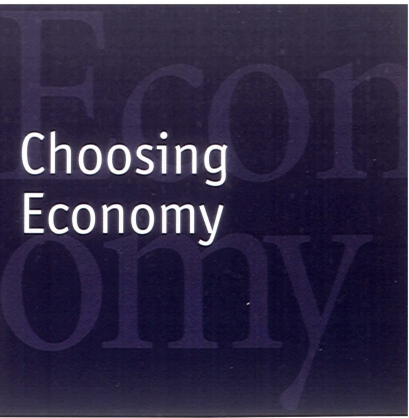


The Riverside City Council unanimously approved tax and electric incentives worth more than \$750,000 to Rohr-Riverside in an effort to keep the firm and its 670 jobs in town. The agreement provides lower electric rates for shutting down a gas generator, as well as a break on city utility taxes.





"Wow. I feel like I'm being taken by SCE," remarks Ralph, comparing his \$70.99 electric bill for 539 kWh to a \$58.38 bill his neighbor Beatriz received from Riverside Public Utilities for 544 kWh.



Choosing Economy

When the economy recesses, sales and profits for many businesses decrease, resulting in tough decisions. For Rohr Industries Inc., an international aerospace supplier, one decision was whether to close its Riverside plant for a more favorable economic locale or to try making the plant more cost-effective.

A package of city tax and utility incentives in 1995 was instrumental in Rohr's decision to stay in Riverside, explains Rick Smith, manager of facility engineering at Rohr-Riverside. "The lower rates allow us to be more competitive with our own plants as well as in the international marketplace, which means we can reduce prices so customers will buy more from Rohr." Rohr has also taken advantage of energy efficiency plant surveys from Riverside Public Utilities. As a result, they implemented an energy management system and a relamping program, which netted Rohr \$64,596 in utility assistance. "These programs are home runs for us," says Smith. "They reduce our operating costs, increase plant efficiency, and assist us in remaining competitive." As far as Rohr's future in Riverside, Smith describes it as "definitely positive."

Riverside's residential rates are just as competitive. Ask Ralph Vannatta. Even though he lives only a few houses down from Beatriz Gutierrez, Vannatta pays more for electricity because he's served by Southern California Edison, an investor-owned utility. A comparison of his electric bills shows SCE's rates are 21 percent to 23 percent higher. For Vannatta, a retiree, it means he paid SCE about \$250 more for electricity last year than he would have paid Riverside Public Utilities. Asked if he'd like to switch, Vannatta replies, "Sure. I can get the same service for a lot less."

Following a city annexation in 1993, Beatriz Gutierrez used to compare her new city electric bills to her old ones from Southern California Edison. "Riverside Public Utilities is much lower," says Gutierrez who lives on North Orange Street in Riverside. "Now my mom who lives two blocks away in Edison's territory wants to switch too."

RIVERSIDE'S WATER RATES ARE THE LOWEST IN THE REGION

RESIDENTIAL WATER BILL COMPARISON (27 CCF MONTHLY)

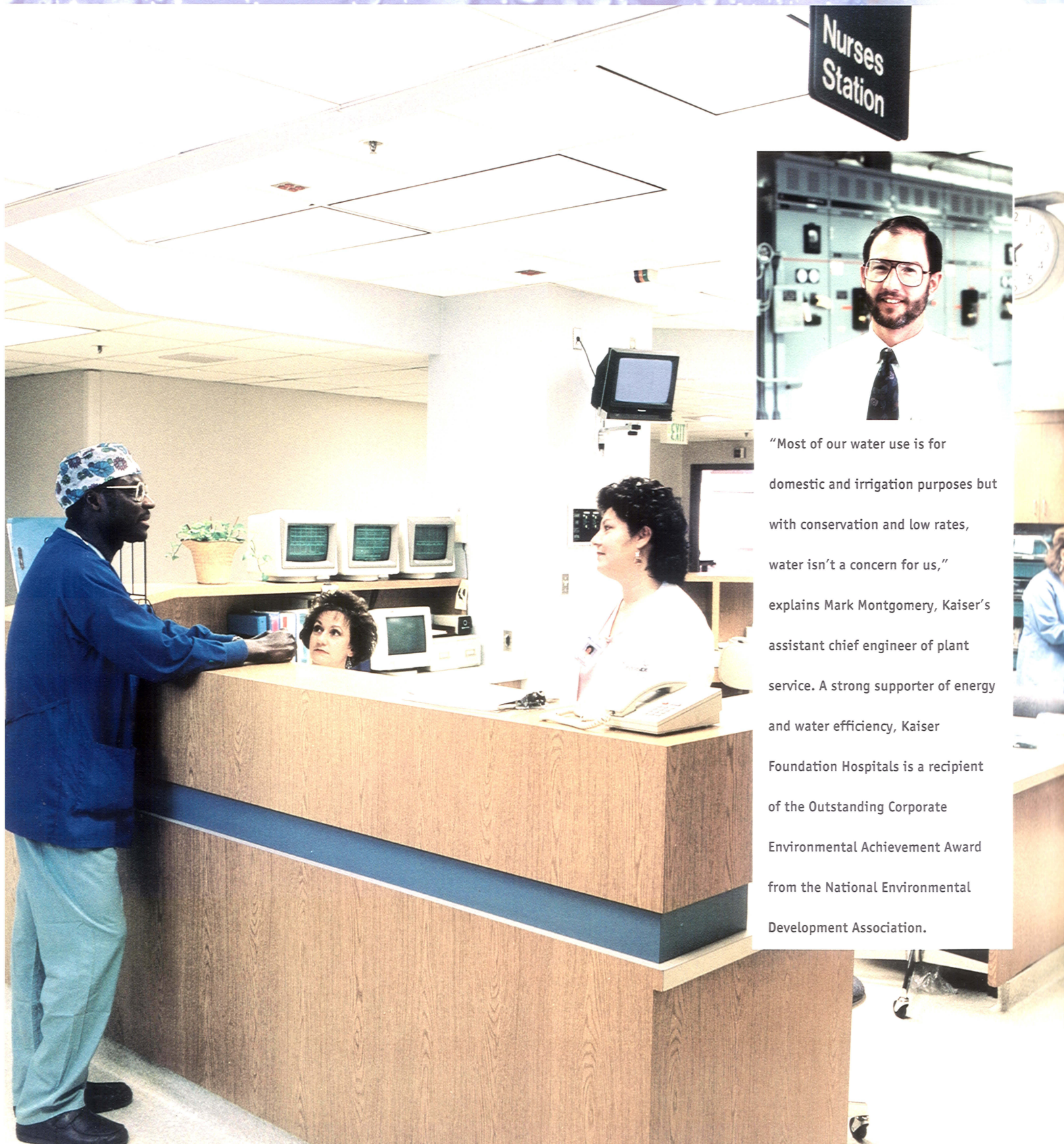
Riverside Public Utilities	\$18.95
Eastern Municipal Water District	\$43.12
Los Angeles Department of Water & Power	\$32.83
City of Anaheim	\$32.90
Western Municipal Water District	\$31.12
City of Corona	\$33.65

INDUSTRIAL WATER BILL COMPARISON (7,600 CCF MONTHLY)

Riverside Public Utilities	\$ 4,615
Eastern Municipal Water District	\$10,465
Los Angeles Department of Water & Power	\$14,995
City of Anaheim	\$ 7,262
Western Municipal Water District	\$ 7,937
City of Corona	\$ 5,553

What is a CCF?

ccf = One ccf is equal to 748 gallons of water or one hundred cubic feet (ccf) of water.



"Most of our water use is for domestic and irrigation purposes but with conservation and low rates, water isn't a concern for us," explains Mark Montgomery, Kaiser's assistant chief engineer of plant service. A strong supporter of energy and water efficiency, Kaiser Foundation Hospitals is a recipient of the Outstanding Corporate Environmental Achievement Award from the National Environmental Development Association.



Angel Sanchez of Riverside Public Utilities schedules a presentation about free conservation services for seniors and the disabled with Bernice Pitts, manager of Victoria Springs apartment complex.

Choosing Value

It probably never crosses the minds of most people who walk through the doors of Kaiser Permanente Medical Center in Riverside how much it costs in water, electricity and gas to keep the five-story medical center functioning around the clock. But for Mark Montgomery, assistant chief engineer of plant service at the facility, it's a reality he works with every day.

Over the past five years, Montgomery has seen electric expenses decrease due to efficiency measures such as fuel cells and a lighting retrofit, while gas expenses have increased despite industry deregulation. Water expenses aren't a major factor for the facility as Riverside's rates are the lowest in the region. A base water rate comparison of Kaiser's sister facilities in Los Angeles and San Diego reveals the water agencies serving those facilities would charge the Riverside medical center 188 percent and 233 percent more than Riverside Public Utilities did for its 1994-95 water consumption.

Water and electric rates are important to smaller businesses and individuals as well. At Victoria Springs, a beautifully landscaped 240-unit apartment complex for active seniors, the complex picks up the tab for water and refuse costs, but residents pay their own electric bills. Bernice Pitts, complex manager, says lower rates are important to her and the residents who often depend on social security and retirement benefits. "Utility rates are always a concern for business owners and senior citizens," relates Pitts. "So we appreciate lower rates and special services."

Riverside Public Utilities continues to offer a free conservation service to help senior and disabled customers lower utility bills. Specially trained, part-time senior citizen employees respond to requests from eligible customers for the free in-home installation of a blanket for an electric water heater, weather stripping, low-flow showerheads, door sweeps and water conservation kits.

EFFICIENCY SURVEYS DEMONSTRATE POTENTIAL SAVINGS FOR 30 BUSINESSES

Motors & Refrigeration – Payback in 3.69 Years

Savings in
Kilowatt-hours

1,932,116

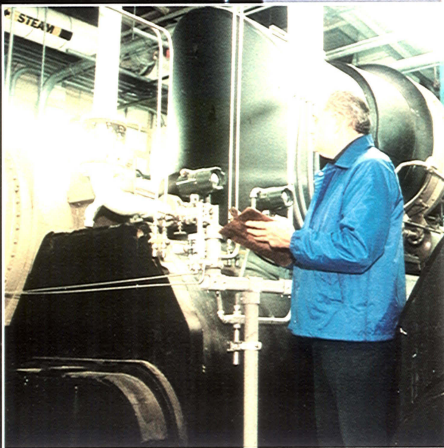
Heating & Air Conditioning – Payback in 2.22 Years

6,189,319

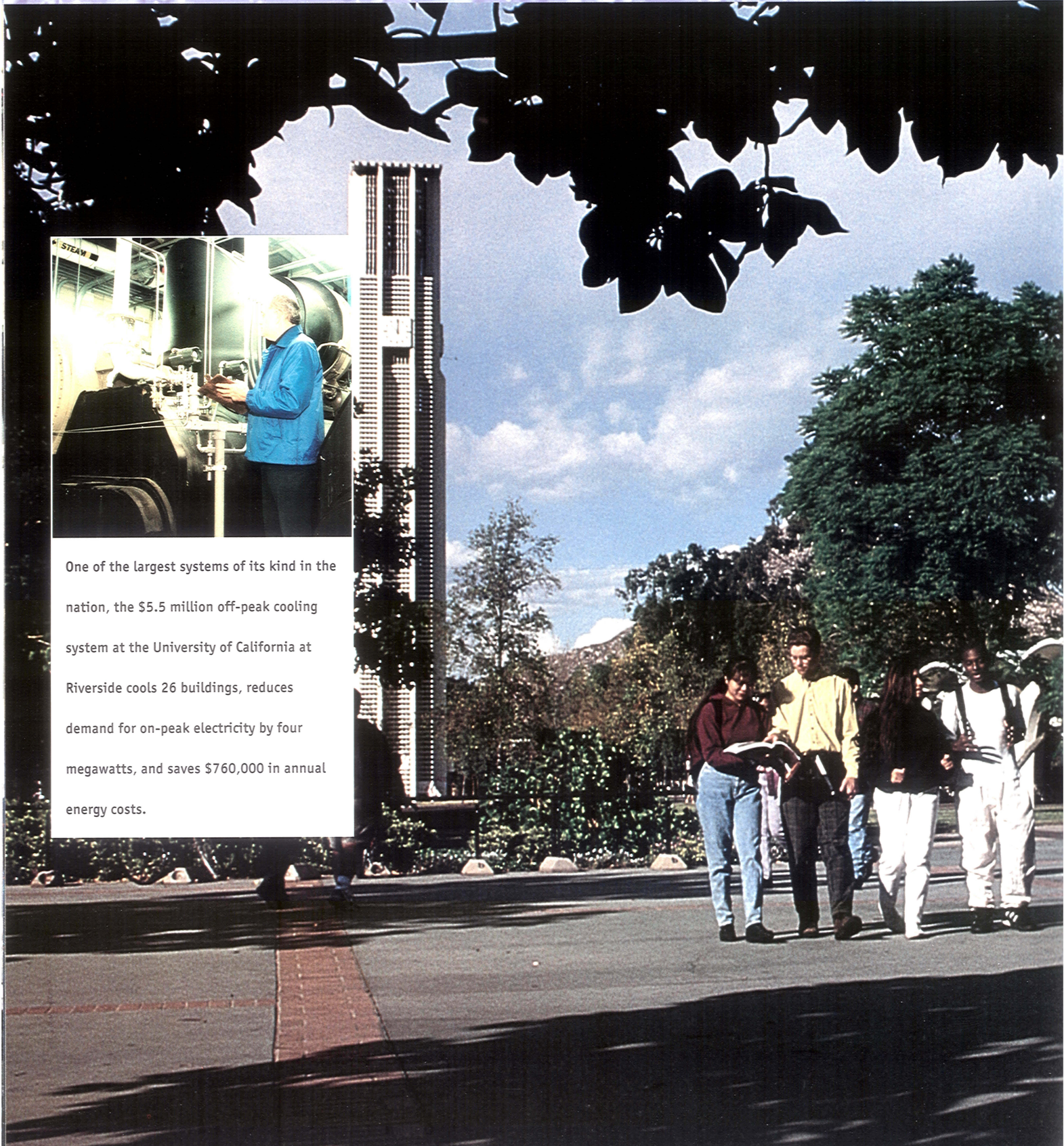
Lighting – Payback in 2.93 Years

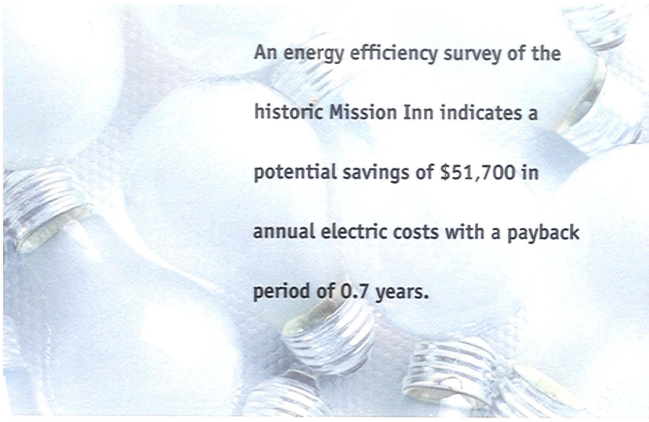
6,885,930

Combined Monetary Savings: \$1,313,722

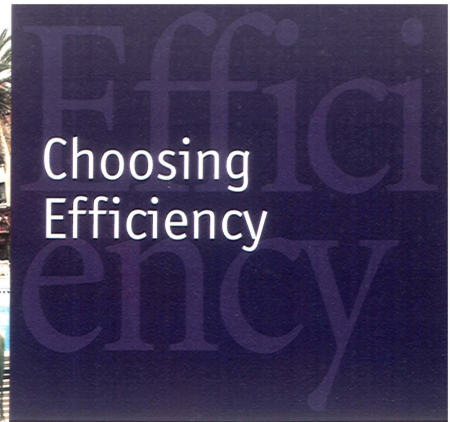


One of the largest systems of its kind in the nation, the \$5.5 million off-peak cooling system at the University of California at Riverside cools 26 buildings, reduces demand for on-peak electricity by four megawatts, and saves \$760,000 in annual energy costs.





An energy efficiency survey of the historic Mission Inn indicates a potential savings of \$51,700 in annual electric costs with a payback period of 0.7 years.



Choosing Efficiency

Air conditioning often represents a major portion of a building's electric bill. Riverside Public Utilities' Thermal Energy Storage (TES) Program offers customers on time-of-use rates the ability to reduce operating and capital costs through off-peak cooling. TES systems have been used since the 1920s, but utility rebates and technology improvements have prompted renewed interest.

In 1994 the University of California at Riverside became the first recipient of a TES rebate from Riverside Public Utilities. Totaling \$810,000 plus \$10,000 in feasibility funds, the university used the rebate to augment their central cooling system. When a student recreation center was funded the next year with student fees, the student body received \$5,000 in feasibility funds and a \$76,000 off-peak cooling rebate.

"These projects came together smoothly, were partnership oriented, and have been very successful in terms of demand-side management," notes Greg Murphy, assistant director of physical plant for the university. A former employee of a private gas and electric company, Murphy believes his experience with the city's public utilities is superior to the adversarial approach taken in the past by investor-owned utilities.

In another partnership effort, Riverside Public Utilities funded electrical energy surveys of local businesses. On-site audits by ADM Associates Inc. collected data about energy consumption, equipment operating hours, building schedules, occupancy, facility history and future plans to identify potential efficiency measures and estimated savings. Riverside Public Utilities continues to offer on-site energy and water surveys, matching up internal and external specialists with its business clientele.

Thirty businesses, covering a wide spectrum of industries, participated in on-site energy efficiency surveys funded by Riverside Public Utilities.

SUMMARY OF SURVEY RESULTS

Number of Sites
30

Total Square Footage
5,905,160

Total Base Energy Use
129,009,321 kWh

Potential Energy Savings
15,007,365 kWh

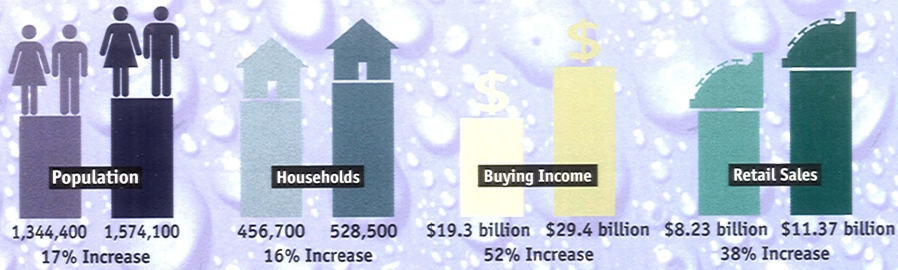
Potential Demand Savings
2,734 kW

Energy Cost Before Efficiency Measures
\$10,669,493

Potential Total Savings
\$1,313,722

Average Payback Period
2.69 years

A PROJECTED GROWTH LEADER THROUGH 1997

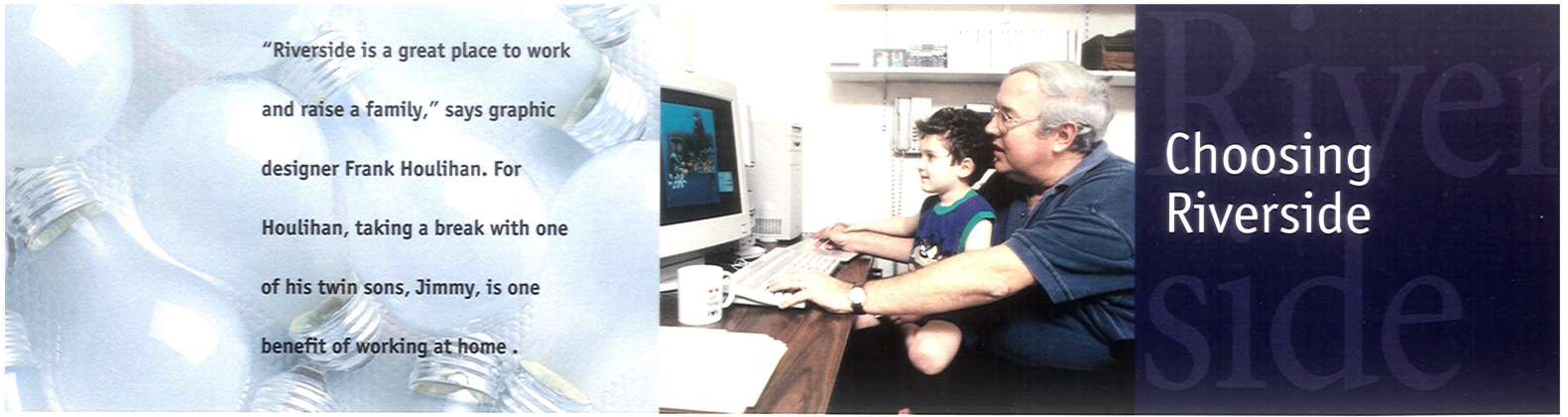


Statistics for Riverside County

Source: Sales & Marketing Management's 1993 Survey of Buying Power, Demographics USA; Published by The Press-Enterprise Marketing Research, 1993



Reviewing production schedules for Royal Citrus' new packing house with plant manager Sergio Zambrano, right, Max Cardey Jr., vice president, believes the city is taking the right steps. "The mayor, chamber president and city staff are making Riverside economically attractive for the people who are here now and for those who would like to live or work here."



“Riverside is a great place to work and raise a family,” says graphic designer Frank Houlihan. For Houlihan, taking a break with one of his twin sons, Jimmy, is one benefit of working at home.

Choosing Riverside

“After experiencing growing pains for several years, we were seriously considering relocating to a larger facility in northern California,” says Max Cardey Jr., vice president of Royal Citrus, a citrus grower and packing company. “But the city worked with us and made it viable to stay in Riverside.” In addition to supporting an economic redevelopment package for Royal Citrus, city staff began a review of fees, permits and processes to enhance business opportunities in Riverside. One step taken by Riverside Public Utilities was the elimination of up-front charges for the addition of major electric lines to new and existing commercial and industrial customers, representing an average savings of \$15,000 in start-up costs.

Today the Cardey family, who has owned and operated Royal Citrus since 1966, takes pride in its new 150,000 sq. ft. packing house, pointing out its ability to boost efficiency, production and sales by accommodating three straight production lines and ideal citrus storage facilities. Utility bills are also expected to be at least 15 percent less due to the building’s structural design and cooler temperatures. “When this facility is completed in 1996, Royal Citrus will have the largest citrus packing house in the United States,” notes Cardey Jr. “They’ll be coming to Riverside to see us.”

According to population statistics and business trends, more people and companies are coming to Riverside than other parts of the state. As a graphic designer and home business owner, Frank Houlihan could live in any city. But 17 years ago, Houlihan chose Riverside and he’s still content today. “I like the people, accessibility, and beautiful Box Springs Mountains outside my window,” says Houlihan. “Having a public utility that offers lower water and electric rates is an added incentive.”

In California, more businesses and homeowners are choosing Riverside for numerous reasons:

- Accessibility
- Beauty
- Climate
- Economy
- Friendliness
- Housing
- Labor Force
- Location
- Opportunities
- Safety
- Schools
- Utility Rates



**Mayor, City Council
And City Manager**

Mayor
Ronald Loveridge

City Council
Chuck Beaty
Ward 1

Ameal Moore
Ward 2

Joy Defenbaugh
Ward 3

Maureen Kane
Ward 4

Alex Clifford
Ward 5

Terri Thompson
Ward 6

Laura Pearson
Ward 7

City Manager
John Holmes

Board of Public Utilities

Jacqueline Mimms
1994-95 Board Chairwoman

Raphael de la Cruz

David Macher

Ronald McCoy

Yvonne Neal Weinstein

Paul Osborne

Dwight Tate

**Riverside Public Utilities
Administration**

Bill D. Carnahan
Director

Michael J. Baldwin
Assistant Director, Operations

Dieter P. Wirtzfeld
*Assistant Director,
Engineering and Resources*

David H. Wright
*Assistant Director,
Finance and Administration*

**Annual Report
Production**

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Editor

Stoorza, Ziegau & Metzger/
Conner Design Group
Design & Production

Will Gibson
Michael Elderman
Photography

*Riverside Public Utilities
would like to extend its
gratitude to the businesses
and individuals who partici-
pated in the testimonials and
provided photographs and
information for this
annual report.*



PUBLIC UTILITIES

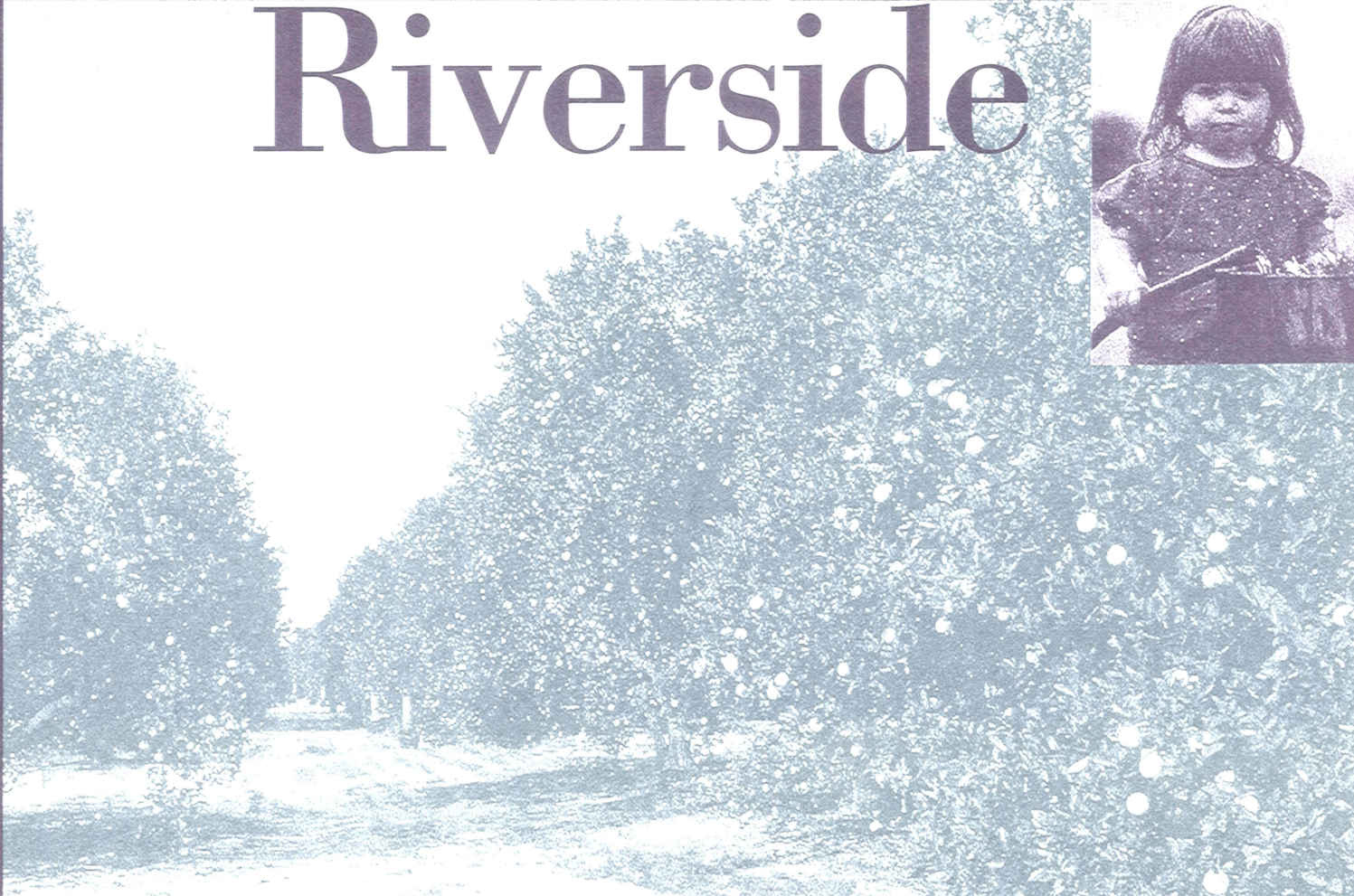


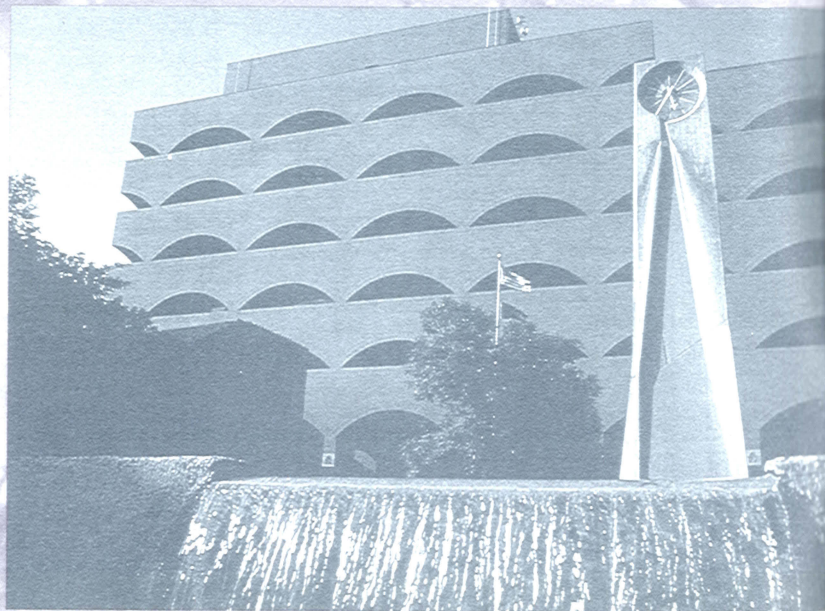
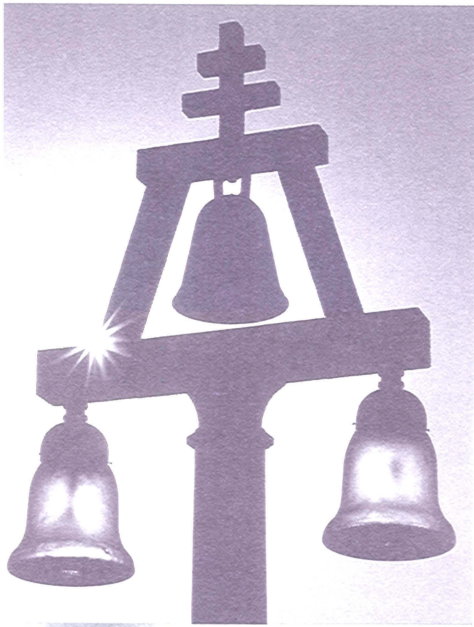
RIVERSIDE

RIVERSIDE PUBLIC UTILITIES
CITY HALL 3900 MAIN STREET
RIVERSIDE, CA 92522
909.782.5485 FAX 909.369.0548

Riverside Public Utilities
1994-95 Financial Statements

Choosing Riverside





RIVERSIDE PUBLIC UTILITIES 1994-95 FISCAL HIGHLIGHTS

Reliability, economy, service, value and efficiency – balancing these customer needs will be the challenge facing all utility providers in the years ahead. At Riverside Public Utilities, our approach to providing utility services is a team effort, from the engineering and operations staff who ensure the delivery of water and electricity in a safe and reliable manner to the finance personnel who safeguard the fiscal performance of Riverside’s consumer-owned utilities. But our team goes beyond the staff of Riverside Public Utilities to the city’s elected officials, civic leaders, business owners and residents who are also our customer-owners.

Riverside Public Utilities’ customer-owners have experienced stable electric rates and the lowest water rates in our region during the past fiscal year. Bond ratings continue to be strong as Moody’s Investor Service rated both utility bonds at Aa, while Standard and Poor’s Corporation rated our electric bonds A+ and water bonds AA.

The impact of impending competition in the electric industry and our goal of remaining the region’s lowest-cost water provider mean Riverside Public Utilities must conduct even more stringent reviews of its revenues and expenses. We have taken many important steps in this area as part of our new strategic plan. Long-range financial plans are being further defined. Interaction with our commercial and industrial customers has increased. Debt and interest payments related to take-or-pay contracts with Intermountain Power Agency and the Southern California Public Power Agency are being decreased. And the City Council has taken definitive measures toward enacting a plan to reduce general fund transfer levels. At Riverside Public Utilities, we believe these efforts and those to follow will achieve realities today for our future tomorrow.

Electric General Fund Transfer

(IN MILLIONS)

90	\$ 9.7
91	\$ 9.9
92	\$ 12.3
93	\$ 13.7
94	\$ 16.1
95	\$ 16.3

Water General Fund Transfer

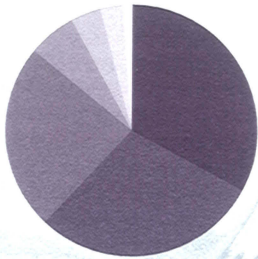
(IN MILLIONS)

90	\$1.9
91	\$1.9
92	\$1.8
93	\$2.0
94	\$2.1
95	\$2.1

CITY OF RIVERSIDE ELECTRIC UTILITY

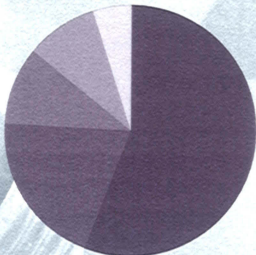
1994-95 ELECTRIC DOLLAR & RESOURCES

SOURCE OF REVENUE



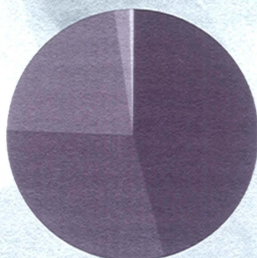
- Residential Sales (33¢)
- Industrial Sales (29¢)
- Commercial Sales (24¢)
- Use of Reserves (6¢)
- Interest Income (4¢)
- Other Sales (3¢)
- Other Revenue (1¢)

DISTRIBUTION OF REVENUE



- Purchased Power Supply (56¢)
- Operation & Maintenance (20¢)
- Debt Service (10¢)
- Transfer to City General Fund (9¢)*
- Additions & Replacements to the System (5¢)

ENERGY RESOURCES



- Coal (46.1%)
- Third Party Purchases (29.8%)
- Nuclear (22.0%)
- Hydropower (2.0%)
- SCE (0.1%)

AVERAGE NUMBER OF CUSTOMERS

90	87,210
91	86,808
92	87,857
93	88,284
94	88,628
95	88,408

TOTAL OPERATING REVENUE

(IN MILLIONS)

90	\$146.6
91	\$152.7
92	\$180.4
93	\$166.3
94	\$161.3
95	\$155.9

PRODUCTION

(IN MILLION KILOWATT-HOURS)

90	1,526
91	1,554
92	1,601
93	1,653
94	1,618
95	1,614

PEAK DAY DEMAND

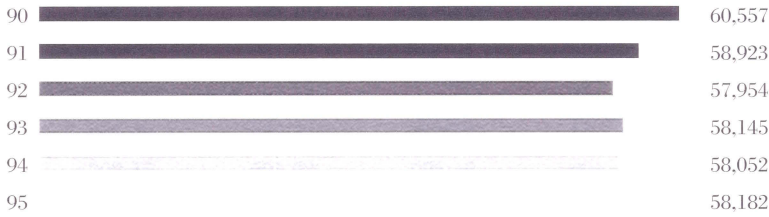
(IN MEGAWATTS)

90	407.0
91	404.8
92	400.0
93	448.0
94	421.2
95	442.0

*Based on transfer of 10.5 percent of fiscal year 1993-94 operating revenues (excludes interest and other non-operating income).

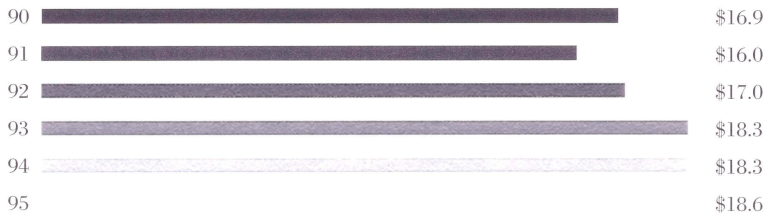
CITY OF RIVERSIDE WATER UTILITY

AVERAGE NUMBER OF CUSTOMERS



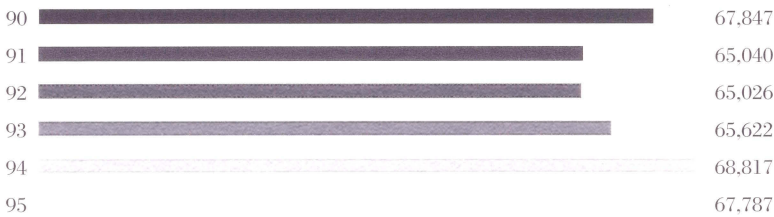
TOTAL OPERATING REVENUE

(IN MILLIONS)



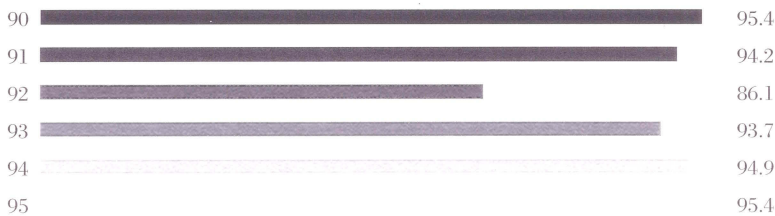
PRODUCTION

(IN ACRE FEET)



PEAK DAY DEMAND

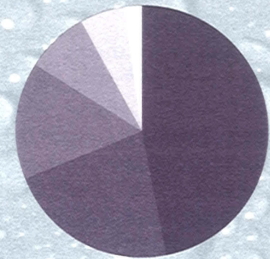
(IN MILLION GALLONS)



**Based on transfer of 11.5 percent of fiscal year 1993-94 operating revenues (excludes interest and other non-operating income).

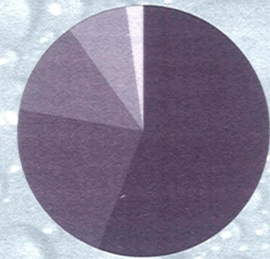
1994-95 WATER DOLLAR & RESOURCES

SOURCE OF REVENUE



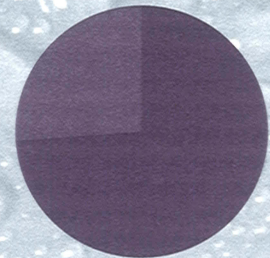
- Residential Sales (47¢)
- Commercial & Industrial Sales (22¢)
- Use of Reserves (15¢)
- Other Revenue (8¢)
- Interest Income (6¢)
- Other Sales (2¢)

DISTRIBUTION OF REVENUE



- Operation & Maintenance (56¢)
- Debt Service (22¢)
- Additions & Replacements to the System (12¢)
- Transfer to City General Fund (8¢)**
- Water Supply (2¢)

WATER RESOURCES



- San Bernardino Basin Wells (74%)
- Riverside Basin Wells (26%)
- Purchased water was less than .03% for 1994-95

**CITY OF RIVERSIDE ELECTRIC UTILITY
STATISTICS**

POWER SUPPLY (MWh)	1994/95	1993/94	1992/93	1991/92	1990/91	1989/90
San Onofre	272,000	269,400	312,000	231,600	264,500	239,500
Intermountain Power	743,200	842,100	839,500	831,700	697,800	795,400
Palo Verde	83,400	58,500	83,900	76,600	84,700	27,800
Hoover	33,500	36,300	28,400	31,400	33,700	24,100
Firm contracts	276,800	278,100	143,900	179,900	358,300	314,000
Non-firm contracts	203,400	130,100	151,200	150,100	79,000	77,600
Southern California Edison	2,000	3,400	94,400	99,400	36,000	47,200
Total	1,614,300	1,617,900	1,653,300	1,600,700	1,554,000	1,525,600
System peak (MW)	442.0	421.2	448.0	400.0	404.8	407.0
ELECTRIC USE	1994/95	1993/94	1992/93	1991/92	1990/91	1989/90
Average number of customers						
Residential ¹	79,749	79,879	79,665	78,985	78,317	78,795
Commercial	8,337	8,424	8,314	8,565	8,156	8,083
Industrial	201	198	182	180	189	186
Other	121	127	123	127	146	146
Total	88,408	88,628	88,284	87,857	86,808	87,210
Millions of kilowatt-hours sales						
Residential	544	517	557	528	546	516
Commercial	391	383	392	394	381	356
Industrial	574	586	566	540	526	527
Other	45	43	41	42	42	41
Total	1,554	1,529	1,556	1,504	1,495	1,440
Average annual kWh per residential customer	6,823	6,475	6,992	6,685	6,972	6,549
Average price (cents/kWh) per residential customer	10.58	10.70	10.31	9.90	9.06	9.10
Debt as a percent of net plant ²	88.2%	90.3%	95.2%	93.4%	96.8%	78.8%
Operating income as a percent of operating revenues	8.0%	16.2%	15.9%	25.3%	15.4%	10.4%
Employees	308	285	288	286	284	264

¹Private area lights were reflected as individual customers in prior years. In 1990-91, these accounts were combined with the residence, resulting in a net decrease in residential customers.

²Net plant includes nuclear fuel inventory and work in progress.

**CITY OF RIVERSIDE WATER UTILITY
STATISTICS**

WATER SUPPLY (ACRE FEET)	1994/95	1993/94	1992/93	1991/92	1990/91	1989/90
Pumping	67,636	68,779	65,018	64,836	61,204	61,249
Purchases	151	38	604	190	3,836	6,598
Total	<u>67,787</u>	<u>68,817</u>	<u>65,622</u>	<u>65,026</u>	<u>65,040</u>	<u>67,847</u>
% Pumped	99.8%	99.9%	99.1%	99.7%	94.1%	90.3%
System peak day (gals)	95,400,000	94,868,000	93,655,000	86,075,000	94,243,000	95,400,000
WATER USE	1994/95	1993/94	1992/93	1991/92	1990/91	1989/90
Average number of customers						
Residential	53,473	53,328	53,463	53,254	53,882	52,889
Commercial/industrial	4,118	4,115	4,098	4,093	4,203	3,976
Other ¹	591	609	584	607	838	3,692
Total	<u>58,182</u>	<u>58,052</u>	<u>58,145</u>	<u>57,954</u>	<u>58,923</u>	<u>60,557</u>
CCF sales						
Residential	16,113,649	15,858,173	16,320,462	15,492,812	16,486,215	17,149,071
Commercial/industrial	8,529,614	8,009,188	8,228,209	7,998,728	8,982,227	8,573,499
Other	1,221,898	1,822,448	1,560,370	1,661,637	1,035,975	1,234,806
Total	<u>25,865,161</u>	<u>25,689,809</u>	<u>26,109,041</u>	<u>25,153,177</u>	<u>26,504,417</u>	<u>26,957,376</u>
Average annual CCF per residential customer	301	297	305	291	306	324
Average price (cents/CCF) per residential customer	75.5	75.7	72.4	68.7	62.9	62.3
Debt as a percent of net plant	37.3%	37.0%	38.2%	41.5%	46.1%	40.0%
Employees	137	137	137	137	131	130

¹Fire hydrants previously included as individual accounts were combined as one municipal account in 1990-91, resulting in a net decrease in other customers.

CITY OF RIVERSIDE ELECTRIC UTILITY
BALANCE SHEETS

	<i>June 30</i> 1995	<i>June 30</i> 1994
ASSETS		<i>(In Thousands)</i>
Utility plant:		
Production	\$122,866	\$121,462
Transmission	14,469	14,343
Distribution	145,782	140,078
General	<u>10,082</u>	<u>8,804</u>
	293,199	284,687
Less accumulated depreciation and amortization	<u>(112,767)</u>	<u>(103,225)</u>
	180,432	181,462
Construction in progress	30,114	25,501
Nuclear fuel, at amortized cost	<u>3,654</u>	<u>3,865</u>
Total utility plant	<u>214,200</u>	<u>210,828</u>
Restricted cash and investments	<u>41,057</u>	<u>41,193</u>
Current assets:		
Cash and investments	81,661	85,471
Accounts receivable, less allowance for doubtful accounts		
1995 \$1,436,000; 1994 \$1,484,000	16,131	19,988
Accrued interest receivable	1,357	1,349
Prepaid expenses	1,357	4,260
Nuclear materials inventory	<u>951</u>	<u>509</u>
Total current assets	<u>101,457</u>	<u>111,577</u>
Other assets:		
Unamortized project costs	1,171	504
Bond issuance costs	<u>2,037</u>	<u>2,087</u>
Total other assets	<u>3,208</u>	<u>2,591</u>
Total assets	<u>\$359,922</u>	<u>\$366,189</u>

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

CITY OF RIVERSIDE ELECTRIC UTILITY
BALANCE SHEETS

	June 30 1995	June 30 1994
CAPITALIZATION AND LIABILITIES		
Customers' equity:		
Retained earnings:		
Reserved	\$ 23,237	\$ 22,721
Unreserved	<u>34,502</u>	<u>42,926</u>
Total retained earnings	57,739	65,647
Contributed capital	<u>39,206</u>	<u>37,838</u>
Total customers' equity	96,945	103,485
Long-term obligations, less current portion	<u>183,147</u>	<u>184,712</u>
Total capitalization	<u>280,092</u>	<u>288,197</u>
Other non-current liabilities:		
Decommissioning liability	14,622	12,464
Rate stabilization account, less current portion	<u>27,410</u>	<u>33,610</u>
Total non-current liabilities	<u>42,032</u>	<u>46,074</u>
Current liabilities payable from restricted assets:		
Accrued interest payable	2,569	2,614
Current portion of long-term obligations	<u>5,865</u>	<u>5,585</u>
Total current liabilities payable from restricted assets	<u>8,434</u>	<u>8,199</u>
Current liabilities:		
Accounts payable	5,837	6,915
Accrued liabilities	4,303	3,910
Rate stabilization account	17,000	10,800
Current portion of long-term obligations	33	75
Customer deposits	<u>2,191</u>	<u>2,019</u>
Total current liabilities	<u>29,364</u>	<u>23,719</u>
Commitments and contingencies		
Total capitalization and liabilities	<u>\$359,922</u>	<u>\$366,189</u>

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

CITY OF RIVERSIDE ELECTRIC UTILITY
STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

	<i>For the Fiscal Years Ended June 30</i>	
	1995	1994
	<i>(In Thousands)</i>	
OPERATING REVENUES:		
Residential sales	\$ 57,613	\$ 55,316
Commercial sales	42,056	40,885
Industrial sales	49,991	53,404
Other sales	4,626	4,550
Sales to other utilities	343	2,533
Provision for rate stabilization	0	3,400
Other operating revenue	<u>1,269</u>	<u>1,192</u>
Total operating revenues	<u>155,898</u>	<u>161,280</u>
OPERATING EXPENSES:		
Purchased power	97,651	94,790
Operations	27,767	24,965
Maintenance	6,226	5,718
Depreciation and amortization	<u>11,733</u>	<u>9,607</u>
Total operating expenses	<u>143,377</u>	<u>135,080</u>
Operating income	<u>12,521</u>	<u>26,200</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest income	6,343	6,345
Interest expense	(11,057)	(11,383)
Gain (loss) on retirement of utility plant	(30)	5
Other	<u>626</u>	<u>531</u>
Total non-operating revenues (expenses)	<u>(4,118)</u>	<u>(4,502)</u>
Income before operating transfer	8,403	21,698
OPERATING TRANSFER OUT:		
General fund contribution	<u>(16,311)</u>	<u>(16,071)</u>
Net income (loss)	(7,908)	5,627
RETAINED EARNINGS, JULY 1	<u>65,647</u>	<u>60,020</u>
RETAINED EARNINGS, JUNE 30	<u>\$ 57,739</u>	<u>\$ 65,647</u>

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

CITY OF RIVERSIDE ELECTRIC UTILITY
STATEMENTS OF CASH FLOWS

	For the Fiscal Years Ended June 30	
	1995	1994
	(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	\$159,927	\$182,161
Cash paid to suppliers and employees	<u>(126,423)</u>	<u>(123,774)</u>
Net cash provided by operating activities	<u>33,504</u>	<u>58,387</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Operating transfers out	(16,311)	(16,071)
Non-operating revenue	<u>626</u>	<u>531</u>
Net cash used by non-capital financing activities	<u>(15,685)</u>	<u>(15,540)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from the sale of revenue bonds	4,041	0
Purchase of utility plant	(15,900)	(15,807)
Purchase of nuclear fuel	(1,075)	(767)
Proceeds from the sale of utility plant	110	115
Principal paid on long-term obligations	(5,660)	(4,949)
Interest paid on long-term obligations	(10,643)	(11,241)
Bond issuance costs	(118)	0
Contributed capital	<u>1,145</u>	<u>881</u>
Net cash used by capital and related financing activities	<u>(28,100)</u>	<u>(31,768)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Income from investments	<u>6,335</u>	<u>6,012</u>
Net increase (decrease) in cash and cash equivalents	(3,946)	17,091
CASH AND CASH EQUIVALENTS, JULY 1	<u>126,664</u>	<u>109,573</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$122,718</u>	<u>\$126,664</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 12,521	\$ 26,200
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	11,733	9,607
Amortization (burn) of nuclear fuel	1,287	1,268
Provision for uncollectible accounts receivable	(48)	(63)
Decrease in accounts receivable	3,905	862
(Increase) decrease in prepaid expenses	2,903	(1,302)
Increase in nuclear materials inventory	(442)	(73)
Increase (decrease) in accounts payable	(1,078)	203
Increase (decrease) in accrued liabilities	393	(486)
Increase in customer deposits	172	75
Increase in decommissioning liability	2,158	2,089
Increase in rate stabilization account	<u>0</u>	<u>20,007</u>
Net cash provided by operating activities	<u>\$ 33,504</u>	<u>\$ 58,387</u>
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Contributions in aid of construction	<u>\$ 223</u>	<u>\$ 559</u>

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

CITY OF RIVERSIDE ELECTRIC UTILITY

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

BASIS OF ACCOUNTING

The financial statements of the Electric Utility are presented in conformity with generally accepted accounting principles as applicable to governments and substantially in conformity with accounting principles prescribed by the Federal Energy Regulatory Commission, except for the method of accounting for contributed capital described below. The Electric Utility is not subject to the regulations of the Federal Energy Regulatory Commission.

UTILITY PLANT AND DEPRECIATION

All utility plant is valued at historical cost or estimated historical cost, if actual historical cost is not available. Cost includes labor; materials; allocated indirect charges such as engineering, supervision, construction and transportation equipment, retirement plan contributions and other fringe benefits; and certain administrative and general expenses. Contributed plant is valued at its estimated fair market value on the date contributed. The cost of relatively minor replacements is included in maintenance expense.

Depreciation is provided over the estimated useful lives of the related assets using the straight-line method. The estimated useful lives are as follows:

Production plant.	30 years
Transmission and distribution plant.	20-50 years
General plant and equipment	5-15 years

NUCLEAR FUEL

The Electric Utility amortizes the cost of nuclear fuel to expense using the "as burned" method. In accordance with the Nuclear Waste Disposal Act of 1982, the Electric Utility is charged one mill per kilowatt-hour of energy generated by the City's share of San Onofre Nuclear Generating Station's Units 2 and 3 to provide for estimated future storage and disposal of spent fuel. The Electric Utility pays this fee to its operating agent, Southern California Edison Company (SCE), on a quarterly basis.

RESTRICTED ASSETS

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

CASH AND INVESTMENTS

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

All highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents. Cash and investments held on behalf of the Electric Utility by the City Treasurer are considered highly liquid and are classified as cash equivalents for the purpose of presentation in the statement of cash flows.

INVENTORIES

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

BOND DISCOUNTS AND ISSUANCE COSTS

Bond discounts and issuance costs are deferred and amortized over the term of the bonds using the effective interest method. Bond discounts are presented as a reduction of the face amount of bonds payable, whereas issuance costs are recorded as deferred charges.

CONTRIBUTED CAPITAL

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

CITY OF RIVERSIDE ELECTRIC UTILITY

NOTES TO THE FINANCIAL STATEMENTS

NUCLEAR DECOMMISSIONING RESERVE

Federal regulations require the Electric Utility to provide for the future decommissioning of its ownership share of the nuclear units at San Onofre. The Electric Utility has established a reserve fund for the decommissioning of the nuclear power plant and restoration of the beachfront at San Onofre. The Electric Utility funds the reserve and recognizes expense over the useful life of the generating plant. A separate trust account has been established for prior and future amounts funded and these amounts are classified as restricted assets in the accompanying balance sheet. To date, the Electric Utility has set aside \$14,622,000 in cash and investments with the trustee as Riverside's estimated share of the decommissioning cost of San Onofre. Based on a cost estimate completed by SCE and approved by the California Public Utilities Commission, the Electric Utility plans to set aside approximately \$1.5 million per year to fund this obligation. Decommissioning is expected to commence around the year 2015.

RATE STABILIZATION ACCOUNT

The Electric Utility's rules and regulations provide for a rate stabilization account (RSA) that is used to offset changes in the cost of providing power. Wholesale rate refunds and over or under collections of revenues resulting from the difference between the Electric Utility's actual costs of supplying electric power and energy and the amount billed to customers through existing rates are recorded in the RSA. Use of amounts set aside in the RSA requires specific approval of the Board of Public Utilities and City Council. The Electric Utility's fiscal year 1995-96 budget includes the recognition of revenues in the amount of \$17,000,000 from the RSA to be used to offset fiscal year 1995-96 rate increases.

The following is a summary of changes in the rate stabilization account for fiscal years 1995 and 1994.

	1995	1994
Balance, July 1	\$44,410,000	\$24,403,000
<i>Increases:</i>		
Refunds from SCE	0	23,407,000
<i>Decreases:</i>		
Current year provision	0	(3,400,000)
Balance, June 30	<u>\$44,410,000</u>	<u>\$44,410,000</u>

During fiscal year 1994, the Electric Utility received \$23,407,000 in refunds from SCE for the settlement of previous wholesale rate disputes. No additional monies were received during fiscal year 1995.

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, 1995 and 1994, was \$2,191,000 and \$2,019,000, respectively.

REVENUE RECOGNITION

The Electric Utility uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Electric Utility customers are billed monthly. Unbilled electric service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled \$6,699,000 at June 30, 1995, and \$9,079,000 at June 30, 1994.

An allowance for doubtful accounts is maintained for utility and miscellaneous accounts receivable. The balance in this account is adjusted at fiscal year-end to approximate the amount anticipated to be uncollectible. The balance in the allowance account was \$1,436,000 at June 30, 1995, and \$1,484,000 at June 30, 1994.

COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due employees at June 30, 1995. The Electric Utility treats compensated absences due employees as a current liability. The amount accrued for compensated absences was \$4,234,000 at June 30, 1995, and \$3,910,000 at June 30, 1994.

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

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

SELF-INSURANCE PROGRAM

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

While the ultimate amount of losses incurred through June 30, 1995, is dependent upon future developments, management believes that amounts paid are sufficient to cover such losses.

DEFERRED COMPENSATION AND EMPLOYEE RETIREMENT PLANS

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The plan, available to all City employees, permits deferral of a portion of an employee's salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

CITY OF RIVERSIDE ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS

CREDIT RISK, CARRYING AMOUNT AND MARKET VALUE OF DEPOSITS AND INVESTMENTS

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

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

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

The Electric Utility’s share of the City’s investments at June 30, 1995, represents approximately 30 percent or \$122,718,000 of the City’s total cash and investments. The City’s pooled investments (including all funds and component units) by credit risk, carrying amount and contractual/market value consisted of the following at June 30, 1995 (in thousands):

DESCRIPTION	CATEGORY			CARRYING AMOUNT	CONTRACTUAL/MARKET VALUE
	1	2	3		
Repurchase agreements	\$ 500	\$ 0	\$7,000	\$ 7,500	\$ 7,500
U.S. federal agency obligations:					
Federal National Mortgage Association	19,980	0	0	19,980	19,539
Student Loan Mortgage Association	10,000	0	0	10,000	9,850
Federal Home Loan Bank	46,772	0	0	46,772	44,181
Federal Home Loan Mortgage Corporation	5,000	0	0	5,000	4,895
Federal Farm Credit Bank	14,990	0	0	14,990	14,797
Negotiable certificates of deposit	31,750	0	0	31,750	29,354
Medium-term notes	66,552	0	0	66,552	64,861
Taxable municipal bonds	4,305	0	0	4,305	4,758
Investments at fiscal agent:					
Federal National Mortgage Association	30,641	0	0	30,641	30,547
Federal Home Loan Bank	6,288	0	0	6,288	6,307
Federal Farm Credit Bank	25,755	0	0	25,755	25,909
Certificates of deposit	26	0	0	26	26
U.S. Treasury bills	349	0	0	349	358
U.S. Treasury notes	7,583	0	0	7,583	7,645
	<u>\$270,491</u>	<u>\$ 0</u>	<u>\$7,000</u>	277,491	270,527
State of California Local Agency Investment Fund ⁽¹⁾				60,000	60,000
Investments at fiscal agent: ⁽¹⁾					
Money market funds				8,657	8,657
Investment agreements				7,542	7,542
Cash				119	119
Amounts invested in deferred compensation plans ⁽¹⁾				<u>55,852</u>	<u>55,852</u>
Total investments				<u>\$409,661</u>	<u>\$402,697</u>

⁽¹⁾Not subject to categorization

As a result of extensive cash flow analysis, a significant percentage of the portfolio is held in short-term liquid funds with the balance invested in a well diversified asset mix with various maturities.

During the fiscal year 1994-95, the City’s portfolio held a limited amount of variable rate securities including floating rate, inverse floating rate and structured notes as a mechanism to protect the portfolio’s overall market value.

The majority of the City’s investment instruments are highly

rated federal agency or corporate securities with minimal credit risk. Although variable rate securities may have market fluctuations that are greater than non-variable instruments, the portfolio is highly liquid and well diversified and as a result the City has the ability and intent to hold all securities to maturity to recoup the initial principal investment.

Monies invested in derivatives through the state investment pool are immaterial.

CITY OF RIVERSIDE ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3
LONG-TERM OBLIGATIONS

CERTIFICATES OF PARTICIPATION AND CAPITAL LEASE

The Electric Utility's share of outstanding certificates of participation totaled \$45,000 at June 30, 1995, and \$111,000 at June 30, 1994, and is due in annual installments through November 1, 1997; interest rates range from 5.75 percent to 9.4 percent.

The Electric Utility's share of equipment purchased through a capital lease in the amount of \$26,000 at June 30, 1995, and \$36,000 at June 30, 1994, is due in monthly installments of \$1,031 through November 1, 1997, at 8.0 percent interest.

REVENUE BONDS PAYABLE

Revenue bonds payable at June 30, 1995 and 1994, consist of the following (in thousands):

	<u>JUNE 30, 1995</u>	<u>JUNE 30, 1994</u>
<i>\$121,025,000 1986 Electric Revenue Refunding Series A Bonds: \$36,410,000 serial bonds due in annual installments from \$800,000 to \$3,820,000 through October 1, 1997, interest from 6.2 percent to 6.4 percent</i>	\$ 7,540	\$ 10,325
<i>\$68,175,000 1991 Electric Revenue Bonds: \$27,395,000 serial bonds due in annual installments from \$785,000 to \$3,590,000 through October 1, 2005, interest from 5.5 percent to 6.6 percent; \$40,780,000 term bonds due October 1, 2015, interest at 6.0 percent</i>	66,005	66,790
<i>\$118,550,000 1993 Electric Refunding Revenue Bonds: \$92,245,000 serial bonds due in annual installments from \$950,000 to \$8,005,000 through October 1, 2010, interest from 3.25 percent to 8.25 percent; \$26,305,000 term bonds due October 1, 2013, at 5.0 percent</i>	115,020	117,035
<i>\$4,100,000 1994 FARECal Electric Revenue Bonds: \$2,105,000 serial bonds due in annual installments from \$115,000 to \$220,000 through July 1, 2010, interest from 4.75 percent to 5.90 percent; \$1,995,000 term bonds due July 1, 2017, at 6.0 percent</i>	4,100	0
Less: Unamortized bond discount	<u>(3,692)</u>	<u>(3,925)</u>
Total electric revenue bonds payable	<u>\$188,973</u>	<u>\$190,225</u>

Annual debt service requirements to maturity as of June 30, 1995, are as follows (in thousands):

	1996	1997	1998	1999	2000	THEREAFTER	TOTAL
Certificates of participation and capital lease	\$ 33	\$ 34	\$ 5	\$ 0	\$ 0	\$ 0	\$ 72
Bond interest payable	10,285	9,959	9,631	9,321	8,995	70,953	119,144
Bond principal payable	5,865	6,190	6,635	6,940	7,275	159,760	192,665
Unamortized bond discount	(288)	(284)	(279)	(271)	(263)	(2,307)	(3,692)
Total	<u>\$15,895</u>	<u>\$15,899</u>	<u>\$15,992</u>	<u>\$15,990</u>	<u>\$16,007</u>	<u>\$228,406</u>	<u>\$308,189</u>

DEBT SERVICE COVERAGE RATIO

The Electric Utility's bond indentures require the Electric Utility to maintain a debt service coverage ratio, as defined by the bond covenants, of 1.25. The Electric Utility's debt service coverage ratio was 1.97 at June 30, 1995, and 2.72 at June 30, 1994.

CITY OF RIVERSIDE ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4
RESERVED RETAINED EARNINGS

A reserve for debt service has been established pursuant to applicable bond indentures. Bond indentures for Riverside's electric revenue and refunding bonds require reserves that equate to the maximum annual debt service required in future years plus three months interest and nine months principal due in the next fiscal year. The reserve for Riverside's portion of FARECal Revenue Bonds is equal to 10 percent of the program agreement amounts.

NOTE 5
LITIGATION

The Electric Utility is a defendant in various lawsuits arising in the normal course of business. Management, based in part on the opinion of outside legal counsel, does not believe that the ultimate resolution of these matters will have a material effect on the financial position or results of operations of the Electric Utility.

NOTE 6
JOINTLY-GOVERNED ORGANIZATIONS

On November 1, 1980, the City of Riverside joined with the Imperial Irrigation District and the cities of Los Angeles, Anaheim, Vernon, Azusa, Banning, Colton, Burbank, Glendale and Pasadena to create the Southern California Public Power Authority (SCPPA) by a Joint Powers Agreement under the laws of the State of California. The primary purpose of SCPPA is to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. SCPPA is governed by a Board of Directors, which consists of one representative for each of the members. During the 1994-95 and 1993-94 fiscal years, the Electric Utility paid approximately \$18,342,000 and \$14,519,000, respectively, to SCPPA under various take-or-pay contracts that are described in greater detail in Note 8. These payments are reflected as a component of purchased power in the financial statements.

On July 1, 1990, the City of Riverside joined with the cities of Azusa, Banning and Colton to create the Power Agency of California (PAC) by a Joint Powers Agreement under the laws of the State of California. The primary purpose of PAC is to take advantage of synergies and economies of scale as a result of the four cities acting in concert. PAC has the ability to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. PAC is governed by a Board of Directors, which consists of one representative for each of the members. The term of the Joint Powers Agreement is 50 years. During the fiscal years ended 1994-95 and 1993-94, the Electric Utility paid approximately \$16,000 and \$90,000, respectively, to PAC for administrative expenses and advanced \$4,300 for operating capital.

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

In July 1994, FARECal issued \$19,470,000 in electric and water revenue bonds. The proceeds of the bonds will be used to finance a portion of the costs of five separate programs for the cities of Anaheim, Pasadena and Riverside. The City of Riverside Electric Utility's share of this bond issuance totals \$4.1 million. The Electric Utility is obligated only for its portion of the total debt issuance (See Note 3 for bond terms). The bonds are payable solely from program revenues, which are received as installment payments from each participant. Installment payments are payable solely from utility revenues.

CITY OF RIVERSIDE ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 7
JOINTLY-OWNED UTILITY PROJECT

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

There are no separate financial statements for the jointly-owned utility plant since each participant's interests in the utility plant and operating expenses are included in their respective financial statements. The Electric Utility's 1.79 percent share of the capitalized construction costs for SONGS totaled \$122,866,000 and \$121,462,000 for fiscal years ended 1994-95 and 1993-94, respectively. The accumulated depreciation amounted to \$47,178,000 and \$42,641,000 for the fiscal years ended June 30, 1995 and 1994, respectively. The Electric Utility made provisions during fiscal years 1994-95 and 1993-94 for nuclear fuel burn of \$1,287,000 and \$1,268,000, respectively, and for future decommissioning costs of \$1,460,000 for both 1994-95 and 1993-94 fiscal years (See Note 1). The Electric Utility's portion of current and long-term debt associated with SONGS is included in the accompanying financial statements.

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

NOTE 8
COMMITMENTS

TAKE-OR-PAY CONTRACTS

The Electric Utility has entered into a power sales contract with the Intermountain Power Agency (IPA) for the delivery of electric power. The Electric Utility's share of IPA power is equal to 7.6 percent of the generation output of IPA's 1,600 megawatt coal-fueled generating station located in central Utah.

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

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

The projects and the Electric Utility's proportionate share of SCPPA's obligations are as follows:

PROJECT	PERCENT SHARE
Palo Verde Nuclear Generating Station	5.4 percent
Southern Transmission System	10.2 percent
Hoover Dam Uprating	31.9 percent
Mead-Phoenix Transmission.....	4.0 percent
Mead-Adelanto Transmission	13.5 percent

As part of the take-or-pay commitments with IPA and SCPPA, the Electric Utility has agreed to pay its share of current and long-term obligations. Management intends to pay these obligations from operating revenues received during the year that payment is due.

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

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

Interest rates on the outstanding debt associated with the take-or-pay obligations range from 2.8 percent to 10.4 percent. The schedule on the following page details the amount of principal that is due and payable by the Electric Utility as part of the take-or-pay contract for each project in the fiscal year indicated.

CITY OF RIVERSIDE ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS

PRINCIPAL PAYMENTS

(In Thousands)

Year Ending June	IPA	SCPPA				TOTAL	
	Intermountain Power Project	Palo Verde Nuclear Generating Station	Southern Transmission System	Hoover Dam Upgrading	Mead-Phoenix Transmission	Mead-Adelanto Transmission	All Projects
1996	\$ 7,384	\$ 1,288	\$ 1,461	\$ 195	\$ 0	\$ 0	\$ 10,328
1997	8,538	1,381	1,106	346	0	0	11,371
1998	8,889	1,480	2,200	360	0	0	12,929
1999	9,468	1,576	2,325	392	0	0	13,761
2000	9,780	1,683	1,040	410	52	481	13,446
Thereafter	350,196	54,304	151,727	9,865	3,574	37,408	607,074
Subtotal	\$394,255	\$61,712	\$159,859	\$11,568	\$3,626	\$37,889	\$668,909
Less: Unamortized bond discount	(16,128)	(6,619)	(16,640)	(1,173)	(175)	(1,768)	(42,503)
Total	\$378,127	\$55,093	\$143,219	\$10,395	\$3,451	\$36,121	\$626,406

POWER SALES AGREEMENT

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

POWER SALES AGREEMENTS

Minimum Obligations 1995-96 (In Thousands)

SUPPLIER	CAPACITY	ENERGY	TOTAL
Deseret	\$ 9,360	\$1,100	\$10,460
SCE	5,034	2,000	7,034
CDWR	700	450	1,150
BPA	979	0	979
WWP	442	1,036	1,478
Total	\$16,515	\$4,586	\$21,101

The agreement with WWP is for the purchase of 25 megawatts of firm capacity and associated energy during the months of May through October of each year beginning May 1, 1995, for 10 years. The agreement with Deseret is for five megawatts from January 1, 1992, through December 31, 1994, then increasing to 52 megawatts through December 31, 2009. The agreement with CDWR is for the purchase of 20 megawatts of firm capacity and associated energy during the months of May through October of each year beginning May 1, 1992. The agreement with CDWR is an "evergreen" contract that may be terminated upon three years notice by either party. The agreement with BPA is for the purchase of firm capacity (23 megawatts in the summer months and 16 megawatts in the winter months), and associated energy for a period of 20 years. The agreement with SCE is for the purchase of firm capacity and associated energy for a period of eight years ending December 31, 1998. The firm capacity from SCE is for 150 megawatts in the summer.

INDEPENDENT AUDITORS' REPORT

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

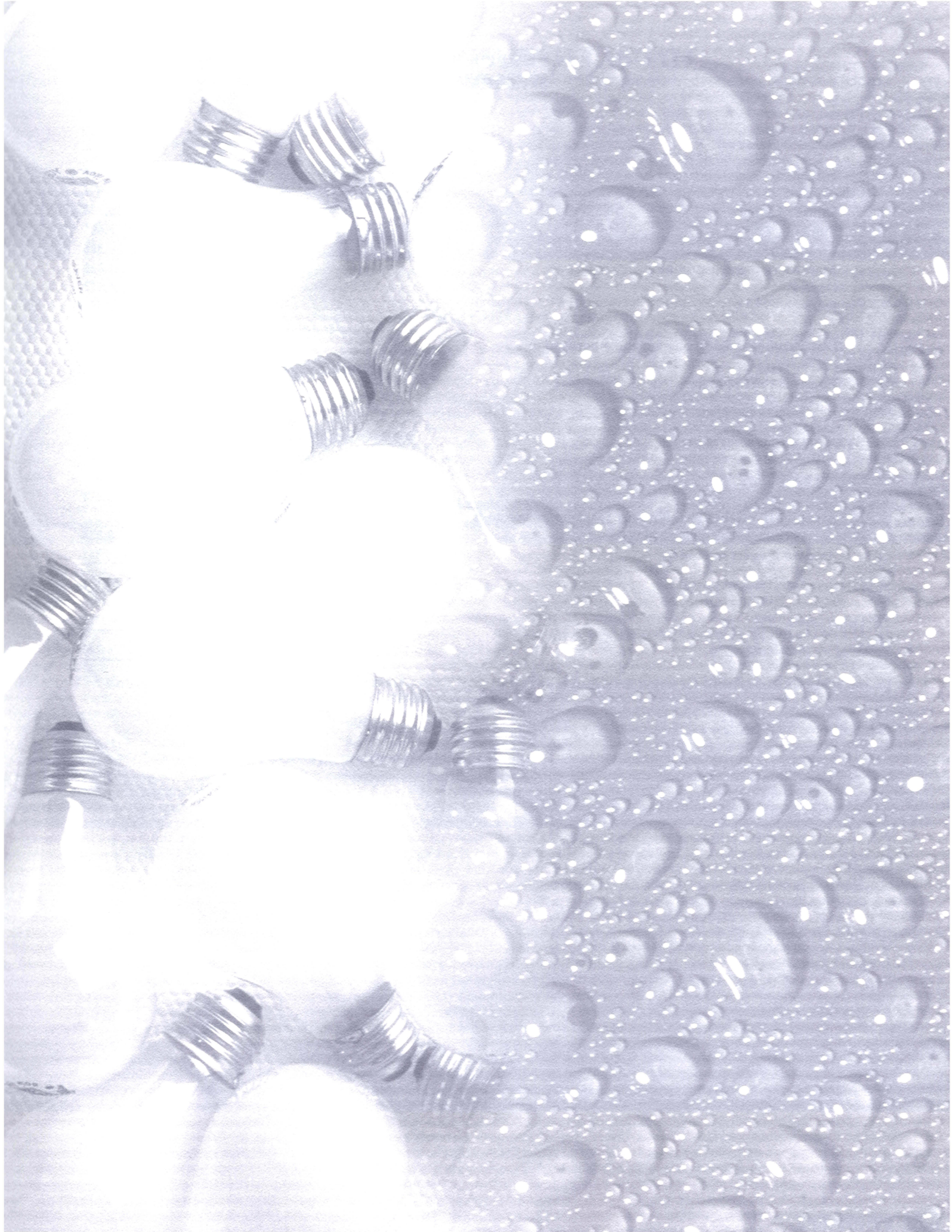
We have audited the accompanying balance sheets of the City of Riverside Electric Utility as of June 30, 1995 and 1994, and the related statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Electric Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Riverside Electric Utility as of June 30, 1995 and 1994, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

October 27, 1995



CITY OF RIVERSIDE WATER UTILITY
BALANCE SHEETS

	<i>June 30</i> 1995	<i>June 30</i> 1994
	<i>(In Thousands)</i>	
ASSETS		
Utility plant:		
Source of supply	\$ 20,469	\$ 16,774
Pumping	7,733	7,681
Treatment	330	326
Transmission and distribution	145,078	141,839
General	4,722	4,617
Intangible	<u>5,533</u>	<u>5,533</u>
	183,865	176,770
Less accumulated depreciation and amortization	<u>(52,711)</u>	<u>(49,135)</u>
	131,154	127,635
Construction in progress	<u>17,005</u>	<u>12,059</u>
Total utility plant	<u>148,159</u>	<u>139,694</u>
Restricted cash and investments	<u>16,116</u>	<u>18,143</u>
Current assets:		
Cash and investments	11,765	15,278
Accounts receivable, less allowance for doubtful accounts		
1995 \$223,000; 1994 \$275,000	2,440	2,574
Accrued interest receivable	<u>197</u>	<u>261</u>
Total current assets	<u>14,402</u>	<u>18,113</u>
Other assets	<u>837</u>	<u>770</u>
Total assets	<u><u>\$179,514</u></u>	<u><u>\$176,720</u></u>

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

CITY OF RIVERSIDE WATER UTILITY
BALANCE SHEETS

	<i>June 30</i> 1995	<i>June 30</i> 1994
CAPITALIZATION AND LIABILITIES		
Customers' equity:		
Retained earnings:		
Reserved	\$ 6,854	\$ 6,381
Unreserved	<u>15,967</u>	<u>19,127</u>
Total retained earnings	22,821	25,508
Contributed capital	<u>97,564</u>	<u>96,239</u>
Total customers' equity	120,385	121,747
Long-term obligations, less current portion	<u>53,354</u>	<u>49,835</u>
Total capitalization	<u>173,739</u>	<u>171,582</u>
Current liabilities payable from restricted assets:		
Accrued interest payable	652	654
Current portion of long-term obligations	<u>1,900</u>	<u>1,805</u>
Total current liabilities payable from restricted assets	<u>2,552</u>	<u>2,459</u>
Current liabilities:		
Accounts payable	958	524
Accrued liabilities	1,805	1,690
Current portion of long-term obligations	161	190
Customer deposits	<u>299</u>	<u>275</u>
Total current liabilities	<u>3,223</u>	<u>2,679</u>
Commitments and contingencies		
Total capitalization and liabilities	<u>\$179,514</u>	<u>\$176,720</u>

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

CITY OF RIVERSIDE WATER UTILITY
STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

	<i>For the Fiscal Years Ended June 30</i>	
	1995	1994
	<i>(In Thousands)</i>	
OPERATING REVENUES:		
Residential sales	\$12,166	\$12,009
Commercial sales	5,635	5,505
Other sales	447	454
Other operating revenue	<u>396</u>	<u>335</u>
Total operating revenues	<u>18,644</u>	<u>18,303</u>
OPERATING EXPENSES:		
Operations	9,360	8,563
Maintenance	2,626	2,256
Purchased energy	2,630	2,721
Purchased water	480	384
Depreciation and amortization	<u>3,742</u>	<u>3,517</u>
Total operating expenses	<u>18,838</u>	<u>17,441</u>
Operating income (loss)	<u>(194)</u>	<u>862</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest income	1,608	1,720
Interest expense	(3,738)	(3,500)
Gain (loss) on retirement of utility plant	(15)	5
Other	<u>1,754</u>	<u>1,267</u>
Total non-operating revenues (expenses)	<u>(391)</u>	<u>(508)</u>
Income (loss) before operating transfer	(585)	354
OPERATING TRANSFER OUT:		
General fund contribution	<u>(2,102)</u>	<u>(2,106)</u>
Net loss	(2,687)	(1,752)
RETAINED EARNINGS, JULY 1	<u>25,508</u>	<u>27,260</u>
RETAINED EARNINGS, JUNE 30	<u>\$22,821</u>	<u>\$25,508</u>

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

CITY OF RIVERSIDE WATER UTILITY
STATEMENTS OF CASH FLOWS

	<i>For the Fiscal Years Ended June 30</i>	
	1995	1994
	<i>(In Thousands)</i>	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	\$18,802	\$18,363
Cash paid to suppliers and employees	<u>(14,547)</u>	<u>(14,714)</u>
Net cash provided by operating activities	<u>4,255</u>	<u>3,649</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Operating transfers out	(2,102)	(2,106)
Non-operating revenue	<u>1,754</u>	<u>1,267</u>
Net cash used by non-capital financing activities	<u>(348)</u>	<u>(839)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(11,845)	(6,182)
Proceeds from the sale of utility plant	60	90
Proceeds from the sale of revenue bonds	4,644	0
Principal paid on long-term obligations	(1,847)	(1,794)
Interest paid on long-term obligations	(2,883)	(2,724)
Bond issuance costs	(136)	0
Contributed capital	<u>888</u>	<u>657</u>
Net cash used by capital and related financing activities	<u>(11,119)</u>	<u>(9,953)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Income from investments	<u>1,672</u>	<u>1,728</u>
Net (decrease) in cash and cash equivalents	(5,540)	(5,415)
CASH AND CASH EQUIVALENTS, JULY 1	<u>33,421</u>	<u>38,836</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$27,881</u>	<u>\$33,421</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (194)	\$ 862
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	3,742	3,517
Provision for uncollectible accounts receivable	(52)	(114)
Decrease in accounts receivable	186	164
Increase (decrease) in accounts payable	434	(350)
Increase (decrease) in accrued liabilities	115	(440)
Increase in customer deposits	<u>24</u>	<u>10</u>
Net cash provided by operating activities	<u>\$ 4,255</u>	<u>\$ 3,649</u>
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Contributions in aid of construction	<u>\$ 437</u>	<u>\$ 2,233</u>

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

CITY OF RIVERSIDE WATER UTILITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

BASIS OF ACCOUNTING

The financial statements of the Water Utility are presented in conformity with generally accepted accounting principles as applicable to governments and substantially in conformity with accounting principles prescribed by the California Public Utilities Commission, except for the method of accounting for contributed capital described below. The Water Utility is not subject to the regulations of the California Public Utilities Commission.

UTILITY PLANT AND DEPRECIATION

All utility plant is valued at historical cost or estimated historical cost, if actual historical cost is not available. Cost includes labor; materials; allocated indirect charges such as engineering, supervision, construction and transportation equipment, retirement plan contributions and other fringe benefits; and certain administrative and general expenses. Contributed plant is valued at its estimated fair market value on the date contributed. The cost of relatively minor replacements is included in maintenance expense.

Depreciation is recorded over the estimated useful lives of the related assets using the straight-line method. The estimated useful lives are as follows:

Supply pumping and treatment plant	20-50 years
Transmission and distribution plant	30-50 years
General plant and equipment	5-50 years

RESTRICTED ASSETS

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

CASH AND INVESTMENTS

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

All highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents. Cash and investments held on behalf of the Water Utility by the City Treasurer are considered highly liquid and are classified as cash equivalents for the purpose of presentation in the statement of cash flows.

INVENTORIES

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

BOND DISCOUNTS, CAPITAL APPRECIATION AND ISSUANCE COSTS

Bond discounts, capital appreciation and issuance costs are deferred and amortized over the term of the bonds using the effective interest method. Bond discounts and capital appreciation are presented as a reduction of the face amount of bonds payable, whereas issuance costs are recorded as deferred charges. Capital appreciation is the annual increase in the value of bonds originally issued at a discounted amount. These bonds receive no annual interest payments and mature at a predetermined par value.

CONTRIBUTED CAPITAL

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

CUSTOMER DEPOSITS

The City holds customer deposits as security for the payment of utility bills. The Water Utility's portion of these deposits as of June 30, 1995 and 1994, was \$299,000 and \$275,000, respectively.

CITY OF RIVERSIDE WATER UTILITY

NOTES TO THE FINANCIAL STATEMENTS

REVENUE RECOGNITION

The Water Utility uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Water Utility customers are billed monthly. Unbilled water service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled \$973,000 at June 30, 1995, and \$1,195,000 at June 30, 1994.

An allowance for doubtful accounts is maintained for utility and miscellaneous accounts receivable. The balance in this account is adjusted at fiscal year-end to approximate the amount anticipated to be uncollectible. The balance in the allowance account was \$223,000 at June 30, 1995, and \$275,000 at June 30, 1994.

COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due employees at June 30, 1995. The Water Utility treats compensated absences due employees as a current liability. The amount accrued for compensated absences was \$1,776,000 at June 30, 1995, and \$1,690,000 at June 30, 1994.

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

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

SELF-INSURANCE PROGRAM

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

While the ultimate amount of losses incurred through June 30, 1995, is dependent upon future developments, management believes that amounts paid are sufficient to cover such losses.

DEFERRED COMPENSATION AND EMPLOYEE RETIREMENT PLANS

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The plan, available to all City employees, permits deferral of a portion of an employee's salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City, subject only to the claims of the City's general creditors. Participants' rights under the plan are equal to those of general creditors of the City in an amount equal to the fair market value of the deferred account for each participant.

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

Employee Retirement Plan

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

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

Employee contributions are 7 percent, while the Water Utility is required to contribute the remaining amounts necessary to fund the benefits for its members using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The Water Utility pays both the employee and employer contributions.

Citywide information concerning elements of total assets in excess of pension benefit obligations, contributions to PERS for the fiscal years ended June 30, 1995 and 1994, and recent trend information may be found in the notes of the City's "Comprehensive Annual Financial Report" for the fiscal years ended June 30, 1995 and 1994.

CITY OF RIVERSIDE WATER UTILITY
NOTES TO THE FINANCIAL STATEMENTS

GENERAL FUND CONTRIBUTION

Pursuant to the City Charter, the Water Utility may transfer up to 11.5 percent of its prior year's gross operating revenues to the City's general fund. In fiscal years 1994-95 and 1993-94, the Water Utility transferred 11.5 percent of gross operating revenues, or \$2,102,000 and \$2,106,000, respectively.

BUDGETS AND BUDGETARY ACCOUNTING

The Water Utility presents, and the City Council adopts, an annual budget. The proposed budget includes estimated expenses and

forecasted revenues. The City Council adopts the Water Utility's budget at its last meeting in June via an adopting resolution. The Water Utility's budgeted expenses for fiscal year 1994-95 and 1993-94 amounted to \$38,827,000 and \$39,606,000, respectively.

RECLASSIFICATIONS

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

NOTE 2
CASH AND INVESTMENTS

Cash and investments at June 30, 1995 and 1994, consist of the following (in thousands):

	JUNE 30, 1995		JUNE 30, 1994	
	CARRYING AMOUNT	MARKET VALUE	CARRYING AMOUNT	MARKET VALUE
Pooled investments with City Treasurer	\$11,765	\$11,688	\$15,278	\$15,645
Cash and investments at fiscal agent	<u>16,116</u>	<u>16,116</u>	<u>18,143</u>	<u>18,143</u>
	<u>\$27,881</u>	<u>\$27,804</u>	<u>\$33,421</u>	<u>\$33,788</u>

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

	JUNE 30, 1995	JUNE 30, 1994
Cash and investments	<u>\$11,765</u>	<u>\$15,278</u>
Restricted assets:		
Debt service reserve	6,854	6,381
Bond construction fund	<u>9,262</u>	<u>11,762</u>
	<u>16,116</u>	<u>18,143</u>
	<u>\$27,881</u>	<u>\$33,421</u>

AUTHORIZED INVESTMENTS

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

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

CITY OF RIVERSIDE WATER UTILITY
NOTES TO THE FINANCIAL STATEMENTS

CREDIT RISK, CARRYING AMOUNT AND MARKET VALUE OF DEPOSITS AND INVESTMENTS

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

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

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

The Water Utility’s share of the City’s investments at June 30, 1995, represents approximately 7 percent or \$27,881,000 of the City’s total cash and investments. The City’s pooled investments (including all funds and component units) by credit risk, carrying amount and contractual/market value consisted of the following at June 30, 1995 (in thousands):

DESCRIPTION	CATEGORY			CARRYING AMOUNT	CONTRACTUAL/MARKET VALUE
	1	2	3		
Repurchase agreements	\$ 500	\$0	\$7,000	\$ 7,500	\$ 7,500
U.S. federal agency obligations:					
Federal National Mortgage Association	19,980	0	0	19,980	19,539
Student Loan Mortgage Association	10,000	0	0	10,000	9,850
Federal Home Loan Bank	46,772	0	0	46,772	44,181
Federal Home Loan Mortgage Corporation	5,000	0	0	5,000	4,895
Federal Farm Credit Bank	14,990	0	0	14,990	14,797
Negotiable certificates of deposit	31,750	0	0	31,750	29,354
Medium-term notes	66,552	0	0	66,552	64,861
Taxable municipal bonds	4,305	0	0	4,305	4,758
Investments at fiscal agent:					
Federal National Mortgage Association	30,641	0	0	30,641	30,547
Federal Home Loan Bank	6,288	0	0	6,288	6,307
Federal Farm Credit Bank	25,755	0	0	25,755	25,909
Certificates of deposit	26	0	0	26	26
U.S. Treasury bills	349	0	0	349	358
U.S. Treasury notes	7,583	0	0	7,583	7,645
	<u>\$270,491</u>	<u>\$ 0</u>	<u>\$7,000</u>	277,491	270,527
State of California Local Agency Investment Fund ⁽¹⁾				60,000	60,000
Investments at fiscal agent: ⁽¹⁾					
Money market funds				8,657	8,657
Investment agreements				7,542	7,542
Cash				119	119
Amounts invested in deferred compensation plans ⁽¹⁾				<u>55,852</u>	<u>55,852</u>
Total investments				<u>\$409,661</u>	<u>\$402,697</u>

⁽¹⁾Not subject to categorization

As a result of extensive cash flow analysis, a significant percentage of the portfolio is held in short-term liquid funds with the balance invested in a well diversified asset mix with various maturities.

During the fiscal year 1994-95, the City’s portfolio held a limited amount of variable rate securities including floating rate, inverse floating rate and structured notes as a mechanism to protect the portfolio’s overall market value.

The majority of the City’s investment instruments are highly

rated federal agency or corporate securities with minimal credit risk. Although variable rate securities may have market fluctuations that are greater than non-variable instruments, the portfolio is highly liquid and well diversified and as a result the City has the ability and intent to hold all securities to maturity to recoup the initial principal investment.

Monies invested in derivatives through the state investment pool are immaterial.

CITY OF RIVERSIDE WATER UTILITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3
LONG-TERM OBLIGATIONS

CONTRACTS PAYABLE AND CAPITAL LEASE

Contracts payable at June 30, 1995, and June 30, 1994, consist of water stock acquisition rights in the amount of \$1,280,000 and \$1,281,000, respectively, payable on demand to various water companies. The Water Utility's share of equipment purchased through a capital lease in the amounts of \$27,000 and \$36,000 for fiscal years ended June 30, 1995 and 1994, respectively, is due in monthly installments of \$1,031 through November 1, 1997, at 8.0 percent interest.

REVENUE BONDS PAYABLE

Revenue bonds payable at June 30, 1995 and 1994, consist of the following (in thousands):

	<u>JUNE 30, 1995</u>	<u>JUNE 30, 1994</u>
\$69,840,000 1991 Water Revenue Bonds: \$25,050,000 serial bonds due in annual installments from \$1,805,000 to \$3,100,000 through October 1, 2002, interest from 5.5 percent to 9.0 percent; and \$25,900,000 serial capital appreciation bonds due in annual installments from \$3,235,000 to \$3,240,000 from October 1, 2003, to October 1, 2010, interest from 6.65 percent to 7.0 percent; and \$18,890,000 term bonds due October 1, 2015, at 6.0 percent	\$64,015	\$65,820
\$4,710,000 1994 FARECal Revenue Bonds: \$2,420,000 serial bonds due in annual installments from \$135,000 to \$255,000 through July 1, 2010, interest from 4.75 percent to 5.90 percent; \$2,290,000 term bonds due July 1, 2017, at 6.0 percent	\$4,710	0
Less: Unamortized capital appreciation	(14,265)	(15,026)
Unamortized bond discount	(351)	(312)
Total water revenue bonds payable	<u>\$54,109</u>	<u>\$50,482</u>

Annual debt service requirements to maturity as of June 30, 1995, are as follows (in thousands):

	1996	1997	1998	1999	2000	THEREAFTER	TOTAL
Contracts payable/capital lease	\$ 161	\$ 161	\$ 155	\$ 150	\$ 150	\$ 529	\$ 1,306
Bond interest payable	2,738	2,628	2,509	2,374	2,228	19,268	31,745
Bond principal payable	1,900	2,015	2,265	2,400	2,550	57,595	68,725
Unamortized capital and bond discount	(840)	(896)	(956)	(1,020)	(1,088)	(9,816)	(14,616)
Total	<u>\$3,959</u>	<u>\$3,908</u>	<u>\$3,973</u>	<u>\$3,904</u>	<u>\$3,840</u>	<u>\$67,576</u>	<u>\$87,160</u>

DEBT SERVICE COVERAGE RATIO

The Water Utility's bond indenture requires the Utility to maintain a debt service coverage ratio, as defined in the bond covenants, of 1.25. The Water Utility's debt service coverage ratio was 1.55 at June 30, 1995, and 1.60 at June 30, 1994.

CITY OF RIVERSIDE WATER UTILITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4
RESERVED RETAINED EARNINGS

A reserve for debt service has been established pursuant to applicable bond indentures. Bond indentures for Riverside's water revenue bonds require reserves that equate to the maximum annual debt service required in future years plus three months interest and nine months principal due in the next fiscal year. The reserve for Riverside's portion of FARECal Revenue Bonds is equal to 10 percent of the program agreement amounts.

NOTE 5
LITIGATION

The Water Utility is a defendant in various lawsuits arising in the normal course of business. Management, based in part on the opinion of outside legal counsel, does not believe that the ultimate resolution of these matters will have a material effect on the financial position or results of operations of the Water Utility.

NOTE 6
JOINTLY-GOVERNED ORGANIZATIONS

FINANCING AUTHORITY FOR RESOURCE EFFICIENCY OF CALIFORNIA (FARECAL)

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

In July 1994, FARECal issued \$19,470,000 in electric and water revenue bonds. The proceeds of the bonds will be used to finance a portion of the costs of five separate programs for the cities of Anaheim, Pasadena and Riverside. The City of Riverside Water Utility's share of this bond issuance totals \$4.7 million. The Water Utility is obligated only for its portion of the total debt issuance (See Note 3 for bond terms). The bonds are payable solely from program revenues, which are received as installment payments from each participant. Installment payments are payable solely from utility revenues.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of the City of Riverside Water Utility as of June 30, 1995 and 1994, and the related statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Water Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Riverside Water Utility as of June 30, 1995 and 1994, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

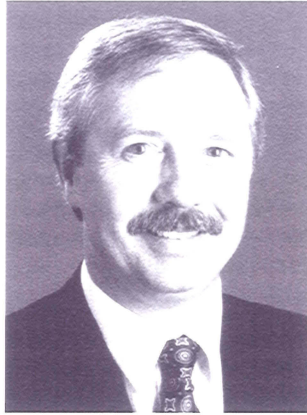
October 27, 1995

BOARD OF PUBLIC UTILITIES



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Occupation: Senior Administrator for County Supervisor John Tavaglione
Riverside resident: lifetime



DAVID MACHER

Occupation: Certified Public Accountant
Riverside resident: lifetime



RONALD MCCOY

Occupation: Retired, Former Assistant Chief Engineer – Water
Riverside resident: 14 years



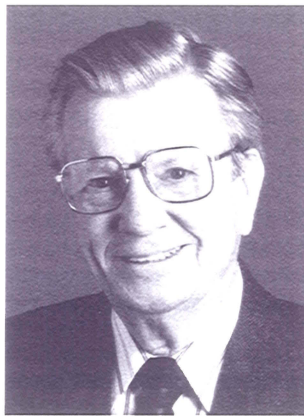
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1994-95 Board Chairwoman
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Riverside resident: 10 years



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Occupation: Environmental Consultant
Riverside resident: 20 years



PAUL OSBORNE

Occupation: Retired, Former Utilities Customer Service Division Manager
Riverside resident: 48 years



DWIGHT TATE

Occupation: Personal Financial Planner
Riverside resident: lifetime

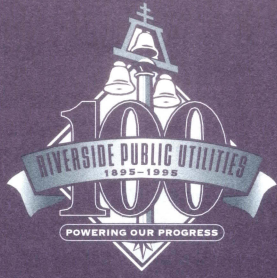
The Board of Public Utilities is composed of seven citizens appointed to four-year terms by City Council to develop utility policies and represent the community. Citizens serve on a voluntary basis without compensation. Applications for new members are solicited annually through an insert with the city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

RIVERSIDE PUBLIC UTILITIES EMPLOYEES

THIS REPORT IS DEDICATED TO THE EMPLOYEES OF RIVERSIDE PUBLIC UTILITIES WHO SERVE THE WATER AND ELECTRIC NEEDS OF THE CITIZENS OF RIVERSIDE, 24 HOURS A DAY, SEVEN DAYS A WEEK.

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Alex Clifford
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Stoorza, Ziegaus & Metzger/
Conner Design Group
Design & Production

Will Gibson
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Photography

*Special thanks to the entire staff
of Riverside Public Utilities'
Financial Services Division,
under the leadership of Donna
Stevener, Accounting/Finance
Manager, for their contribution
to this report.*

PUBLIC UTILITIES



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