City of Riverside Public Utilities

Financial Statements

Ready for...

the Future

2002-2003

Mission

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

Vision

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

Core Values

(not in priority order)

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

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Board of Public Utilities and Administration

Board of Public Utilities

The Board of Public Utilities is composed of seven citizens appointed to four-year terms by City Council to govern utility policies and represent the community. Citizens serve on a voluntary basis without compensation. Applications for new members are solicited annually by the City of Riverside. Applicants must be at least 18 years of age and reside within the City of Riverside in order to be eligible to serve on the board.

The Board of Public Utilities meets at 8:15 a.m. on the first and third Fridays of each month in the Art Pick City Council Chamber at City Hall, 3900 Main Street, Riverside. Board meetings are open to the public.

Lalit N. Acharya
2002-2003 Board Chairman
Occupation: President, Non-Profit Foundation
Riverside Resident: 13 years
Years of Service: 5

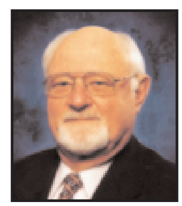
Dee Gipson
Occupation: Director of Human Resources
Riverside Resident: 33 years
Years of Service: 3

Peter G. Hubbard
Occupation: Director Medical Services
Riverside Resident: lifetime
Years of Service: 5

Joe Tavaglione
Occupation: President of Construction & Development Co.
Riverside Resident: lifetime
Years of Service: 3

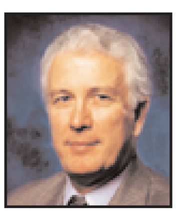
Conrad Newberry Jr.
Occupation: Registered Mechanical Engineer
Riverside Resident: 9 years
Years of Service: 6

Art Gage
Occupation: President of Executive Recruiting Firm
Riverside Resident: 46 years
Years of Service: 2



James W. Anderson
Occupation: Retired Attorney, Environmental and Administrative Law
Riverside Resident: 31 years
Years of Service: 4

Public Utilities Administration



Thomas P. Evans
Director

David H. Wright
Deputy Director
Marketing & Customer Service

Dieter P. Wirtzfeld
Assistant Director, Water

Donna I. Stevener
Assistant Director, Finance/Resources

Stephen H. Badgett
Assistant Director, Energy Delivery

Fiscal Message

For generations, the people and businesses that comprise the City of Riverside have depended on Riverside Public Utilities to deliver high quality water and reliable electric services at the lowest possible rates. Our 400+ dedicated employees and the Board of Public Utilities are challenged continually to find new ways to do more for our customers and to make sure Riverside is ready for the future.

In the wake of California's energy crisis, increasing our ability to supply our own electrical power from a diverse energy portfolio was among our top priorities. Dedication of the 40 megawatt (MW) Springs Substation power plant in July 2002 within the Utility's grid enhances our power source diversity and our system reliability. Planning is underway for another 99 MW plant in 2005.

Adding to diversity, our use of renewable Green Power energy resources increased to 13 percent of our power supply portfolio – which, at the time, was one-third greater than the percent average for California.

We fulfilled a key performance/success indicator towards the utility's specific goal to obtain 25 megawatts of power from renewable resources by 2004. Three contracts were secured this year for 20 MW of geothermal power, 5 MW of biomass power, and 1 MW of wind power.

Evidence of our commitment to safeguard our water supply was marked by completion of the largest water treatment facility in our system - The North Riverside Water Supply Project. It restored the use of four wells that were shut down 13 years ago after agricultural pesticide contamination was detected. The wells can provide 20 percent of Riverside's daily demand for potable water. The restoration project was primarily funded by companies that were the source of the problem.

In contrast to some of California's large, investor-owned utilities, we have significantly strengthened our utility's financial position. Over the last two years the Utility has realized $24 million of net present value savings from refinancing outstanding debt – which equates to approximately $1.6 million per year over the term of the debt, increased operating cash reserves from $28 million to $38 million, and signed 12 new economic development customers resulting in $5 million of additional revenues per year.

The utility was able to increase rates for water and power, yet still offer appreciably lower rates to our residential, commercial, and industrial customers than other Southern California electric and water utilities. This is a major factor that attracts new businesses and retains existing businesses.

Each year, the utility transfers a portion of all utility revenues/income to the City of Riverside's General Fund to be used for essential city services. In 2003, it amounted to $18.5 million, which represents 13 percent of the City's General Fund revenues that are used to maintain police, fire, library, parks and recreation and other vital services. Over the past five years, $88.7 million has been transferred to support these vital city functions.

As a municipal utility, Riverside Public Utilities is able to deliver each month to our customers a "direct dividend" of high quality water and reliable electricity service at much lower rates than surrounding communities charge.

As it has for over 100 years, Riverside Public Utilities continues to meet the challenge of securing water and energy so the City of Riverside is ready for the future.

Donna I. Stevener
Assistant Director, Finance/Resources

Independent Auditors' Report

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

We have audited the accompanying financial statements of the City of Riverside Electric Utility as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the Electric Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the City of Riverside Electric Utility for the year ended June 30, 2002, were audited by other auditors whose report, dated September 30, 2002, expressed an unqualified opinion on those statements.

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

As discussed in Note 1, the financial statements of the City of Riverside Electric Utility are intended to present the financial position and the changes in financial position and cash flows for the City of Riverside Electric Utility and do not purport to, and do not, present fairly the financial position of the City of Riverside, California, and the changes in its financial position and its cash flows in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the 2003 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, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

McGladrey & Pullen, LLP

Riverside, California
September 30, 2003

McGladrey & Pullen, LLP is a member firm of RSM International,
an affiliation of separate and independent legal entities.

Management's Discussion and Analysis

As management of Riverside Public Utilities (a department of the City of Riverside), we offer the readers of the City of Riverside Electric Utility financial statements this narrative overview and analysis of the financial activities of the Electric Utility (Utility) for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information furnished in our fiscal message on page 2 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

The assets of the Electric Utility exceeded its liabilities at the close of the most recent fiscal year by $164,754 (equity). Of this amount, $89,665 may be used to meet the Utility's ongoing obligations to creditors and customers.

The Utility's total equity increased by $12,382 from the prior fiscal year, primarily due to an additional $8.4 million in net transmission revenue received as the result of becoming a Participating Transmission Owner (PTO) with the California Independent System Operator (ISO) as of January 1, 2003 and contributions from developers totaling $4.4 million.

At the end of the current fiscal year, unrestricted equity represented over 51 percent of annual operating expenses.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 13 to 22 of this report.

Utility Financial Analysis

As noted earlier, equity (also called net assets) may serve over time as a useful indicator of the fund's financial position. In the case of Riverside's Electric Utility, assets exceeded liabilities by $164,754 at the close of the most recent fiscal year.

A portion of the Utility's net assets (30 percent) reflects its investment in capital assets, such as production, transmission, and distribution facilities, less any related outstanding debt used to acquire those assets. The Electric Utility uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since the capital assets themselves cannot be used to liquidate these long-term liabilities.

The unrestricted portion of the Utility's net assets (54 percent) may be used to meet the Utility's ongoing obligations to creditors and customers.

Management's Discussion and Analysis

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

	2003	2002
Current and other assets	$ 186,932	$ 186,583
Capital assets	272,319	264,309
Total assets	459,251	450,892
Long-term debt outstanding	221,921	232,684
Other liabilities	72,576	65,836
Total liabilities	294,497	298,520
Equity (net assets):		
Invested in capital assets, net of related debt	49,303	44,615
Restricted	25,786	23,723
Unrestricted	89,665	84,034
Total equity (net assets)	$ 164,754	$ 152,372

An additional portion of the Electric Utility's equity (16 percent) represents resources that are subject to external restrictions on how they may be used. These are reserved for items such as debt repayment and other legally restricted assets.

The Electric Utility's equity increased by $12,382 during the current fiscal year. The increase can primarily be attributed to an additional $8.4 million in net transmission revenue received as the result of becoming a PTO with the ISO as of January 1, 2003, and contributions from developers totaling $4.4 million.

Key elements of the increase in equity are as follows:

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

	2003	2002
Revenues:		
Retail sales	$ 175,622	$ 166,171
Wholesale sales	17,806	47,885
Transmission revenue	8,661	273
Investment income	4,286	6,670
Other	3,402	3,021
Total revenues before (reserve)/ recovery	209,777	224,020
Less reserve for bad debt, net of recoveries	(1,218)	1,635
Total revenues before capital contributions	208,559	225,655
Capital contributions	4,360	5,485
Total revenues and capital contributions	212,919	231,140
Expenses:		
Production	116,159	150,893
Transmission	21,538	18,748
Distribution	22,554	20,798
Depreciation	13,516	12,787
Interest expense	11,437	10,306
Total expenses	185,204	213,532
Contributions to the City's general fund	15,333	15,324
Total expenses and contributions to the City's general fund	200,537	228,856
Increase in equity (net assets)	12,382	2,284
Equity, beginning of year	152,372	150,088
Equity, end of year	$ 164,754	$ 152,372

Management's Discussion and Analysis

Retail sales (residential, commercial, industrial and other sales) continue to be the primary revenue source for the Electric Utility making up 83 percent of total revenue. Retail sales showed an increase of 5.7 percent from the prior year due to a 3.4 percent overall rate increase that became effective November 1, 2002, and 3.5% load growth.

Wholesale sales decreased 63 percent below the prior year levels. The decrease from the prior year is due to a 31 percent decrease in the volume of excess power sales, as well as lower prices received for excess power.

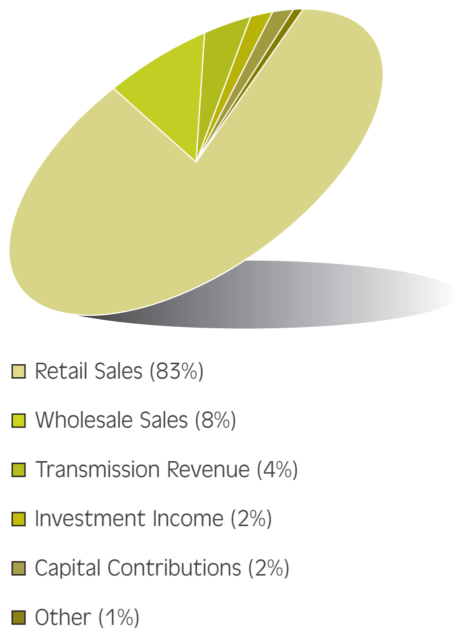
On January 1, 2003, the City turned over operational control of its transmission facilities and became a Participating Transmission Owner (PTO) with the California Independent System Operator (ISO). As a PTO, the City is entitled to and is receiving compensation for use of its transmission facilities committed to the ISO's operational control. The compensation is based upon the City's Transmission Revenue Requirement (TRR) as approved by the Federal Energy Regulatory Commission (FERC). The California Investor Owned Utilities (IOUs), the California Department of Water Resources (CDWR), and the California Public Utilities Commission (CPUC), among others, objected to various aspects of the City's TRR at the FERC. The City and the objecting parties submitted a settlement agreement to the FERC in July 2003, and if accepted by the FERC, TRR refunds of $1.1 million will be made to the ISO for the fiscal year ended June 30, 2003. This amount has not been included in income and amounts collected are properly reflected in accounts payable in the Balance Sheets at June 30, 2003.

The settlement agreement disposes of all City TRR issues except for CDWR and the CPUC's contention that the City is not entitled to its TRR for the majority of the transmission facilities committed to the ISO's operational control. Although the City believes it will ultimately prevail and will vigorously defend its position, an adverse ruling on this issue could require the City to refund up to an additional $5.3 million of revenues earned during the year ended June 30, 2003. As TRR amounts are received from the ISO, the City will set these amounts aside in an internally restricted reserve account until this issue is resolved at the FERC. It is not expected that this issue will be resolved until sometime in 2004. From January 1, 2003 to June 30, 2003 the City recorded $8.4 million of transmission revenue due to its PTO status.

Investment income decreased by $2,384, or 36 percent over prior year levels. The decrease is related to an overall decrease in the Utility's cash and investments due to construction activity and market conditions that continue to be poor, which have resulted in lower earnings for the Utility's investment portfolio.

Capital contributions decreased 21 percent from prior year levels. While the level of projects remained consistent with the prior year, the types of projects constructed in the current year contained more internally funded system improvements rather than those which are customer funded through developer fees.

Revenues by Sources - Electric Utility



Management's Discussion and Analysis

Total expenses for the Electric Utility decreased by 13 percent from last fiscal year. Although the Utility experienced increases in certain operating expenses in the current year (negotiated salary increases with various unions as well as general cost of living type increases for other cost categories), these were more than offset by an overall decrease in power production costs. Power production costs were lower mainly due to a more stable power market and the expiration of short term purchased power contracts, entered into during the power crisis, at prices substantially higher than those experienced in the current year.

Transmission expenses increased by 15 percent. The increase is due to existing transmission contracts that expired as of December 31, 2002, which resulted in an additional $2.2 million in transmission costs for the period of January 1, 2003 through June 30, 2003. These contracts had five-year fixed prices and had previously protected the Utility from expensive high voltage access charges by the ISO.

Distribution costs increased 8 percent from last fiscal year. The increase as compared to prior year is mostly due to negotiated salary increases, including related benefits, and increased information technology staffing needs.

Contributions to the City's general fund are based on a formula using operating revenues from the prior fiscal year. This amount also increased by 9 or .1 percent.

Expenses by Sources - Electric Utility

- Production (58%)
- Distribution (11%)
- Transmission (11%)
- Contributions to City's General Fund (8%)
- Depreciation (7%)
- Interest Expense (5%)

CAPITAL ASSET AND DEBT ADMINISTRATION

The Electric Utility's investment in capital assets as of June 30, 2003 amounts to $272,319 (net of accumulated depreciation). This includes investments in production, transmission, and distribution related facilities, as well as general items such as office equipment, furniture, etc. This fiscal year showed a 3 percent increase in capital assets over the prior year.

Major capital assets constructed during the current fiscal year included:
- Various capital additions at the City's San Onofre Nuclear Generating Station (SONGS) equal to $482
- Capital infrastructure additions to serve existing customers and connect new customers to the system totaled $10,500
- Capital additions to maintain the obligation to serve and improve community relations totaled $8,400 (Projects include Springs Generation and the overhead-to-underground program).

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

	2003	2002
Production	$ 86,473	$ 45,710
Transmission	6,584	6,938
Distribution	148,058	144,934
General	13,742	14,474
Construction in progress	16,335	50,856
Nuclear fuel, at amortized costs	1,127	1,397
Total	$ 272,319	$ 264,309

Additional information regarding capital assets can be found in Note 1 on page 13 and in Note 3 on Page 16 of this report.

Management's Discussion and Analysis

Long-term Debt

At the end of the current fiscal year, the City of Riverside's Electric Utility had long-term debt outstanding of $221,921. This debt is backed by the revenue of the utility (revenue bonds).

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

	2003	2002
Revenue bonds	$ 230,635	$ 238,475
Capital lease obligation	0	11
Less: Current portions	(10,780)	(7,851)
Unamortized premium	2,066	2,049
Total	$ 221,921	$ 232,684

The Electric Utility maintains an "A+" rating from Standard & Poor's and Fitch Inc. for its revenue bonds.

Additional information on the Electric Utility's long-term debt can be found in Note 4 on pages 17 and 18 of this report.

Economic Factors and Rates

Although inflationary trends in the Riverside region continue to compare favorably to the national indices, history has shown that certain costs such as purchased power during the California energy crisis can exponentially exceed inflation. The FERC imposed a price cap on purchased power in June 2001 and is still in effect, which continues to help stabilize power prices. Prior to the price cap, when the FERC refused to intervene and help stabilize the market, Californians did not see a resolution to the high power prices. As a hedge against the unreasonably high power prices, the Utility entered into short term agreements to purchase power at costs in excess of historic market levels. The last of those agreements for high cost power is reflected in the current year financial statements as production costs. The forward price curves have stabilized; however, regulatory actions and other factors could impact them.

The City Council has approved Electric rate increases for three consecutive years. These increases are an overall 3.4 percent, 3.1 percent, and 2.2 percent effective November 1, 2002, 2003, and 2004, respectively, and will help strengthen the Utility's financial stability by meeting the expected increased costs to operate the Utility, improve system reliability, and increase cash reserve levels.

In addition to inflation, management continually plans for and identifies issues or potential contingencies that could impact future rates, such as system expansion, infrastructure needs, accelerated debt payments, future supply costs, regulatory changes, and others.

The Board of Public Utilities has a goal of having rate increases not to exceed 5 percent per year. This requires proper planning as well as building reserves to handle system emergencies or disasters, as well as certain other one-time costs.

Requests for Information

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

Balance Sheets

ASSETS	JUNE 30 2003	JUNE 30 2002
	(in thousands)	
UTILITY PLANT:		
Production	$ 174,035	$ 128,009
Transmission	15,043	15,025
Distribution	241,531	232,056
General	25,190	24,626
	455,799	399,716
Less accumulated depreciation	(200,942)	(187,660)
	254,857	212,056
Construction in progress	16,335	50,856
Nuclear fuel, at amortized cost	1,127	1,397
Total utility plant (Note 3)	272,319	264,309
RESTRICTED ASSETS:		
Cash and cash equivalents (Note 2)	29,186	38,515
Investments (Note 2)	43,230	39,995
Public benefit programs receivable	620	826
Total restricted assets	73,036	79,336
OTHER NON-CURRENT ASSETS:		
Unamortized purchased power (Note 8)	21,715	25,056
Unamortized bond issuance costs	2,360	2,517
Unamortized bond refunding costs	3,629	3,784
Total other non-current assets	27,704	31,357
Total non-current assets	373,059	375,002
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	47,244	45,030
Accounts receivable, less allowance for doubtful accounts 2003 $263; 2002 $239	20,891	19,022
Accounts receivable other utilities, less allowance for doubtful accounts 2003 $2,262; 2002 $8,783	11,016	5,768
Accrued interest receivable	613	602
Prepaid expenses	5,278	4,371
Nuclear materials inventory	1,150	1,097
Total current assets	86,192	75,890
Total assets	$ 459,251	$ 450,892

See accompanying notes to the financial statements

Balance Sheets

EQUITY AND LIABILITIES	JUNE 30 2003	JUNE 30 2002
	(in thousands)	
EQUITY:		
Invested in capital assets, net of related debt	$ 49,303	$ 44,615
Restricted for debt service (Note 5)	25,786	23,723
Unrestricted	89,665	84,034
Total equity	164,754	152,372
LONG-TERM DEBT, LESS CURRENT PORTION (NOTES 4 AND 10):	221,921	232,684
OTHER NON-CURRENT LIABILITIES:		
Nuclear decommissioning liability (Notes 1 and 4)	38,144	34,855
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	2,808	2,906
Deferred revenue, public benefit programs	3,630	4,291
Current portion of long-term debt (Notes 4 and 10)	10,780	7,840
Total current liabilities payable from restricted assets	17,218	15,037
CURRENT LIABILITIES:		
Accounts payable	9,736	8,136
Accrued liabilities	4,608	4,684
Current portion of long-term debt (Notes 4 and 10)	0	11
Customer deposits (Note 1)	2,870	3,113
Total current liabilities	17,214	15,944
Total liabilities	294,497	298,520
COMMITMENTS AND CONTINGENCIES (NOTES 8 AND 9)		
Total equity and liabilities	$ 459,251	$ 450,892

See accompanying notes to the financial statements

Statements of Revenues, Expenses and Changes in Equity

	FOR THE FISCAL YEARS ENDED JUNE 30 2003	2002
	(in thousands)	
OPERATING REVENUES:		
Residential sales	$ 68,649	$ 64,625
Commercial sales	48,974	46,265
Industrial sales	52,380	49,487
Other sales	5,619	5,794
Wholesale sales	17,806	47,885
Transmission revenue	8,661	273
Other operating revenue	2,230	1,777
Total operating revenues before (reserve)/recovery	204,319	216,106
Reserve for uncollectible	(1,257)	(1,129)
Bad debt recovery	39	2,764
Total operating revenues, net of (reserve)/recovery	203,101	217,741
OPERATING EXPENSES:		
Production	116,159	150,893
Transmission	21,538	18,748
Distribution	22,554	20,798
Depreciation	13,516	12,787
Total operating expenses	173,767	203,226
Operating income	29,334	14,515
NON-OPERATING REVENUES (EXPENSES):		
Investment income	4,286	6,670
Interest expense	(11,437)	(10,306)
Gain on retirement of utility plant	387	223
Other	785	1,021
Total non-operating revenues (expenses)	(5,979)	(2,392)
Income before capital contributions and transfers	23,355	12,123
Capital contributions	4,360	5,485
Transfers out - contributions to the City's general fund	(15,333)	(15,324)
Total capital contributions and transfers out	(10,973)	(9,839)
Increase in equity	12,382	2,284
EQUITY, BEGINNING OF YEAR	152,372	150,088
EQUITY, END OF YEAR	$ 164,754	$ 152,372

See accompanying notes to the financial statements

Statements of Cash Flows

	For the Fiscal Years Ended June 30 2003	2002
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	$ 195,946	$ 220,959
Cash paid to suppliers and employees	(152,545)	(191,039)
Net cash provided by operating activities	43,401	29,920
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(15,333)	(15,324)
Other non-operating revenue	785	1,021
Net cash used by non-capital financing activities	(14,548)	(14,303)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(19,870)	(51,276)
Purchase of nuclear fuel	(903)	(944)
Proceeds from the sale of utility plant	567	285
Proceeds from sale of revenue bonds, net of premium	0	48,617
Principal paid on long-term debt	(7,850)	(7,395)
Interest paid on long-term debt	(11,206)	(10,166)
Capital contributions	2,254	2,498
Net cash used by capital and related financing activities	(37,008)	(18,381)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(3,235)	(8,114)
Income from investments	4,275	6,996
Net cash provided (used) by investing activities	1,040	(1,118)
Net decrease in cash and cash equivalents	(7,115)	(3,882)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR[1]	83,545	87,427
CASH AND CASH EQUIVALENTS, END OF YEAR[1]	$ 76,430	$ 83,545
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 29,334	$ 14,515
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	13,516	12,787
Amortization/burn of nuclear fuel	4,514	1,612
Decrease in allowance for uncollectible accounts receivable	(6,497)	(2,309)
Decrease (increase) in accounts receivable	(415)	4,517
Increase in prepaid expenses	(907)	(183)
Increase in nuclear materials inventory	(53)	(73)
Increase (decrease) in accounts payable	1,600	(906)
Increase (decrease) in accrued liabilities	(76)	64
Decrease in public benefit program deferred revenue	(661)	(4,442)
Increase (decrease) in customer deposits	(243)	1,010
Increase in nuclear decommissioning liability	3,289	3,328
Net cash provided by operating activities	$ 43,401	$ 29,920
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions	$ 2,106	$ 2,987

See accompanying notes to the financial statements

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

Notes to the Financial Statements

NOTE 1. Summary of Significant Accounting Policies

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

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

Revenue Recognition The Electric Utility uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Electric Utility customers are billed monthly. Unbilled electric service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled $9,282,000 at June 30, 2003, and $8,149,000 at June 30, 2002.

An allowance for doubtful accounts is maintained for utility and miscellaneous accounts receivable. The balance in this account is adjusted at fiscal year-end to approximate the amount anticipated to be uncollectible. The significant decrease in the allowance for fiscal year 2003 is related to settlement of a dispute with Southern California Edison and the write-off of amounts previously considered uncollectible.

Utility Plant and Depreciation Utility plant assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Costs include labor; materials; interest during construction; allocated indirect charges such as engineering, supervision, construction and transportation equipment; retirement plan contributions and other fringe benefits; and certain administrative and general expenses. Contributed plant assets are valued at estimated fair market value on the date contributed. The cost of relatively minor replacements is included in maintenance expense.

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

Production plant	9-30 years
Transmission and distribution plant	20-50 years
General plant and equipment	3-15 years

Nuclear Fuel The Electric Utility amortizes the cost of nuclear fuel to expense using the "as burned" method. In accordance with the Nuclear Waste Disposal Act of 1982, the Electric Utility is charged one mill per kilowatt-hour of energy generated by the City's share of San Onofre Nuclear Generating Station's Units 2 and 3 to provide for estimated future storage and disposal of spent nuclear fuel. The Electric Utility pays this fee to its operating agent, Southern California Edison Co (SCE), on a quarterly basis (see Note 7).

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

In January 1998, the Electric Utility began collecting a surcharge for public benefit programs on customer utility bills. This surcharge is mandated by state legislation included in Assembly Bill 1890 and is restricted to various socially beneficial programs and services. The programs and services include cost effective demand-side management services to promote energy efficiency and conservation and related education and information; ongoing support and new investments in renewable resource technologies; energy research and development; and programs and services for low-income electric customers. The activity associated with the surcharge for public benefit programs is reflected in the accompanying financial statements as a restricted asset and deferred revenue.

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

The Utility values its cash and investments in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and External Investment Pools (GASB 31), which requires governmental entities, including governmental external investment pools, to report certain investments at fair value in the balance sheet

Notes to the Financial Statements

NOTE 1. Summary of Significant Accounting Policies (Continued)

and recognize the corresponding change in the fair value of investments in the Statement of Revenues, Expenses and Changes in Equity in the year in which the change occurred. Fair value is determined using quoted market prices.

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

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

■ **Nuclear Decommissioning Liability** Federal regulations require the Electric Utility to provide for the future decommissioning of its ownership share of the nuclear units at San Onofre. The Electric Utility has established a trust account to accumulate resources for the decommissioning of the nuclear power plant and restoration of the beachfront at San Onofre. Based on the most recent cost estimate completed by ABZ Incorporated, the Electric Utility plans to set aside approximately $1.6 million per year to fund this obligation. The funding will occur over the useful life of the generating plant or until the account is fully funded.

Increases to the trusts are from amounts set aside and investment earnings. The investment earnings are included in investment income in the Utility's financial statements. These amounts, as well as amounts set aside, are contributed to the trusts and reflected as decommissioning expense, which are considered part of power supply costs. The total amounts held in the trust accounts are classified as restricted assets and other non-current liability in the accompanying balance sheet. To date, the Electric Utility has set aside $38,144,000 in cash investments with the trustee as Riverside's estimated share of the decommissioning cost of San Onofre. The plant site easement at San Onofre terminates May 2050. The plant must be decommissioned and the site restored by the time the easement terminates.

■ **Competitive Transition Account** A Competitive Transition Account (CTA) was established in June 1998 after approval by the Board of Public Utilities and the City Council. This new account was funded by a transfer of $23.5 million from a rate stabilization account and $10 million from an operating cash reserve account. The CTA is an internally restricted asset and the Board and City Council will approve usage of funds on an annual or as-needed basis for purposes of handling competitive financial issues. This account was established for a short-term period (five years) during the anticipated phase-in of retail competition in the electric utility industry. Possible fund uses include early pay down of generation-related debt or long-term contracts, rate stabilization or other competitive purposes. The balance in the CTA at June 30, 2003 and 2002, was $29.0 and $27.9 million, respectively, and is reflected as a current asset in the accompanying financial statements as part of cash and cash equivalents.

Effective July 1, 2003, the City Council approved the dissolution of the Competitive Transition Account. The funds from the Competitive Transition Account are to be used for establishing a Regulatory Risk Reserve Account for $4.0 million, an Energy Risk Management Reserve Account for $11.0 million and transferring the remaining balance of $14.0 million to the Operating Reserve Account, all of which are considered internally restricted assets.

■ **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, 2003 and 2002, was $2,870,000 and $3,113,000, respectively.

■ **Compensated Absences** The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due employees at June 30, 2003 and 2002. The Electric Utility treats compensated absences due employees as a current liability. The amount accrued for compensated absences was $4,115,000 at June 30, 2003, and $4,317,000 at June 30, 2002, and is included in accrued liabilities in the accompanying balance sheets.

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

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

Notes to the Financial Statements

NOTE 1. Summary of Significant Accounting Policies (Continued)

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

Although the ultimate amount of losses incurred through June 30, 2003, is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. Premiums paid to the City by the Electric Utility were $385,000 and $306,000 for the years ended June 30, 2003 and 2002. Any losses above the City's reserves would be covered through increased rates charged to the Electric Utility in future years.

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

All permanent full-time and selected part-time employees are eligible for participation in PERS. Benefits vest after five years of service and are determined by a formula that considers the employee's age, years of service and salary. Employees may retire at age 55 and receive 2.7 percent of their highest average annual salary for each year of service completed. PERS also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute and City ordinance.

Employee contributions are 7 percent of their annual covered salary. The Electric Utility is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The Electric Utility pays both the employee and employer contributions.

Citywide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the year ended June 30, 2003, and recent trend information may be found in the notes of the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2003.

Contributions to the City's General Fund Pursuant to the City Charter, the Electric Utility may transfer up to 11.5 percent of its prior year's gross operating revenues to the City's general fund. In fiscal years 2002-03 and 2001-02, the Electric Utility transferred approximately 9.0 percent of gross operating revenues, or $15,333,000 and $15,324,000, respectively.

Budgets and Budgetary Accounting The Electric Utility presents, and the City Council adopts, an annual budget. The proposed budget includes estimated expenses and forecasted revenues. The City Council adopts the Electric Utility's budget in June each year via a resolution.

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

NOTE 2. Cash and Investments

Cash and investments at June 30, 2003 and 2002, consist of the following (in thousands):

	June 30, 2003	June 30, 2002
	Fair Value	
Deposits with City Treasurer's investment pool	$ 70,954	$ 67,078
Cash and investments at fiscal agent	48,706	56,462
	$119,660	$123,540

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

	June 30, 2003	June 30, 2002
Cash and cash equivalents	$ 47,244	$ 45,030
Restricted assets:		
Cash and cash equivalents	29,186	38,515
Investments	43,230	39,995
	72,416	78,510
	$ 119,660	$123,540

Notes to the Financial Statements

NOTE 2. Cash and Investments (Continued)

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

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

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

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

The Electric Utility's share of the City's investment pool at June 30, 2003, represents approximately 32 percent or $119,660,000 of the City's total cash and investments of $379,318,000. Information concerning credit risk and fair value of the City's deposits and investments may be found in the notes of the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2003. Cash and investments at fiscal agent are insured or registered, or held in the name of the Electric Utility or its agent (category 1), or are not subject to risk categorization.

NOTE 3. Utility Plant

The following is a summary of changes in utility plant during the fiscal year ended June 30, 2003 and 2002 (in thousands):

	Balance, As of 7/1/2001	Additions	Deletions/ Transfers	Balance, As of 6/30/2002	Additions	Deletions/ Transfers	Balance, As of 6/30/2003
Production	$127,482	$ 527	$ 0	$128,009	$ 46,026	$ 0	$174,035
Transmission	15,032	6	(13)	15,025	18	0	15,043
Distribution	212,340	19,941	(225)	232,056	9,790	(315)	241,531
General	24,549	520	(443)	24,626	664	(100)	25,190
Construction in progress	17,589	54,280	(21,013)	50,856	19,870	(54,391)	16,335
Nuclear fuel	2,065	944	(1,612)	1,397	903	(1,173)	1,127
Subtotal	399,057	76,218	(23,306)	451,969	77,271	(55,979)	473,261
Less accumulated depreciation	(175,494)	(12,786)	620	(187,660)	(13,516)	234	(200,942)
Total utility plant	$223,563	$ 63,432	($22,686)	$264,309	$ 63,755	($55,745)	$ 272,319

Notes to the Financial Statements

NOTE 4. Long-Term Obligations

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2003 and 2002 (in thousands):

	Balance, As of 7/1/2001	Additions	Reductions	Balance, As of 6/30/2002	Additions	Reductions	Balance, As of 6/30/2003
Revenue bonds	$ 199,263	$ 48,618	($7,357)	$ 240,524	$ 0	($7,823)	$ 232,701
Capital leases	22	0	(11)	11	0	(11)	0
Nuclear decommissioning liability (Note 1)	31,527	3,328	0	34,855	3,289	0	38,144
Total long-term obligations	$ 230,812	$ 51,946	($7,368)	$ 275,390	$ 3,289	($7,834)	$ 270,845

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

	June 30, 2003	June 30, 2002
Capital Lease		
Equipment Purchased Through Capital Lease: $54,339 capital lease due in monthly installments of $1,115 through December 31, 2002, interest at 8.5 percent	$ 0	$ 11
Total capital lease	0	11
Revenue Bonds Payable		
$68,175,000 1991 Electric Revenue Bonds: Final payment on unrefunded portion was paid October 1, 2002	0	1,955
$118,550,000 1993 Electric Refunding Revenue Bonds: $92,245,000 serial bonds due in annual installments from $5,970,000 to $8,005,000 through October 1, 2010, interest from 4.7 percent to 5.3 percent; $26,305,000 term bonds due October 1, 2013, interest at 5.0 percent (Note 10)	81,380	87,115
$4,100,000 1994 FARECal Electric Revenue Bonds: $2,105,000 serial bonds due in annual installments from $160,000 to $220,000 through July 1, 2010, interest from 5.4 percent to 5.9 percent; $1,995,000 term bonds due July 1, 2017, interest at 6.0 percent (Note 10)	3,310	3,460
$98,730,000 1998 Electric Refunding/Revenue Bonds: $63,165,000 serial bonds due in annual installments from $4,650,000 to $7,085,000 through October 1, 2013, interest from 4.25 percent to 5.38 percent; $21,595,000 term bonds due October 1, 2018, interest at 5.0 percent; $13,970,000 term bonds due October 1, 2022, interest at 5.0 percent	98,730	98,730
$47,215,000 2001 Electric Revenue Bonds: $47,215,000 serial bonds due in annual installments from $2,855,000 to $4,750,000 through October 1, 2016, interest from 2.9 percent to 5.25 percent	47,215	47,215
Total electric revenue bonds payable	230,635	238,475
Total debt	230,635	238,486
Unamortized bond premium (discount)	2,066	2,049
Total long-term debt, net of bond premium (discount)	232,701	240,535
Less: current portion	(10,780)	(7,851)
Total long-term debt	$ 221,921	$ 232,684

Notes to the Financial Statements

NOTE 4. Long-Term Obligations (Continued)

Annual debt service requirements to maturity, excluding amounts for nuclear decommissioning liability, as of June 30, 2003, are as follows (in thousands):

	2004	2005	2006	2007	2008	2009-2013	2014-2018	2019-2023	Total
Principal	$ 10,780	$ 14,140	$ 14,775	$ 15,475	$ 16,225	$ 89,715	$ 52,475	$ 17,050	$230,635
Interest	11,123	10,579	9,940	9,241	8,496	29,379	9,187	2,216	90,161
Unamortized bond (discount) premium	84	143	144	145	146	725	570	109	2,066
Total	$ 21,987	$ 24,862	$ 24,859	$ 24,861	$ 24,867	$ 119,819	$ 62,232	$ 19,375	$322,862

■ **Debt Service Coverage Ratio** The Electric Utility's bond indentures require the Electric Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants, of 1.25. The Electric Utility's debt service coverage ratio was 2.91 at June 30, 2003, and 2.27 at June 30, 2002.

NOTE 5. Restricted Equity

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

NOTE 6. Jointly-Governed Organizations

■ **Southern California Public Power Authority** On November 1, 1980, the City of Riverside joined with the Imperial Irrigation District and the cities of Los Angeles, Anaheim, Vernon, Azusa, Banning, Colton, Burbank, Glendale and Pasadena to create the Southern California Public Power Authority (SCPPA) by a Joint Powers Agreement under the laws of the state of California. As of July 2001, the cities of Cerritos and San Marcos were admitted as members of SCPPA. In August 2003, the Authority rescinded the membership of the City of San Marcos, as the City no longer met the criteria for membership. The primary purpose of SCPPA is to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. SCPPA is governed by a Board of Directors, which consists of one representative for each of the members. During the 2002-03 and 2001-02 fiscal years, the Electric Utility paid approximately $20,324,000 and $20,700,000, respectively, to SCPPA under various take-or-pay contracts that are described in greater detail in Note 8. These payments are reflected as a component of production expense in the financial statements.

■ **Power Agency of California** On July 1, 1990, the City of Riverside joined with the cities of Azusa, Banning and Colton to create the Power Agency of California (PAC) by a Joint Powers Agreement under the laws of the state of California. The City of Anaheim joined PAC on July 1, 1996. The primary purpose of PAC is to take advantage of synergies and economies of scale as a result of the five cities acting in concert. PAC has the ability to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. PAC is governed by a Board of Directors, which consists of one representative for each of the members. The term of the Joint Powers Agreement is 50 years. Effective June 30, 2001, PAC was placed in an inactive status by the Board of Directors. The Agency can only be reactivated by authorization of the Agency Board.

Notes to the Financial Statements

Financing Authority for Resource Efficiency of California On July 1, 1993, the City of Riverside joined with the cities of Anaheim, Colton, Compton, Healdsburg, Los Angeles, Palo Alto, Pasadena, Redding, the North Marin Water District, the Northern California Power Agency, the Sacramento Municipal Utility District, and Turlock Irrigation District to create the Financing Authority for Resource Efficiency of California (FARECal). The City of Santa Cruz joined in 1994, Trinity Public Utility District joined in 1996, and the cities of Azusa and Victorville joined in 2002. The primary purpose of FARECal is to issue bonds and use the proceeds to promote, advance, encourage and participate in conservation, reclamation and other programs that are designed to utilize energy or water resources more efficiently. FARECal is administered by a Board of Directors currently represented by the cities of Anaheim, Colton, Palo Alto, Pasadena and the North Marin Water District and Trinity Public Utility District. The Electric Utility's portion of the FARECal debt and utility plant assets is recorded in the accompanying financial statements.

NOTE 7. Jointly-Owned Utility Project

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

The original operating license for SONGS units 2 and 3 was set to expire in 2013; however, this was subsequently extended due to a construction recapture provision, and now expires February 16, 2022 and November 15, 2022 for units 2 and 3 respectively. At this time, the owners of the plant have not agreed to extend operations until 2022.

There are no separate financial statements for the jointly-owned utility plant since each participant's interests in the utility plant and operating expenses are included in their respective financial statements. The Electric Utility's 1.79 percent share of the capitalized construction costs for SONGS totaled $128,483,000 and $128,009,000 for fiscal years ended June 30, 2003 and 2002, respectively. Acquisition of assets are depreciated through 2013, the original license expiration date. The accumulated depreciation amounted to $87,309,000 and $82,300,000 for the fiscal years ended June 30, 2003 and 2002, respectively. The Electric Utility made provisions during fiscal years 2002-03 and 2001-02 for nuclear fuel burn of $1,173,000 and $1,612,000, respectively, and for future decommissioning costs of $1,581,000 for 2002-03 and 2001-02 fiscal years (see Note 1). The Electric Utility's portion of current and long-term debt associated with SONGS is included in the accompanying financial statements.

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

NOTE 8. Commitments

Take-or-Pay Contracts The Electric Utility has entered into a power purchase contract with Intermountain Power Agency (IPA) for the delivery of electric power. The Electric Utility's share of IPA power is equal to 7.6 percent, or approximately 133.7 MW, of the generation output of IPA's 1,755 megawatt coal-fueled generating station located in central Utah. The contract expires in 2027 and the debt fully matures in 2024.

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

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

Notes to the Financial Statements

NOTE 8. Commitments (Continued)

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

PROJECT	PERCENT SHARE	ENTITLEMENT	FINAL MATURITY	CONTRACT EXPIRATION
Palo Verde Nuclear Generating Station	5.4 percent	11.7 MW	2017	2030
Southern Transmission System	10.2 percent	195 MW	2023	2027
Hoover Dam Uprating	31.9 percent	30 MW	2018	2017
Mead-Phoenix Transmission	4.0 percent	12 MW	2020	2030
Mead-Adelanto Transmission	13.5 percent	118 MW	2020	2030

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

Interest rates on the outstanding debt associated with the take-or-pay obligations range from 4.1 percent to 5.7 percent. The schedule below details the amount of principal and interest that is due and payable by the Electric Utility as part of the take-or-pay contract for each project in the fiscal year indicated.

DEBT SERVICE PAYMENTS (in thousands) Year Ending June 30	IPA Intermountain Power Project	SCPPA Palo Verde Nuclear Generating Station	SCPPA Southern Transmission System	SCPPA Hoover Dam Uprating	SCPPA Mead-Phoenix Transmission	SCPPA Mead-Adelanto Transmission	TOTAL All Projects
2004	$ 6,093	$ 4,320	$ 6,907	$ 708	$ 156	$ 1,651	$ 19,835
2005	25,443	4,332	6,724	708	156	1,651	39,014
2006	25,941	1,535	6,968	708	156	1,651	36,959
2007	25,931	1,535	7,192	704	272	2,956	38,590
2008	25,594	1,535	6,693	704	271	2,951	37,748
2009-2013	128,549	13,392	33,723	3,507	1,438	14,693	195,302
2014-2018	119,134	35,709	35,683	3,469	1,324	14,604	209,923
2019-2023	91,115	0	36,994	0	771	8,704	137,584
2024-2028	7,080	0	7,091	0	0	0	14,171
Total	$454,880	$ 62,358	$ 147,975	$ 10,508	$ 4,544	$ 48,861	$ 729,126

Notes to the Financial Statements

NOTE 8. Commitments (Continued)

In addition to debt service, Riverside's entitlements require the payment of fuel costs, operating and maintenance, administrative and general and other miscellaneous costs associated with the generation and transmission facilities discussed above. These costs do not have a similar structured payment schedule as debt service and vary each year. The costs incurred for the years ended June 30, 2003 and 2002, are as follows:

Fiscal Year	Inter-mountain Power Project	Palo Verde Nuclear Generating Station	Southern Transmission System	Mead-Adelanto Transmission	Mead-Phoenix Transmission	Hoover Dam Uprating	Total
2003	$18,819	$2,355	$1,320	$157	$44	$87	$22,782
2002	$17,832	$2,040	$1,607	$209	$45	$99	$21,832

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

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

Minimum Obligations 2003-2004 (in thousands)

SUPPLIER	CAPACITY	ENERGY	TOTAL
Deseret	$3,463	$ 1,811	$ 5,274
CDWR III	505	0	505
CDWR IV	658	0	658
BPA (two agreements)	1,865	0	1,865
Total	$6,491	$ 1,811	$ 8,302

The agreement with Deseret is for five megawatts of capacity and associated energy from January 1, 1992, through December 31, 1994, then increasing to 52 megawatts of capacity and associated energy through December 31, 2009. A notice of termination of the power purchase agreement was provided to Deseret effective March 31, 1998, resulting in litigation which was settled on July 31, 1999. Under the terms of the settlement agreement, the notice of termination was rescinded and the power purchase agreement was amended to reflect substantial price reductions after fiscal year 2002 through the term of the agreement in 2009. In exchange, Riverside Public Utilities paid Deseret $25 million from Electric fund reserves, which is reflected on the Balance Sheet as Unamortized purchased power. On July 1, 2002, the Electric Utility began to amortize the related price reductions, and will continue to amortize over the remaining term of the agreement using the straight-line method. As of June 30, 2003 and 2002, unamortized purchased power was $21,715,000 and $25,056,000, respectively, and the Utility had recorded amortization of $3,341,000 and $0, respectively.

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

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

Renewable Portfolio Standard On July 8, 2003, and June 6, 2003, the City Council and Public Utilities Board, respectively, adopted a Renewable Portfolio Standard to increase procurement of renewable resources to reach a target of 20 percent of the Utility's energy from renewable resources by 2015. The contracts in the following table were executed as part of compliance with this standard. The Utility also has agreements with the Automated Power Exchange and Bonneville Power Administration for the purchase of energy credits that add to the total renewable portfolio. In the current year, renewable resources provided 13 percent of retail energy requirements, approximately 10% of total power supply.

Notes to the Financial Statements

NOTE 8. Commitments (Continued)

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

SUPPLIER	TYPE	MAXIMUM CONTRACT	CONTRACT EXPIRATION	ESTIMATED ANNUAL COST FOR 2004 (in thousands)
Milliken Genco	Landfill Gas	2.5 MW	12/31/2007	$ 1,044
Mid Valley Genco	Landfill Gas	2.5 MW	12/31/2007	1,089
Riverside County (Badlands Landfill)	Landfill Gas	1.2 MW	10/10/2003	386
Wintec	Wind	1.3 MW	4/30/2018	77
Salton Sea	Geothermal	20.0 MW	5/31/2013	10,153
Total:		27.5 MW		$ 12,749

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

Construction Commitments As of June 30, 2003, the Electric Utility had major commitments of approximately $3,680,000, with respect to unfinished capital projects, of which $1.5 million is expected to be funded by others, $1.1 million by bonds and $1.1 million by rates.

NOTE 9. Litigation

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

On January 1, 2003, the City became a PTO with the ISO, entitling the City to receive compensation for use of its transmission facilities committed to the ISO's operational control. The compensation is based upon the City's TRR as approved by the FERC. The California Investor Owned Utilities (IOU's), the CDWR, and the CPUC, among others, objected to various aspects of the City's TRR at the FERC. The City and the objecting parties submitted a settlement agreement to the FERC in July 2003, subject to the FERC's acceptance of this settlement agreement for filing. The settlement agreement disposes of all City TRR issues except for CDWR's and CPUC's contention that the City is not entitled to its TRR for the majority of the transmission facilities committed to the ISO's control. These TRR issues are not expected to be resolved until 2004.

If the City does not prevail in this litigation, up to $5.3 million of transmission revenue may have to be refunded to the ISO for the fiscal year ended June 30, 2003.

On April 6, 2001, Pacific Gas & Electric (PG&E) filed for voluntary protection under Chapter 11 of the federal Bankruptcy Code. The bankruptcy proceedings (PG&E Bankruptcy) are pending in U.S. Bankruptcy Court in San Francisco, California. During the PG&E Bankruptcy, PG&E's operations are expected to continue under current management, while the Bankruptcy Court decides on the allocation of PG&E's available cash flow and assets among its various creditors. PG&E was the largest purchaser of electricity from the Independent System Operator (ISO) and the Power Exchange (PX), and is therefore the largest creditor to the ISO and PX. Riverside is owed approximately $1 million by the PX and approximately $300,000 by the ISO, primarily related to PG&E. This amount was fully reserved with an allowance for potentially uncollectible receivables in fiscal year 2001, and any amounts subsequently collected will be included in earnings in the period collected. The various creditors' classes recently voted on plans of reorganization prepared by PG&E and by the California Public Utilities Commission (CPUC). To settle disputes arising out of proposed competing plans of reorganization, a Settlement Plan of reorganization negotiated by CPUC and PG&E staff, and the Creditor's Committee has been presented to creditors for their vote. The Settlement Plan provides for 100% payment to all of PG&E's existing creditors in the same class as the City. A Bankruptcy Court hearing to consider the Settlement Plan and any objections is scheduled November 3, 2003.

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

NOTE 10. Subsequent Events

On July 31, 2003, the Electric Utility issued the 2003 Electric Refunding Revenue Bonds totaling $75,405,000 to advance refund $75,410,000 of the 1993 Electric Refunding Revenue Bonds and $3,310,000 of the 1994 FARECal Bonds. The refunding was completed to take advantage of improved interest rates and realize debt service savings. Annual principle payments range from $1,035,000 to $8,535,000 through October 2013, with interest from 2% to 5%. The all-in true interest cost for this issue is 3.41%. The net present value cost savings exceeded $5.4 million.

Statistics

POWER SUPPLY (MWH)	2002/03[1]	2001/02[1]	2000/01[1]	1999/00[1]	1998/99
Nuclear					
San Onofre	321,800	312,100	250,100	342,000	288,800
Palo Verde	97,200	94,700	94,800	97,900	96,500
Coal					
Intermountain Power	1,029,400	1,027,000	1,028,600	1,006,900	1,009,100
Deseret	404,600	394,700	418,796	340,505	223,348
Hoover (Large Hydro)	36,200	40,200	41,100	43,500	46,100
Springs (Gas)	9,800	1,300	0	0	0
Renewable Resources	224,700	109,500	0	0	0
Contract purchases	270,900	538,000	754,804	597,495	333,952
Net Exchanges In/(Out)	(48,400)	(57,700)	300	(93,000)	(33,700)
Total	2,346,200	2,459,800	2,588,500	2,335,300	1,964,100
System peak (MW)	474.2	446.6	463.8	473.1	479.2

[1]Energy shown before losses.

ELECTRIC USE	2002/03	2001/02	2000/01	1999/00	1998/99
Average number of customers					
Residential	88,637	86,874	85,584	83,637	82,937
Commercial	9,287	9,092	9,087	9,050	8,859
Industrial	396	398	393	324	292
Other	139	139	140	136	125
Total	98,459	96,503	95,204	93,147	92,213
Millions of kilowatt-hours sales					
Residential	618	600	610	594	575
Commercial	451	434	432	436	406
Industrial	658	629	654	651	619
Wholesale Sales	378	541	600	419	151
Other	49	53	54	53	46
Total	2,154	2,257	2,350	2,153	1,797

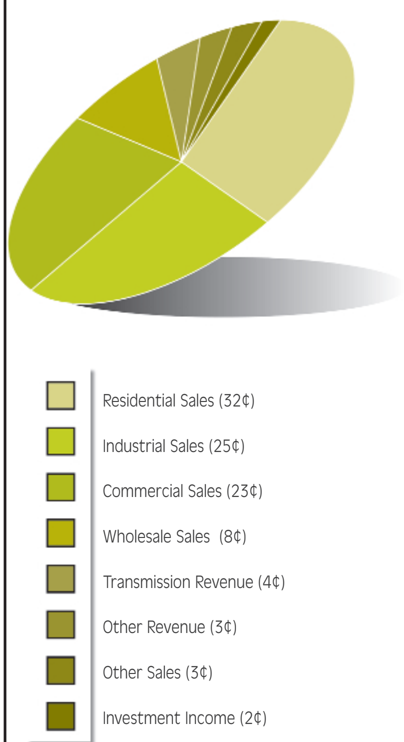
ELECTRIC FACTS	2002/03	2001/02	2000/01	1999/00	1998/99
Average annual kWh per residential customer	6,970	6,905	7,125	7,105	6,938
Average price (cents/kWh) per residential customer	10.99	10.77	10.73	10.83	10.73
Debt service coverage ratio	2.91	2.27	2.69	2.76	2.01
Operating income as a percent of operating revenues	14.4%	6.7%	7.7%	12.9%	6.3%
Employees[2]	292	283	281	277	274

[2]Approved positions

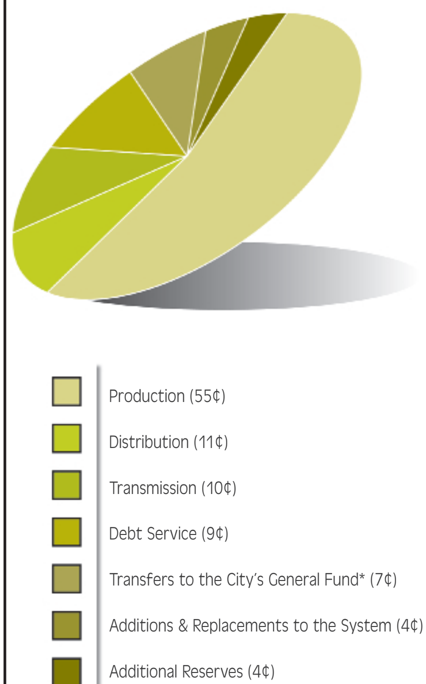
Statistics

2002/03 Electric Revenue and Resources

Source of Revenue

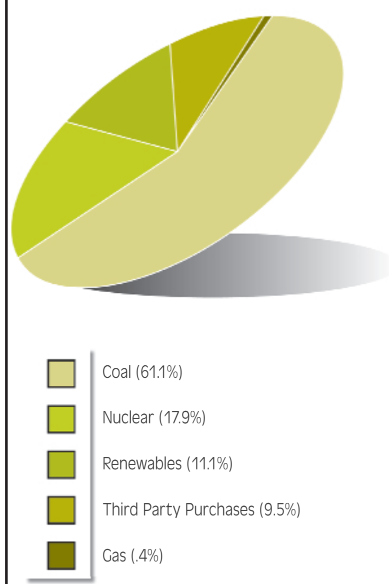


Distribution of Revenue

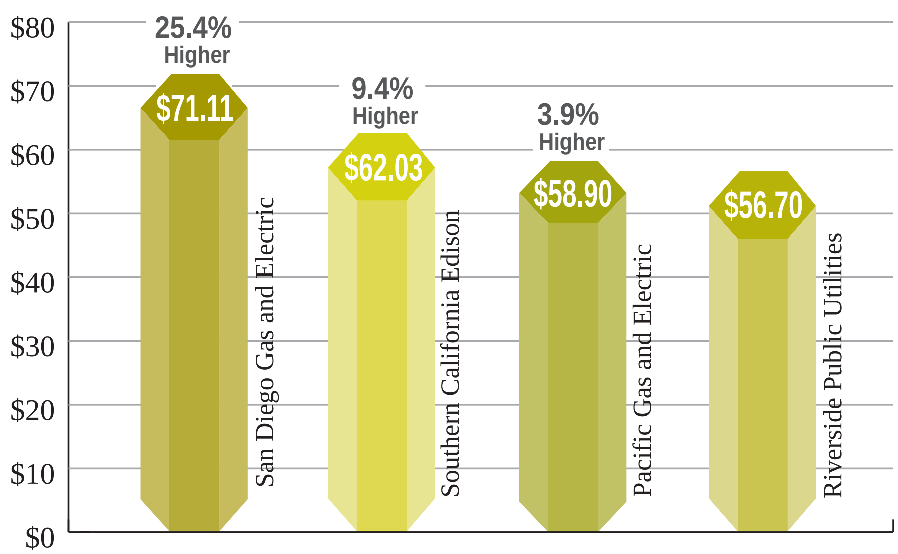


*Based on transfer of 9.0 percent of fiscal year 2001/02 operating revenues (excludes interest and other non-operating income).

Energy Resources



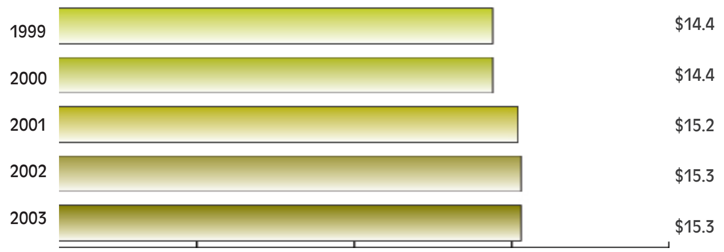
Residential Electrical Rate Comparison
500 kWh per month



RATE COMPARISONS AS OF AUGUST 2003

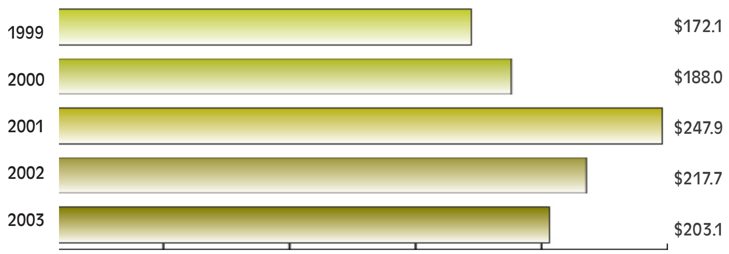
Statistics

General Fund Transfer (in millions)

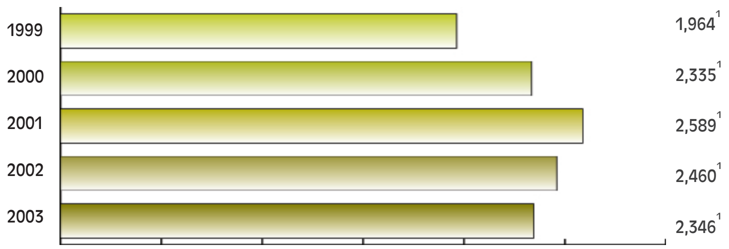


Average Number of Customers

Total Operating Revenue (in millions)

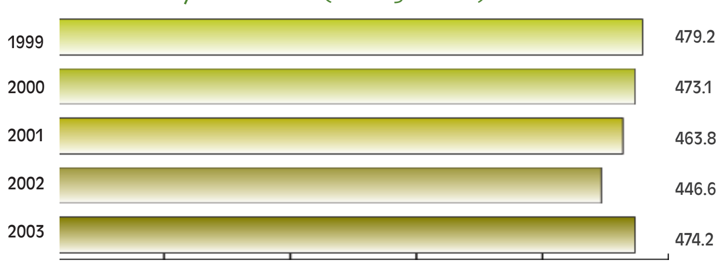


Production (in million kilowatt-hours)



[1] Energy shown before losses.

Peak Day Demand (in megawatts)



Electric Facts and System Statistics

Established:	1895
Service Area Population:	274,100
Service Area Size (square miles):	79.1
System Statistics:	
Transmission lines (circuit miles):	88.02
Distribution lines (circuit miles):	1,132
Number of substations:	14
2002-03 Peak Day (megawatts):	474
Highest single hourly use:	
9/03/02, 4pm, 104 degrees	
Historical peak (megawatts):	479
Highest single hourly use:	
8/31/98, 3pm, 107 degrees	

Bond Ratings

FITCH, INC.	A+
STANDARD & POOR'S	A+

Independent Auditors' Report

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

We have audited the accompanying financial statements of the City of Riverside Water Utility as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the Water Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the City of Riverside Water Utility for the year ended June 30, 2002, were audited by other auditors whose report, dated September 30, 2002, expressed an unqualified opinion on those statements.

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

As discussed in Note 1, the financial statements of the City of Riverside Water Utility are intended to present the financial position and the changes in financial position and cash flows for the City of Riverside Water Utility and do not purport to, and do not, present fairly the financial position of the City of Riverside, California, and the changes in its financial position and its cash flows in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the 2003 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, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

McGladrey & Pullen, LLP

Riverside, California
September 30, 2003

McGladrey & Pullen, LLP is a member firm of RSM International,
an affiliation of separate and independent legal entities.

Management's Discussion and Analysis

As management of Riverside Public Utilities (a department of the City of Riverside), we offer the readers of the City of Riverside Water Utility financial statements this narrative overview and analysis of the financial activities of the Water Utility (Utility) for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information furnished in our fiscal message on page 2 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

The assets of the Water Utility exceeded its liabilities at the close of the most recent fiscal year by $181,745 (equity). Of this amount, $20,610 may be used to meet the Utility's ongoing obligations to creditors and customers.

The Utility's total equity increased by $7,643 from the prior fiscal year, primarily due to capital contributions from developer fees totaling $8,405.

At the end of the current fiscal year, unrestricted equity represented over 81 percent of annual operating expenses for 2003.

Overview of the Financial Statements

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

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

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

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

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

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

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 35 to 40 of this report.

Utility Financial Analysis

As noted earlier, equity (also called net assets) may serve over time as a useful indicator of the fund's financial position. In the case of Riverside's Water Utility, assets exceeded liabilities by $181,745 at the close of the most recent fiscal year.

The largest portion of the Utility's net assets (84 percent) reflects its investment in capital assets, such as treatment, pumping, source of supply, transmission and distribution facilities, less any related debt used to acquire those assets that remains outstanding. The Utility uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since the capital assets themselves cannot be used to liquidate these long-term liabilities.

Management's Discussion and Analysis

The percent of the Utility's net assets invested in capital assets increased by 5 percent or $15,830. The increase is primarily attributable to the timing of expenditures in the Utility's capital improvement plan. Significant projects during the fiscal year included $11.5 million to construct the North Orange and Riverside South treatment facilities, $4.1 million for the pipeline replacement program and $1.2 million for system expansion.

The unrestricted portion of the Utility's net assets (11 percent) may be used to meet the Utility's ongoing obligations to creditors and customers.

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

	2003	2002
Current and other assets	$ 47,463	$ 61,745
Capital assets	212,105	193,244
Total assets	259,568	254,989
Long-term debt outstanding	69,361	72,071
Other liabilities	8,462	8,816
Total liabilities	77,823	80,887
Equity (net assets):		
Invested in capital assets, net of related debt	152,718	136,888
Restricted	8,417	8,375
Unrestricted	20,610	28,839
Total equity (net assets)	$181,745	$ 174,102

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

The Utility's equity increased by $7,643 during the current fiscal year. This increase primarily relates to amounts received from developer fees and other capital contributions due to increased building activity in Riverside.

Key elements of the increase in equity are as follows:

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

	2003	2002
Revenues:		
Retail sales	$ 27,467	$ 27,517
Wholesale sales	560	663
Litigation settlement	0	7,900
Investment income	1,763	2,384
Other	2,339	2,439
Total revenues before (reserve)/ recovery	32,129	40,903
Less reserve for bad debt, net of recoveries	(130)	(79)
Total revenues before capital contributions	31,999	40,824
Capital contributions	8,405	7,044
Total revenues and capital contributions	40,404	47,868
Expenses:		
Operations	12,069	11,572
Maintenance	3,027	2,971
Purchased energy	3,619	3,536
Purchased water	1,077	1,067
Depreciation	5,554	5,378
Interest expense	4,233	4,356
Total expenses	29,579	28,880
Contributions to the City's general fund	3,182	2,974
Total expenses and contributions to the City's General Fund	32,761	31,854
Increase in equity (net assets)	7,643	16,014
Equity, beginning of year	174,102	158,088
Equity, end of year	$ 181,745	$ 174,102

Management's Discussion and Analysis

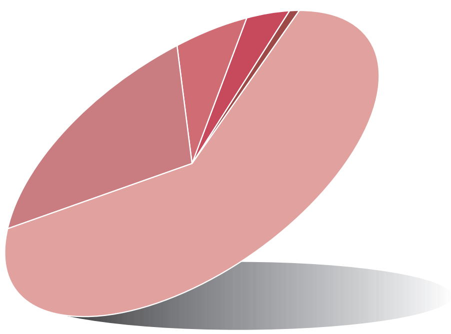
Retail sales (residential, commercial and other sales) continue to be the primary revenue source for the water utility making up 68 percent of total revenue. Retail sales decreased slightly as compared to the prior year (0.2 percent). The decrease is due to lower consumption (4.3 percent), offset by the impact of 4% and 3.9% rate increases, effective March 1, 2002, and March 1, 2003, respectively.

In the prior year, the City received $7.9 million from Lockheed Martin to settle claims relating to TCE contamination in certain city wells (see Note 8).

Investment income decreased by $621 (26 percent) which is due to an overall decrease in the Utility's cash and investments and decreased return on investments for City pooled cash.

Capital contributions increased 19 percent from prior year levels. The increased amount over prior years reflects an increased level of construction projects funded by others.

Revenues by Sources - Water Utility

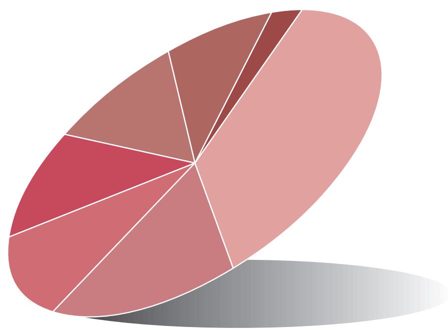


- Retail Sales (68%)
- Capital Contributions (21%)
- Other (6%)
- Investment Income (4%)
- Wholesale Sales (1%)

Total expenses show a 2 percent increase over the prior fiscal year, which is mainly due to a $200 increase in taxes and assessments and an additional $300 in outside legal costs resulting from the TCE litigation settlement. Also, there were increased depreciation costs due to the overall increase in capital assets.

Contributions to the City's general fund are based on a formula using 11.5 percent of operating revenues from the prior fiscal year. This amount increased by $208 or 7.0 percent.

Expenses - Water Utility



- Operations (37%)
- Depreciation (17%)
- Interest Expense (13%)
- Purchased Energy (11%)
- Contributions to City's General Fund (10%)
- Maintenance (9%)
- Purchased Water (3%)

Management's Discussion and Analysis

CAPITAL ASSET AND DEBT ADMINISTRATION

The Water Utility's investment in capital assets as of June 30, 2003 amounts to $212,105 (net of accumulated depreciation). This includes investments in source of supply, pumping, treatment, transmission, and distribution related facilities, as well as general items such as office equipment, furniture, etc. This fiscal year reflects a record $20.7 million of capital assets constructed resulting in a 10 percent increase in capital assets over the prior year. Major capital assets constructed during the current fiscal year included:

- Capital additions to serve existing customers and connect new customers to the system totaled $1,200
- Capital additions to build a high quality infrastructure totaled $3,100
- Capital additions for water main replacement totaled $5,000
- Capital additions to maintain the obligation to serve totaled $1,300
- Capital additions to safeguard the water supply totaled $2,600

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

	2003	2002
Source of supply	$ 19,577	$ 18,069
Pumping	3,350	3,381
Treatment	12,644	7,951
General	1,729	1,770
Transmission & distribution	158,734	137,417
Intangible	6,269	6,269
Construction in progress	9,802	18,387
Total	$ 212,105	$ 193,244

Additional information regarding capital assets can be found in Note 1 on page 35 and Note 3 on Page 38 of this report.

Requests for Information

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

Long-term Debt

At the end of the current fiscal year, the City of Riverside's Water Utility had long-term debt of $69,361. This debt is backed by the revenue of the utility (revenue bonds).

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

	2003	2002
Revenue bonds	$ 79,070	$ 82,915
Contracts payable/Capital lease obligation	1,083	1,132
Less: unamortized bond discount/capital appreciation	(6,632)	(7,970)
Less: current portion	(4,160)	(4,006)
Total	$ 69,361	$ 72,071

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

Additional information on the Water Utility's long-term debt can be found in Note 4 on page 38 through 39 of this report.

Economic Factors and Rates

Although inflationary trends in the Riverside region continue to compare favorably to the national indices, the City Council has approved an inflationary rate increase, based upon the Handy Whitman labor index, for calendar year 2002, which will provide for increased costs in all functional areas impacted by general inflation. Also approved was a one percent adder to help fund the pipeline replacement program. The inflationary increase of 2.9 percent and the one percent adder provide for a combined 3.9 percent rate increase which became effective March 1, 2003.

In addition to inflation, management continually plans for and identifies issues or potential contingencies that could impact future rates, such as reclaimed water, infrastructure needs, system growth, ground water contamination, and others. In an effort to control costs to its customers, the Utility is aggressive in pursuing outside parties, and holding them responsible for any negative effects they cause to Riverside's water quality.

The Board of Public Utilities has a goal of having rate increases not to exceed 5 percent per year unless the established index goes higher. This requires proper planning as well as building reserves to handle system emergencies or disasters, as well as certain other one-time costs.

Balance Sheets

ASSETS	JUNE 30 2003	JUNE 30 2002
	(in thousands)	
UTILITY PLANT:		
Source of supply	$ 28,213	$ 26,389
Pumping	8,790	8,640
Treatment	13,438	8,560
Transmission and distribution	226,986	201,448
General	6,810	6,354
Intangible	6,269	6,269
	290,506	257,660
Less accumulated depreciation	(88,203)	(82,803)
	202,303	174,857
Construction in progress	9,802	18,387
Total utility plant (Note 3)	212,105	193,244
RESTRICTED ASSETS:		
Cash and cash equivalents (Note 2)	17,365	22,784
Investments (Note 2)	4,161	4,128
Total restricted assets	21,526	26,912
OTHER NON-CURRENT ASSETS:		
Unamortized bond issuance costs	851	907
Unamortized bond refunding costs	554	578
Total other non-current assets	1,405	1,485
Total non-current assets	235,036	221,641
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	20,320	28,879
Accounts receivable, less allowance for doubtful accounts 2003 $141; 2002 $70	3,919	4,050
Accrued interest receivable	231	335
Advances to the City's general fund	62	84
Total current assets	24,532	33,348
Total assets	$259,568	$254,989

See accompanying notes to the financial statements

Balance Sheets

EQUITY AND LIABILITIES	JUNE 30 2003	JUNE 30 2002
	(in thousands)	
EQUITY:		
Invested in capital assets, net of related debt	$ 152,718	$ 136,888
Restricted for debt service (Note 5)	8,417	8,375
Unrestricted	20,610	28,839
Total equity	181,745	174,102
LONG-TERM DEBT, LESS CURRENT PORTION (NOTE 4):	69,361	72,071
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	622	697
Current portion of long-term debt (Note 4)	4,010	3,845
Total current liabilities payable from restricted assets	4,632	4,542
CURRENT LIABILITIES:		
Accounts payable	1,296	1,709
Accrued liabilities	1,992	2,085
Current portion of long-term debt (Note 4)	150	161
Customer deposits (Note 1)	392	319
Total current liabilities	3,830	4,274
Total liabilities	77,823	80,887
COMMITMENTS AND CONTINGENCIES (NOTES 7 AND 9)		
Total equity and liabilities	$ 259,568	$ 254,989

See accompanying notes to the financial statements

Statements Of Revenues, Expenses and Changes In Equity

	FOR THE FISCAL YEARS ENDED JUNE 30 2003 (in thousands)	2002
OPERATING REVENUES:		
Residential sales	$ 18,075	$ 18,144
Commercial sales	8,338	8,414
Other sales	1,054	959
Wholesale sales	560	663
Other operating revenue	610	903
Total operating revenues before (reserve)/recovery	28,637	29,083
Reserve for uncollectible	(136)	(98)
Bad debt recovery	6	19
Total operating revenues, net of (reserve)/recovery	28,507	29,004
OPERATING EXPENSES:		
Operations	12,069	11,572
Maintenance	3,027	2,971
Purchased energy	3,619	3,536
Purchased water	1,077	1,067
Depreciation	5,554	5,378
Total operating expenses	25,346	24,524
Operating income	3,161	4,480
NON-OPERATING REVENUES (EXPENSES):		
Investment income	1,763	2,384
Interest expense and fiscal charges	(4,233)	(4,356)
Gain (loss) on retirement of utility plant	65	43
Other	1,664	1.493
Total non-operating revenues (expenses)	(741)	(436)
Income before capital contributions and transfers	2,420	4,044
Capital contributions	8,405	7,044
Transfers out - contributions to the City's general fund	(3,182)	(2,974)
Total capital contributions and transfers out	5,223	4,070
Income before special item	7,643	8,114
SPECIAL ITEM:		
Litigation settlement (Note 8)	0	7,900
Increase in equity	7,643	16,014
EQUITY, BEGINNING OF YEAR	174,102	158,088
EQUITY, END OF YEAR	$ 181,745	$ 174,102

See accompanying notes to the financial statements

Statements Of Cash Flows

	FOR THE FISCAL YEARS ENDED JUNE 30 2003	2002
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	$ 28,711	$ 29,024
Cash paid to suppliers and employees	(20,298)	(18,909)
Net cash provided by operating activities	8,413	10,115
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(3,182)	(2,974)
Other non-operating revenue	1,664	1,493
Net cash flows used by non-capital financing activities	(1,518)	(1,481)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(20,945)	(12,189)
Proceeds from the sale of utility plant	81	89
Principal paid on long-term debt	(3,895)	(3,306)
Interest paid on long-term debt	(2,889)	(3,156)
Proceeds from sale of revenue bonds, net of discount	0	19,706
Capital contributions	4,919	2,336
Litigation settlements	0	7,900
Net cash provided (used) by capital and related financing activities	(22,729)	11,380
CASH FLOWS FROM INVESTING ACTIVITIES:		
Reductions in advances to the City's general fund	22	21
Purchases of investment securities	(33)	(1,115)
Income from investments	1,867	2,492
Net cash provided by investing activities	1,856	1,398
Net increase (decrease) in cash and cash equivalents	(13,978)	21,412
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR[1]	51,663	30,251
CASH AND CASH EQUIVALENTS, END OF YEAR[1]	$ 37,685	$ 51,663
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 3,161	$ 4,480
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	5,554	5,378
Increase (decrease) in uncollectible accounts receivable	71	(6)
Decrease in accounts receivable	60	17
Increase (decrease) in accounts payable	(413)	45
Increase (decrease) in accrued liabilities	(93)	192
Increase in customer deposits	73	9
Net cash provided by operating activities	$8,413	$ 10,115
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions	$ 3,486	$ 4,708

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

See accompanying notes to the financial statements

Notes To The Financial Statements

NOTE 1. Summary of Significant Accounting Policies

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

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

Revenue Recognition The Water Utility uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Water Utility customers are billed monthly. Unbilled water service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled $1,638,000 at June 30, 2003, and $1,578,000 at June 30, 2002.

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

Utility Plant and Depreciation Utility plant assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Costs include labor; materials; interest during construction; allocated indirect charges such as engineering, supervision, construction and transportation equipment, retirement plan contributions and other fringe benefits; and certain administrative and general expenses. Contributed plant assets are valued at estimated fair market value on the date contributed. The cost of relatively minor replacements is included in maintenance expense.

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

Supply, pumping and treatment plant . . . 15-50 years
Transmission and distribution plant . . . . . 25-50 years
General plant and equipment . . . . 3-50 years

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

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

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

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

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

Customer Deposits The City holds customer deposits as security for the payment of utility bills. The Water Utility's portion of these deposits as of June 30, 2003 and 2002, was $392,000 and $319,000, respectively.

Notes To The Financial Statements

NOTE 1. Summary of Significant Accounting Policies (Continued)

Compensated Absences The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due employees at June 30, 2003 and 2002. The Water Utility treats compensated absences due employees as a current liability. The amount accrued for compensated absences was $1,784,000 at June 30, 2003, and $1,930,000 at June 30, 2002, and is included in accrued liabilities in the accompanying balance sheets.

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

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

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

Although the ultimate amount of losses incurred through June 30, 2003, is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. Premiums paid to the City by the Water Utility were $213,000 and $179,000 for the years ended June 30, 2003 and 2002. Any losses above the City's reserves would be covered through increased rates charged to the Water Utility in future years.

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

All permanent full-time and selected part-time employees are eligible for participation in PERS. Benefits vest after five years of service and are determined by a formula that considers the employee's age, years of service and salary. Employees may retire at age 55 and receive 2.7 percent of their highest average annual salary for each year of service completed. PERS also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute and City ordinance.

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

Citywide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the fiscal year ended June 30, 2003, and recent trend information may be found in the notes of the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2003.

Contributions to the City's General Fund Pursuant to the City Charter, the Water Utility may transfer up to 11.5 percent of its prior year's gross operating revenues to the City's general fund. In fiscal years 2002-03 and 2001-02, the Water Utility transferred 11.5 percent of gross operating revenues, or $3,182,000 and $2,974,000, respectively.

Budgets and Budgetary Accounting The Water Utility presents, and the City Council adopts, an annual budget. The proposed budget includes estimated expenses and forecasted revenues. The City Council adopts the Water Utility's budget in June each year via a resolution.

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

Notes To The Financial Statements

NOTE 2. Cash and Investments

Cash and investments at June 30, 2003 and 2002, consist of the following (in thousands):

	June 30, 2003	June 30, 2002
	Fair Value	
Deposits with City Treasurer's investment pool	$24,952	$33,421
Cash and investments at fiscal agent	16,894	22,370
	$41,846	$55,791

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

	June 30, 2003	June 30, 2002
Cash and cash equivalents	$20,320	$28,879
Restricted assets:		
Cash and cash equivalents	17,365	22,784
Investments	4,161	4,128
	21,526	26,912
	$41,846	$55,791

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

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

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

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

The Water Utility's share of the City's investment pool at June 30, 2003, represents approximately 11 percent or $41,846,000 of the City's total cash and investments of $379,318,000. Information concerning credit risk and fair value of the City's deposits and investments may be found in the notes of the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2003. Cash and investments at fiscal agent are insured or registered, or held in the name of the Water Utility or its agent (category 1), or are not subject to risk categorization.

Notes To The Financial Statements

NOTE 3. Utility Plant

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2003 and 2002 (in thousands):

	Balance, As of 7/1/2001	Additions	Deletions/ Transfers	Balance, As of 6/30/2002	Additions	Deletions/ Transfers	Balance, As of 6/30/2003
Source of supply	$ 25,784	$ 605	$ 0	$ 26,389	$ 1,824	$ 0	$ 28,213
Pumping	8,606	34	0	8,640	150	0	8,790
Treatment	8,560	0	0	8,560	4,878	0	13,438
Transmission and distribution	193,082	8,502	(136)	201,448	25,671	(133)	226,986
General	6,411	237	(294)	6,354	492	(36)	6,810
Intangible	6,152	117	0	6,269	0	0	6,269
Construction in progress	10,986	17,014	(9,613)	18,387	20,992	(29,577)	9,802
Subtotal	259,581	26,509	(10,043)	276,047	54,007	(29,746)	300,308
Less accumulated depreciation	(77,810)	(5,378)	385	(82,803)	(5,554)	154	(88,203)
Total utility plant	$181,771	$ 21,131	$ ($9,658)	$ 193,244	$ 48,453	($29,592)	$ 212,105

NOTE 4. Long-Term Obligations

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2003 and 2002 (in thousands):

	Balance, As of 7/1/2001	Additions	Deletions/ Transfers	Balance, As of 6/30/2002	Additions	Deletions/ Transfers	Balance, As of 6/30/2003
Revenue bonds	$ 57,206	$ 19,706	($1,967)	$ 74,945	$ 0	($2,507)	$ 72,438
Capital leases	22	0	(11)	11	0	(11)	0
Water stock acquisition rights	1,201	0	(80)	1,121	0	(38)	1,083
Total long-term obligations	$ 58,429	$ 19,706	($2,058)	$ 76,077	$ 0	($2,556)	$ 73,521

NOTE 4. Long-Term Obligations (Continued)

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

	June 30, 2003	June 30, 2002
Contracts Payable/Capital Lease		
Water Stock Acquisitions: Payable on demand to various water companies	$ 1,083	$ 1,121
Equipment Purchased Through Capital Lease: $54,340 capital lease due in monthly installments of $1,115 through December 31, 2002, interest at 8.5 percent	0	11
Total contracts payable and capital lease	1,083	1,132
Revenue Bonds Payable		
$69,840,000 1991 Water Revenue Bonds: $25,900,000 serial capital appreciation bonds due in annual installments from $3,235,000 to $3,240,000 from October 1, 2003, to October 1, 2010, interest from 6.65 percent to 7.0 percent; and $18,890,000 term bonds due October 1, 2015, at 6.0 percent (partially advance refunded in 1998)	25,900	29,000
$4,710,000 1994 FARECal Revenue Bonds: $2,420,000 serial bonds due in annual installments from $180,000 to $255,000 through July 1, 2010, interest from 5.3 percent to 5.9 percent; $2,290,000 term bonds due July 1, 2017, at 6.0 percent	3,795	3,965
$30,965,000 1998 Water Refunding/Revenue Bonds: $15,055,000 serial bonds due in annual installments from $240,000 to $4,055,000 through October 1, 2013, interest from 4.2 percent to 5.38 percent; $10,155,000 term bonds due October 1, 2018, interest at 5.0 percent; $5,755,000 term bonds due October 1, 2027, interest at 5.0 percent	29,720	29,950
$20,000,000 2001 Water Revenue Bonds: $10,070,000 serial bonds due in annual installments from $355,000 to $745,000 through October 1, 2021, interest from 2.6 percent to 5.0 percent; $4,345,000 term bonds due October 1, 2026, interest at 5.0 percent; $5,585,000 term bonds due October 1, 2031, interest at 5.0 percent	19,655	20,000
Total water revenue bonds payable	79,070	82,915
Total debt	80,153	84,047
Unamortized capital appreciation	(5,940)	(7,243)
Unamortized bond discount	(692)	(727)
Total debt, net of bond discount and capital appreciation	73,521	76,077
Less: current portion	(4,160)	(4,006)
Total long-term debt	$ 69,361	$ 72,071

Annual debt service requirements to maturity, as of June 30, 2003, are as follows (in thousands):

	2004	2005	2006	2007	2008	2009-2013	2014-2018	2019-2023	2024-2028	2029-2033	Total
Principal	$4,160	$4,195	$4,225	$4,265	$4,305	$22,108	$17,940	$ 6,300	$ 8,080	$4,575	$ 80,153
Interest	2,628	2,597	2,565	2,530	2,491	11,415	6,461	3,981	2,195	472	37,335
Unamortized bond (discount) premium	(1,321)	(1,190)	(1,048)	(892)	(725)	(1,122)	(151)	(72)	(72)	(39)	(6,632)
Total	$5,467	$5,602	$5,742	$5,903	$6,071	$32,401	$24,250	$10,209	$10,203	$5,008	$110,856

Notes To The Financial Statements

NOTE 4. Long-Term Obligations (Continued)

■ **Debt Service Coverage Ratio** The Water Utility's bond indentures require the Water Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants, of 1.25. The Water Utility's debt service coverage ratio was 2.60 at June 30, 2003, and 3.89 at June 30, 2002.

NOTE 5. Restricted Equity

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

NOTE 6. Jointly-Governed Organizations

On July 1, 1993, the City of Riverside joined with the cities of Anaheim, Colton, Compton, Healdsburg, Los Angeles, Palo Alto, Pasadena, Redding, the North Marin Water District, the Northern California Power Agency, the Sacramento Municipal Utility District, and Turlock Irrigation District to create the Financing Authority for Resource Efficiency of California (FARECal). The City of Santa Cruz joined in 1994, Trinity Public Utility District joined in 1996, and the cities of Azusa and Victorville joined in 2002. The primary purpose of FARECal is to issue bonds and use the proceeds to promote, advance, encourage and participate in conservation, reclamation and other programs that are designed to utilize energy or water resources more efficiently. FARECal is administered by a Board of Directors currently represented by the cities of Anaheim, Colton, Palo Alto, Pasadena, the North Marin Water District, and Trinity Public Utility District. The Water Utility's portion of the FARECal debt and utility plant assets is recorded in the accompanying financial statements.

NOTE 7. Litigation

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

NOTE 8. Special Item

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

NOTE 9. Commitments

As of June 30, 2003, the Water Utility had major commitments of approximately $4,626,000 with respect to unfinished capital projects, of which $1,877,000 is expected to be funded by others and $2,749,000 is expected to be funded by bond proceeds.

Statistics

WATER SUPPLY (ACRE FEET)

	2002/03	2001/02	2000/01	1999/00	1998/99
Pumping	70,977	79,937	74,647	78,639	74,638
Purchases	695	900	498	68	275
Total	71,672	80,837	75,145	78,707	74,913
Percentage pumped	99.0%	98.9%	99.3%	99.9%	99.6%
System peak day (gallons)	101,484,000	102,241,000	99,861,000	101,119,000	101,924,000

WATER USE

	2002/03	2001/02	2000/01	1999/00	1998/99
Average number of customers					
Residential	55,071	54,468	54,200	53,879	53,774
Commercial/industrial	4,417	4,356	4,365	4,355	4,104
Other	402	352	341	304	505
Total	59,890	59,176	58,906	58,538	58,383
*CCF sales					
Residential	17,824,440	18,653,037	17,517,449	18,708,750	16,778,949
Commercial/industrial	9,411,391	9,820,471	9,577,374	9,873,278	8,570,558
Other	995,815	945,519	949,425	702,983	1,428,037
Total	28,231,646	29,419,027	28,044,248	29,285,011	26,777,544

*(CCF equals 100 cubic feet)

WATER FACTS

	2002/03	2001/02	2000/01	1999/00	1998/99
Average annual CCF per residential customer	324	343	323	347	312
Average price ($/CCF) per residential customer	$ 1.01	$ .97	$ .94	$ .93	$ .93
Debt service coverage ratio	2.60	3.89	3.31	3.17	2.77
Employees[1]	125	123	122	121	119

[1]Approved positions

Statistics

2002/03 Water Revenue and Resources

Source of Revenue

- Residential Sales (41¢)
- Other Revenues (24¢)
- Commercial & Industrial Sales (19¢)
- Use of Reserves (9¢)
- Investment Income (4¢)
- Other Sales (2¢)
- Wholesale Sales (1¢)

Distribution of Revenue

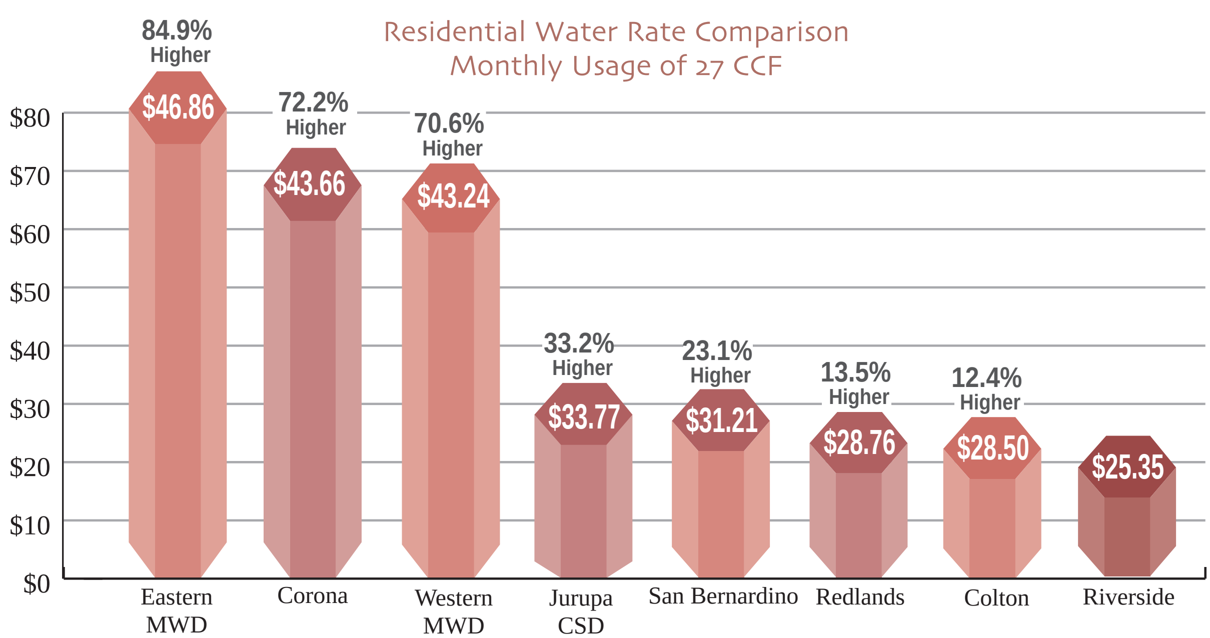
- Operation & Maintenance (42¢)
- Additions & Replacements to the System (33¢)
- Debt Service (15¢)
- Transfers to the City's General Fund* (7¢)
- Water Supply (3¢)

**Based on transfer of 11.5 percent of fiscal year 2001/02 operating revenues (excludes interest and other non-operating income).*

Water Resources

- San Bernardino Basin Wells (78.3%)
- Riverside Basin Wells (20.7%)
- Purchased Water (1.0%)

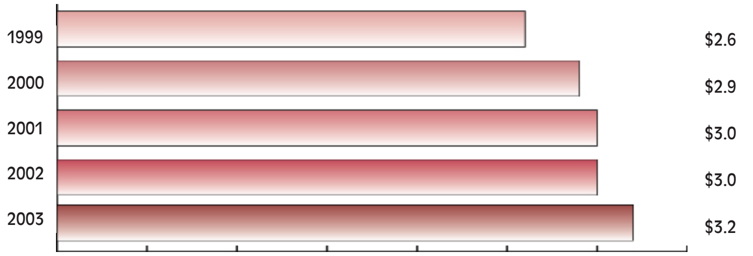
Residential Water Rate Comparison
Monthly Usage of 27 CCF



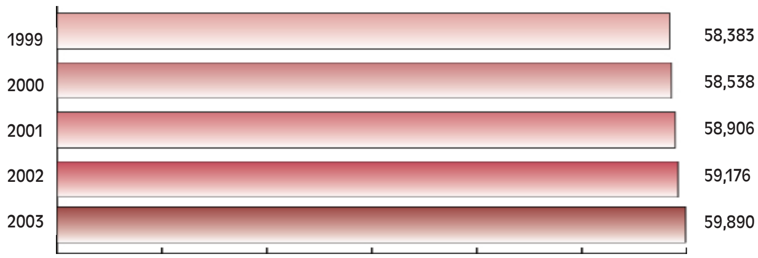
RATE COMPARISONS AS OF AUGUST 2003

Statistics

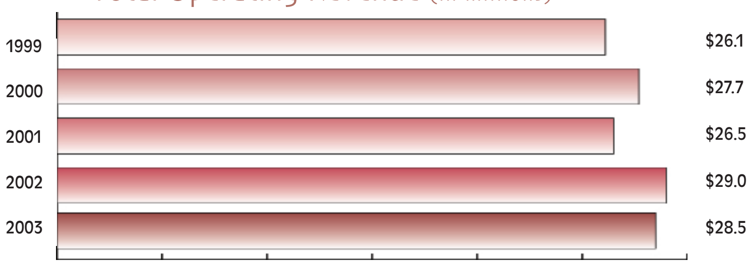
General Fund Transfer (in millions)



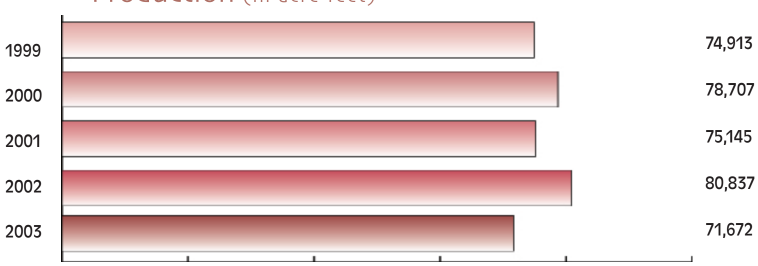
Average Number of Customers



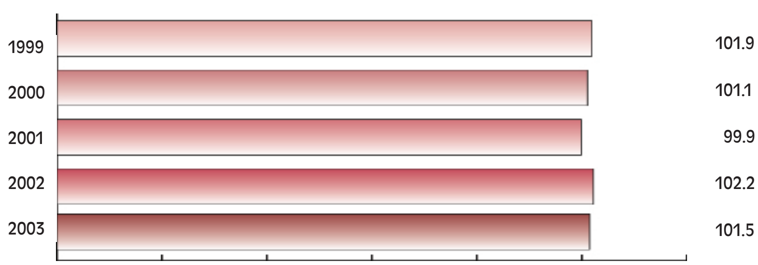
Total Operating Revenue (in millions)



Production (in acre feet)



Peak Day Demand (in million gallons)



WATER FACTS AND SYSTEM STATISTICS

Established:	1913
Service Area Population:	274,100
Service Area Size (square miles):	73.9
System Statistics:	
Smallest pipeline:	1.0"
Largest pipeline:	72.0"
Miles of pipeline:	938
Number of domestic wells:	51
Number of active reservoirs:	16
Number of treatment facilities:	7
Total reservoir capacity (gallons):	100,400,000
Total treatment capacity (gallons):	62,400,000
Miles of canal:	12
Number of fire hydrants:	6,763
Daily average production (gallons):	63,766,700
2002-03 Peak day (gallons):	101,484,000
7/14/02, 102 degrees	
Historical peak (gallons):	102,241,000
7/2/01, 102 degrees	

BOND RATINGS

FITCH, INC.	AA
STANDARD & POOR'S	AA

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