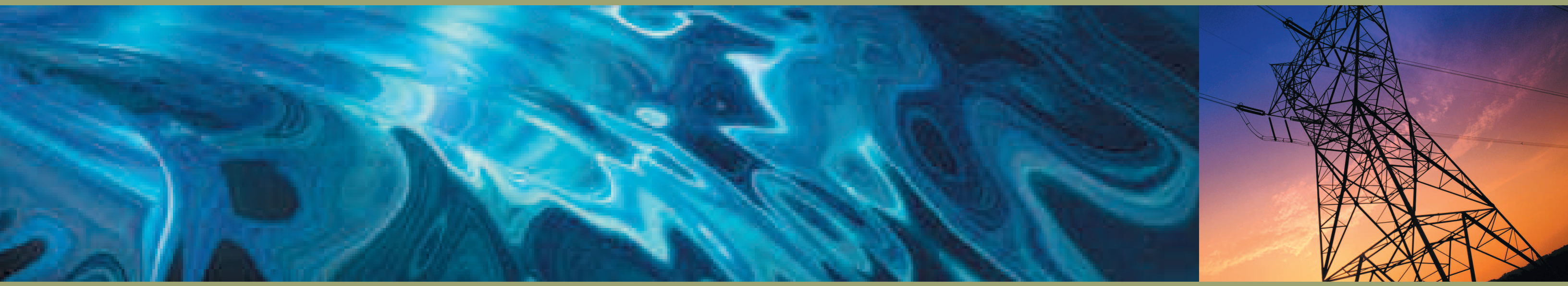
Financial Report 2006-2007



WATER | ENERGY | LIFE

CITY OF RIVERSIDE

PUBLIC UTILITIES

Table of Contents

Mission Statement

Mission

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

Vision

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

Core Values

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

Board of Public Utilities

The Board of Public Utilities is composed of nine citizen-volunteers appointed by the City Council to four-year terms without compensation. Board members oversee the utility's policies, operations, revenues, expenditures, planning, and regulatory compliance. In addition to bi-weekly Board meetings, members also serve on subcommittees to provide input on the development of new facilities and equipment; performance measures; programs to conserve energy and water resources; and appropriate technology to protect our water supply and secure our energy resources. The citizen-volunteers who serve on the Board of Public Utilities provide an ongoing, year-round review of all actions by Riverside Public Utilities before any measure is sent to the elected City Council representatives for final determination.

The Board of Public Utilities meets at 8:30 a.m. on the first and third Fridays of each month in the Public Utilities Board Room at 3901 Orange Street, Riverside. Board meetings are open to the public.

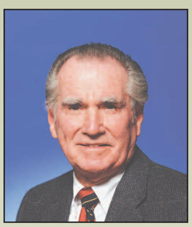
Joe Tavaglione
Chairman
Occupation: President of Construction & Development Co.
Riverside Resident: lifetime
Years of Service: 7

David E. Barnhart
Vice-Chairman
Occupation: Retired Director of Transportation
Riverside Resident: 12 years
Years of Service: 4

James W. Anderson
Occupation: Retired Attorney, Environmental and Administrative Law
Riverside Resident: 34 years
Years of Service: 8

Mary Curtin
Occupation: Teacher of English, RCC and Executive Director Riverside & San Bernardino Central Labor
Riverside Resident: 43 years
Years of Service: 1

Ian J. Davidson
Occupation: Owner/President IDLA, Inc.
Riverside Resident: 40 years
Years of Service: New Member 2007



Robert Elliot
Occupation: Retired San Bernardino County Employee Association General Manager
Riverside Resident: 55 years
Years of Service: 1

Robert A. Stockton
Occupation: Vice President, Civil Engineering Consulting
Riverside Resident: 6 years
Years of Service: 4

Ken L. Sutter
Occupation: Retired Architect
Riverside Resident: 20 years
Years of Service: 3

Bernie Titus
Occupation:President/CEO of Service Plus Credit Union
Riverside Resident: 21 years
Years of Service: 1

Public Utilities Administration

David H. Wright
Public Utilities
General Manager

Stephen H. Badgett
Public Utilities
Deputy General Manager
Energy Delivery

Kevin S. Milligan
Public Utilities
Assistant General Manager
Water

Gary L. Nolff
Public Utilities
Assistant General Manager
Resources

Jerry D. Rogers
Public Utilities
Assistant General Manager
Finance and Customer Relations

Fiscal Message

EVERDAY RELIABILITY

Each day, residents and businesses of the City of Riverside look to one place for high quality, reliable, water and electric services with low rates – Riverside Public Utilities.

Reliability and quality have remained RPU's main focus as we work to meet the constantly growing energy and water needs of the City of Riverside.

In the wake of California's energy crisis that started off the new millennium, Riverside Public Utilities began taking progressive steps to build internal power generation plants to keep our customer-owners from experiencing rolling blackouts. To date, we have built 140 megawatts of internal generation to enhance reliability.

However, we are not resting on our past successes. We are moving forward with the financial and operational planning necessary to build additional local power plants at our Riverside Energy Resource Center. Another key initiative underway is the construction of a new substation to provide a second tie-in to the state's energy grid - the Riverside Transmission Reliability Project. Planning and design for this $175 million project is currently underway. Both of these projects will help us meet our customers' energy needs today, and into the future.

Our energy future also embraces increased use of renewable "Green Power" resources and continued financial commitments toward renewable energy projects - including additional local solar generation stations, residential solar project rebates, and Green Power customer premiums.

The City of Riverside's "Safe Water Plan" and the start of our first ever design-build project, the John W. North Water Treatment Plant, will help provide additional water resources and needed infrastructure improvements that will assist in meeting Riverside's growing water demands, while a proposed Recycled Water Project would help preserve valuable potable water resources.

The benefits to our customers and the City of Riverside do not end with this proactive approach to utility services. Each year Riverside Public Utilities also gives back to its customer-owners through valuable Public Benefit Programs, and transfers to the City of Riverside's General Fund.

Public Benefit Programs, which are funded by a state mandated charge, pay cash rebates and incentives to customers for being energy efficient. They include a Shade Tree planting program (which to date has added more than 40,000 trees to our community), as well as rebate programs for purchasing high energy efficient appliances, and building incentives for installing residential and commercial photovoltaic (solar) projects.

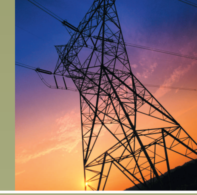
Since 1995, the Utility has expended more than $35.8 million in public benefit funds rebates, projects, and incentives. Meanwhile, in FY 2006-07 alone, more than $31 million in Utilities revenue/income was transferred to the City's General Fund to help maintain police, fire, library, parks and recreation, and other vital services within the City of Riverside.

By maintaining our strong fiscal focus, as well as our active approach to the maintenance and upgrades of our water and energy delivery systems and our commitments to the Riverside community, we are able to answer the call to duty each day with the high quality services our customer-owners have come to expect.

Jerry D. Rogers
Assistant General Manager, Finance & Customer Relations

The information contained in this report would not be possible without the dedication of my co-workers in Financial Services. Outstanding leadership by Reiko Kerr, as well as substantial contributions by Brian Seinturier, Aileen Ma, Cindy Reeley, Shelly Almgren, Renee La Montagne, Candice Shih, and Kimberly Wyman made this report possible. Thank you for all your efforts throughout the year.

Independent Auditors' Report



Mayer Hoffman McCann P.C.
An Independent CPA Firm
Conrad Government Services Division
2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the City of Riverside, California, Electric Utility, an enterprise fund of the City, as of and for the year ended June 30, 2007 as listed in the table of contents. These financial statements are the responsibility of the City of Riverside Electric Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year partial comparative information has been derived from the financial statements of the Electric Utility for the year ended June 30, 2006 and, in our report dated September 30, 2006, we expressed an unqualified opinion on those financial statements.

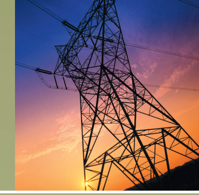
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Riverside, California, Electric Utility, as of June 30, 2007, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Independent Auditors' Report



Mayer Hoffman McCann P.C.
An Independent CPA Firm
Conrad Government Services Division
2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

To the Honorable City Council and Board of Public Utilities

City of Riverside

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

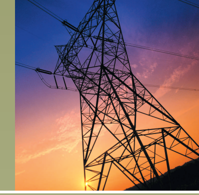
In accordance with *Government Auditing Standards,* we have also issued our report dated October 12, 2007 on our consideration of the City of Riverside's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Hoffman McCann P.C.

Irvine, California

October 19, 2007

Management's Discussion and Analysis



As management of Riverside Public Utilities (a department of the City of Riverside), we offer the readers of Riverside's Electric Utility financial statements, an enterprise fund of the City, this narrative overview and analysis of the financial activities of the Electric Utility (Utility) for the fiscal years ended June 30, 2007 and 2006. We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, which begin on page 18 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

Fiscal years 2007 and 2006 reflected strong operating results for the Electric Utility, with each year's retail revenues exceeding the previous all-time record, primarily from an expanded customer base, increased consumption due to a prolonged summer heat wave, and the effects of rate increases.

- Retail sales, net of reserve/recovery were $238,658 and $216,868 for years ended June 30, 2007 and 2006, respectively. As a result of the positive operating results, the Electric Utility was able to increase unrestricted cash reserves by $6,020 and $11,076, respectively, which supports the Utility's long-term financial plan goal of strengthening its financial position and building liquidity.
- In August 2005, Fitch Ratings upgraded the City of Riverside's Electric Utility's Revenue bonds to AA- from its previous rating of A+.
- The assets of the Electric Utility exceeded its liabilities (equity) at the close of fiscal years 2007 and 2006 by $325,487 and $283,603, respectively. Of this amount, $137,708 and $123,854, respectively, may be used to meet the Utility's ongoing obligations to creditors and customers.
- The Utility's overall equity increased by $41,884 and $28,401 for fiscal years ended June 30, 2007 and 2006 due to positive operating results from the historic levels of retail sales and other items discussed in this report.
- As of June 30, 2007 and 2006, unrestricted equity represented over 63% and 59% of annual operating expenses, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

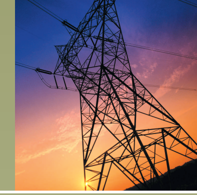
This discussion and analysis is intended to serve as an introduction to the City of Riverside Electric Utility financial statements. The Electric Utility is a department of the City of Riverside, and its activities are recorded in a separate enterprise fund. These financial statements include only the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

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

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

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

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



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

The ***Notes to the Financial Statements*** provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 22 to 37 of this report.

UTILITY FINANCIAL ANALYSIS

As noted earlier, equity (also called net assets) may serve over time as a useful indicator of the fund's financial position. In the case of Riverside's Electric Utility, assets exceeded liabilities (equity) by $325,487 and $283,603 at the close of the fiscal years 2007 and 2006, respectively.

The following table summarizes the Utility's financial condition as of June 30, 2007, 2006 and 2005:

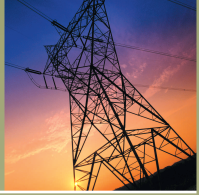
CONDENSED STATEMENTS OF EQUITY (NET ASSETS)

	2007	2006	2005
Current and other assets	$ 318,076	$ 319,730	$ 281,266
Capital assets	452,712	426,853	375,523
Total assets	770,788	746,583	656,789
Long-term debt outstanding	334,751	354,699	301,183
Other liabilities	110,550	108,281	100,404
Total liabilities	445,301	462,980	401,587
Invested in capital assets, net of related debt	132,605	107,969	97,207
Restricted	55,174	51,780	39,115
Unrestricted	137,708	123,854	118,880
Total equity (net assets)	$ 325,487	$ 283,603	$ 255,202

Assets

Fiscal Year 2007 The Utility's total assets of $770,788 reflect an increase of $24,205 (3.2%), mainly due to the following:

- The increase in net capital assets (Utility plant) of $25,859 is primarily due to an increase in construction in progress of $27,873 resulting from continued improvements to the Electric Utility's distribution system. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section of this financial analysis.
- Current and other assets reflect a net decrease of $1,654 due to positive operating results and the use of bond proceeds and operating cash for construction projects and equipment. Restricted assets decreased by $11,214 primarily due to a $3,527 increase in nuclear decommissioning reserve, a $3,024 increase in Public Benefit Programs' assets, and a $19,918 decrease in bond proceeds used for capital projects. Unrestricted assets increased by $9,560 mostly due to a $6,020 increase in cash and cash equivalents from positive operating results, a $7,539 increase in accounts receivable, offset by a $3,340 decrease in deferred purchased power.



Fiscal Year 2006 Total assets were $746,583, an increase of $89,794 (13.7%), primarily due to a $51,330 increase in net capital assets (Utility plant), relating to the completion of a 99.6 megawatt ("MW") peaking generation plant, as well as other improvements to the Electric Utility's distribution system, and a $38,464 increase in current and other assets. The $38,464 increase is predominantly due to a $32,055 increase in restricted cash and investments, mostly relating to $71,389 in new bond proceeds received on September 20, 2005, a $9,640 increase in current assets from positive operating results, offset by $65,494 of bond proceeds and operating cash used for construction projects.

Liabilities

Fiscal Year 2007 The Utility's total liabilities were $445,301, a decrease of $17,679 (3.8%), due to the following:

- Long-term debt outstanding decreased by $19,948, primarily due to $18,815 in principal repayments and the amortization of bond premiums and deferred bond refunding costs.
- Other liabilities increased by $2,269, due to increases of $3,527 in nuclear decommissioning, $927 in arbitrage, and $645 in the current portion of long term obligations, offset by a $2,898 decrease in accounts payable.

Fiscal Year 2006 Total liabilities were $462,980, an increase of $61,393 (15.3%), predominantly due to an increase in long-term debt outstanding of $53,516, largely due to a $115,725 refunding/revenue bond issue, offset by a $43,515 deposit into a refunding escrow account and $15,015 of principal repayments. Other liabilities increased by $7,877, mostly due to increases of $3,049 in decommissioning liabilities and $3,800 in the current portion of long-term obligations.

Equity (Net Assets)

Fiscal Year 2007 The Utility's equity, which represents the difference between the Utility's resources and its obligations, totaled $325,487, an increase of $41,884 (14.8%), primarily the result of retail revenues reaching an historic high and contributions from developers, and is comprised of the following:

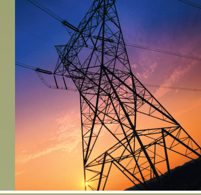
- A portion of the Utility's equity (40.7%) reflects its investment in capital assets, such as production, transmission, and distribution facilities, less any related outstanding debt used to acquire those assets. This portion totaled $132,605, an increase of $24,636 (22.8%), primarily due to the amount of capital assets constructed or purchased that are not bond financed. The Electric Utility uses these capital assets to provide services to customers; consequently these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since capital assets themselves cannot be used to liquidate these long-term obligations. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.
- The restricted portion totaled $55,174 (17.0% of total equity), and represents resources that are subject to internal and external restrictions on how they may be used. These are reserved for items such as debt repayment, Public Benefit Programs, and other legally restricted assets. This portion increased by $3,394 primarily due to an increase in Public Benefit Programs' assets.
- The unrestricted portion equals $137,708 (42.3% of total equity), an increase of $13,854, and is primarily attributable to positive operating results. This portion may be used to meet the Utility's ongoing obligations to creditors and customers.

Fiscal Year 2006 Electric fund equity increased by $28,401 (11.1%) to a total of $283,603. The portion of equity invested in capital assets, net of related debt, increased by $10,762. The restricted portion increased by $12,665 primarily due to an increase in the required debt service reserve as a result of the $115,725 refunding/revenue bond issue. The unrestricted portion increased by $4,974 and is primarily attributable to positive operating results.

Positive operating results in the Electric Utility increased equity by $41,884 and $28,401 during fiscal years 2007 and 2006, respectively, as reflected in the following Condensed Statements of Changes in Equity:

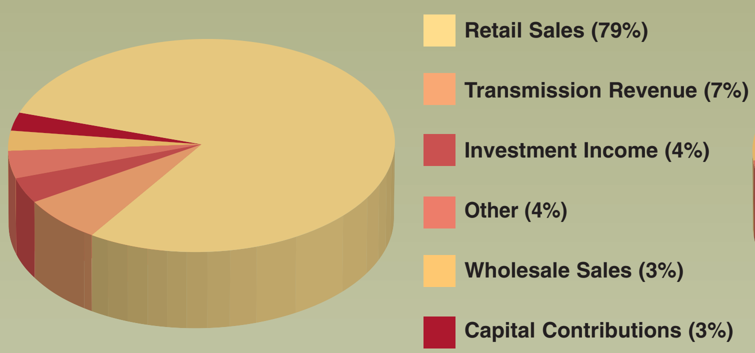
CONDENSED STATEMENTS OF CHANGES IN EQUITY (NET ASSETS)

	2007	2006	2005
Revenues:			
Retail sales, net	$ 238,658	$ 216,868	$ 204,526
Wholesale sales	9,913	11,952	15,249
Transmission revenues	20,097	20,043	19,512
Investment income	11,118	7,269	5,183
Other operating revenues	11,372	10,735	14,169
Capital contributions	9,781	8,231	16,716
Total revenues	300,939	275,098	275,355
Expenses:			
Production and purchased power	129,981	129,298	113,747
Transmission	29,902	29,519	27,647
Distribution	36,341	35,727	31,301
Depreciation	20,836	16,501	15,116
Interest expense and fiscal charges	14,602	13,615	11,518
Total expenses	231,662	224,660	199,329
Transfers to the City's general fund	(27,393)	(22,037)	(18,572)
Changes in equity	41,884	28,401	57,454
Equity, July 1	283,603	255,202	197,748
Equity, June 30	$ 325,487	$ 283,603	$ 255,202

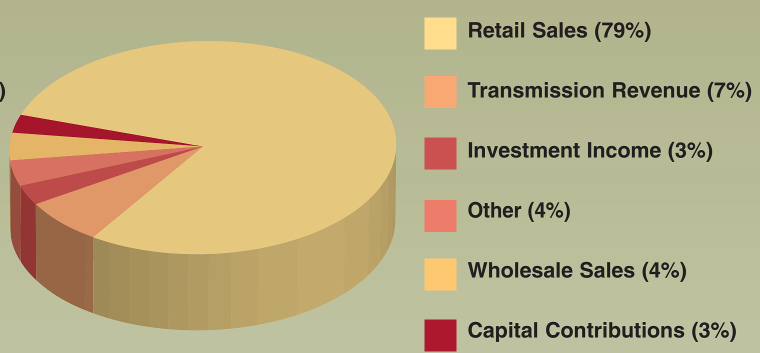


REVENUES BY SOURCES

June 30, 2007



June 30, 2006



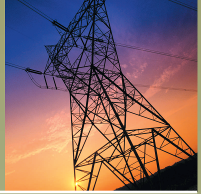
Fiscal Year 2007 Total revenues for the years ended June 30, 2007 and 2006 were $300,939 and $275,098, respectively, an increase of $25,841 (9.4%), with significant changes in the following:

- Retail sales (residential, commercial, industrial, and other sales), net of reserve/recovery, totaled $238,658, a $21,790 (10.0%) increase. Retail sales continue to be the primary revenue source for the Electric Utility, accounting for 79.3% of total revenues. The $21,790 increase is due to 6.3% higher consumption and a rate increase on January 1, 2007, reflecting the first year of the three year Electric Reliability Rate Plan. The number of electric meters increased by 932 (0.9%), with the average annual consumption per residential meter increasing by 444 kilowatt hours (5.9%).
- Wholesale sales of $9,913 decreased by $2,039 (17.1%), due to higher than expected retail customer consumption due to a prolonged summer heat wave, resulting in a lower volume of "excess" power available for sale, as well as lower prices received for market sales.
- Investment income of $11,118 reflects an increase of $3,849 (53.0%), predominantly due to an overall net increase in fair value of investments of $3,446, as well as positive operating results and continued stabilization of market conditions.
- Capital contributions of $9,781 reflect an increase of $1,550 (18.8%), primarily due to a $3,019 loan from the Electric Utility to the City to construct and build out the City's fiber network.

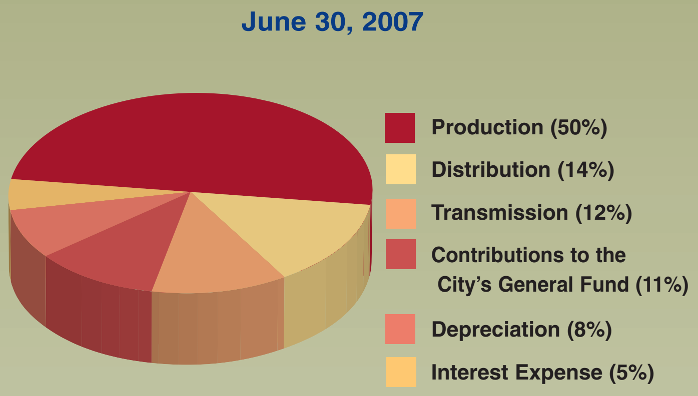
Fiscal Year 2006 Total revenues of $275,098 were comparable to the prior year with variations in the following areas:

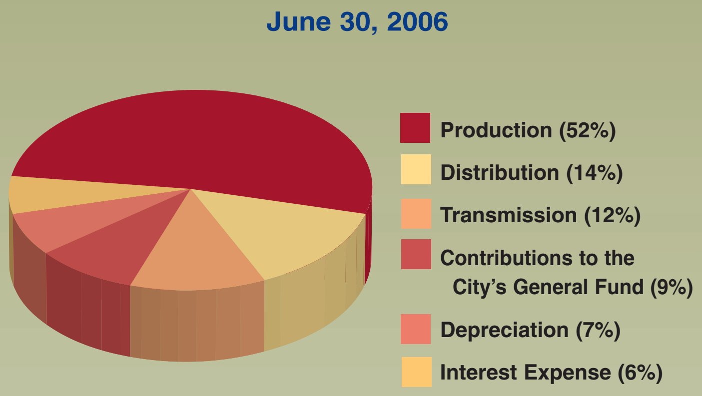
- Net retail sales of $216,868 (78.8% of total revenues), increased by $12,342 (6.0%), due to an overall 2.2% rate increase on November 1, 2004, and an increase in consumption. The number of electric meters increased by 831 (0.8%), and the average annual consumption per residential meter increased by 91 kilowatt hours (1.2%).
- Wholesale sales were $11,952, a decrease of $3,297 (21.6%). The decrease was due to less "excess" power available for resale as a result of unplanned unit outages.
- Investment income was $7,269, an increase of $2,086 (40.2%), due to an overall increase in the size of the investment portfolio from $71,389 in new bond funds received in September 2005, positive operating results and a stabilization of market conditions.
- Other revenues were $10,735, a decrease of $3,434 (24.2%), primarily reflecting the effects of Public Benefit Programs.
- Capital contributions were $8,231, a decrease of $8,485 (50.8%), reflecting a lower level of construction projects funded by others, primarily related to relocations of electrical facilities for the I-215/60/91 freeway interchange project funded by the State of California.

Management's Discussion and Analysis



EXPENSES BY SOURCES



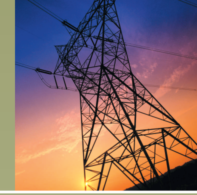


Fiscal Year 2007 Total expenses for the years ended June 30, 2007 and 2006 were $231,662 and $224,660, respectively, an increase of $7,002 (3.1%). The increase is primarily due to a combination of increases in staffing levels and personnel costs, as well as items discussed below:

- Production and purchased power costs of $129,981 were consistent with the prior fiscal year, although the prior year costs were higher than normal (see discussion below). Overall retail consumption increased 6.3% as a result of load growth and an increase in per capita consumption.
- Depreciation expense of $20,836 increased by $4,335 (26.3%), primarily from completion of the $81,600 Riverside Energy Resource Center in June 2006 along with ongoing capital projects for the distribution system.
- Interest expense and fiscal charges of $14,602 reflect an increase of $987 (7.2%), due to a full year of interest expense for the September 2005 bond issue, and a reduction of capitalized interest during construction in the current year due to a lower level of construction projects.

Fiscal Year 2006 Total expenses were $224,660, an increase of $25,331 (12.7%), due to items discussed below:

- Production and purchased power costs were $129,298, an increase of $15,551 (13.7%), primarily due to a cash-out payment provision for relief of energy delivery obligation, an increase in capacity costs for Intermountain Power Project, an overall increase in spot market energy prices, and additional power purchased during unplanned unit outages.
- Transmission costs were $29,519, an increase of $1,872 (6.8%), mostly due to increased costs to procure firm transmission capacity, as well as a large credit received in fiscal year 2005 for over charges in fiscal year 2004.
- Distribution costs were $35,727, an increase of $4,426 (14.1%), predominantly from increases in personnel-related expenditures.
- Interest expense and fiscal charges totaled $13,615, a $2,097 (18.2%) increase, as a result of the $115,725 refunding/revenue bond issue in September 2005, discussed previously.



Transfers

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

Fiscal Year 2007 The Electric Utility transferred $27,393, or $5,356 more than the prior year. This amount is comprised of approximately 9.0% of prior year's operating revenues, a $3,000 increase (agreed upon in the prior year to address the City's budget challenges), an additional $2,000 to help fund the Riverside Renaissance, and $2,250 as the City's portion of the Electric Utility's Transmission Revenue Requirement as a result of becoming a Participating Transmission Owner (see Note 9 to the Financial Statements for more discussion).

Fiscal Year 2006 Transfers to the City's general fund of $22,037 (9% of prior year's operating revenues) increased by $3,465 from the fiscal year 2005, primarily as a result of an additional transfer of $3,000 to the City's general fund in order to address the impacts of certain provisions of the state budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

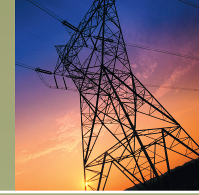
Capital Assets

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

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

	2007	2006	2005
Production	$ 140,402	$ 147,460	$ 77,694
Transmission	16,206	16,383	11,222
Distribution	217,684	212,374	171,802
General	14,063	13,677	9,572
Land	7,049	7,040	6,848
Construction in progress	54,663	26,790	95,988
Nuclear fuel, at amortized costs	2,645	3,129	2,397
Total	$ 452,712	$ 426,853	$ 375,523

Management's Discussion and Analysis



Fiscal Year 2007 The Electric Utility's investment in capital assets, net of accumulated depreciation, was $452,712, an increase of $25,859 (6.1%). The increase resulted primarily from the following significant capital projects:

- $2,600 for the City's portion of capital additions at the San Onofre Nuclear Generating Station ("SONGS").
- $3,500 for the initial stages of the Riverside Transmission Reliability Project, which will provide the Electric Utility with a second point of interconnection with the state's transmission grid.
- $34,600 in additions and improvements to Electric facilities to serve existing and connect new customers.

Fiscal Year 2006 Capital assets, net of accumulated depreciation for the Electric Utility increased $51,330 (13.7%) for a total of $426,853. Major capital projects constructed during the year include the following:

- $26,100 to complete the 99.6 MW Riverside Energy Resource Center (at a total cost of $81,600), which began commercial operation in June 2006.
- $3,100 for the City's portion of capital additions at the San Onofre Nuclear Generating Station ("SONGS").
- $27,300 in additions and improvements to Electric facilities to serve existing and connect new customers.

Additional information regarding capital assets can be found in Note 3 on Page 28 of this report.

Debt Administration

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

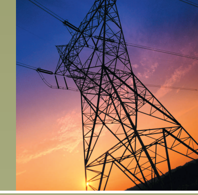
	2007	2006	2005
Revenue bonds	$ 352,830	$ 371,645	$ 311,110
Unamortized premium	7,469	8,559	10,049
Less:			
Current portion	(19,460)	(18,815)	(15,015)
Unamortized bond refunding costs	(6,088)	(6,690)	(4,961)
Total	$ 334,751	$ 354,699	$ 301,183

The Electric Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants, of 1.10. The Electric Utility's debt service coverage ratio was 3.09, 2.67 and 3.68 at June 30, 2007, 2006 and 2005, respectively. This debt is backed by the revenues of the Electric Utility (revenue bonds).

Fiscal Year 2007 Total long-term debt decreased by $19,948 (5.6%) to $334,751, due to $18,815 in principal repayments, and amortization of bond premiums and deferred refunding costs.

Fiscal Year 2006 Long-term debt of $354,699 increased by $53,516 (17.8%) due to principal repayments of $15,015, offset by the issuance of $115,725 Electric Refunding/Revenue bonds on September 20, 2005, of which $40,175 was used to advance refund portions of the 1998 and 2001 outstanding Electric Revenue bonds.

Additional information on the Electric Utility's long-term debt can be found in Note 4 on pages 28 to 31 of this report.



Credit Ratings

In August 2005, Fitch Ratings upgraded Riverside Public Utilities' ("RPU's") electric bonds to 'AA-' from 'A+' and cited "several improvements to RPU's credit fundamentals resulting from management's successful execution of its business strategy coupled with the increased stability in the California power market over the last several years," as rationale.

In July 2007, Standard and Poor's affirmed the Electric Utility's A+ rating, and issued a Debt Derivative Profile score of '2' on a 4-point scale (with 1 representing the lowest risk and 4 representing the highest risk) for the swap portfolio (see Note 4 on pages 30 and 31 of this report, regarding Interest Rate Swaps on Revenue Bonds), indicating their view that the swap portfolio is a low credit risk.

OTHER DEVELOPMENTS

Environmental Matters

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

Climate Change

In September 2006, California Governor Schwarzenegger signed into law two bills that would reduce California's Green House Gas emissions ("GHG").

Assembly Bill 32 or the California Global Warming Solutions Act of 2006, seeks to achieve GHG reductions via regulatory programs and market mechanisms, and requires the California Air Resources Board to develop regulations targeted to reduce California's GHG emissions to 1990 levels by 2020. These regulations will be phased-in beginning in 2012 in order to reach the 2020 goal.

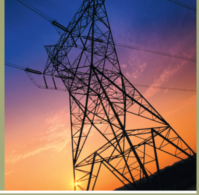
Senate Bill 1368 pertains specifically to power generation and long-term procurement of electricity, and requires the California Public Utilities Commission and the California Energy Commission to adopt GHG performance standards applicable to investor and publicly owned utilities. The standards must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

The City will continue to monitor federal and state developments relating to regulations of GHG emissions in order to determine their impacts on operations. Regulations mandating reductions to GHG emissions could have significant future cost impacts on generating or purchasing power from fossil fuels.

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 Federal Energy Regulatory Commission (FERC) imposed price cap on purchased power (June 2001) is still in effect, which continues to help stabilize power prices. Forward price curves have stabilized. However, regulatory actions and other factors, including the volatility in natural gas and coal prices, and the California Independent System Operator's Market Redesign and Technology Upgrade scheduled to take effect in early 2008, could impact future power rates.



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

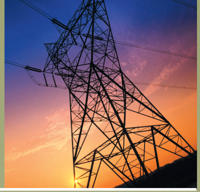
On August 14, 2007, the City Council repealed the previously approved increases in the tiered portion of the residential rates contained in the Electric Reliability Rate Plan, and directed staff to return with another rate proposal that would lessen the impacts to this customer class. A joint City Council/Public Utilities Board workshop was held on September 11, 2007, in which the City Council conceptually approved the need for the rate increase to improve system reliability. A public hearing is scheduled for November 15, 2007 to present a new recommendation, which is expected to be presented to the City Council in December 2007.

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, market restructuring, future power supply costs, regulatory changes, and others.

Requests for Information

This financial report is designed to provide a general overview of the City of Riverside Electric Utility's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Assistant General Manager Finance/Customer Relations or the Utilities Assistant Chief Financial Officer, Riverside Public Utilities, 3901 Orange Street, Riverside, CA 92501. Additional financial information can also be obtained by visiting www.riversidepublicutilities.com.

Balance Sheets



ASSETS	June 30, 2007	June 30, 2006
	(in thousands)	
UTILITY PLANT:		
Production	$ 257,980	$ 255,431
Transmission	26,522	26,082
Distribution	341,836	327,685
General	28,154	27,210
	654,492	636,408
Less accumulated depreciation	(266,137)	(246,514)
	388,355	389,894
Land	7,049	7,040
Construction in progress	54,663	26,790
Nuclear fuel, at amortized cost	2,645	3,129
Total utility plant (Note 3)	452,712	426,853
RESTRICTED ASSETS:		
Cash and cash equivalents (Note 2)	17,051	16,742
Cash and investments at fiscal agent (Note 2)	110,459	125,006
Total restricted non-current assets	127,510	141,748
OTHER NON-CURRENT ASSETS:		
Deferred pension costs	13,570	13,657
Deferred purchased power (Note 8)	8,352	11,692
Deferred bond issuance costs	5,748	6,353
Total other non-current assets	27,670	31,702
Total non-current assets	607,892	600,303
CURRENT ASSETS:		
Unrestricted Assets:		
Cash and cash equivalents (Note 2)	105,388	99,368
Accounts receivable, less allowance for doubtful accounts 2007 $291; 2006 $252	27,730	24,794
Accounts receivable other utilities and governments, less allowance for doubtful accounts 2007 $1,079; 2006 $1,059	11,978	7,375
Accrued interest receivable	1,311	1,317
Prepaid expenses	6,430	6,551
Nuclear materials inventory	1,535	1,375
Total unrestricted current assets	154,372	140,780
Restricted assets:		
Cash and cash equivalents (Note 2)	7,758	4,784
Public Benefit Programs receivable	766	716
Total restricted current assets	8,524	5,500
Total current assets	162,896	146,280
Total assets	$ 770,788	$ 746,583

See accompanying notes to the financial statements

Balance Sheets

EQUITY AND LIABILITIES		June 30, 2007		June 30, 2006
		(in thousands)		
EQUITY:				
Invested in capital assets, net of related debt	$	132,605	$	107,969
Restricted for:				
Debt service (Note 5)		46,830		46,521
Public Benefit Programs		8,344		5,259
Unrestricted		137,708		123,854
Total equity		325,487		283,603
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4)		334,751		354,699
OTHER NON-CURRENT LIABILITIES:				
Pension obligation (Note 4)		13,390		13,534
Nuclear decommissioning liability (Note 4)		50,606		47,079
Arbitrage liability		927		-
Total non-current liabilities		64,923		60,613
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:				
Accrued interest payable		1,851		2,024
Public Benefit Programs payable		180		240
Current portion of long-term obligations (Note 4)		19,460		18,815
Total current liabilities payable from restricted assets		21,491		21,079
CURRENT LIABILITIES:				
Accounts payable		15,614		18,512
Accrued liabilities		5,942		5,346
Customer deposits		2,580		2,731
Total current liabilities		24,136		26,589
Total liabilities		445,301		462,980
COMMITMENTS AND CONTINGENCIES (NOTES 8 AND 9)		-		-
Total equity and liabilities	$	770,788	$	746,583

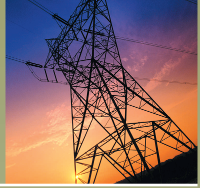
See accompanying notes to the financial statements

Statements of Revenues, Expenses and Changes in Equity

	For the Fiscal Years Ended June 30, 2007	2006
	(in thousands)	
OPERATING REVENUES:		
Residential sales	$ 94,426	$ 85,243
Commercial sales	55,421	53,773
Industrial sales	83,698	71,084
Other sales	5,713	7,139
Wholesale sales	9,913	11,952
Transmission sales	20,097	20,043
Other operating sales	9,536	9,183
Total operating revenues before (reserve)/recovery	278,804	258,417
Reserve for uncollectible, net of bad debt recovery	(600)	(371)
Total operating revenues, net of (reserve)/recovery	278,204	258,046
OPERATING EXPENSES:		
Production and purchased power	129,981	129,298
Transmission	29,902	29,519
Distribution	36,341	35,727
Depreciation	20,836	16,501
Total operating expenses	217,060	211,045
Operating income	61,144	47,001
NON-OPERATING REVENUES (EXPENSES):		
Investment income	11,118	7,269
Interest expense and fiscal charges	(14,602)	(13,615)
Gain on retirement of utility plant	485	308
Other	1,351	1,244
Total non-operating revenues (expenses)	(1,648)	(4,794)
Income before capital contributions and transfers	59,496	42,207
Capital contributions	9,781	8,231
Transfers out - contributions to the City's general fund	(27,393)	(22,037)
Total capital contributions and transfers out	(17,612)	(13,806)
Increase in equity	41,884	28,401
EQUITY, BEGINNING OF YEAR	283,603	255,202
EQUITY, END OF YEAR	$ 325,487	$ 283,603

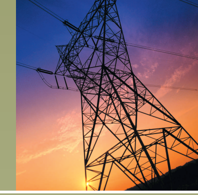
See accompanying notes to the financial statements

Statements of Cash Flows



	For the Fiscal Years Ended June 30, 2007	2006
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	$ 270,464	$ 259,856
Cash paid to suppliers and employees	(190,555)	(185,430)
Other receipts	1,351	1,244
Net cash provided by operating activities	81,260	75,670
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(27,393)	(22,037)
Principal paid on pension obligation fund	(144)	(156)
Net cash used by non-capital financing activities	(27,537)	(22,193)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(43,733)	(63,791)
Purchase of nuclear fuel	(632)	(1,703)
Proceeds from the sale of utility plant	555	364
Deposit to escrow account for advanced bond refunding	-	(40,685)
Proceeds from the sale of revenue bonds, net of bond premium	-	117,330
Principal paid on long-term obligations	(18,815)	(15,015)
Interest paid on long-term obligations	(14,656)	(14,046)
Capital contributions	6,263	4,866
Bond issuance costs	-	(4,559)
Net cash used by capital and related financing activities	(71,018)	(17,239)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(5,371)	(11,989)
Income from investments	12,051	6,893
Net cash provided (used) by investing activities	6,680	(5,096)
Net increase (decrease) in cash and cash equivalents	(10,615)	31,142
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (including $69,801 and $49,735 at June 30, 2006 and June 30, 2005, respectively, reported in restricted accounts)	169,169	138,027
CASH AND CASH EQUIVALENTS, END OF YEAR (including $53,166 and $69,801 at June 30, 2007 and June 30, 2006, respectively, reported in restricted accounts)	$ 158,554	$ 169,169
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 61,144	$ 47,001
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	20,836	16,501
Amortization of deferred charges-pension costs	87	32
Amortization of nuclear fuel/purchased power	4,456	4,313
Increase (decrease) in allowance for uncollectible accounts	59	(1,511)
Decrease (increase) in accounts receivable	(7,648)	3,189
Decrease in prepaid expenses	121	77
Increase in nuclear materials inventory	(160)	(64)
Increase (decrease) in accounts payable	(2,898)	936
Increase in accrued liabilities	596	638
Increase (decrease) in Public Benefit Programs	(60)	133
Increase (decrease) in customer deposits	(151)	132
Increase in decommissioning liability	3,527	3,049
Other receipts	1,351	1,244
Net cash provided by operating activities	$ 81,260	$ 75,670
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions - capital assets	3,518	3,365
Interfund receivable - Citywide fiber optic network	3,019	-
Increase (decrease) in fair value of investments	848	(425)

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

USE OF ESTIMATES

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

REVENUE RECOGNITION

Electric Utility customers are billed monthly. Unbilled electric service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled $14,238 at June 30, 2007, and $12,551 at June 30, 2006.

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

UTILITY PLANT AND DEPRECIATION

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

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

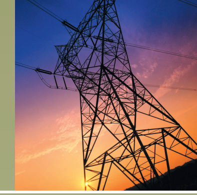
Production plant	15-30 years
Transmission and distribution plant	20-50 years
General plant and equipment	3-50 years

NUCLEAR FUEL

The Electric Utility amortizes and charges to expense, the cost of nuclear fuel, on the basis of actual thermal energy produced relative to total thermal energy expected to be produced over the life of the fuel. In accordance with the Nuclear Waste Disposal Act of 1982, the Electric Utility is charged one dollar per megawatt-hour of energy generated by the City's share of San Onofre Nuclear Generating Station's Units 2 and 3 to provide for estimated future storage and disposal of spent nuclear fuel. The Electric Utility pays this fee to its operating agent, Southern California Edison Company (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 Sheets because their use is limited by applicable bond covenants. Funds set aside for the nuclear decommissioning reserve are also classified as restricted assets because their use is legally restricted to a specific purpose.



NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In January 1998, the Electric Utility began collecting a surcharge for Public Benefit Programs on customer utility bills. This surcharge is mandated by state legislation included in Assembly Bill 1890 and is restricted to various socially beneficial programs and services. The programs and services include cost effective demand-side management services to promote energy efficiency and conservation and related education and information; ongoing support and new investments in renewable resource technologies; energy research and development; and programs and services for low-income electric customers. The activity associated with the surcharge for Public Benefit Programs is reflected in the accompanying financial statements on the Balance Sheets, Statements of Revenues, Expenses and Changes in Equity, and Statements of Cash Flows.

CASH AND INVESTMENTS

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

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

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

City-wide information concerning cash and investments for the year ended June 30, 2007, including authorized investments, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and investments may be found in the notes to the City's "Comprehensive Annual Financial Report."

CASH AND INVESTMENTS AT FISCAL AGENTS

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

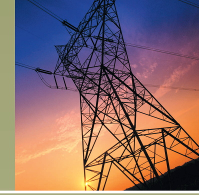
BOND PREMIUMS, ISSUANCE COSTS, GAINS AND LOSSES ON REFUNDING

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

NUCLEAR DECOMMISSIONING LIABILITY

Federal regulations require the Electric Utility to provide for the future decommissioning of its ownership share of the nuclear units at San Onofre. The Electric Utility has established a trust account to accumulate resources for the decommissioning of the nuclear power plant and restoration of the beachfront at San Onofre. Based on the most recent site specific cost estimate as of July 2005 prepared by ABZ Incorporated, the Electric Utility plans to set aside approximately $1,600 per year to fund this obligation. The funding will occur over the useful life of the generating plant or until the account is fully funded.

Increases to the trusts are from amounts set aside and investment earnings. The investment earnings are included in investment income in the Utility's financial statements. These amounts, as well as amounts set aside, are contributed to the trusts and reflected as decommissioning expense, which are considered part of power supply costs. The total amounts held in the trust accounts are classified as restricted assets and other non-current liability in the accompanying Balance Sheets. To date, the Electric Utility has set aside $50,606 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.



NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INTERNALLY RESTRICTED CASH RESERVES

Effective July 1, 2003, the City Council approved a Regulatory Risk Reserve Account of $4,000, an Energy Risk Management Reserve Account of $11,000, and an Operating Reserve Account of $14,000, all of which are considered internally restricted assets. The balance as of June 30, 2007 and 2006 respectively are as follows: Regulatory Risk Reserve $4,000 and $45,500, Energy Risk Management Reserve $11,000 and $11,000 and Operating Reserve $76,800 and $27,500, for a combined total of $91,800 and $84,000 and are reflected in cash and cash equivalents in the accompanying Balance Sheets. (See Note 9 for additional discussion on cash reserves)

CUSTOMER DEPOSITS

The City holds customer deposits as security for the payment of utility bills. The Electric Utility's portion of these deposits as of June 30, 2007 and 2006 was $2,580 and $2,731, respectively.

COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due employees at June 30, 2007 and 2006. The Electric Utility treats compensated absences due employees as an expense and a current liability. The amount accrued for compensated absences was $5,783 at June 30, 2007, and $5,249 at June 30, 2006, and is included in accrued liabilities in the accompanying Balance Sheets.

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

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

INSURANCE PROGRAMS

The Electric Utility participates in a self-insurance program for worker's compensation and general liability coverage that is administered by the City. The Electric Utility pays an amount to the City based on actuarial estimates of the amounts needed to fund prior and current year claims and incidents that have been incurred but not reported. The City maintains property insurance on most City property holdings, including Utility Plant with a limit of $100 million.

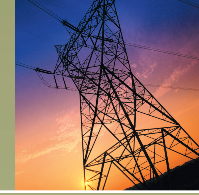
City-wide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risks for the year ended June 30, 2007, may be found in the notes to the City's "Comprehensive Annual Financial Report."

Although the ultimate amount of losses incurred through June 30, 2007 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 $358 and $680 for the years ended June 30, 2007 and 2006, respectively. Any losses above the City's reserves would be covered through increased rates charged to the Electric Utility in future years.

EMPLOYEE RETIREMENT PLAN

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

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



NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee contributions are 8.0 percent of their annual covered salary. The Electric Utility is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The employer portion of the PERS funding as of June 30, 2007 and 2006 was 13.18 percent and 19.74 percent, respectively, of annual covered payroll. The Electric Utility pays both the employee and employer contributions. The total Electric Utility's contribution to PERS as of June 30, 2007 and 2006 was $4,192 and $3,923, respectively.

City-wide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the year ended June 30, 2007 and recent trend information may be found in the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2007.

PENSION OBLIGATION BONDS

In 2005, the City issued Pension Obligation Bonds in the amount of $60,000, of which the Electric Utility's share is $13,690 as reflected in the accompanying Balance Sheets as deferred pension costs and a corresponding long-term obligation. The deferred charge relating to the net pension asset will be amortized over 19 years in accordance with the method used by CalPERS for calculating actuarial gains and losses. The Bonds will be used to fund the unfunded actuarial accrued liability for non-safety employees and the proceeds were deposited with CalPERS. The balance in deferred pension costs as of June 30, 2007 and 2006, was $13,570 and $13,657, respectively. For more discussion relating to the City's issue see the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2007.

ARBITRAGE LIABILITY

The Tax Reform Act of 1986 (the Act) requires the Electric Utility to calculate and remit rebatable arbitrage earnings to the Internal Revenue Service. Certain debt and interest earnings on the proceeds of the Electric Utility are subject to the requirements of the Act which contain yield restrictions on investment of proceeds from tax-exempt financing in higher yielding taxable securities. The balance in arbitrage liability as of June 30, 2007 was $927.

EQUITY

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

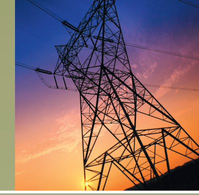
Invested in capital assets, net of related debt – this component consists of capital assets (net of accumulated depreciation) and unamortized debt expenses reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those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

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

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

CONTRIBUTIONS TO THE CITY'S GENERAL FUND

Pursuant to the City Charter, the Electric Utility may transfer up to 11.5 percent of its prior year's gross operating revenues to the City's general fund. In fiscal years 2006-07 and 2005-06, the Electric Utility transferred approximately 9 percent of gross operating revenues, or $27,393 and $22,037, respectively.



NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CASH AND CASH EQUIVALENTS

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

BUDGET AND BUDGETARY ACCOUNTING

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

RECLASSIFICATIONS

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

PRIOR YEAR DATA

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

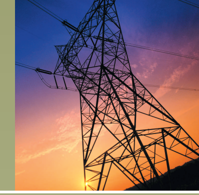
NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2007 and 2006, consist of the following (in thousands):

	June 30, 2007	June 30, 2006
	(Fair Value)	
Equity interest in City Treasurer's investment pool	$ 130,197	$ 120,894
Investments at fiscal agent	110,459	125,006
Total cash and investments	$ 240,656	$ 245,900

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

	June 30, 2007	June 30, 2006
Unrestricted cash and cash equivalents	$ 105,388	$ 99,368
Restricted assets cash and cash equivalents	24,809	21,526
Restricted assets cash and investments at fiscal agent	110,459	125,006
Total cash and investments	$ 240,656	$ 245,900



NOTE 2. CASH AND INVESTMENTS (continued)

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

Investment Type	Total	Remaining Maturity (in Months): 12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months
Held by fiscal agent					
Money market funds	$ 2,985	$ 2,985	$ -	$ -	$ -
Federal agency securities	49,333	16,663	2,622	9,224	20,824
Investment contracts [1]	58,141	30	28,332	-	29,779
City Treasurer's investment pool [2]					
Money market funds	10,362	10,362	-	-	-
Federal agency securities	79,846	16,469	11,429	51,948	-
Corp medium term notes	6,519	-	6,519	-	-
State investment pool	33,470	33,470	-	-	-
Total	$ 240,656	$ 79,979	$ 48,902	$ 61,172	$ 50,603

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

Investment Type	Total	Rating as of Year End: AAA	Aa	Unrated
Held by fiscal agent				
Money market funds	$ 2,985	$ 2,182	$ -	$ 803
Federal agency securities	49,333	49,333	-	-
Investment contracts	58,141	58,141	-	-
City Treasurer's investment pool [2]				
Money market funds	10,362	-	-	10,362
Federal agency securities	79,846	79,846	-	-
Corp medium term notes	6,519	-	6,519	-
State investment pool	33,470	-	-	33,470
Total	$ 240,656	$ 189,502	$ 6,519	$ 44,635

[1] Amounts related to bond construction proceeds are invested in specific maturities but are available for construction of capital assets as funding is needed.

[2] Additional information on investment types and credit risk may be found in the City's "Comprehensive Annual Financial Report."

NOTE 3. UTILITY PLANT

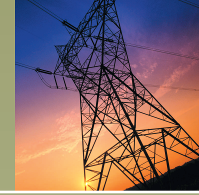
The following is a summary of changes in utility plant during the fiscal years ended June 30, 2007 and 2006 (in thousands):

	Balance, As of 6/30/05	Additions	Retirements/ Transfers	Balance, As of 6/30/06	Additions	Retirements/ Transfers	Balance, As of 6/30/07
Production	$ 178,505	$ 76,926	$ -	$ 255,431	$ 2,550	$ (1)	$ 257,980
Transmission	20,418	5,664	-	26,082	439	1	26,522
Distribution	279,106	48,654	(75)	327,685	14,519	(368)	341,836
General	22,588	4,916	(294)	27,210	1,859	(915)	28,154
Depreciable utility plant	500,617	136,160	(369)	636,408	19,367	(1,283)	654,492
Less accumulated depreciation:							
Production	(100,811)	(7,160)	-	(107,971)	(9,607)	-	(117,578)
Transmission	(9,196)	(503)	-	(9,699)	(617)	-	(10,316)
Distribution	(107,304)	(8,029)	22	(115,311)	(9,383)	542	(124,152)
General	(13,016)	(809)	292	(13,533)	(1,229)	671	(14,091)
Accumulated depreciation	(230,327)	(16,501)	314	(246,514)	(20,836)	1,213	(266,137)
Net depreciable utility plant	270,290	119,659	(55)	389,894	(1,469)	(70)	388,355
Land	6,848	192	-	7,040	9	-	7,049
Construction in progress	95,988	63,551	(132,749)	26,790	47,249	(19,376)	54,663
Nuclear fuel	2,397	1,703	(971)	3,129	632	(1,116)	2,645
Nondepreciable utility plant	105,233	65,446	(133,720)	36,959	47,890	(20,492)	64,357
Total utility plant	$ 375,523	$ 185,105	$ (133,775)	$ 426,853	$ 46,421	$ (20,562)	$ 452,712

NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2007 and 2006 (in thousands):

	Balance, As of 6/30/05	Additions	Reductions	Balance, As of 6/30/06	Additions	Reductions	Balance, As of 6/30/07	Due Within One Year
Revenue bonds	$ 316,199	$ 112,294	$ (54,979)	$ 373,514	$ -	$ (19,303)	$ 354,211	$ 19,460
Pension obligation	13,690	-	(156)	13,534	-	(144)	13,390	184
Nuclear decommissioning liability	44,030	3,049	-	47,079	3,527	-	50,606	-
Arbitrage liability	-	-	-	-	927	-	927	-
Total long-term obligations	$ 373,919	$ 115,343	$ (55,135)	$ 434,127	$ 4,454	$ (19,447)	$ 419,134	$ 19,644



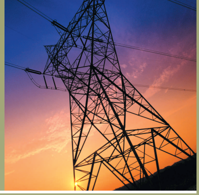
NOTE 4. LONG-TERM OBLIGATIONS (continued)

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

Revenue Bonds Payable	June 30, 2007	June 30, 2006
$98,730 1998 Electric Refunding/Revenue Bonds: $63,165 serial bonds due in annual installments from $3,200 to $7,085 through October 1, 2013, interest from 5.0 percent to 5.38 percent; $21,595 term bonds due October 1, 2018, interest at 5.0 percent; $13,970 term bonds due October 1, 2022; a portion of the serial and term bonds were advance refunded on September 20, 2005 with the 2005 Electric Refunding/Revenue bonds	$ 47,315	$ 52,900
$47,215 2001 Electric Revenue Bonds: $47,215 serial bonds due in annual installments from $3,135 to $4,280 through October 1, 2014, interest from 3.40 percent to 5.25 percent, were partially advance refunded on September 20, 2005 with the 2005 Electric Refunding/Revenue bonds	29,125	32,160
$75,405 2003 Electric Refunding/Revenue Bonds: $75,405 serial bonds due in annual installments from $7,170 to $8,535 through October 1, 2013, interest from 4.0 percent to 5.0 percent	53,880	60,860
$110,000 2004 Electric Revenue Bonds:		
A- $27,500 2004 Series A Bonds - Serial bonds due in annual installments from $2,645 to $3,695 through October 1, 2014, interest from 4.0 percent to 5.5 percent	24,885	27,500
B- $82,500 2004 Series B Bonds - Auction Rates Securities due in annual installments from $1,250 to $7,000 from October 1, 2014 through October 1, 2029. Interest is variable and rate is subject to weekly repricing (rate at June 26, 2007 was 3.7 percent)	82,500	82,500
$115,725 2005 Electric Refunding/Revenues Series A & B Bonds: $57,850 Series A and $57,875 Series B Auction Rate Securities due in annual installments from $525 to $10,375 through October 1, 2035. Interest is variable and rate is subject to weekly repricing (rate at June 27, 2007 was 3.70 percent for Series A and 3.65 percent at June 29, 2007 for Series B)	115,125	115,725
Total electric revenue bonds payable	352,830	371,645
Unamortized deferred bond refunding costs	(6,088)	(6,690)
Unamortized bond premium	7,469	8,559
Total long-term electric revenue bonds payable, net of deferred bond refunding costs and bond premium	354,211	373,514
Less current portion	(19,460)	(18,815)
Total long-term electric revenue bonds payable	$ 334,751	$ 354,699

Annual debt service requirements to maturity, excluding amounts for nuclear decommissioning liability, as of June 30, 2007, are as follows (in thousands):

	2008	2009	2010	2011	2012	2013-2017	2018-2022	2023-2027	2028-2032	2033-2036	Total
Principal	$ 19,460	$ 20,345	$ 21,300	$ 22,295	$ 21,050	$ 86,690	$ 41,490	$ 38,575	$ 42,275	$ 39,350	$ 352,830
Interest	13,602	12,735	11,781	10,810	9,744	35,085	23,520	16,388	9,587	2,366	145,618
Total	$ 33,062	$ 33,080	$ 33,081	$ 33,105	$ 30,794	$ 121,775	$ 65,010	$ 54,963	$ 51,862	$ 41,716	$ 498,448



NOTE 4. LONG-TERM OBLIGATIONS (continued)

ADVANCE REFUNDING

In prior years the Electric Utility defeased certain Revenue Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Electric Utility's financials statements. At fiscal year ended June 30, 2007, $40,175 of bonds outstanding are considered defeased.

2005 ELECTRIC REFUNDING/REVENUE BONDS

On September 20, 2005, the Electric Utility issued $115,725 of Electric Refunding/Revenue bonds, Series A and B, to finance capital improvement programs and refund certain existing Electric revenue bonds. $60,000 of Electric revenue bonds is being used to finance the costs of certain improvements to the City's Electric System as part of the Capital Improvement Program. The remaining portion was used to refund $30,915 of the outstanding 1998 and $9,260 of the outstanding 2001 Electric revenue bond issues. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $3,431. This difference is being charged to operations using a proportional method. The City completed the current refunding to reduce net aggregate debt service payments over the next 17 years by $3,111 and to obtain an economic gain (difference between present value of the old and new debt service payments) of $2,612. Series A bonds of $57,850 and Series B bonds of $57,875 are variable Auction Rate Securities term bonds, maturing on October 1, 2007 through October 1, 2035 with principal payments ranging from $525 to $10,375. Assuming a variable rate of 3.2%, the all-in true interest cost for this issue is 3.56%.

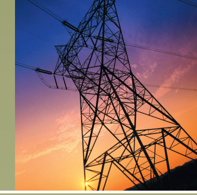
INTEREST RATE SWAPS ON REVENUE BONDS

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

Terms: Under the swaps, the City pays the counterparty a fixed payment as noted above and receives a variable payment computed as 62.68% of the London Interbank Offering Rate ("LIBOR") one month index plus 12 basis points. The swaps have notional amounts equal to the principal amounts stated above. Starting in fiscal year 2015 and 2007, respectively, the notional value of the 2004 and 2005 swaps and the principal amount of the associated debt decline by $1,250 to $7,000 and $600 to $10,375, respectively, until the debt is completely retired in fiscal years 2030 and 2036 respectively. The bonds' variable rate coupons are established on a weekly basis through the results of an auction process administered through an auction agent, termed Auction Rate Securities ("ARS").

The bonds and the related swap agreements for the 2004 Electric Revenue Bonds mature on October 1, 2029 and the 2005 Electric Refunding/Revenue Bonds mature on October 1, 2035. As of June 30, 2007, rates were as follows:

		2005 Electric Refunding/ Revenue Bonds Series A	2005 Electric Refunding/ Revenue Bonds Series B	2004 Electric Revenue Bonds Series B
Interest Rate Swap:	Terms	Rates	Rates	Rates
Fixed payment to counterparty	Fixed	3.20100%	3.20400%	3.11100%
Variable payment from counterparty	62.68 LIBOR + 12bps	(3.35345%)	(3.37995%)	(3.22906%)
Net interest rate swap payments		(0.15245%)	(0.17595%)	(0.11806%)
Variable-rate bond coupon payments	ARS	3.22244%	3.25034%	3.10258%
Synthetic interest on bonds		3.06999%	3.07439%	2.98452%



NOTE 4. LONG-TERM OBLIGATIONS (continued)

Fair value: As of June 30, 2007, in connection with all swap agreements, the transactions had a total positive fair value of $11,023. Because the coupons on the City's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was developed by a pricing service using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

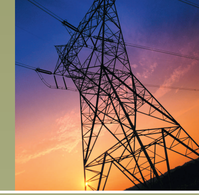
Credit risk: As of June 30, 2007, the City was exposed to credit risk in the amount of $11,023 because the swap had a positive fair value. The swap counterparties, Bear Stearns and Merrill Lynch, were rated A+ and AA-, respectively by Standard & Poor's. To mitigate the potential for credit risk, if either counterparty's credit quality falls below A-, the fair value of the swap will be collateralized by the counterparty with U.S. Government securities. Collateral would be posted with a third-party custodian.

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

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

Swap payments and associated debt: As of June 30, 2007, the debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are summarized as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

	Variable-Rate Bonds			
Fiscal Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2008	$ 525	$ 6,269	$ (286)	$ 6,508
2009	550	6,251	(285)	6,516
2010	575	6,232	(284)	6,523
2011	575	6,213	(283)	6,505
2012	2,650	6,128	(278)	8,500
2013-2017	34,175	28,214	(1,275)	61,114
2018-2022	38,375	21,793	(989)	59,179
2023-2027	38,575	15,405	(718)	53,262
2028-2032	42,275	9,164	(457)	50,982
2033-2036	39,350	1,967	(100)	41,217
Total	$ 197,625	$ 107,636	$ (4,955)	$ 300,306



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 2004 Revenue bonds and 2005 Refunding/Revenue bonds require 110% of the monthly accrued interest be included in the reserve. Additional reserves for the 1998 revenue bonds are not required due to the purchase of surety bonds to cover the reserve requirements.

NOTE 6. JOINTLY-GOVERNED ORGANIZATIONS

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

On November 1, 1980, the City of Riverside joined with the Imperial Irrigation District and the cities of Los Angeles, Anaheim, Vernon, Azusa, Banning, Colton, Burbank, Glendale and Pasadena to create the Southern California Public Power Authority (SCPPA) by a Joint Powers Agreement under the laws of the State of California. As of July 2001, the cities of Cerritos and San Marcos were admitted as members of SCPPA. In August 2003, the Authority rescinded the membership of the City of San Marcos, as the City no longer met the criteria for membership. The primary purpose of SCPPA is to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. SCPPA is governed by a Board of Directors, which consists of one representative for each of the members. During the 2006-07 and 2005-06 fiscal years, the Electric Utility paid approximately $16,854 and $15,211, respectively, to SCPPA under various take-or-pay contracts that are described in greater detail in Note 8. These payments are reflected as a component of production and purchased power or transmission expense in the financial statements.

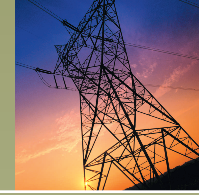
POWER AGENCY OF CALIFORNIA

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

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.

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



NOTE 7. JOINT-OWNED UTILITY PROJECT (continued)

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.

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 $138,575 and $136,039 for fiscal years ended June 30, 2007 and 2006, respectively. During fiscal year ended June 30, 2006, the City Council approved participation in SONGS through the extended operations date. As a result, all acquisitions are now depreciated through 2022, to include the construction recapture extension period. The accumulated depreciation amounted to $108,709 and $103,082 for the fiscal years ended June 30, 2007 and 2006, respectively. The Electric Utility made provisions for future decommissioning costs of $1,581 for both fiscal years plus earnings on the Decommissioning Trust Fund of $1,946 and $1,468 for fiscal years June 30, 2007 and June 30, 2006, respectively (see Note 1). The Electric Utility's portion of current and long-term debt associated with SONGS is included in the accompanying financial statements.

NOTE 8. COMMITMENTS

TAKE-OR-PAY CONTRACTS

The Electric Utility has entered into a power purchase contract with Intermountain Power Agency (IPA) for the delivery of electric power. The Electric Utility's share of IPA power is equal to 7.6 percent, or approximately 137.1 MW, of the net generation output of IPA's 1,800 MW coal-fueled generating station located in central Utah. The contract expires in 2027 and the debt fully matures in 2024.

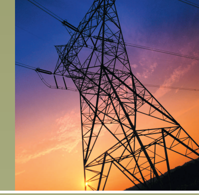
The contract constitutes an obligation of the Electric Utility to make payments solely from operating revenues. The power purchase contract requires the Electric Utility to pay certain minimum charges that are based on debt service requirements. Such payments are considered a cost of production.

The Electric Utility is a member of the Southern California Public Power Authority (SCPPA), a joint powers agency (see Note 6). SCPPA provides for the financing and construction of electric generating and transmission projects for participation by some or all of its members. To the extent the Electric Utility participates in projects developed by SCPPA, it has entered into Power Purchase or Transmission Service Agreements, entitling the Electric Utility to the power output or transmission service, as applicable, and the Electric Utility will be obligated for its proportionate share of the project costs.

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

Project	Percent Share	Entitlement	Final Maturity	Contract Expiration
Palo Verde Nuclear Generating Station	5.4 percent	11.7 MW	2017	2030
Southern Transmission System	10.2 percent	195.0 MW	2023	2027
Hoover Dam Uprating	31.9 percent	30.0 MW	2017	2017
Mead-Phoenix Transmission	4.0 percent	12.0 MW	2020	2030
Mead-Adelanto Transmission	13.5 percent	118.0 MW	2020	2030

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



NOTE 8. COMMITMENTS (continued)

Interest rates on the outstanding debt associated with the take-or-pay obligations range from 3.0 percent to 6.38 percent. The schedule below details the amount of principal and interest that is due and payable by the Electric Utility as part of the take-or-pay contract for each project in the fiscal year indicated.

	IPA	SCPPA					TOTAL
Debt Service Payments (in thousands) Year Ending June 30,	**Intermountain Power Project**	**Palo Verde Nuclear Generating Station**	**Southern Transmission System**	**Hoover Dam Upgrading**	**Mead-Phoenix Transmission**	**Mead-Adelanto Transmission**	**All Projects**
2008	$ 20,886	$ 849	$ 7,041	$ 704	$ 260	$ 2,819	$ 32,559
2009	21,852	846	6,923	704	259	2,814	33,398
2010	22,626	709	6,677	703	259	2,818	33,792
2011	26,440	706	6,711	702	289	2,814	37,662
2012	24,061	704	6,775	701	287	2,797	35,325
2013-2017	105,538	3,481	38,555	3,476	1,303	13,925	166,278
2018-2022	93,333	-	39,717	691	992	11,208	145,941
2023-2027	11,341	-	12,854	-	-	-	24,195
Total	$ 326,077	$ 7,295	$ 125,253	$ 7,681	$ 3,649	$ 39,195	$ 509,150

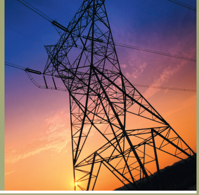
In addition to debt service, Riverside's entitlements require the payment of fuel costs, operating and maintenance, administrative and general and other miscellaneous costs associated with the generation and transmission facilities discussed above. These costs do not have a similar structured payment schedule as debt service and vary each year. The costs incurred for the year ended June 30, 2007 and 2006, are as follows (in thousands):

FISCAL YEAR	Intermountain Power Project	Palo Verde Nuclear Generating Station	Southern Transmission System	Mead-Adelanto Transmission	Mead-Phoenix Transmission	Hoover Dam Uprating	TOTAL
2007	$ 24,227	$ 2,122	$ 1,948	$ 249	$ 49	$ 96	$ 28,691
2006	$ 24,121	$ 2,122	$ 1,845	$ 220	$ 43	$ 96	$ 28,447

These costs are included in production and purchased power or transmission 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 following table.



NOTE 8. COMMITMENTS (continued)

MINIMUM OBLIGATIONS 2007-2008 (IN THOUSANDS):

Supplier	Capacity	Energy	Total
Deseret	$ 3,463	$ 1,824	$ 5,287
CDWR III	26	-	26
CDWR IV	345	-	345
BPA (two agreements)	861	-	861
Total	$ 4,695	$ 1,824	$ 6,519

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

As of June 30, 2007 and 2006, Deferred purchased power was $8,352 and $11,692, respectively, and the Utility had recorded amortization of $3,340 in both fiscal years.

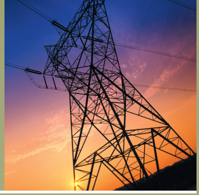
There are two separate agreements with CDWR. CDWR III is for the purchase of 23 megawatts of capacity from May through October of each year beginning June 1, 1996, for 15 years. CDWR IV is for the purchase of 30 megawatts of capacity from May through October beginning June 1, 1996, for 15 years, subject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

In early 2005, CDWR and the City disagreed that Power Sale Agreements III and IV were still in effect as of December 31, 2004. While CDWR believed the agreements were terminated, the City contended that CDWR did not provide proper notification under the terms of the Power Sale Agreements. During May and June, CDWR continued to provide power under the terms of the original contracts, pending staff's resolution of the dispute. On September 13, 2005, in order to maintain the City's long-term relationship with CDWR and to avoid costly litigation, the City Council approved the contract amendments, effectively terminating the contracts in September 2007 and reducing the final two years of the contracts to a period of May through September.

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

NUCLEAR INSURANCE

The Price-Anderson Act ("the Act") requires that all utilities with nuclear generating facilities share in the payment for claims resulting from a nuclear incident. The Act limits liability from third-party claims to approximately $10.8 billion per incident. Under the industry wide retrospective assessment program provided for under the Act, assessments are limited to $101 million per reactor for each licensee for each nuclear incident occurring at any nuclear reactor in the United States, with payments under the program limited to $15 million per reactor, per year, per event to be indexed for inflation every five years. Based on the Electric Utility's interest in Palo Verde and ownership in SONGS, the Utility would be responsible for a maximum assessment of $4,583, limited to payments of $681 per incident, per year.



NOTE 8. COMMITMENTS (continued)

RENEWABLE PORTFOLIO STANDARD ("RPS")

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

The contracts in the following table were executed as part of compliance with this standard. The Utility also has an agreement with Bonneville Power Administration for the purchase of energy credits that add to the total renewable portfolio. In the current year, renewable resources provided 9% of retail energy requirements of total power produced or purchased.

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

Supplier	Type	Maximum Contract	Contract Expiration	Estimated Annual Cost For 2008
Milliken Genco	Landfill Gas	2.3 MW	12/31/2007	$ 416
Mid Valley Genco	Landfill Gas	2.3 MW	12/31/2007	475
Riverside County (Badlands Landfill)	Landfill Gas	1.2 MW	12/31/2008	256
Salton Sea Power LLC	Geothermal	20.0 MW	5/31/2020	9,645
Wintec	Wind	8.0 MW	11/10/2021	176
Total		33.8 MW		$ 10,968

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

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

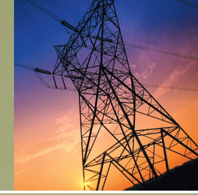
On November 10, 2006, the City of Riverside entered into a second Renewable Power Purchase Agreement with Wintec Energy, Ltd for wind generation capacity of up to 8 MW. The contract term is for 15 years, with capacity available upon completion of Wintec's Facility II Wind Turbine Project.

CONSTRUCTION COMMITMENTS

As of June 30, 2007, the Electric Utility had major commitments of approximately $15,508, with respect to unfinished capital projects, of which $11,264 is expected to be funded by bonds, $1,274 funded by rates and $2,970 funded by others.

FORWARD PURCHASE AGREEMENTS

In order to meet summer peaking requirements, the Utility may contract on a monthly or quarterly basis, for energy and/or capacity products on a short term basis. As of June 30, 2007, the Electric Utility has summer peaking commitments for fiscal year 2008, of approximately $4,026, with a market value of $4,029.



NOTE 9. LITIGATION

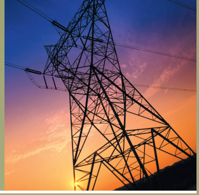
The City continues to participate in key FERC dockets impacting the City's Electric Utility, such as the California Independent System Operator's (ISO) Market Redesign and Technology Upgrade (MRTU) and the 2000-2001 Western Markets Energy Crisis Refund dockets.

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

The City is owed approximately $300 by the ISO and $1,000 by the California Power Exchange (PX), primarily due to Pacific Gas & Electric's (PG&E) defaulting on its payments to the ISO and PX in early 2001. These amounts were 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. After PG&E's default on its payments in 2001, PG&E and the PX filed voluntary Chapter 11 petitions in the U.S. Bankruptcy Courts in San Francisco, California, and Los Angeles, California, respectively. PG&E was the largest purchaser of electricity from the ISO and the PX, and therefore was the largest creditor of the ISO and PX. PG&E's various creditors' classes and the Bankruptcy Court approved a Settlement Plan under which PG&E paid the PX and ISO 100% of its debts to creditors in the same class as the City. Payments to the City of the City's share of these PG&E funds by the PX and ISO are contingent upon the FERC's issuance of orders in various dockets that will determine the methodology of the ISO's and PX's calculations of refunds and charge backs to its participants, including the City.

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

Key Historical Operating Data



POWER SUPPLY (MWH)	2006/2007	2005/2006	2004/2005	2003/2004	2002/2003
Nuclear					
San Onofre	310,400	275,100	282,700	316,600	321,800
Palo Verde	90,000	72,600	87,500	86,400	97,200
Coal					
Intermountain Power	1,130,000	1,091,000	1,081,600	1,091,700	1,029,400
Deseret	400,000	396,000	432,200	404,300	404,600
Hoover (Hydro)	34,500	35,100	28,100	35,600	36,200
Gas					
Springs	1,600	1,600	1,700	1,900	9,800
RERC	62,000	9,300	-	-	-
Renewable Resources	245,000	264,000	270,200	237,600	224,700
Other purchases	462,000	517,300	440,000	437,200	270,900
Exchanges In	107,400	89,900	83,300	95,100	89,300
Exchanges Out	(191,900)	(174,600)	(79,100)	(171,700)	(137,700)
Total:	2,651,000	2,577,300	2,628,200	2,534,700	2,346,200
System peak (MW)	586.3	550.6	519.1	517.2	474.2

ELECTRIC USE	2006/2007	2005/2006	2004/2005	2003/2004	2002/2003
Number of meters as of year end					
Residential	94,232	93,607	92,914	90,583	89,149
Commercial	10,063	10,038	10,060	9,683	9,356
Industrial	837	496	344	351	374
Other	94	153	145	149	139
Total:	105,226	104,294	103,463	100,766	99,018
Millions of kilowatt-hours sales					
Residential	748	697	675	707	618
Commercial	456	474	530	522	451
Industrial	924	810	707	687	658
Wholesale sales	295	321	470	354	378
Other	39	57	50	52	49
Total:	2,462	2,359	2,432	2,322	2,154

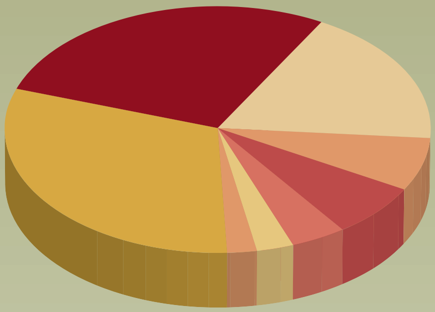
ELECTRIC FACTS	2006/2007	2005/2006	2004/2005	2003/2004	2002/2003
Average annual kWh per residential customer	7,959	7,515	7,424	7,884	6,970
Average price (cents/kWh) per residential customer	12.62	12.22	11.81	11.44	10.99
Debt service coverage ratio	3.09	2.67	3.68	3.38	2.91
Operating income as a percent of operating revenues	22.0%	18.2%	25.4%	20.3%	14.4%
Employees[1]	367	338	307	306	292

[1] Approved Positions

Key Historical Operating Data

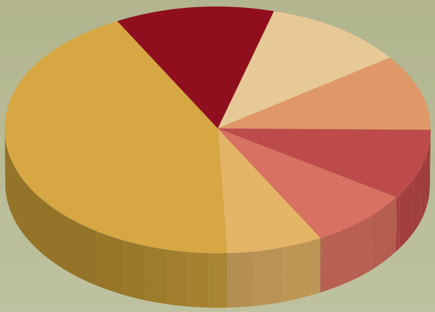
2006/2007 ELECTRIC REVENUE AND RESOURCES

Source of Revenue



- Residential Sales (31¢)
- Industrial Sales (28¢)
- Commercial Sales (18¢)
- Transmission Revenue (7¢)
- Other Revenue (7¢)
- Investment Income (4¢)
- Wholesale Sales (3¢)
- Other Sales (2¢)

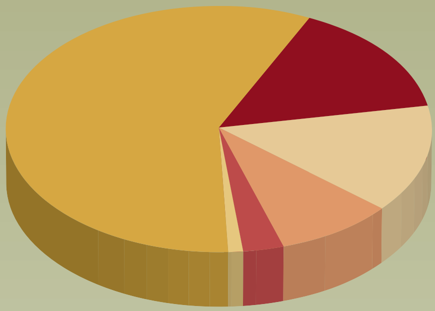
Distribution of Revenue



- Production (43¢)
- Distribution (12¢)
- Debt Service (11¢)
- Transmission (10¢)
- Transfers to the City's General Fund* (9¢)
- Additions & Replacements to the System (8¢)
- Additional Reserves (7¢)

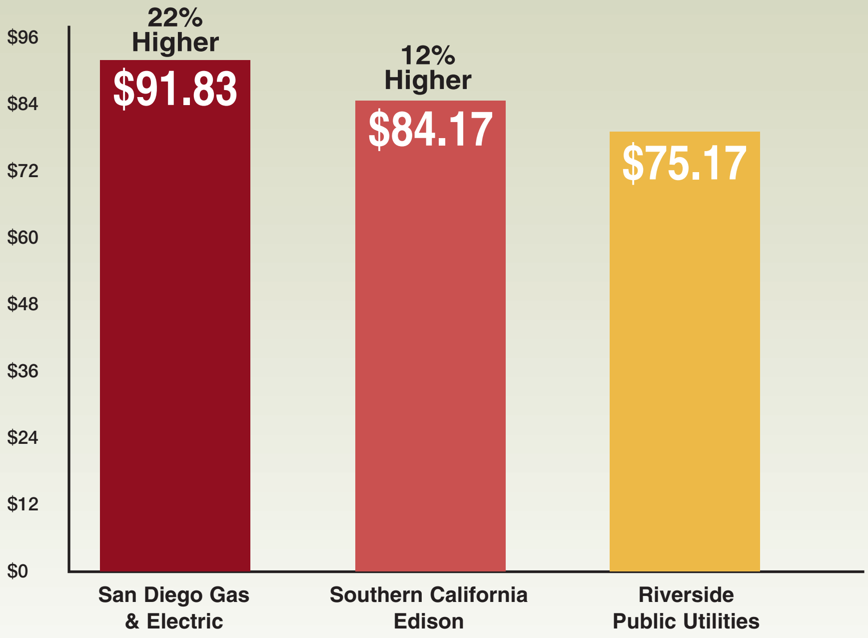
**Based on transfer of 9.0% of fiscal year 2005/2006 revenues (excludes wholesale sales, interest and other non-operating income).*

Energy Resources



- Coal (58%)
- Nuclear (15%)
- Other Purchases (14%)
- Renewables (9%)
- Gas (3%)
- Hydropower (1%)

RESIDENTIAL ELECTRIC RATE COMPARISON 600 KWH PER MONTH (AS OF JULY 1, 2007)



Electric

Key Historical Operating Data

General Fund Transfer (in millions)

2003	$15.3
2004	$16.2
2005	$18.6
2006	$22.0
2007	$27.4

Number of Meters at Year End

2003	99,018
2004	100,766
2005	103,463
2006	104,294
2007	105,226

Total Operating Revenue (in millions)

2003	$203.1
2004	$232.8
2005	$252.7
2006	$258.0
2007	$278.2

Production (in million kilowatt-hours)[1]

2003	2,346
2004	2,535
2005	2,628
2006	2,577
2007	2,651

[1]Energy shown before losses net of exchanges

Peak Day Demand (in megawatts)

2003	474.2
2004	517.2
2005	519.1
2006	550.6
2007	586.3

ELECTRIC FACTS AND SYSTEM DATA

Established	1895
Service Area Population	291,398
Service Area Size (square miles)	81.0
System Data:	
Transmission lines (circuit miles)	86.3
Distribution lines (circuit miles)	1,232
Number of substations	14
2006-07 Peak Day (megawatts)	586
Highest single hourly use:	
7/21/2006, 4pm, 108 degrees	
Historical peak (megawatts)	586
Highest single hourly use:	
7/21/2006, 4pm, 108 degrees	

BOND RATINGS

FITCH RATINGS (August '05)	AA-
STANDARD & POOR'S	A+
Debt Derivative Profile Score	2

Independent Auditors' Report

Mayer Hoffman McCann P.C.
An Independent CPA Firm
Conrad Government Services Division
2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the City of Riverside, California, Water Utility, an enterprise fund of the City, as of and for the year ended June 30, 2007 as listed in the table of contents. These financial statements are the responsibility of the City of Riverside Water Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year partial comparative information has been derived from the financial statements of the Water Utility for the year ended June 30, 2006 and, in our report dated September 30, 2006, we expressed an unqualified opinion on those financial statements.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Riverside, California, Water Utility, as of June 30, 2007 and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Independent Auditors' Report

Mayer Hoffman McCann P.C.
An Independent CPA Firm
Conrad Government Services Division
2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

To the Honorable City Council and Board of Public Utilities

City of Riverside

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2007 on our consideration of the City of Riverside's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Hoffman McCann P.C.

Irvine, California

October 19, 2007

Management's Discussion and Analysis

As management of Riverside Public Utilities (a department of the City of Riverside), we offer the readers of Riverside's Water Utility financial statements, an enterprise fund of the City, this narrative overview and analysis of the financial activities of the Water Utility (Utility) for the fiscal years ended June 30, 2007 and 2006. We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, which begin on page 51 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

Fiscal years 2007 and 2006 reflected strong operating results for the Water Utility, with retail sales exceeding the previous year's results, primarily from an expanded customer base, increased consumption due to a prolonged summer heat wave, and the effects of rate increases.

- Retail sales, net of reserve/recovery were $43,403 and $34,301 for the years ended June 30, 2007 and 2006, respectively. The increase in sales was primarily due to recent rate increases to support the Water Utility's Water Master, Water Supply and Asset Management Plans.
- The assets of the Water Utility exceeded its liabilities (equity) at the close of fiscal years 2007 and 2006 by $253,917 and $228,880, respectively. Of this amount, $39,707 and $35,344, respectively, may be used to meet the Utility's ongoing obligations to creditors and customers.
- The Utility's total equity as of June 30, 2007 and 2006 increased by $25,037 and $29,397 from fiscal years ended June 30, 2007 and 2006, respectively.
- As of June 30, 2007 and 2006, unrestricted equity represented over 106% and 103% of annual operating expenses, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

The ***Notes to the Financial Statements*** provide additional information that is essential to a full understanding of the data provided in the Water Utility's financial statements. The notes to the financial statements can be found on pages 55 to 64 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 $253,917 and $228,880 at the close of the fiscal years 2007 and 2006, respectively.

The following table summarizes the Water Utility's financial condition as of June 30, 2007, 2006 and 2005:

CONDENSED STATEMENTS OF EQUITY (NET ASSETS)

	2007	2006	2005
Current and other assets	$ 77,827	$ 86,812	$ 37,197
Capital assets	286,396	254,425	241,699
Total assets	364,223	341,237	278,896
Long-term debt outstanding	91,568	94,961	63,180
Other liabilities	18,738	17,396	16,233
Total liabilities	110,306	112,357	79,413
Invested in capital assets, net of related debt	200,832	180,708	175,041
Restricted	13,378	12,828	8,572
Unrestricted	39,707	35,344	15,870
Total equity (net assets)	$ 253,917	$ 228,880	$ 199,483

Assets

Fiscal Year 2007 Total assets of $364,223 reflect an increase of $22,986 (6.7%), mainly due to the following:

- The increase in net capital assets (Utility plant) of $31,971 is a result of significant expenses in the pipeline replacement program, system expansion and improvements, and the contribution of treatment facilities as discussed in the "Capital Assets and Debt Administration" section on page 48 to 49 of this report.
- Current and other assets reflect a net decrease of $8,985 due to positive operating results and the use of bond proceeds and operating cash for construction projects and equipment. Restricted assets decreased by $14,124 primarily due to a $15,121 decrease in bond proceeds used for capital projects, offset by a $516 increase in the Utility's Conservation and Reclamation Program assets. Unrestricted assets increased by $5,139 largely from a $6,362 increase in cash and cash equivalents from positive operating results, offset by a $819 decrease in accounts receivable.

Fiscal Year 2006 Total assets of $341,237 increased $62,341 (22.4%), due to a $12,726 increase in net capital assets (Utility plant), primarily relating to improvements to the Water Utility's distribution system and treatment facilities, and a $49,615 increase in current and other assets. The $49,615 is comprised of $28,900 in restricted cash and investments (predominantly from $34,400 in new bond proceeds offset by use of bond proceeds for construction projects), $2,094 in accounts receivable, and $17,854 in cash from operations, primarily relating to sales of excess water property.

Liabilities

Fiscal Year 2007 The Utility's total liabilities were $110,306, a decrease of $2,051 (1.8%), due to the following:

- Long-term debt outstanding decreased by $3,393 largely due to $4,300 in principal repayments, offset by the amortization of deferred bond refunding costs, capital appreciation, and bond discounts.

- Other liabilities increased by $1,342, primarily from a $1,188 increase in accounts payable.

Fiscal Year 2006 The Water Utility's liabilities increased by $32,944 (41.5%) to a total of $112,357. Long-term obligations increased by $31,781 principally due to $61,125 Water Refunding/Revenue bond issue, offset by a $26,598 deposit into a refunding escrow account and $3,912 of principal payments.

Equity (Net Assets)

Fiscal Year 2007 The Water Utility's equity, which represents the difference between the Utility's resources and its obligations, totaled $253,917, an increase of $25,037 (10.9%), comprised of the following:

- The largest portion of the Utility's equity is $200,832 (79.1%), and reflects its investment in capital assets, such as treatment, pumping, source of supply, transmission and distribution facilities, less any related outstanding debt used to acquire those assets. This portion increased by $20,124 (11.1%) over prior fiscal year due to the amount of capital assets constructed or purchased that are not bond financed. The Water Utility uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the Balance Sheets must come from other sources such as operations, since the capital assets themselves cannot be used to liquidate these long-term obligations. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.

- The restricted portion totaled $13,378 (5.3% of total equity), and represents resources that are subject to internal and external restrictions on how they may be used. These are reserved for items such as debt repayment and funds collected for the Water Conservation and Reclamation programs. This portion increased by $550 from prior fiscal year primarily due to Water Conservation and Reclamation program assets.

- The unrestricted portion totaled $39,707 (15.6% of total equity), an increase of $4,363, primarily attributable to positive operating results. This portion may be used to meet the Utility's ongoing obligations to creditors and customers.

Fiscal Year 2006 Total Water fund equity increased $29,397 (14.7%) to a total of $228,880. The portion of equity invested in capital assets, net of related debt, increased by $5,667. The restricted portion increased by $4,256, due to an increase in the required debt service reserve as a result of the $61,125 bond issue. The unrestricted portion increased by $19,474 primarily from positive operating results.

Management's Discussion and Analysis

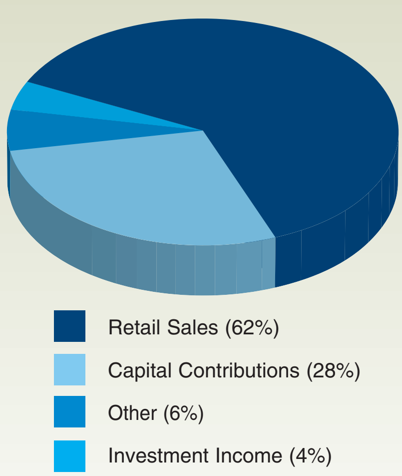
The Water Utility's overall increase in equity of $25,037 and $29,397 during fiscal years 2007 and 2006, respectively, due to positive operating results can be further explained in the following Condensed Statements of Changes in Equity:

CONDENSED STATEMENTS OF CHANGES IN EQUITY (NET ASSETS)

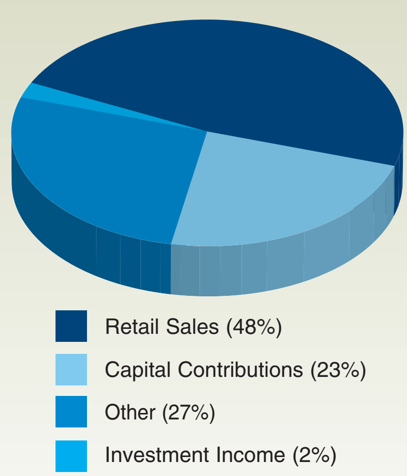
	2007	2006	2005
Revenues:			
Retail sales, net	$ 43,403	$ 34,301	$ 30,754
Other revenues	4,491	19,708	5,066
Investment income	2,931	1,773	582
Capital contributions	20,074	16,511	11,826
Total revenues	70,899	72,293	48,228
Expenses:			
Operations and maintenance	23,449	21,514	20,129
Purchased energy and water	6,233	5,742	6,331
Depreciation	7,783	7,142	6,314
Interest expense and fiscal charges	4,469	4,959	3,812
Total expenses	41,934	39,357	36,586
Transfers to the City's general fund	(3,928)	(3,539)	(3,487)
Special item	-	-	(3,014)
Changes in equity	25,037	29,397	5,141
Equity, July 1	228,880	199,483	194,342
Equity, June 30	$ 253,917	$ 228,880	$ 199,483

REVENUES BY SOURCES

June 30, 2007



June 30, 2006



Management's Discussion and Analysis

Fiscal Year 2007 Total revenues of $70,899, decreased by $1,394 (1.9%), due to the following major changes:

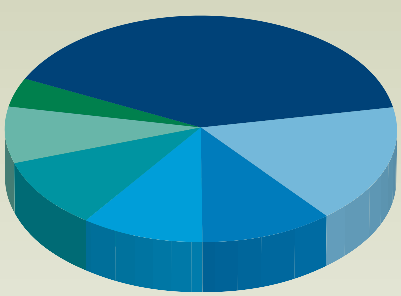
- Retail sales (residential, commercial, industrial, and other sales), net of reserve/recovery of $43,403 was an increase of $9,102 (26.5%) over the prior fiscal year. Retail sales continue to be the primary revenue source for the Water Utility, making up 61.2% of total revenues. The increase in retail sales is primarily due to an 8.5% rate increase that became effective June 1, 2006, a 12% increase that became effective November 1, 2006 as part of the SAFE W.A.T.E.R. Plan, and an 11.3% increase in retail consumption.
- Other revenues of $4,491 decreased by $15,217 (77.2%) predominantly due to $15,384 received from the sale of surplus property in the previous fiscal year.
- Capital contributions were $20,074 and reflect an increase of $3,563 (21.6%), primarily due to a non-cash contribution of $7,243 for treatment facilities from settlement agreements with parties responsible for contaminating the Water Utility's ground water resources, offset by a decrease of $5,598 in construction projects funded by developers.
- Investment income of $2,931 reflects an increase of $1,158 (65.3%), due to an increase in operating cash resulting in increased interest earnings of $726, and an overall net increase in the fair market value of investments of $432.

Fiscal Year 2006 Total revenues of $72,293, reflect an increase of $24,065 (49.9%), with significant changes due to:

- Net retail sales were $34,301, making up 47.4% of total revenues. Net retail sales increased $3,547 (11.5%) due to an 8.5% rate increase that became effective June 1, 2005 and a 3.6% increase in consumption over prior year.
- Other revenues of $19,708 increased by $14,642 (289.0%) due to $15,384 received from sales of surplus property.
- Capital contributions were $16,511, an increase of $4,685 (39.6%), reflecting a higher level of construction projects funded by developers.

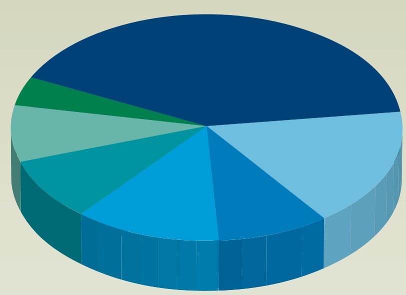
EXPENSES BY SOURCES

June 30, 2007



- Operations (40%)
- Depreciation (17%)
- Maintenance (11%)
- Interest Expense (10%)
- Purchased Energy (10%)
- Contributions to the City's General Fund (8%)
- Purchased Water (4%)

June 30, 2006



- Operations (41%)
- Depreciation (17%)
- Maintenance (9%)
- Interest Expense (12%)
- Purchased Energy (9%)
- Contributions to the City's General Fund (8%)
- Purchased Water (4%)

Fiscal Year 2007 Total expenses were $41,934, an increase of $2,577 (6.5%), due to the items discussed below:

- Purchased energy and water costs of $6,233 increased by $491 (8.6%) due to a $624 increase in the cost of electricity and gas necessary for operations, offset by a $133 reduction in purchased water costs.
- Operations and maintenance costs were $23,449, and reflected an increase of $1,935 (9.0%), largely due to an increase in labor costs, professional service costs and maintenance expenses.

Fiscal Year 2006 Total expenses were $39,357, reflecting a $2,771 (7.6%) increase, due to higher interest expense as a result of a new revenue bond issue, increased costs for labor, taxes and assessments, offset by lower purchased water costs and charges for professional services.

Transfers

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

Fiscal Year 2007 The Water Utility transferred the maximum allowable by the City Charter, or $3,928, an increase of $389, as a result of an increase in retail sales of $3,547 for fiscal year 2006.

Fiscal Year 2006 Transfers to the City's general fund of $3,539, increased by $52, primarily the result of a $391 increase in retail sales for fiscal year 2005.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

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

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

	2007	2006	2005
Source of supply	$ 22,266	$ 22,727	$ 21,935
Pumping	7,641	7,918	4,714
Treatment	20,293	13,483	12,758
Transmission and distribution	195,557	190,708	173,732
General	3,680	3,066	3,352
Land	3,923	3,891	6,283
Intangible	5,969	5,969	6,269
Construction in progress	27,067	6,663	12,656
Total	$ 286,396	$ 254,425	$ 241,699

Fiscal Year 2007 The Water Utility's investment in capital assets, net of accumulated depreciation, was $286,396, an increase of $31,971 (12.6%). The increase resulted primarily from the following significant capital projects:

- $11,279 for continued pipeline replacement programs.
- $10,045 for system expansion and improvements including pump station replacements and facilities rehabilitation.
- $7,243 from non-cash contributions for treatment facilities from settlement agreements with parties responsible for contaminating the Water Utility's ground water resources.

Fiscal Year 2006 Capital assets, net of depreciation, for the Water Utility increased $12,726 (5.3%), for a total of $254,425. Major capital projects included the following:

- $10,700 related to the ongoing pipeline replacement program.
- $5,300 related to system expansion and improvements to water facilities.

Additional information regarding capital assets can be found in Note 3 on Page 60 of this report.

Debt Administration

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

	2007	2006	2005
Revenue bonds	$ 99,515	$ 103,815	$ 71,015
Contracts payable	974	979	1,015
Less:			
Current portion	(4,505)	(4,450)	(4,225)
Unamortized deferred bond refunding costs	(2,510)	(2,587)	(504)
Unamortized capital appreciation	(1,629)	(2,487)	(3,499)
Unamortized bond discounts	(277)	(309)	(622)
Total	$ 91,568	$ 94,961	$ 63,180

The Water Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants, of 1.25. The Water Utility's debt service coverage ratio was 3.38, 5.11, and 2.85 at June 30, 2007, 2006 and 2005, respectively. The revenue bond debt is backed by the revenues of the Utility.

Fiscal Year 2007 Total long-term debt decreased by $3,393 (3.6%) to a total of $91,568, due to repayment of principal on outstanding revenue bonds and the amortization of deferred bond refunding costs, capital appreciation and bond discounts.

Fiscal Year 2006 Long-term debt of $94,961 increased by $31,781 (50.3%), due to the issuance of a $61,125 variable rate Water Refunding/Revenue bond issue offset by the repayment of principal on the Water Utility's outstanding revenue bonds.

Additional information on the Water Utility's long-term debt can be found in Note 4 on pages 60 to 63 of this report.

Credit Ratings

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

ECONOMIC FACTORS AND RATES

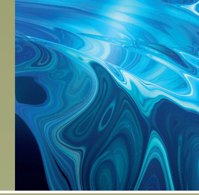
Although inflationary trends in the Riverside region continue to compare favorably to the national indices, the Water Utility's escalation in costs are not strictly attributable to inflation. One of the primary drivers of the increase in costs relates to the Water Utility's aging infrastructure.

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

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, source of supply, ground water contamination, stricter contaminant guidelines, legislative mandates, and others. In an effort to control costs to its customers, the Utility is aggressive in pursuing outside parties, and holding them responsible for any negative effects they may cause to Riverside's water quality.

Requests for Information

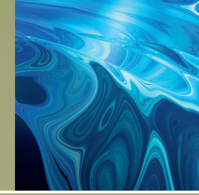
This financial report is designed to provide a general overview of the City of Riverside Water Utility's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Assistant General Manager Finance/Customer Relations or the Utilities Assistant Chief Financial Officer, Riverside Public Utilities, 3901 Orange Street, Riverside, CA 92501. Additional financial information can also be obtained by visiting www.riversidepublicutilities.com.



Balance Sheets

ASSETS	June 30, 2007	June 30, 2006
	(in thousands)	
UTILITY PLANT:		
Source of supply	$ 32,822	$ 32,684
Pumping	14,053	13,986
Treatment	22,697	15,449
Transmission and distribution	284,010	273,785
General	10,045	8,969
	363,627	344,873
Less accumulated depreciation	(114,190)	(106,971)
	249,437	237,902
Land	3,923	3,891
Intangible	5,969	5,969
Construction in progress	27,067	6,663
Total utility plant (Note 3)	286,396	254,425
RESTRICTED ASSETS:		
Cash and cash equivalents (Note 2)	4,475	4,424
Cash and investments at fiscal agent (Note 2)	17,982	32,673
Total restricted non-current assets	22,457	37,097
OTHER NON-CURRENT ASSETS:		
Deferred pension costs	5,838	5,876
Deferred bond issuance costs	1,003	1,067
Advances to the City's general fund	20	28
Total other non-current assets	6,861	6,971
Total non-current assets	315,714	298,493
CURRENT ASSETS:		
Unrestricted:		
Cash and cash equivalents (Note 2)	40,127	33,765
Accounts receivable, less allowance for doubtful accounts 2007 $58; 2006 $36	5,290	4,283
Accounts receivable, other utilities and governments, less allowance for doubtful accounts 2007 $155; 2006 $215	1,838	3,664
Accrued interest receivable	399	327
Prepaid expenses	2	368
Total unrestricted current assets	47,656	42,407
Restricted assets:		
Cash and cash equivalents (Note 2)	741	276
Conservation and Reclamation Programs Receivable	112	61
Total restricted current assets	853	337
Total current assets	48,509	42,744
Total assets	$ 364,223	$ 341,237

See accompanying notes to the financial statements



Balance Sheets

EQUITY AND LIABILITIES	June 30, 2007	June 30, 2006
	(in thousands)	
EQUITY:		
Invested in capital assets, net of related debt	$ 200,832	$ 180,708
Restricted for:		
Debt service (Note 5)	12,525	12,491
Conservation & Reclamation Programs	853	337
Unrestricted	39,707	35,344
Total equity	253,917	228,880
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4)	91,568	94,961
OTHER NON-CURRENT LIABILITIES:		
Pension obligation (Note 4)	5,761	5,823
Arbitrage liability	416	-
Total other non-current liabilities	6,177	5,823
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	318	325
Current portion of long-term debt (Note 4)	4,355	4,300
Total current liabilities payable from restricted assets	4,673	4,625
CURRENT LIABILITIES:		
Accounts payable	4,436	3,248
Accrued liabilities	1,959	2,150
Current portion of long-term debt (Note 4)	150	150
Customer deposits	1,343	1,400
Total current liabilities	7,888	6,948
Total liabilities	110,306	112,357
COMMITMENTS AND CONTINGENCIES (NOTES 6 AND 7)	-	-
Total equity and liabilities	$ 364,223	$ 341,237

See accompanying notes to the financial statements

Statements of Revenues, Expenses and Changes in Equity

	For the Fiscal Years Ended June 30, 2007	2006
	(in thousands)	
OPERATING REVENUES:		
Residential sales	$ 28,396	$ 22,336
Commercial sales	13,255	10,470
Other sales	1,916	1,617
Wholesale sales	164	151
Conservation & Reclamation	737	434
Other operating revenue	2,602	2,598
Total operating revenues before (reserve)/recovery	47,070	37,606
Reserve for uncollectible, net of bad debt recovery	(164)	(122)
Total operating revenues, net of (reserve)/recovery	46,906	37,484
OPERATING EXPENSES:		
Operations	18,382	17,593
Maintenance	4,846	3,693
Purchased energy	4,534	3,910
Purchased water	1,699	1,832
Conservation & Reclamation Programs	221	228
Depreciation	7,783	7,142
Total operating expenses	37,465	34,398
Operating income	9,441	3,086
NON-OPERATING REVENUES (EXPENSES):		
Investment income	2,931	1,773
Interest expense and fiscal charges	(4,469)	(4,959)
Gain (loss) on sale of capital assets	(144)	12
Gain on sale of land	70	15,384
Other	1,062	1,129
Total non-operating revenues (expenses)	(550)	13,339
Income before contributions and transfers	8,891	16,425
Capital contributions	20,074	16,511
Transfers out - contributions to the City's general fund	(3,928)	(3,539)
Total capital contributions and transfers out	16,146	12,972
Increase in equity	25,037	29,397
EQUITY, BEGINNING OF YEAR	228,880	199,483
EQUITY, END OF YEAR	$ 253,917	$ 228,880

See accompanying notes to the financial statements

Statements of Cash Flows

	For the Fiscal Years Ended June 30, 2007	2006
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	$ 47,781	$ 35,497
Cash paid to suppliers and employees	(28,445)	(26,476)
Other receipts	1,062	1,129
Net cash provided by operating activities	20,398	10,150
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(3,928)	(3,539)
Principal paid on pension obligation bonds	(62)	(67)
Net cash used by non-capital financing activities	(3,990)	(3,606)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(25,469)	(17,167)
Proceeds from the sale of utility plant	103	18,327
Principal paid on long-term obligations	(4,305)	(3,912)
Interest paid on long-term obligations	(3,445)	(4,086)
Proceeds from the sale of revenue bonds, net of bond premium	-	61,824
Deposit to escrow account for advance bond refunding	-	(24,450)
Bond issuance cost	-	(2,940)
Capital contributions	5,611	10,878
Net cash provided (used) by capital and related financing activities	(27,505)	38,474
CASH FLOWS FROM INVESTING ACTIVITIES:		
Reduction in advances to the City's general fund	8	20
Purchases of investment securities	(430)	(3,589)
Income from investments	3,276	1,663
Net cash provided (used) by investing activities	2,854	(1,906)
Net increase (decrease) in cash and cash equivalents	(8,243)	43,112
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (including $29,327 and $4,069 at June 30, 2006 and June 30, 2005, respectively, reported in restricted accounts)	63,092	19,980
CASH AND CASH EQUIVALENTS, END OF YEAR (including $14,722 and $29,327 at June 30, 2007 and June 30, 2006, respectively, reported in restricted accounts)	$ 54,849	$ 63,092
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 9,441	$ 3,086
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	7,783	7,142
Amortization of deferred charges-pension costs	38	14
Increase (decrease) in allowance for uncollectible accounts	(38)	28
Decrease (increase) in accounts receivable	806	(2,172)
Decrease (increase) in prepaid expenses	366	(368)
Increase in accounts payable	1,188	1,133
Increase (decrease) in accrued liabilities	(191)	123
Increase (decrease) in customer deposits	(57)	35
Other receipts	1,062	1,129
Net cash provided by operating activities	$ 20,398	$ 10,150
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions - capital assets	14,463	5,633
Increase in fair value of investments	23	6

Water

See accompanying 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, except for certain areas served by another water utility.

BASIS OF ACCOUNTING

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

USE OF ESTIMATES

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

REVENUE RECOGNITION

Water Utility customers are billed monthly. Unbilled water service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled $2,732 at June 30, 2007, and $2,553 at June 30, 2006.

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

UTILITY PLANT AND DEPRECIATION

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

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

Supply, pumping and treatment plant……………………………………..……..15-60 years
Transmission and distribution plant……………………………………..…....25-50 years
General plant and equipment…………………………………………..……...3-50 years

RESTRICTED ASSETS

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CASH AND INVESTMENTS

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

The City values its cash and investments in accordance with provisions of Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools (GASB 31)," which requires governmental entities, including governmental external investment pools, to report certain investments, at fair value in the Statements of Net Assets/Balance Sheets and recognize the corresponding change in the fair value of investments in the year in which the change occurred. Fair value is determined using published market prices.

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

City-wide information concerning cash and investments for the year ended June 30, 2007, including authorized investments, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and investments may be found in the notes to the City's "Comprehensive Annual Financial Report."

CASH AND INVESTMENTS AT FISCAL AGENTS

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

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

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

CUSTOMER DEPOSITS

The City holds customer deposits as security for the payment of utility bills. The Water Utility's portion of these deposits as of June 30, 2007 and 2006, respectively, was $1,343 and $1,400 (including $969 and $1,032, respectively, held on behalf of La Sierra Water Company pending dissolution and distribution of the remaining cash asset to shareholders, of which the City is the largest owner).

COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due employees at June 30, 2007 and 2006. The Water Utility treats compensated absences due employees as an expense and a current liability. The amount accrued for compensated absences was $1,899 at June 30, 2007, and $2,114 at June 30, 2006, and is included in accrued liabilities in the accompanying Balance Sheets.

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INSURANCE PROGRAMS

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 based on actuarial estimates of the amounts needed to fund prior and current year claims and incidents that have been incurred but not reported. The City maintains property insurance on most City property holdings, including Utility plant with a limit of $100,000.

City-wide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risks for the year ended June 30, 2007, may be found in the notes to the City's "Comprehensive Annual Financial Report."

Although the ultimate amount of losses incurred through June 30, 2007, 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 $219 and $376 for the years ended June 30, 2007 and 2006, respectively. Any losses above the City's reserves would be covered through increased rates charged to the Water Utility in future years.

EMPLOYEE RETIREMENT PLAN

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

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

Employee contributions are 8.0 percent of their annual covered salary. The Water Utility is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The employer portion of PERS funding as of June, 30 2007 and 2006, was 13.18 percent and 19.74 percent, respectively, of annual covered payroll. The Water Utility pays both the employee and employer contributions. The total Water Utility's contribution to PERS as of June 30, 2007 and 2006, was $1,579 and $1,539, respectively.

City-wide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the fiscal year ended June 30, 2007, and recent trend information may be found in the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2007.

PENSION OBLIGATION BONDS

In 2005, the City issued Pension Obligation Bonds in the amount of $60,000, of which the Water Utility's share is $5,890 as reflected in the accompanying Balance Sheet as deferred pension costs and a corresponding long-term obligation. The deferred charge relating to the net pension asset will be amortized over 19 years in accordance with the method used by CalPERS for calculating actuarial gains and losses. The Bonds will be used to fund the unfunded actuarial accrued liability for non-safety employees and the proceeds were deposited with CalPERS. The balance in deferred pension costs as of June 30, 2007 and 2006 was $5,838 and $5,876, respectively. For more discussion relating to the City's issue, see the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2007.

ARBITRAGE LIABILITY

The Tax Reform Act of 1986 (the Act) requires the Water Utility to calculate and remit rebatable arbitrage earnings to the Internal Revenue Service. Certain debt and interest earnings on the proceeds of the Water Utility are subject to the requirements of the Act which contain yield restrictions on investment of proceeds from tax-exempt financing in higher yielding taxable securities. The balance in arbitrage liability as of June 30, 2007 was $416.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

EQUITY

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

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

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

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

CONTRIBUTIONS TO THE CITY'S GENERAL FUND

Pursuant to the City Charter, the Water Utility may transfer up to 11.5 percent of its prior year's gross operating revenues to the City's general fund. In fiscal years 2006-07 and 2005-06, the Water Utility transferred 11.5 percent of gross operating revenues, or $3,928 and $3,539, respectively.

CASH AND CASH EQUIVALENTS

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

BUDGETS AND BUDGETARY ACCOUNTING

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

RECLASSIFICATIONS

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

PRIOR YEAR DATA

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

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2007 and 2006, consist of the following (in thousands):

	June 30, 2007	June 30, 2006
	(Fair Value)	
Equity interest in City Treasurer's investment pool	$ 45,343	$ 38,465
Investments at fiscal agent	17,982	32,673
Total cash and investments	$ 63,325	$ 71,138

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

	June 30, 2007	June 30, 2006
Unrestricted cash and cash equivalents	$ 40,127	$ 33,765
Restricted cash and cash equivalents	5,216	4,700
Restricted cash and investments at fiscal agent	17,982	32,673
Total cash and investments	$ 63,325	$ 71,138

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

		Remaining Maturity (in Months)			
Investment Type	Total	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months
Held by fiscal agent					
Money market funds	$ 107	$ 107	$ -	$ -	$ -
Federal agency securities	415	415	-	-	-
Investment contracts[1]	15,029	-	9,506	-	5,523
Commercial paper	2,431	-	-	2,431	-
City Treasurer's investment pool [2]					
Money market funds	3,609	3,609	-	-	-
Federal agency securities	27,808	5,736	3,980	18,092	-
Corp medium term notes	2,270	-	2,270	-	-
State investment pool	11,656	11,656	-	-	-
Total	$ 63,325	$ 21,523	$ 15,756	$ 20,523	$ 5,523

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

		Rating as of Year End			
Investment Type	Total	AAA	Aa	A-1	Unrated
Held by fiscal agent					
Money market funds	$ 107	$ 107	$ -	$ -	$ -
Federal agency securities	415	415	-	-	-
Investment contracts	15,029	15,029	-	-	-
Commercial paper	2,431	-	-	2,431	-
City Treasurer's investment pool [2]					
Money market funds	3,609	-	-	-	3,609
Federal agency securities	27,808	27,808	-	-	-
Corp medium term notes	2,270	-	2,270	-	-
State investment pool	11,656	-	-	-	11,656
Total	$ 63,325	$ 43,359	$ 2,270	$ 2,431	$ 15,265

[1] Amounts related to bond construction proceeds are invested in specific maturities but are available for construction of capital assets as funding is needed.

[2] Additional information on investment types and credit risk may be found in the City's "Comprehensive Annual Financial Report."

NOTE 3. UTILITY PLANT

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2007 and 2006 (in thousands):

	Balance, As of 6/30/05	Additions	Retirements/ Transfers	Balance, As of 6/30/06	Additions	Retirements/ Transfers	Balance, As of 6/30/07
Source of supply	$ 31,315	$ 1,377	$ (8)	$ 32,684	$ 138	$ -	$ 32,822
Pumping	10,515	3,471	-	13,986	67	-	14,053
Treatment	14,313	1,136	-	15,449	7,248	-	22,697
Transmission and distribution	251,583	22,374	(172)	273,785	10,873	(648)	284,010
General	8,977	234	(242)	8,969	1,210	(134)	10,045
Depreciable utility plant	316,703	28,592	(422)	344,873	19,536	(782)	363,627
Less accumulated depreciation:							
Source of supply	(9,380)	(587)	10	(9,957)	(595)	(4)	(10,556)
Pumping	(5,801)	(267)	-	(6,068)	(344)	-	(6,412)
Treatment	(1,555)	(411)	-	(1,966)	(438)	-	(2,404)
Transmission and distribution	(77,851)	(5,359)	133	(83,077)	(5,819)	443	(88,453)
General	(5,625)	(518)	240	(5,903)	(586)	124	(6,365)
Accumulated depreciation	(100,212)	(7,142)	383	(106,971)	(7,782)	563	(114,190)
Net depreciable utility plant	216,491	21,450	(39)	237,902	11,754	(219)	249,437
Land	6,283	221	(2,613)	3,891	35	(3)	3,923
Intangible	6,269	-	(300)	5,969	-	-	5,969
Construction in progress	12,656	22,831	(28,824)	6,663	24,294	(3,890)	27,067
Nondepreciable utility plant	25,208	23,052	(31,737)	16,523	24,329	(3,893)	36,959
Total utility plant	$ 241,699	$ 44,502	$ (31,776)	$ 254,425	$ 36,083	$ (4,112)	$ 286,396

NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2007 and 2006 (in thousands):

	Balance, As of 6/30/05	Additions	Reductions	Balance, As of 6/30/06	Additions	Reductions	Balance, As of 6/30/07	Due Within One Year
Revenue bonds	$ 66,390	$ 58,854	$ (26,812)	$ 98,432	$ -	$ (3,333)	$ 95,099	$ 4,355
Pension obligation	5,890	-	(67)	5,823	-	(62)	5,761	79
Water stock acquisition rights	1,015	-	(36)	979	-	(5)	974	150
Arbitrage liability	-	-	-	-	416	-	416	-
Total long-term obligations	$ 73,295	$ 58,854	$ (26,915)	$ 105,234	$ 416	$ (3,400)	$ 102,250	$ 4,584

NOTE 4. LONG-TERM OBLIGATIONS (continued)

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

	June 30, 2007	June 30, 2006
Contracts Payable		
Water Stock Acquisitions: Payable on demand to various water companies	$ 974	$ 979
Total contracts payable	974	979
Revenue Bonds Payable		
$69,840 1991 Water Revenue Bonds: $25,900 serial capital appreciation bonds due in annual installments from $3,235 to $3,240 from October 1, 2007 through October 1, 2010, interest from 6.9 percent to 7.0 percent; (partially advance refunded in 1998)	12,950	16,185
$30,965 1998 Water Refunding/Revenue Bonds: $15,055 serial bonds due in annual installments from $285 to $3,690 through October 1, 2013, interest from 4.5 percent to 5.38 percent; $10,155 term bonds due October 1, 2018, interest at 5.0 percent; $5,755 term bonds due October 1, 2027; a portion of the serial and term bonds were advance refunded on September 20, 2005 with the 2005 Water Refunding/Revenue bonds	20,990	21,265
$20,000 2001 Water Revenue Bonds: $10,070 serial bonds due in annual installments from $405 to $585 through October 1, 2016, interest from 3.40 percent to 4.75 percent; $4,345 term bonds due October 1, 2026, and $5,585 term bonds due October 1, 2031 were advance refunded on September 20, 2005 with the 2005 Water Refunding/Revenue bonds	4,850	5,240
$61,125 2005 Water Refunding/Revenue Bonds: $61,125 Auction Rate Securities due in annual installments from $425 to $3,950 through October 1, 2035. Interest is variable and rate is subject to weekly repricing (rate at June 26, 2007 was 3.60 percent).	60,725	61,125
Total water revenue bonds payable	99,515	103,815
Total water revenue bonds and contracts payable	100,489	104,794
Unamortized deferred bond refunding costs	(2,510)	(2,587)
Unamortized capital appreciation	(1,629)	(2,487)
Unamortized bond discount	(277)	(309)
Total water revenue bonds and contracts payable, net of deferred bond refunding costs, capital appreciation and bond discount	96,073	99,411
Less current portion	(4,505)	(4,450)
Total long-term water revenue bonds and contracts payable	$ 91,568	$ 94,961

NOTE 4. LONG-TERM OBLIGATIONS (continued)

Annual debt service requirements to maturity, as of June 30, 2007, are as follows (in thousands):

	2008	2009	2010	2011	2012	2013-2017	2018-2022	2023-2027	2028-2032	2033-2036	Total
Principal	$ 4,505	$ 4,525	$ 4,565	$ 4,615	$ 4,740	$ 22,534	$ 11,430	$ 14,025	$ 15,700	$ 13,850	$ 100,489
Interest	3,194	3,153	3,109	3,063	3,110	11,338	7,889	5,807	3,448	890	45,001
Total	$ 7,699	$ 7,678	$ 7,674	$ 7,678	$ 7,850	$ 33,872	$ 19,319	$ 19,832	$ 19,148	$ 14,740	$ 145,490

ADVANCE REFUNDING

In prior years the Water Utility defeased certain Revenue Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Water Utility's financials statements. At fiscal year ended June 30, 2007, $22,560 of bonds outstanding are considered defeased.

2005 WATER REFUNDING/REVENUE BONDS

On September 20, 2005, the Water Utility issued $61,125 of Water Refunding/Revenue Bonds, in the form of Auction Rate Securities, to finance capital improvement programs and refund certain existing Water revenue bonds. $30,000 of Water revenue bonds will be used to finance the costs of certain improvements to the City's Water System as part of the Capital Improvement Program. The remaining portion was used to refund all the outstanding 1994 FARECal bonds ($3,425), $7,705 of the outstanding 1998, and $13,320 of the outstanding 2001 Water revenue bond issues. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $2,271. This difference is being charged to operations using a proportional method. The City completed the current refunding to reduce net aggregate debt service payments over the next 26 years by $3,663 and to obtain an economic gain (difference between present value of the old and new debt service payments) of $2,303. Annual principal payments ranging from $425 to $3,950 are due from October 1, 2007 through October 1, 2035. Assuming a variable rate of 3.2%, the all-in true interest cost for this issue is 3.54%.

INTEREST RATE SWAPS ON REVENUE BONDS

Objective: As a means to lower borrowing costs, when compared against fixed-rate bonds at the time of issuance in September 2005, the City entered into interest rate swap agreements in connection with its $61,125 2005 Water Refunding/Revenue Bonds. The intention of the swap was to effectively change the City's variable interest rate on the bonds to a synthetic fixed rate of 3.20% for the respective Water Refunding/Revenue Bonds.

Terms: Under the swaps, the City pays the counterparty a fixed payment as noted above and receives a variable payment computed as 62.68% of the London Interbank Offering Rate ("LIBOR") one month index plus 12 basis points. The swaps have notional amounts equal to the principal amounts stated above. Starting in fiscal year 2007, the notional value of the swaps and the principal amounts of the associated debt decline by $400 to $3,950 until the debt is completely retired in fiscal year 2036. The bonds' variable rate coupons are established on a weekly basis through the results of an auction process administered through an auction agent, termed Auction Rate Securities ("ARS").

NOTE 4. LONG-TERM OBLIGATIONS (continued)

The bonds and the related swap agreements for the 2005 Water Refunding/Revenue Bonds mature on October 1, 2035. As of June 30, 2007, rates were as follows:

Interest Rate Swap:	Terms	Rates
Fixed payment to counterparty	Fixed	3.20000%
Variable payment from counterparty	62.68 LIBOR + 12bps	(3.26362%)
Net interest rate swap payments		(0.06362%)
Variable-rate bond coupon payments	ARS	3.12994%
Synthetic interest on bonds		3.06632%

Fair value: As of June 30, 2007, in connection with all swap agreements, the transactions had a total positive fair value of $3,371. Because the coupons on the City's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was developed by a pricing service using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Credit risk: As of June 30, 2007, the City was exposed to credit risk in the amount of $3,371 because the swap had a positive value. The swap counterparty, Bear Stearns, was rated A+ by Standard & Poor's. To mitigate the potential for credit risk, if the counterparty's credit quality falls below A-, the fair value of the swap will be collateralized by the counterparty with U.S. Government securities. Collateral would be posted with a third-party custodian.

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

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

Swap payments and associated debt: As of June 30, 2007, the debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are summarized as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30,	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Interest Rate Swaps, Net	Total
2008	$ 425	$ 1,887	$ 38	$ 2,350
2009	425	1,874	38	2,337
2010	425	1,861	37	2,323
2011	450	1,847	37	2,334
2012	800	1,821	37	2,658
2013-2017	4,075	8,714	176	12,965
2018-2022	10,550	7,563	153	18,266
2023-2027	14,025	5,533	112	19,670
2028-2032	15,700	3,208	65	18,973
2033-2036	13,850	726	15	14,591
Total	$ 60,725	$ 35,034	$ 708	$ 96,467

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 2005 Refunding/Revenue bonds require 110% of the monthly accrued interest be included in the reserve. Additional reserves for the 1998 revenue bonds are not required due to the purchase of surety bonds to cover the reserve requirements.

NOTE 6. LITIGATION

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

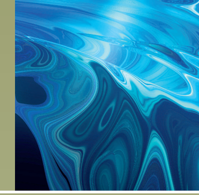
The Water Utility is also a plaintiff in a lawsuit against the manufacturers and distributors of methyl tertiary-butyl ether (MTBE) and its by-products, and of fuel containing these chemicals, arising out of the threat to the Water Utility wells of contamination with those chemicals from leaking underground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

The defendants removed this lawsuit to federal court and then transferred the case to the Judicial Panel on Multidistrict Litigation, New York, where it was consolidated with all other pending MTBE water contamination litigation cases in the country. The consolidated cases are in the discovery phase, with no trial date set.

The City also detected perchlorate in a number of its drinking water wells. While Lockheed Martin has not admitted liability for the presence of perchlorate in the City's wells, Lockheed Martin has agreed to pay for the design, construction, installation, rental and permitting, and to reimburse the City for its operational and maintenance costs associated with perchlorate treatment facilities on certain of the City's drinking water wells, under an agreement between the City and Lockheed Martin dated October 29, 2002 (the "Interim Perchlorate Agreement"). The Interim Perchlorate Agreement has been thrice amended, on November 25, 2003, on February 22, 2005, and on May 31, 2007, with each amendment increasing the number of wells from an original four wells to fourteen wells being treated for perchlorate at Lockheed Martin's expense.

NOTE 7. CONSTRUCTION COMMITMENTS

As of June 30, 2007, the Water Utility had major commitments of approximately $19,276 with respect to unfinished capital projects, of which $10,106 is expected to be funded by bonds, $8,099 funded by other sources and $1,071 funded by rates.



Key Historical Operating Data

WATER SUPPLY (ACRE FEET)	2006/2007	2005/2006	2004/2005	2003/2004	2002/2003
Pumping	85,299	76,605	73,732	81,797	70,977
Purchases	2,092	2,670	4,137	1,693	695
Total:	87,391	79,275	77,869	83,490	71,672
Percentage pumped	97.6%	96.6%	94.7%	98.0%	99.0%
System peak day (gallons)	109,200,000	118,782,000	112,094,000	105,029,000	101,484,000

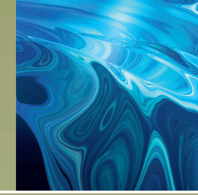
WATER USE	2006/2007	2005/2006	2004/2005	2003/2004	2002/2003
Number of meters as of year end					
Residential	57,666	57,308	56,916	56,254	55,376
Commercial/Industrial	5,279	5,204	5,114	4,932	4,782
Other	486	473	462	482	467
Total:	63,431	62,985	62,492	61,668	60,625
*CCF sales					
Residential	19,848,653	17,702,717	17,245,315	19,056,556	17,824,440
Commercial/Industrial	10,817,783	9,822,196	9,252,639	9,988,578	9,411,391
Other	1,243,927	1,157,130	1,199,448	1,361,809	995,815
Wholesale	199,845	182,987	177,851	189,377	1,052,205
Total:	32,110,208	28,865,030	27,875,253	30,596,320	29,283,851

*(CCF equals 100 cubic feet)

WATER FACTS	2006/2007	2005/2006	2004/2005	2003/2004	2002/2003
Average annual CCF per residential customer	345	312	308	342	324
Average price ($/CCF) per residential customer	$1.43	$1.26	$1.16	$1.05	$1.01
Debt service coverage ratio	3.38	5.11	2.85	3.52	2.60
Employees[1]	165	137	130	130	125

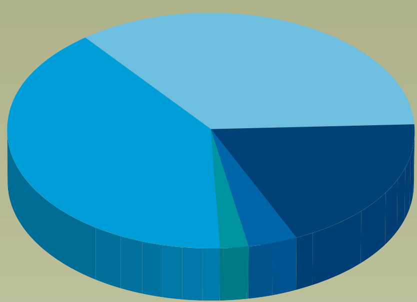
[1]Approved positions

Key Historical Operating Data



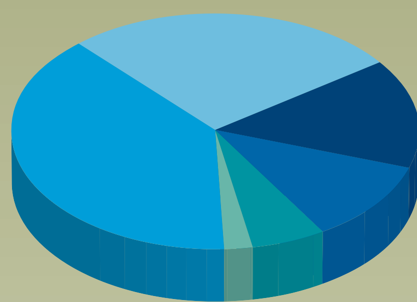
2006/2007 WATER REVENUE AND RESOURCES

Source of Revenue



- Residential Sales (40¢)
- Other Revenues (35¢)
- Commercial Sales (19¢)
- Investment Income (4¢)
- Other Sales (2¢)

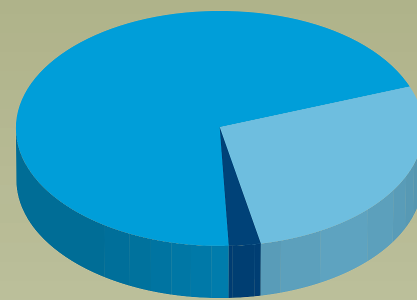
Distribution of Revenue



- Operations & Maintenance (39¢)
- Additional Reserves (27¢)
- Additions & Replacements to the System (15¢)
- Debt Services (11¢)
- Transfers to the City's general fund* (6¢)
- Water Supply (2¢)

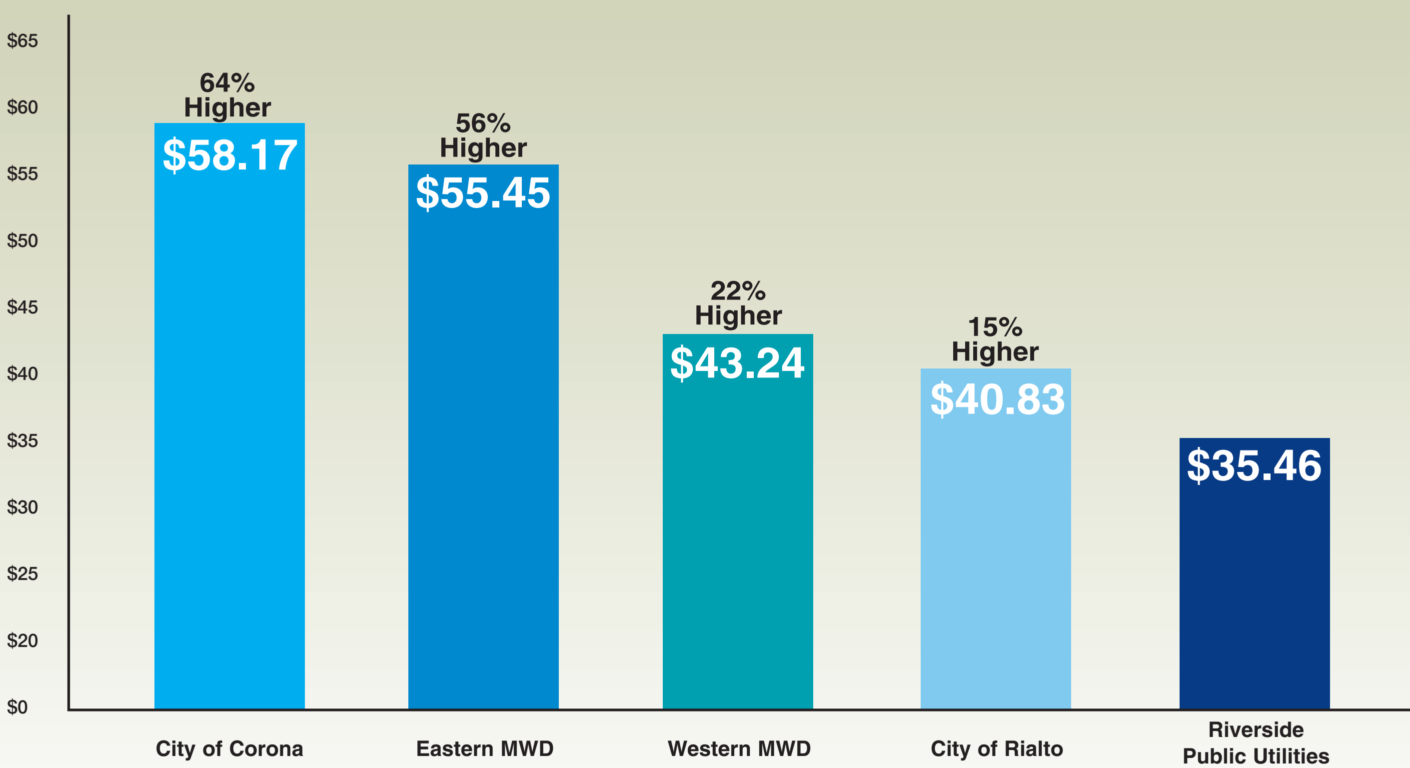
**Based on transfer of 11.5% of fiscal year 2005/2006 revenues*

Water Resources



- San Bernardino Basin Wells (70.1%)
- Riverside Basin Wells (27.5%)
- Purchased Water (2.4%)

RESIDENTIAL WATER RATE COMPARISON - 27 CCF PER MONTH (AS OF JULY 1, 2007)



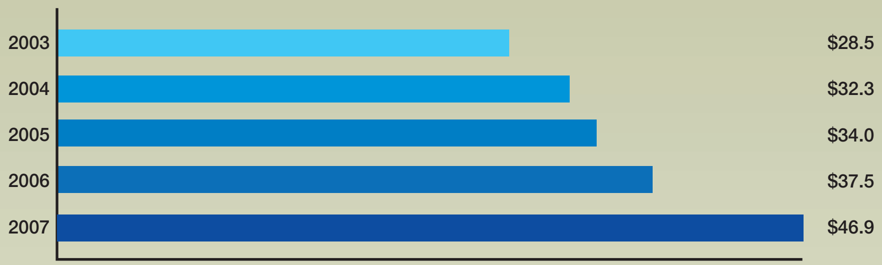
Water

Key Historical Operating Data

General Fund Transfer (in millions)

Number of Meters at Year End

Total Operating Revenue (in millions)



Production (in acre feet)

Peak Day Demand (in million gallons)

WATER FACTS AND SYSTEM DATA

Established	1913
Service Area Population	291,398
Service Area Size (square miles)	74.05
System Data:	
Smallest pipeline	2.0”
Largest pipeline	72.0”
Miles of pipeline	973
Number of domestic wells	49
Number of active reservoirs	16
Total reservoir capacity (gallons)	100,400,000
Number of treatment plants	10
Number of treatment vessels	98
Miles of canal	14
Number of fire hydrants	7,187
Daily average production (gallons)	75,927,063
2006-07 Peak day (gallons): 7/17/06 & 7/24/06 113 degrees	109,200,000
Historical peak (gallons): 8/9/05 99 degrees	118,782,000

BOND RATINGS

FITCH RATINGS	AA
STANDARD & POOR’S	AA