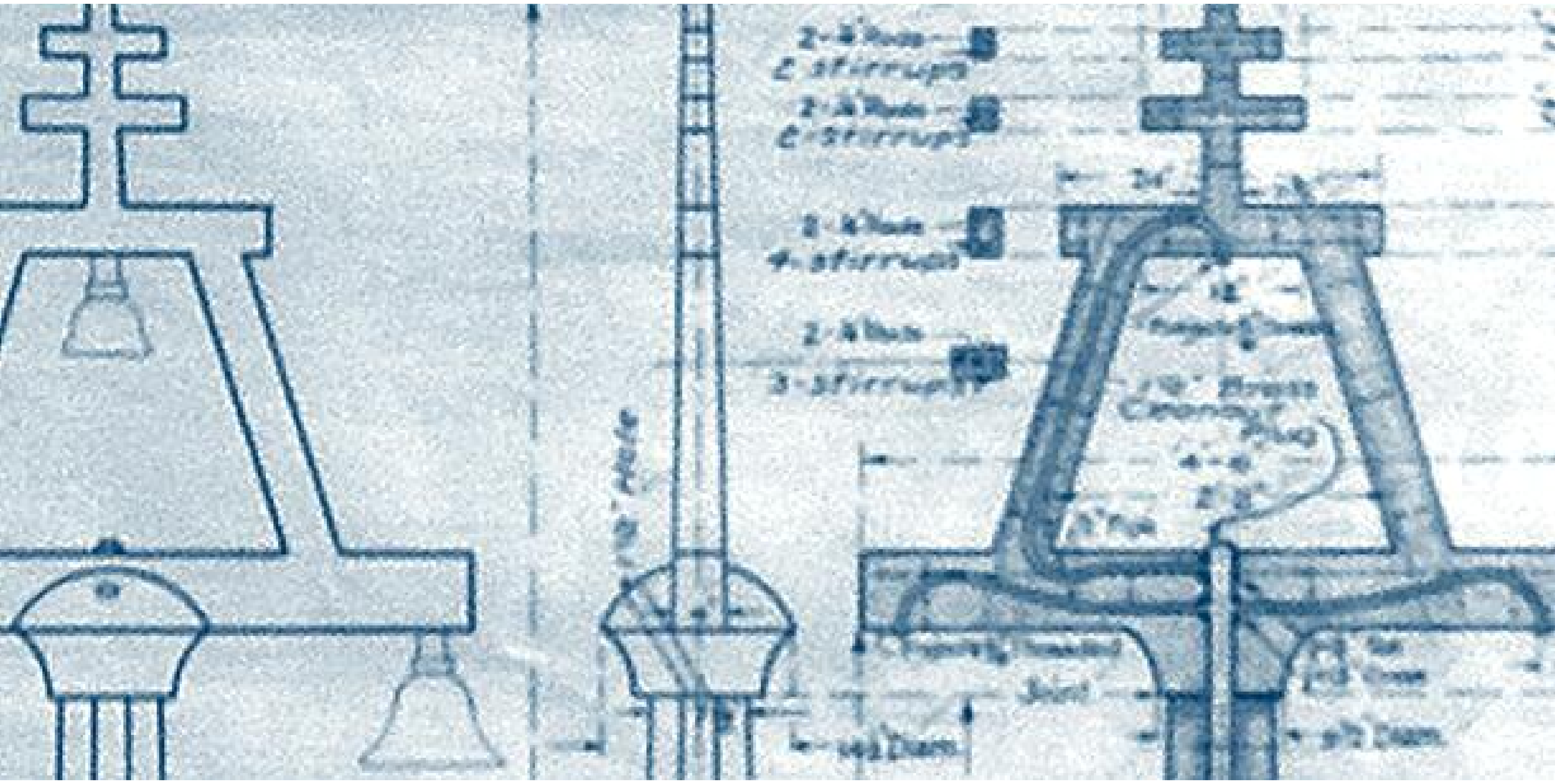
2012 FINANCIAL REPORT



RiversidePublicUtilities.com

WATER | ENERGY | LIFE

CITY OF RIVERSIDE PUBLIC UTILITIES


water source for Gage Canal
CENTRAL AVENUE
VICTORIA PLACE
Gage Property
(demolished)
WELLS
SANTA ANA
HEADGATE
See sheet no 4
GAGE CANAL
CAMP VICTORIA
PUMP HOUSE
See sheet no 3
SAND BOX
See sheet no 5
SAN BERNARDINO AVENUE
PECANOE AVENUE
The Headworks of th
the Santa Ana River
artesian wells. By
River. This water wa
box-flume which cr
February 1888, the
flume was built to
south side of the ri
periodic flooding.
The headgates were
an electric motor w
and sand-traps wer
was only eliminated
Today the headgate
wells. The pumps
they were dug. Ov
water for the canal

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CALIFORNIA
CALIFORNIA
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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 **unique community asset** with a global reputation for innovation, sustainability, and an enhanced quality of life.

Core Values

The City of Riverside Public Utilities Department values...

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

Three -Year Goals

Contribute to the City of Riverside's economic development while preserving Riverside Public Utilities' financial strength

Maximize the use of technology to improve utility operations

Impact positively legislation and regulations at all levels of government

Develop and implement a recycled water program

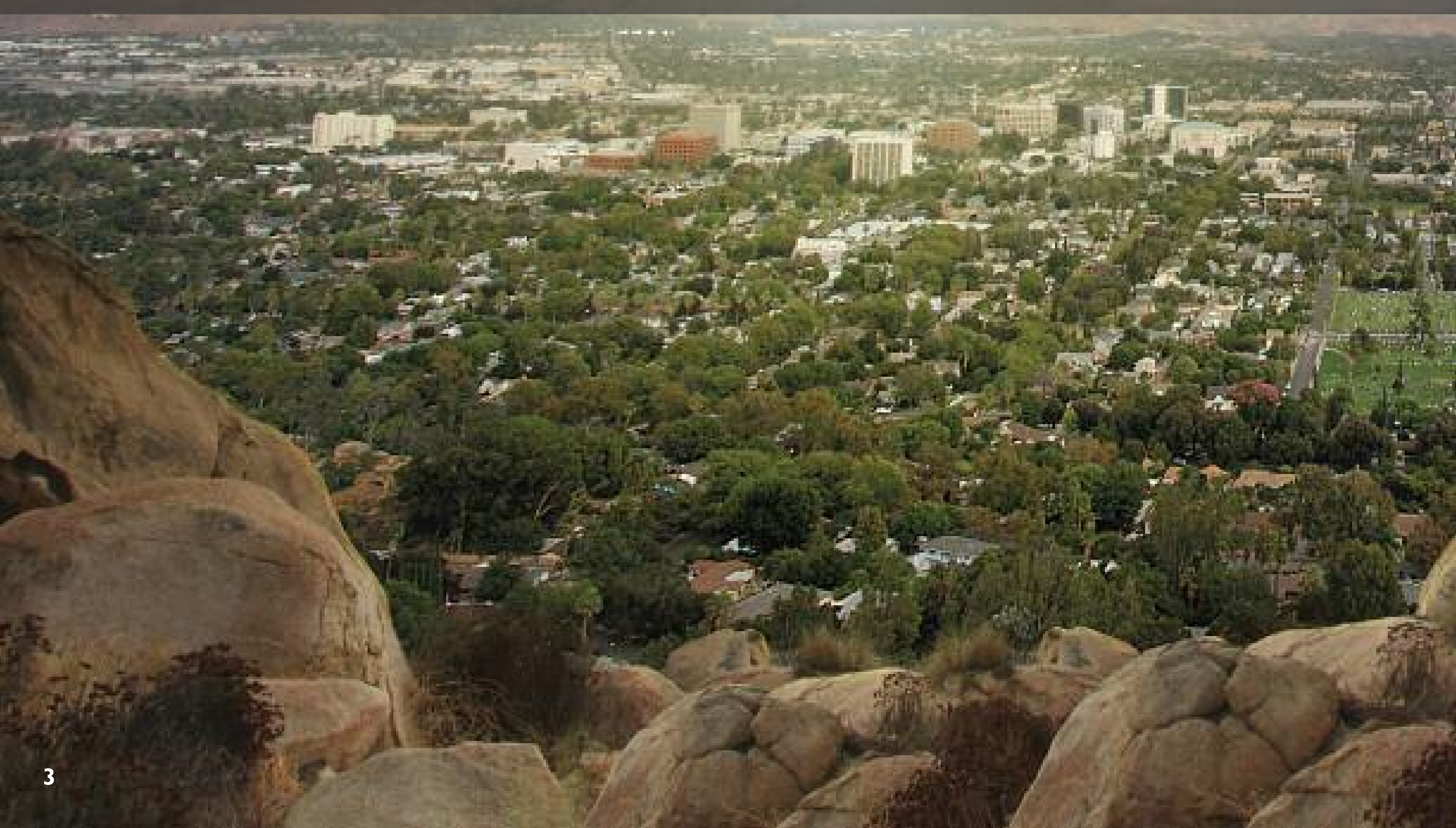
Secure a second connection to the state electric transmission grid

BOARD OF PUBLIC UTILITIES AND ADMINISTRATION

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 3750 University Avenue, 3rd floor, Riverside, CA 92501. Board meetings are open to the public.



Public Utilities Administration

David H. Wright
General Manager

Stephen H. Badgett
Deputy General Manager

Michael J. Bacich
Assistant General Manager
Customer Relations/Marketing

Laura M. Chavez-Nomura
Assistant General Manager
Finance/Administration

Reiko A. Kerr
Assistant General Manager
Resources

Kevin S. Milligan
Assistant General Manager
Water

Board of Public Utilities

Bernie Titus
Board Chair

Justin Scott-Coe
Board Vice-Chair

Darrell Ament

Susan Cash

Ian J. Davidson

Robert Elliott

David Roberts

Gustavo Segura

Ken Sutter

RiversidePublicUtilities.com

FISCAL MESSAGE

As the Water Utility turns 100 years old, Riverside Public Utilities is hard at work finding new ways to maintain and expand our water independence and serve our customers for the next one hundred years and beyond.

Our "Water Supply Plan" project will utilize surface water and recycled water sources in new ways that will enhance our groundwater basins and expand local supplies in a cost-effective and sustainable manner.

Meanwhile, after constructing and procuring area power plants that can provide Riverside with over 262 megawatts of locally generated energy, we have continued forward with subtransmission and substation projects that help to improve the reliability of energy delivery transmission and distribution within the city.

Perseverance - It's what Riverside pioneers John W. North and Dr. James P. Greves had as they worked to establish a colony in southern California in 1870 that has grown to become the twelfth largest city in the state.

Foresight - It's what the citizens of Riverside, California used to guide them in their decisions to create a publicly-owned electric utility company in 1895, and water utility in 1913, which are dedicated to serving the needs of its customer-owners.

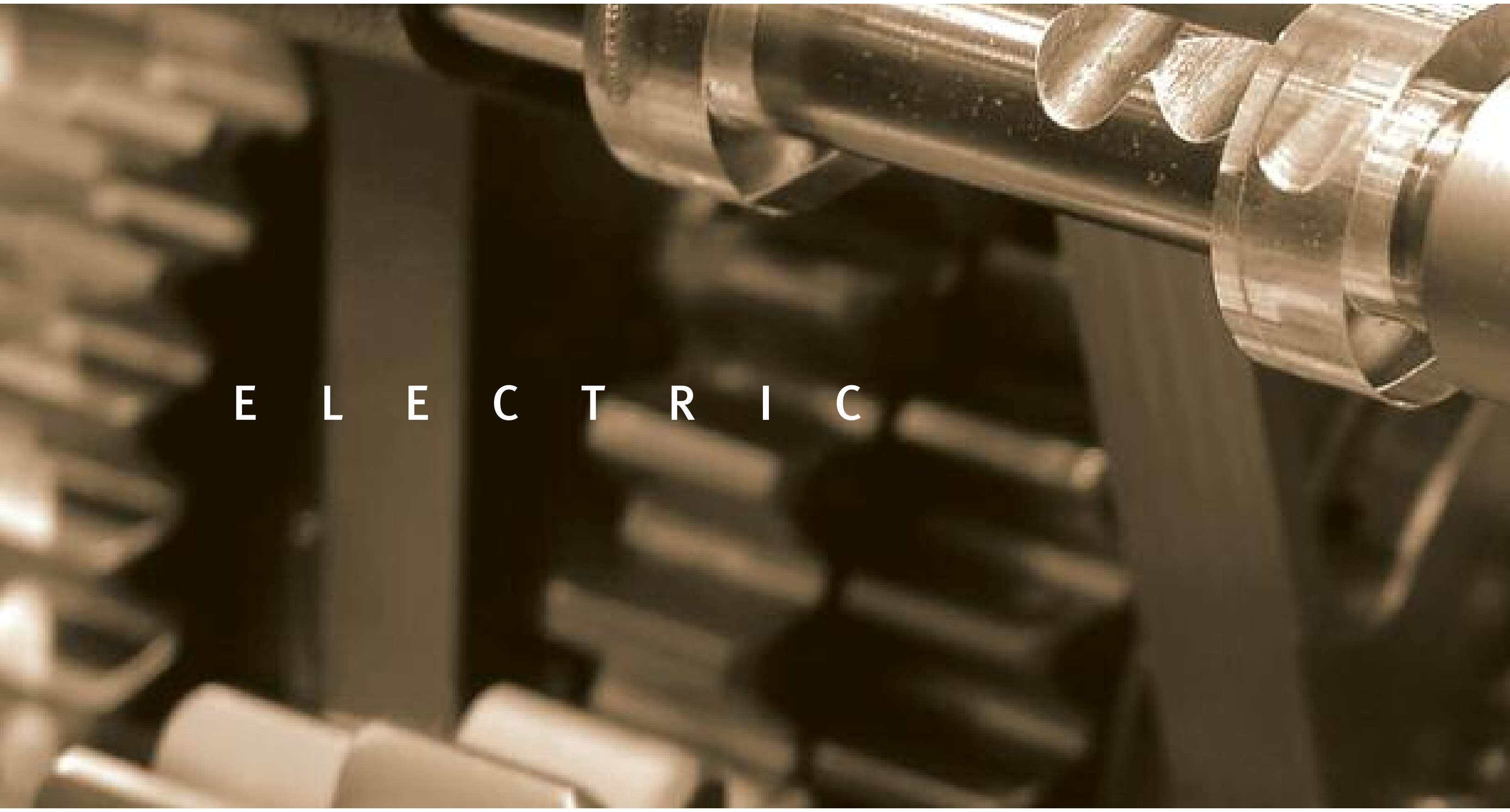
Commitment - It's what keeps Riverside Public Utilities among the leading customer-owned utilities in the nation, and allows us to live up to our mission to provide high quality, reliable services at the lowest possible rates, despite a surrounding climate of economic uncertainty and constantly changing regulatory issues that threaten our service commitments.

Using these values, we have been able to maintain a steady course of action that has not only built the state-of-the art infrastructure needed to meet the growing needs of our customer-owners, but has allowed us to maintain a continued strong fiscal stance behind continued excellent AAA ratings from Standard & Poor's for our Water Utility, and AA- ratings for our Electric Utility.

Through perseverance, foresight, and our commitments to financial and operational excellence, we are ensuring that the same high quality water and electric services that serve our customers today will also be there to serve them tomorrow.

Laura M Chavez-Nomura

Laura M. Chavez-Nomura
Assistant General Manager - Finance/Administration


ELECTRIC

INDEPENDENT AUDITORS' REPORT: ELECTRIC

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

WWW.MOSSADAMS.COM

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying balance sheet of the City of Riverside, California, Electric Utility (Electric Utility), as of and for the year ended June 30, 2012, and the related statement of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Electric Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the Electric Utility for the year ended June 30, 2011, and in our report dated October 14, 2011, we expressed unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Electric Utility and do not purport to, and do not, present fairly the financial position of the City of Riverside, as of June 30, 2012, and the changes in its financial position, or, where applicable, its cash flows for the year then ended 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 Electric Utility as of June 30, 2012 and the results of its individual and combined operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Praxity

READ THE NOTICE ON THE BACK!

CORNER NINTH AND MULBERRY STREETS
SUNSET MAIN 7; HOME 1007

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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with the auditing standards generally accepted in the United States of America, which consisted of inquiries with management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial information included as supplementary information following the financial statements and notes to financial statements is provided for purposes 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 audit of the financial statements and we do not express an opinion on it.

Moss Adams LLP

Los Angeles, California
October 24, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS: ELECTRIC

As management of Riverside Public Utilities, a department of the City of Riverside (the City), we offer the readers this narrative overview and analysis of the 2011-12 financial report for the period ended June 30, 2012 and 2011 for Riverside's Electric Utility (the Utility), an enterprise fund of the City. We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, which begin on page 23 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

Fiscal years 2012 and 2011 reflected strong operating results for the Electric Utility, with each year's retail revenues exceeding the previous all-time record, primarily from the effects of rate increases and an expanded customer base.

- Retail sales, net of reserve/recovery, were $288,616 and $278,406 for years ended June 30, 2012 and 2011, respectively.
- The assets of the Utility exceeded its liabilities (equity) at the close of fiscal years 2012 and 2011 by $479,815 and $450,120, respectively. Of this amount, $219,198 and $199,159, respectively, may be used to meet the Utility's ongoing obligations to creditors and customers.
- The Utility's overall equity increased by $29,695 and $10,069 for fiscal years ended June 30, 2012 and 2011 due to positive operating results from historic levels of retail sales and other items discussed in this report.
- As of June 30, 2012 and 2011, unrestricted equity represented 85% and 79% 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 are comprised of 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.

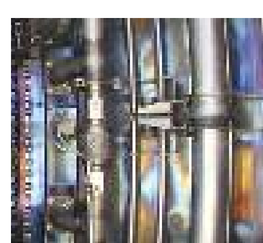
Included as part of the financial statements are three separate statements, which collectively provide an indication of the Electric Utility's financial health.

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 29 to 52 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 $479,815 and $450,120 at the close of the fiscal years 2012 and 2011, respectively.

The following table summarizes the Utility's financial condition as of June 30:

CONDENSED STATEMENTS OF EQUITY (NET ASSETS)

	2012	2011	2010
Current and other assets	$ 566,985	$ 557,097	$ 462,869
Capital assets	703,435	681,934	606,777
Total assets	1,270,420	1,239,031	1,069,646
Long-term debt outstanding	572,382	594,714	479,201
Other liabilities	218,223	194,197	150,394
Total liabilities	790,605	788,911	629,595
Invested in capital assets, net of related debt	236,789	224,953	221,989
Restricted	23,828	26,008	28,604
Unrestricted	219,198	199,159	189,458
Total equity (net assets)	$ 479,815	$ 450,120	$ 440,051

ASSETS

Fiscal Year 2012 The Utility's total assets of $1,270,420 reflect an increase of $31,389 (2.5%), primarily due to the following:

- Current and other assets, comprised of restricted and unrestricted assets, had a net increase of $9,888.
    - Restricted assets decreased by $33,972 primarily due to the use of bond proceeds to fund capital projects.
    - Unrestricted assets increased by $43,860, primarily due to increases of $20,906 in deferred debits on interest rate swap fair valuation in accordance with Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53), $18,636 in cash and cash equivalents due to positive operating results, and $7,820 in prepaid expenses, accounts receivable, and nuclear material inventory. The increase was offset by decreases of $3,502 in advances to the City, deferred bond issuance and pension obligation costs, and accrued interest receivable. See Note 1 in the accompanying financial statements for additional information on GASB 53.
- Net capital assets (Utility plant) increased by $21,501, primarily due to additions and improvements to Electric facilities to serve existing and connect new customers, continued improvements to the Electric Utility's distribution system, capital additions and increased nuclear fuel inventory at the San Onofre Nuclear Generating Station (SONGS), and technology upgrades used to improve customer service to the Utility's customers. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section of the financial analysis.

Fiscal Year 2011 Total assets were $1,239,031, an increase of $169,385 (15.8%), comprised of a $75,157 increase in Utility plant primarily due to an increase in production system assets of $140,548 resulting from the completion of the Riverside Energy Resource Center (RERC) Units 3 and 4 and the purchase of the Clearwater Cogeneration Facility (Clearwater) from the City of Corona, an increase of $13,224 in distribution system assets from continued improvements to the Electric Utility's distribution system, and a $9,821 addition of intangible assets, offset by a $86,791 reduction in construction in progress, and an increase of

$94,228 in current and other assets. The $94,228 increase primarily resulted from $140,380 issuance of the 2010 Electric Revenue Series A and B Bonds and $3,947 in nuclear decommissioning reserve, offset by the use of bond proceeds to fund capital projects and the use of Public Benefit Programs' funds due to increased participation.

LIABILITIES

Fiscal Year 2012 The Utility's total liabilities were $790,605, an increase of $1,694 (0.2%), due to the following:

- Other liabilities increased by $24,026, primarily due to increases of $20,907 in derivative instruments related to interest rate swap fair valuation in accordance with GASB 53, $3,740 in nuclear decommissioning, and $4,417 in accounts payable and postemployment benefits payable, offset by decreases of $2,890 for current portion of long-term obligations and $1,481 for principal payments on the loan payable due to the acquisition of Clearwater.
- Long-term debt outstanding decreased by $22,332, primarily due to revenue bond principal payments of $24,795 and the amortization of bond premiums and deferred bond refunding costs.

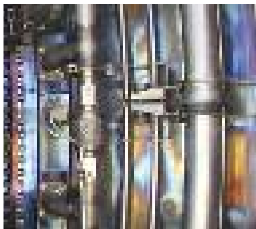
Fiscal Year 2011 Total liabilities were $788,911, an increase of $159,316 (25.3%), primarily due to an increase of $115,513 in long-term debt outstanding resulting from the issuance of the $140,380 2010 Electric Revenue Series A and B Bonds, offset by principal payments of $22,705 and the amortization of bond premiums and deferred bond refunding costs. The increase also included a $43,803 increase in other liabilities primarily due to increases of $45,569 in a loan payable due to the acquisition of Clearwater, $4,417 in nuclear decommissioning, and $2,297 in accrued interest payable, offset by decreases of $4,857 in derivative instruments and $4,231 in accounts payable/other accruals and current portion of long-term obligations.

EQUITY (NET ASSETS)

Fiscal Year 2012 The Utility's equity, which represents the difference between the Utility's resources and its obligations, totaled $479,815, an increase of $29,695 (6.6%), primarily due to positive operating results and is comprised of the following:

- The largest portion of the Utility's equity is $236,789 (49.4% of total equity), and reflects its investment in capital assets less any related outstanding debt used to acquire those assets. This portion increased by $11,836 (5.3%) primarily due to an increase in capital assets constructed or purchased during the fiscal year, net of the debt used to acquire these assets. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.
- The restricted portion totaled $23,828 (4.9% of total equity), a decrease of $2,180 (8.4%), 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 payments, Public Benefit Programs, and other legally restricted assets.
- The unrestricted portion equals $219,198 (45.7% of total equity), an increase of $20,039 (10.1%), 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 2011 The Utility's equity increased by $10,069 (2.3%) to a total of $450,120. Investment in capital assets, net of related debt, increased by $2,964 primarily due to an increase in capital assets constructed or purchased during the fiscal year, net of the debt used to acquire these assets. Restricted equity decreased by $2,596 and the unrestricted portion increased by $9,701, primarily attributable to positive operating results.



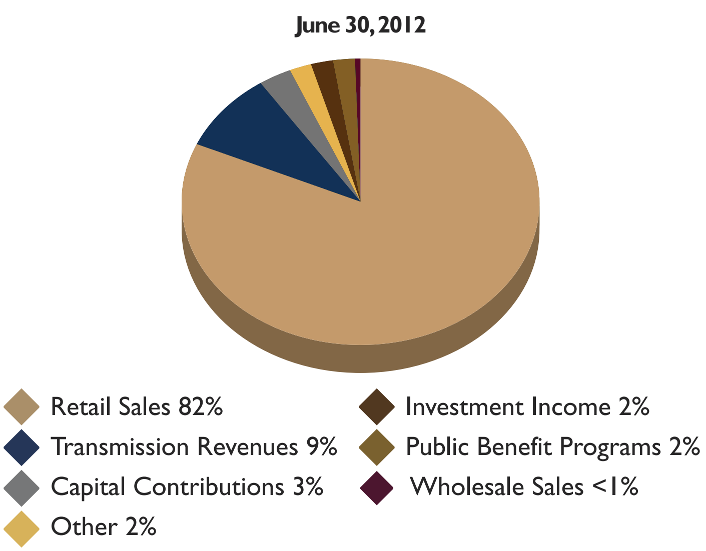
UTILITY FINANCIAL ANALYSIS (CONTINUED)

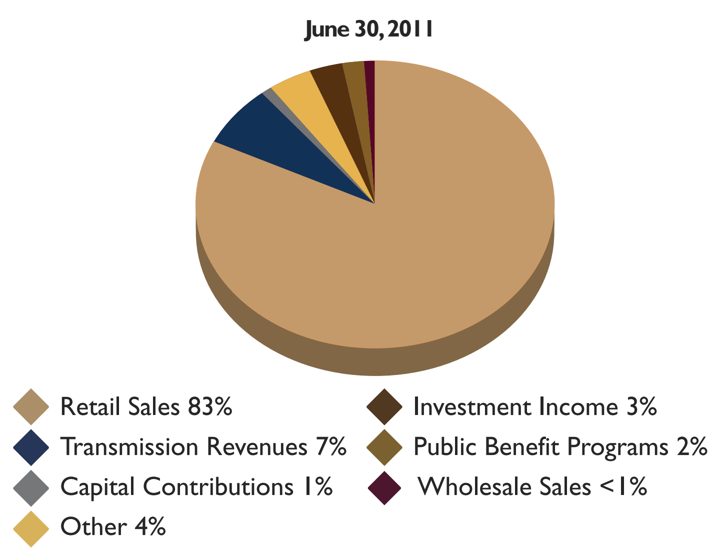
Positive operating results in the Electric Utility increased equity by $29,695 and $10,069 during fiscal years 2012 and 2011, respectively, as reflected in the following Condensed Statements of Changes in Equity:

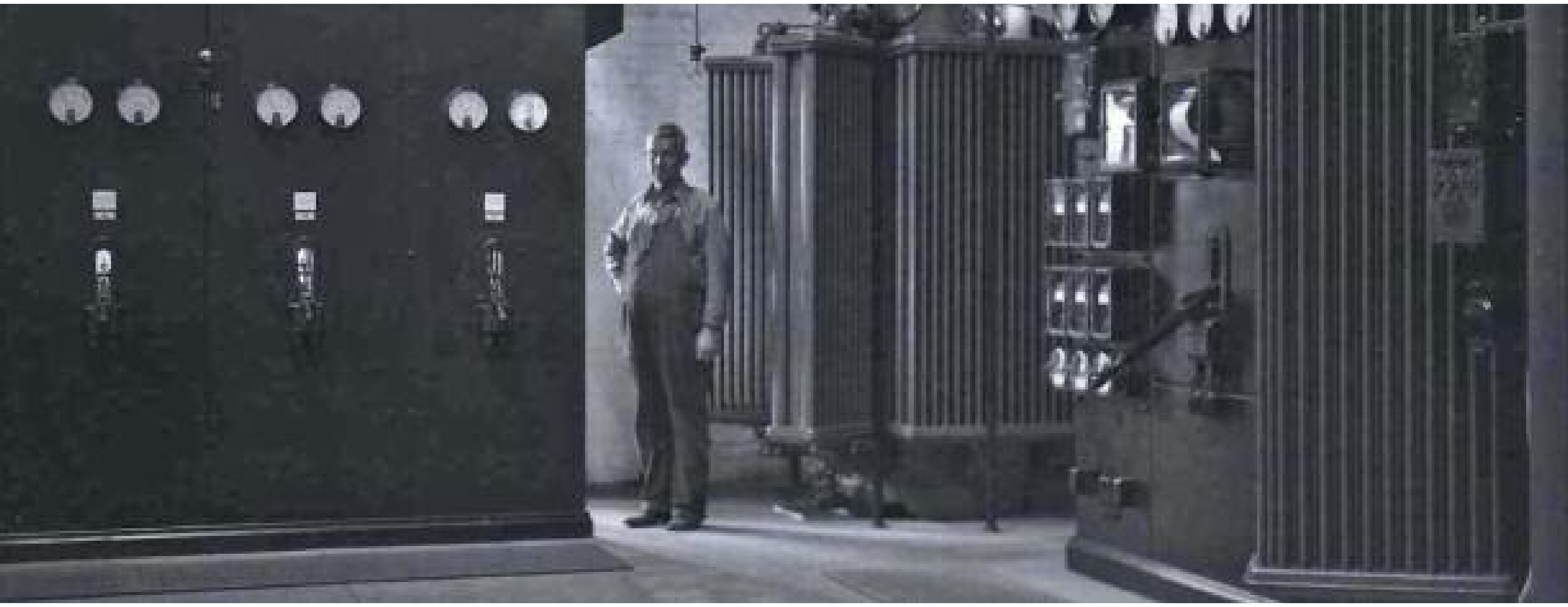
CONDENSED STATEMENTS OF CHANGES IN EQUITY (NET ASSETS)

	2012	2011	2010
Revenues:			
Retail sales, net	$ 288,616	$ 278,406	$ 274,206
Wholesale sales	50	124	1,466
Transmission revenues	30,735	22,091	21,100
Investment income	6,196	10,368	16,009
Other revenues	7,563	12,063	6,711
Public Benefit Programs	8,639	8,046	8,049
Capital contributions	9,257	4,056	3,477
Total revenues	351,056	335,154	331,018
Expenses:			
Production and purchased power	129,215	128,962	127,162
Transmission	45,447	40,434	33,030
Distribution	48,167	44,931	41,637
Public Benefit Programs	8,390	11,664	8,784
Depreciation	27,482	27,690	25,375
Interest expenses and fiscal charges	29,127	21,220	19,589
Total expenses	287,828	274,901	255,577
Transfers to the City's general fund	(33,533)	(33,070)	(33,656)
Special Item	-	(17,114)	-
Changes in equity	29,695	10,069	41,785
Equity, July 1	450,120	440,051	398,266
Equity, June 30	$ 479,815	$ 450,120	$ 440,051

REVENUES BY SOURCES





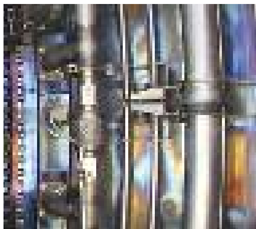


Fiscal Year 2012 Total revenues for the years ended June 30, 2012 and 2011 were $351,056 and $335,154, respectively, an increase of $15,902 (4.7%), with changes in the following:

- Retail sales (residential, commercial, industrial, and other sales), net of reserve/recovery, totaled $288,616, a $10,210 (3.7%) increase. Retail sales continue to be the primary revenue source for the Electric Utility, accounting for 82.2% of total revenues. The increase was due to an expanded customer base and a 4.6% increase in retail consumption.
- Transmission revenues of $30,735 increased by $8,644 (39.1%), primarily due to higher transmission revenues authorized by the Federal Energy Regulatory Commission (FERC) as of August 1, 2011.
- Capital contributions were $9,257, an increase of $5,201 (128.2%), primarily due to capital projects funded by other agencies such as Riverside County Transportation Commission (RCTC) for the construction of the SR-91 HOV Lanes.
- Other operating revenues were $7,563, a decrease of $4,500 (37.3%), due to last fiscal year-end revenue reflecting a $5,531 gain on sale of land. See Note 10 in the accompanying financial statements for additional information.
- Investment income of $6,196 reflects a decrease of $4,172 (40.2%), due to the use of bond proceeds for capital projects and lower overall earnings rates in the current fiscal year.

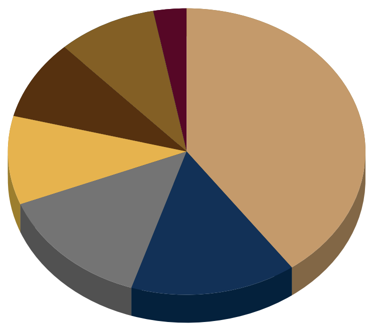
Fiscal Year 2011 Total revenues were $335,154, an increase of $4,136 (1.2%), with changes in the following areas:

- Net retail sales of $278,406, (83.1% of total revenues) increased by $4,200 (1.5%). The increase was due to the positive effects of a full year of rate increases on January 1, 2010 as a result of the Electric Rate Plan and an expanded customer base, offset by a 1.8% reduction in retail consumption.
- Transmission revenues of $22,091 increased by $991 (4.7%), primarily due to higher transmission revenues authorized by the FERC as of July 1, 2009.
- Capital contributions were $4,056, an increase of $579 (16.7%), primarily due to capital projects funded by other agencies.
- Other operating revenues were $12,063, an increase of $5,352 (79.7%), primarily due to the $5,531 gain on sale of land. See Note 10 in the accompanying financial statements for additional information.
- Investment income of $10,368 reflects a decrease of $5,641 (35.2%), due to the use of bond proceeds for capital projects and lower overall earnings rates.
- Wholesale sales of $124 decreased by $1,342 (91.5%), due to a lower volume of “excess” power available for sale, and a lower overall price for market sales.



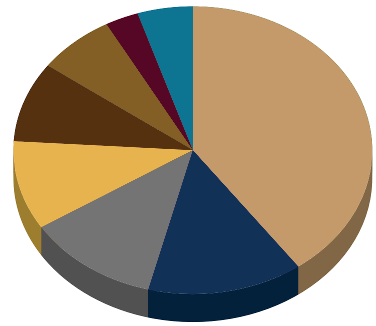
EXPENSES BY SOURCES

June 30, 2012



- Production 40%
- Distribution 15%
- Transmission 14%
- Contributions to the City's General Fund 10%
- Depreciation 9%
- Interest Expense 9%
- Public Benefit Programs 3%
- Special Item 0%

June 30, 2011



- Production 40%
- Distribution 14%
- Transmission 12%
- Contributions to the City's General Fund 10%
- Depreciation 9%
- Interest Expense 7%
- Public Benefit Programs 3%
- Special Item 5%

Fiscal Year 2012 Total expenses, excluding general fund transfer and special item, for the years ended June 30, 2012 and 2011 were $287,828 and $274,901, respectively, an increase of $12,927 (4.7%). The increase was primarily due to the following:

- Transmission costs of $45,447 increased by $5,013 (12.4%), primarily due to increased charges for the California Independent System Operator (CAISO) Transmission Access Charges (TAC), Southern California Edison (SCE) rate charges, and system upgrades to the Southern Transmission System and Mead-Adelanto Transmission Project for additional import capability.
- Distribution expenses of $48,167 increased by $3,236 (7.2%), primarily due to increases in personnel-related expenses and facility related operating costs.
- Public Benefit Programs expenses of $8,390 decreased by $3,274 (28.1%), primarily due to decreased program participation. The majority of the Utility's customers utilized last fiscal year's incentives when new energy saving rebates were introduced.
- Interest expense and fiscal charges of $29,127 increased by $7,907 (37.3%), primarily due to a full year of interest payments for the 2010 bonds (see Note 4) and a decrease in the amount of capitalized interest used to offset interest expense primarily due to the completion of the RERC Units 3 and 4 construction project.

Fiscal Year 2011 Total expenses were $274,901, an increase of $19,324 (7.6%), due to the items discussed below:

- Transmission costs of $40,434 increased by $7,404 (22.4%), primarily due to increased charges for the CAISO TAC, SCE rate charges, and system upgrades to the Southern Transmission System and Mead-Adelanto Transmission Project for additional import capability.
- Distribution expenses of $44,931 increased by $3,294 (7.9%), primarily due to increases in personnel-related expenses.
- Public Benefit Programs expenses of $11,664 increased by $2,880 (32.8%), primarily due to increased participation.
- Interest expense and fiscal charges of $21,220 increased by $1,631 (8.3%), primarily due to the issuance of new bonds and the purchase of Clearwater, offset by an increase in the amount of capitalized interest for the RERC Units 3 and 4 construction project.
- Depreciation expense of $27,690 increased by $2,315 (9.1%), primarily due to the completion of prior year distribution and generation system assets.

TRANSFERS

Transfers to the City's general fund are limited to a maximum of 11.5% of the prior year gross operating revenues less adjustments by Section 1204(f) of the City of Riverside 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 2012 The Electric Utility transferred $33,533 to the City's general fund. This amount is generally 11.5% of prior year's gross operating revenues less adjustments.

Fiscal Year 2011 The Electric Utility transferred $33,070 to the City's general fund. This amount was generally 11.5% of prior year's gross operating revenues less adjustments. See also Note 10 regarding Special Item transactions with the City's former Redevelopment Agency and the Water Utility.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

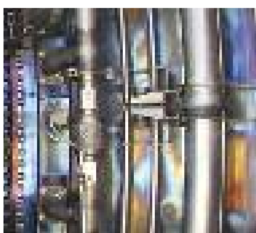
The Electric Utility's investment in capital assets includes investments in production, transmission, and distribution related facilities, land, intangibles, construction in progress, nuclear fuel, as well as general items such as office equipment, furniture, etc.

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

	2012	2011	2010
Production	$ 260,954	$ 267,108	$ 126,560
Transmission	18,562	16,331	16,313
Distribution	322,635	303,071	289,847
General	31,485	33,293	35,094
Intangibles	287	-	-
Land	7,654	7,645	7,612
Intangibles, non-amortizable	9,821	9,821	-
Construction in progress	43,205	39,787	126,578
Nuclear fuel, at amortized costs	8,832	4,878	4,773
Total Capital Assets	$ 703,435	$ 681,934	$ 606,777

Fiscal Year 2012 The Utility's investment in capital assets, net of accumulated depreciation, was $703,435, an increase of $21,501 (3.2%). The increase resulted primarily from the following significant capital projects offset by the current year depreciation:

- $28,034 in additions and improvements to Electric facilities to serve existing and connect new customers.
- $6,741 for the Riverside Transmission Reliability Project (RTRP) and related reliability improvements to the Utility's Sub-Transmission System (STS) for additional generation import capability for a second point of interconnection with the state's high voltage transmission grid to serve future retail needs.
- $4,925 for the Utility's portion of capital additions at the San Onofre Nuclear Generating Station (SONGS) and $3,954 in nuclear fuel inventory.
- $1,490 in technology upgrades to improve customer service to the Utility's customers.



CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Fiscal Year 2011 The Utility's investment in capital assets, net of accumulated depreciation, was $681,934, an increase of $75,157 (12.4%). The increase resulted primarily from the $45,569 purchase of Clearwater which provides the Utility with 29.5 MW of additional generation, $19,908 in additions and improvements to Electric facilities, $13,387 of expenditures related to the completion of RERC Units 3 and 4 which provides the Utility with 98 MW of additional generation facilities within the City limits, $7,736 for the initial stages of the RTRP and related reliability improvements to STS, and $7,322 for the Utility's portion of capital additions at SONGS.

Additional information regarding capital assets can be found in Note 3 on Page 39 of this report.

DEBT ADMINISTRATION

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

	2012	2011	2010
Revenue bonds	$ 594,480	$ 619,275	$ 501,600
Unamortized premium	8,639	10,091	11,421
Arbitrage liability	190	101	27
Less:			
Current portion	(18,050)	(20,940)	(22,705)
Unamortized bond refunding costs	(12,877)	(13,813)	(11,142)
Total	$ 572,382	$ 594,714	$ 479,201

The Electric Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants, of 1.10. The Electric Utility's debt service coverage ratio was 2.24, 2.21, and 2.75 at June 30, 2012, 2011 and 2010, respectively. This debt is backed by the revenues of the Utility (revenue bonds).

Fiscal Year 2012 Total long-term debt decreased by $22,332 (3.8%) to $572,382, due to principal payments of $24,795 and the amortization of bond premiums and deferred bond refunding costs.

Fiscal Year 2011 Total long-term debt increased by $115,513 (24.1%) to $594,714, due to the $140,380 issuance of the 2010 Electric Revenue Series A and B Bonds, offset by principal payments of $22,705 and the amortization of bond premiums and deferred bond refunding costs.

Additional information on the Electric Utility's long-term debt can be found in Note 4 on pages 40 through 44 of this report.

CREDIT RATINGS

In November 2010, Standard & Poor's assigned a "AA-" long-term rating to the 2010 Electric Revenue Series A and B Bonds and affirmed the "AA-" underlying rating on the Electric Utility's outstanding debt in December 2011. The ratings reflect the Utility's "credit strengths including strong financial margins, a strong liquidity position, and the Utility's diverse and low-cost resource portfolio, including an emphasis on renewable energy resources."

In December 2010, Fitch Ratings also assigned a "AA-" long-term rating to the 2010 Electric Revenue Series A and B Bonds and affirmed the "AA-" rating on the Electric Utility's outstanding debt. The ratings reflect the Utility's "diverse power supply mix, which has historically provided a competitive cost of power in the California market; strong financial performance and cash levels; customer base that is anchored by government entities; and higher education providing stability to the electric system."

In April 2011, Standard & Poor's (S&P) affirmed its "A+/A-1" rating on the Utility's variable rate, 2008 Electric Refunding/Revenue Series A, B (refunded with the 2011 Series A Bonds) and C Bonds, reflecting S&P's rating of the bonds' letter of credit provider, Bank of America. The underlying S&P credit rating of the Utility remains "AA-".

REGULATORY AND LEGISLATIVE FACTORS

Utilities are faced with ongoing regulatory and legislative mandates enacted at the federal and state level that will have significant impact on the operations of the Utility.

SB 2 (1X) – RENEWABLE PORTFOLIO STANDARD (RPS)

On April 12, 2011, California Legislature enacted SB 2 (1X) which imposes additional RPS mandates requiring that 33% of public utility electric retail sales requirement comes from renewable resources by 2020. The mandates propose the following: (a) enforceable RPS procurement targets; (b) specific prospective targets for in-state RPS, and; (c) approved Renewable Procurement Plan and updated Enforcement Program.

Enforceable RPS procurement targets require an average of 20% of retail sales requirement for the period of 2011-13, 25% of retail sales requirement by 2016, 33% of retail sales requirement by 2020 and maintain at least 33% of retail sales requirement each year thereafter. The Utility is on track to meet the 20% requirement for the period 2011-13.

Specific prospective targets for in-state RPS require at least 50% in-state RPS procurement for the period of 2011-13, 65% for the period of 2014-16 and 75% for the period of 2017 and thereafter. The Utility adopted the in-state renewable resource procurement mandate early. Currently all RPS resources are located within California which account for 18% of the Utility's retail sales requirement in 2011. The Utility is still required to procure additional in-state renewable resources at a substantial cost premium compared to out-of-state renewable resources. The California Energy Commission (CEC) is in the rulemaking process of enacting regulations for this mandate and the Utility is an active participant. To the extent the CEC does not enact regulations to mitigate this inequitable treatment (required procurement of in-state renewable resources), the Utility may incur up to $4 million in additional cost for the first compliance period, calendar year 2011-2013.

Approved Renewable Procurement Plan and updated Enforcement Program is required by the local regulatory authorities by January 1, 2013. The Utility has completed a conceptual Renewable Procurement Plan. The Plan outlines a diverse portfolio of specific geothermal, wind, utility-scale solar photovoltaic, distributed solar photovoltaic, and small hydro resources.

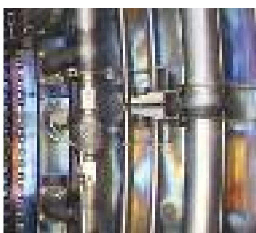
AB 32 – GREENHOUSE GAS (GHG)

Assembly Bill (AB) 32, enacted in 2006, requires that utilities in California reduce their GHG emissions to 1990 levels by the year 2020.

In December 2011, AB 32 tasked The California Air Resources Board (CARB) to develop regulations for GHG which became effective January 1, 2012. Since the enactment of AB 32, the Utility has actively participated with major investor-owned utilities (IOUs) and other publicly-owned utilities (POUs) to affect the final rules and regulations with respect to AB 32 implementation.

The cornerstone mechanisms of the regulation is the Cap-and-Trade Program (Program), which requires that electric utilities, such as Riverside's, have sufficient "rights" on an annual basis to offset GHG emissions associated with generating electricity. Such "rights" are also called GHG Allowances. CARB will provide a "free" allocation of GHG Allowances to each electric utility to mitigate retail rate impacts. Thereafter, the utilities will be required to purchase allowances through the auction or on the secondary market to offset its associated GHG emissions. An Allowance is an authorization to emit one metric ton of GHG and is a fully marketable commodity that may be bought, sold, or traded for use by entities under the Program. The Utility's freely allocated GHG Allowances are approximately one million metric tons of CO_2 equivalents per year commencing in calendar year 2013 through 2020.

Pursuant to the current CARB regulations, the Utility is required to participate in the CARB GHG Allowance Auctions which requires the Utility to sell and buy back allowances to meet its compliance obligations. The Utility's compliance obligations are to meet 30% on an annual basis and meet 100% of its compliance obligation by the end of the compliance period. The value of freely allocated GHG Allowances to the Utility is estimated at $10 to $50 million per year commencing in calendar year 2013 through 2020, the same amount is estimated for the Utility's annual compliance obligation. It is unlikely the sell and buy back of allowances will match perfectly in the auction and may require the Utility to participate in the secondary market. The Program introduces significant financial exposures to the Utility. The Utility is continuing to work with CARB and the California Independent System Operator (CAISO) to effect changes to the regulations to mitigate such exposures.




HIGH

REGULATORY AND LEGISLATIVE FACTORS (CONTINUED)

DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT (DODD-FRANK ACT)

In July 2010, the Dodd-Frank Act (Act) was enacted to provide regulatory oversight and transparency of financial institutions primarily as a result of the economic meltdown. There are many facets of this Act and due to the complexity and broad discretion of authority granted to the regulators, the full impact of the proposed changes will not be known until the regulatory implementation of the Act is completed. A portion of the Act, Title VII, the “Wall Street Transparency and Accountability Act of 2010” could have the largest impact on the functions of the utility industry. The Act mandates that the Commodity Futures Trading Commission and the Federal Energy Regulatory Commission both govern the rulemaking process under Title VII. Title VII redefines a new framework for regulating swaps and over the counter derivative transactions that have historically been a normal activity in the utility industry to reduce business risk and price volatility and was previously exempt from regulatory oversight. Since the Utility actively engages in swap transactions and employs hedging strategies as a mechanism to control costs due to price fluctuations, this Act, if passed, could require the utility industry participants to post margin requirements (e.g., cash) thereby restricting available funds. The Utility is actively participating in the regulatory proceedings and rulemakings and advocating for an exemption for public power utilities serving sales.

Other proposals in the state and federal legislatures and external factors could impact the revenues or costs of, and/or rates charged by the Utility depending on whether they are ultimately enacted and how they are implemented.

ECONOMIC DEVELOPMENT AND GREEN INITIATIVES

Since Riverside’s 2009 designation by the State of California as the first “Emerald City,” the City has remained committed to environmental issues and serving as a regional leader in sustainability. Most recently, the Utility and City achieved a Silver Certification in the California Green Communities Challenge, a competition between local governments for community collaboration and conservation.

Businesses have also benefitted from sustainability measures adopted by the City. Introduced in 2010, the Utility’s award-winning Environmental and Economic Effectiveness Effort (E4) Plan fosters Riverside’s economic development by stabilizing utility rates, offering discounted economic development and business retention electric rates to large customers, encouraging expanded use of renewable energy technologies, and offering aggressive business incentives and energy efficiency programs.

To date, E4 has attracted or retained ten companies resulting in the creation of nearly 1,500 jobs while retaining 700 more. As part of E4, Riverside’s various commercial rebate incentives offer free audits and monetary rewards for improving energy and water efficiency, as well as installing photovoltaic systems on commercial structures. Reducing expenses from utility costs allows local business to invest more in the local economy and create new jobs.

Economic development and sustainability projects have placed the Utility on the cutting edge of job creation and resource efficiency. For more information go to GreenRiverside.com.

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/Administration, Riverside Public Utilities, 3750 University Avenue, 3rd floor, Riverside, CA 92501. Additional financial information can also be obtained by visiting RiversidePublicUtilities.com.

FINANCIAL STATEMENTS: ELECTRIC

BALANCE SHEETS

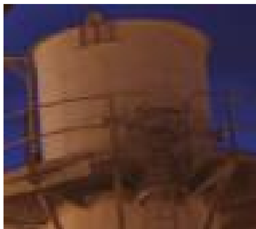
ASSETS	June 30, 2012	June 30, 2011
	(in thousands)	
UTILITY PLANT:		
Utility plant, net of depreciation (Note 3)	$ 703,435	$ 681,934
RESTRICTED ASSETS:		
Cash and cash equivalents (Note 2)	19,808	22,237
Cash and investments at fiscal agent (Note 2)	238,254	270,273
Total restricted non-current assets	258,062	292,510
OTHER NON-CURRENT ASSETS:		
Advances to City	5,558	5,558
Deferred pension costs (Note 1)	12,380	12,736
Deferred bond issuance costs	6,456	7,128
Deferred debits (Note 4)	30,922	10,016
Total other non-current assets	55,316	35,438
Total non-current assets	1,016,813	1,009,882
CURRENT ASSETS:		
Unrestricted assets:		
Cash and cash equivalents (Note 2)	187,541	168,905
Accounts receivable, less allowance for doubtful accounts 2012 $1,154; 2011 $1,161	38,559	35,524
Advances to City	2,277	4,195
Accrued interest receivable	825	1,381
Prepaid expenses	17,358	12,660
Nuclear materials inventory	1,992	1,905
Total unrestricted current assets	248,552	224,570
Restricted assets:		
Public Benefit Programs - Cash and cash equivalents (Note 2)	4,221	3,882
Public Benefit Programs receivable	834	697
Total restricted current assets	5,055	4,579
Total current assets	253,607	229,149
Total assets	$ 1,270,420	$ 1,239,031

See accompanying notes to the financial statements

BALANCE SHEETS

EQUITY AND LIABILITIES	June 30, 2012	June 30, 2011
	(in thousands)	
EQUITY:		
Invested in capital assets, net of related debt	$ 236,789	$ 224,953
Restricted for:		
Debt service (Note 5)	19,808	22,237
Public Benefit Programs	4,020	3,771
Unrestricted	219,198	199,159
Total equity	479,815	450,120
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4)	572,382	594,714
OTHER NON-CURRENT LIABILITIES:		
Advance from City - pension obligation (Notes 1 and 4)	12,003	12,381
Nuclear decommissioning liability (Notes 1 and 4)	71,709	67,969
Postemployment benefits payable (Notes 1 and 4)	3,809	2,775
Derivative instruments (Note 4)	38,123	17,216
Loan Payable (Note 4)	42,660	44,141
Capital leases payable (Notes 1 and 4)	901	1,303
Total non-current liabilities	169,205	145,785
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	6,100	6,382
Public Benefit Programs payable	1,035	808
Current portion of long-term obligations (Note 4)	18,050	20,940
Total current liabilities payable from restricted assets	25,185	28,130
CURRENT LIABILITIES:		
Accounts payable and other accruals	19,204	15,821
Customer deposits	3,148	3,033
Loan Payable (Note 4)	1,481	1,428
Total current liabilities	23,833	20,282
Total liabilities	790,605	788,911
COMMITMENTS AND CONTINGENCIES (Notes 8 and 9)	-	-
Total equity and liabilities	$ 1,270,420	$ 1,239,031

See accompanying notes to the financial statements



STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN EQUITY

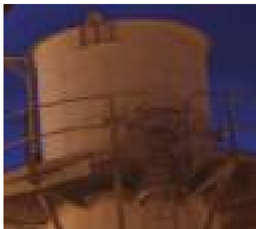
	For the Fiscal Years Ended June 30, 2012	2011
	(in thousands)	
OPERATING REVENUES:		
Residential sales	$ 110,471	$ 107,792
Commercial sales	66,047	64,039
Industrial sales	107,455	102,067
Other sales	5,614	5,529
Wholesale sales	50	124
Transmission revenue	30,735	22,091
Other operating revenue	4,018	4,015
Public Benefit Programs	8,639	8,046
Total operating revenues before (reserve)/recovery	333,029	313,703
Reserve for uncollectible, net of bad debt recovery	(971)	(1,021)
Total operating revenues, net of (reserve)/recovery	332,058	312,682
OPERATING EXPENSES:		
Production and purchased power	129,215	128,962
Transmission	45,447	40,434
Distribution	48,167	44,931
Public Benefit Programs	8,390	11,664
Depreciation	27,482	27,690
Total operating expenses	258,701	253,681
Operating income	73,357	59,001
NON-OPERATING REVENUES (EXPENSES):		
Investment income	6,196	10,368
Interest expense and fiscal charges	(29,127)	(21,220)
Gain on retirement of utility plant	487	5,931
Other	3,058	2,117
Total non-operating revenues (expenses)	(19,386)	(2,804)
Income before capital contributions and transfers	53,971	56,197
Capital contributions	9,257	4,056
Transfers out - contributions to the City's general fund	(33,533)	(33,070)
Total capital contributions and transfers out	(24,276)	(29,014)
Income before special item	29,695	27,183
SPECIAL ITEM:		
Intra-entity property acquisition	-	(17,114)
Increase in equity	29,695	10,069
EQUITY, BEGINNING OF YEAR	450,120	440,051
EQUITY, END OF YEAR	$ 479,815	$ 450,120

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

	For the Fiscal Years Ended June 30, 2012 (in thousands)	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	$ 329,608	$ 308,733
Cash paid to suppliers and employees	(226,323)	(223,124)
Other receipts	3,058	2,117
Net cash provided by operating activities	106,343	87,726
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(33,533)	(33,070)
Payment on Advance from City - Pension obligation	(378)	(324)
Intra-entity property acquisition	-	(17,114)
Advances to City	1,918	(3,545)
Net cash used by non-capital financing activities	(31,993)	(54,053)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(41,752)	(50,331)
Purchase of nuclear fuel	(4,908)	(1,554)
Proceeds from the sale of utility plant	554	495
Proceeds from revenue bonds, including premium	-	140,857
Principal paid on long-term obligations	(26,611)	(23,086)
Interest paid on long-term obligations	(30,764)	(24,985)
Capital contributions	6,818	2,925
Bond issuance costs	-	(1,124)
Net cash (used) provided by capital and related financing activities	(96,663)	43,197
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds (purchase) of investment securities	(60)	273
Income from investments	6,840	9,975
Net cash provided by investing activities	6,780	10,248
Net (decrease) increase in cash and cash equivalents	(15,533)	87,118
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR **(including $198,600 and $110,095 at June 30, 2011 and June 30, 2010, respectively, reported in restricted accounts)**	367,505	280,387
CASH AND CASH EQUIVALENTS, END OF YEAR **(including $164,431 and $198,600 at June 30, 2012 and June 30, 2011, respectively, reported in restricted accounts)**	$ 351,972	$ 367,505
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 73,357	$ 59,001
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	27,482	27,690
Amortization of deferred charges-pension costs	356	291
Amortization of nuclear fuel/purchased power	954	1,449
Decrease in allowance for uncollectible accounts	(7)	(843)
Increase in accounts receivable	(2,558)	(3,251)
Increase in prepaid expenses	(4,698)	(1,912)
Increase in nuclear materials inventory	(87)	(80)
Increase (decrease) in accounts payable and other accruals	3,370	(2,479)
Increase in postemployment benefits payable	1,034	771
Increase in Public Benefit Programs	227	410
Increase in customer deposits	115	145
Increase in decommissioning liability	3,740	4,417
Other receipts	3,058	2,117
Net cash provided by operating activities	$ 106,343	$ 87,726
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions - capital assets	1,832	1,131
Increase (decrease) in fair value of investments	136	(470)
Principal balance of revenue bonds refunded	-	56,450

See accompanying notes to the financial statements



NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Electric Utility exists under, and by virtue of, the City of Riverside (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. The accompanying financial statements present only the financial position and the results of operations of the Electric Utility (the Utility), which is an enterprise fund of the City, and are not intended to present fairly the financial position and results of operations of the City in conformity with generally accepted accounting principles. However, certain disclosures are for the City as a whole, since such information is generally not available for the Utility on a separate fund basis. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

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 Utility are also substantially in conformity with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). The Utility is not subject to the regulations of the FERC. The 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

The Electric Utility customers are billed monthly. Unbilled electric service charges including the Public Benefit Programs, are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable, totaled $13,496 at June 30, 2012, and $13,339 at June 30, 2011.

An allowance for doubtful accounts is maintained for the 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

The Electric Utility defines capital assets as assets with an initial, individual cost of more than five thousand dollars and an estimated useful life in excess of one year. 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. Intangible assets that cost more than one hundred thousand dollars with useful lives of at least three years are capitalized and are recorded at cost.

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	10-40 years
Transmission and distribution plant	20-50 years
General plant and equipment	5-50 years
Intangibles	5 years

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Utility is charged one dollar per megawatt-hour of energy generated by the Utility's share of San Onofre Nuclear Generating Station's (SONGS) Units 2 and 3 to provide for estimated future storage and disposal of spent nuclear fuel. The Utility pays this fee to its operating agent, Southern California Edison (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.

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 the Electric 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 Utility values its cash and investments in accordance with the provisions of the 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 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, 2012, 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 Electric Utility and are pledged as collateral for payment of principal and interest on outstanding bonds, funds set aside to decommission the Utility's proportionate share of Units 2 and 3 at SONGS, or for use on construction of capital assets.

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, 2012 and 2011 respectively are as follows: Regulatory Risk Reserve $15,000 and $15,000, Energy Risk Management Reserve $30,000 and $30,000 and Operating Reserve $108,031 and $95,031, for a combined total of $153,031 and $140,031 and are included as a component of cash and cash equivalents in the accompanying Balance Sheets.

ADVANCES

Advances have been recorded as a result of agreements between the Electric Utility and the City. The balance as of June 30, 2012 and 2011 was $7,835 and $9,753, respectively.

DERIVATIVES

On July 1, 2009, the Electric Utility adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). This Statement requires the Utility to report its derivative instruments at fair value. Changes in fair value for effective hedges are to be reported as deferrals on the Balance Sheets. Changes in fair value of derivative instruments not meeting the criteria for an effective hedge, or that are associated with investments are to be reported in the investment section of the Statements of Revenues, Expenses and Changes in Equity.

The Utility has determined that its interest rate swaps associated with variable rate obligations are derivative instruments under GASB 53. See Note 4 Long-Term Obligations for further discussion related to the Utility's interest rate swaps.

Various transactions permitted in the Utility's Power Resources Risk Management Policies may be considered derivatives, including energy and/or gas transactions for swaps, options, forward arrangements and congestion revenue rights (CRR). GASB 53 allows an exception for the Balance Sheet deferral hedges that meet the normal purchases and normal sales exception. The Utility has determined that all of its contracts including CRRs fall under the scope of "normal purchases and normal sales" and are exempt from GASB 53.

BOND PREMIUMS, ISSUANCE COSTS, GAINS AND LOSSES ON REFUNDING

Bond premiums, issuance costs, and gains and losses on refunding (including gains and losses related to interest rate swap transactions) 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 Utility has established a trust account to accumulate resources for the decommissioning of the nuclear power plant and restoration of the beachfront at San Onofre. Based on the most recent site specific cost estimate as of February 2009 prepared by ABZ Incorporated, the 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 Utility has set aside $71,709 in cash investments with the trustee as the Utility's estimated share of the decommissioning cost of San Onofre. The plant site easement at San Onofre terminates May 2024. The plant must be decommissioned and the site restored by the time the easement terminates.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITAL LEASES

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

For fiscal year ended June 30, 2012 and 2011, the total liability was $1,303 and $1,692, respectively, with the current portion included in accounts payable and other accruals. The minimum annual lease payments for the life of the leases are $442 annually through fiscal year ended June 30, 2014, $429 in the fiscal year ended June 30, 2015, and $65 in the fiscal year ended June 30, 2016. Total outstanding lease payments are $1,377, with $1,303 representing the present value of the net minimum lease payments and $74 representing interest.

CUSTOMER DEPOSITS

The City holds customer deposits as security for the payment of utility bills and design fee deposits for future construction of electrical facilities. The Electric Utility's portion of these deposits as of June 30, 2012 and 2011 was $3,148 and $3,033, respectively.

COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due to employees at June 30, 2012 and 2011. The Electric Utility including the Public Benefit Programs, treats compensated absences due to employees as an expense and a current liability and is included in accounts payable and other accruals in the accompanying Balance Sheets. The amount accrued for compensated absences was $4,294 at June 30, 2012, and $4,275 at June 30, 2011.

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

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

INSURANCE PROGRAMS

The Electric Utility participates in a self-insurance program for workers' compensation and general liability coverage that is administered by the City. The 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 the Utility Plant with a limit of $1 billion.

City-wide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risk for the year ended June 30, 2012, may be found in the notes to the City's "Comprehensive Annual Financial Report."

Although the ultimate amount of losses incurred through June 30, 2012 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 including the Public Benefit Programs, were $737 and $713 for the years ended June 30, 2012 and 2011, respectively. Any losses above the City's reserves would be covered through increased rates charged to the Utility in future years.

EMPLOYEE RETIREMENT PLAN

The City contributes to the California Public Employees Retirement System (PERS), a public employee retirement system that services more than 3,000 public agency employers within the State of California and acts as a common investment and administrative agency for those participating public entities.

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. For new employees hired after December 9, 2011, all bargaining units including management, SEIU, and IBEW, agreed to change the calculation from utilizing the highest year of salary to the average of the highest three years of salary. 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 Utility pays both the employee and employer contributions except for new employees hired after October 19, 2011, who pay their own 8.0 percent contribution. 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 total Electric Utility's contribution to PERS including the Public Benefit Programs as of June 30, 2012 and 2011 was $8,754 and $7,063, respectively. The employer portion of the PERS funding as of June 30, 2012 and 2011 was 18.44 percent and 14.51 percent, respectively, of annual covered payroll.

City-wide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the year ended June 30, 2012 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, 2012.

PENSION OBLIGATION BONDS

In 2005, the City issued Pension Obligations Bonds in the amount of $60,000, of which the Electric Utility's, including the Public Benefit Programs, share is $13,690. The deferred charge relating to the net pension asset will be amortized over 19 years in accordance with the method used by PERS for calculating actuarial gains and losses. The Bond proceeds were deposited with PERS to fund the unfunded actuarial accrued liability for non-safety employees. The balance in deferred pension costs as of June 30, 2012 and 2011 was $12,380 and $12,736, respectively as reflected in the accompanying Balance Sheets as deferred pension costs and a corresponding long-term obligation. 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, 2012.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

OTHER POSTEMPLOYMENT BENEFITS

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

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

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

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

The Utility's annual OPEB cost (expense) for each plan is calculated based on annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) (UAAL) over a period not to exceed thirty years. The Electric Utility's OPEB liability including the Public Benefit Programs as of June 30, 2012 and 2011 was $3,869 and $2,834, respectively.

City-wide information concerning the description of the plans, funding policy and annual OPEB cost, funding status and funding progress, and actuarial methods and assumptions for the year ended June 30, 2012 can be found in the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2012.

EQUITY

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

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

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

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

CONTRIBUTIONS TO THE CITY'S GENERAL FUND

Pursuant to the City of Riverside Charter, the Electric Utility may transfer up to 11.5 percent of its prior year's gross operating revenues including adjustments to the City's general fund. In fiscal years ended June 30, 2012 and 2011, $33,533 and $33,070, respectively was transferred representing 11.5 percent.

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 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 Electric Utility's prior year financial statements, from which this selected financial data was derived.

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2012 and 2011, consist of the following (in thousands):

	June 30, 2012	June 30, 2011
	Fair Value	
Equity interest in City Treasurer's investment pool	$ 211,570	$ 195,024
Cash and investments at fiscal agent	238,254	270,273
Total cash and investments	$ 449,824	$ 465,297

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

	June 30, 2012	June 30, 2011
Unrestricted cash and cash equivalents	$ 187,541	$ 168,905
Restricted cash and cash equivalents	24,029	26,119
Restricted cash and investments at fiscal agent	238,254	270,273
Total cash and investments	$ 449,824	$ 465,297

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	$ 4,030	$ 4,030	$ -	$ -	$ -
Federal agency securities	48,436	3,420	3,643	41,373	-
Investment contracts [1]	162,604	-	147,813	4,030	10,761
Corp medium term notes	23,184	3,070	-	20,114	-
City Treasurer's investment pool [2]					
Money market funds	36,251	36,251	-	-	-
Federal agency securities	94,107	11,446	21,665	60,996	-
Corp medium term notes	29,029	4,915	10,077	14,037	-
State investment pool	48,358	48,358	-	-	-
Neg Certificate of Deposit	3,825	121	2,393	1,311	-
Total	$ 449,824	$ 111,611	$ 185,591	$ 141,861	$ 10,761

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

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

Investment Type	Total	AAA	AA	A	Unrated
		Rating as of Year End			
Held by fiscal agent					
Money market funds	$ 4,030	$ 3,991	$ -	$ -	$ 39
Federal agency securities	48,436	48,436	-	-	-
Investment contracts [1]	162,604	-	-	-	162,604
Corp medium term notes	23,184	-	17,552	5,632	-
City Treasurer's investment pool [2]					
Money market funds	36,251	881	20,988	14,382	-
Federal agency securities	94,107	94,107	-	-	-
Corp medium term notes	29,029	-	23,828	5,201	-
State investment pool	48,358	-	-	-	48,358
Negotiable Certificate of Deposit	3,825	-	-	-	3,825
Total	$ 449,824	$ 147,415	$ 62,368	$ 25,215	$ 214,826

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, 2012 and 2011 (in thousands):

	Balance As of 6/30/10	Additions	Retirements /Transfers	Balance As of 6/30/11	Additions	Retirements /Transfers	Balance As of 6/30/12
Production [1]	$ 274,392	$ 152,817	$ (634)	$ 426,575	$ 5,162	$ (82,473)	$ 349,264
Transmission	28,484	668	-	29,152	2,902	-	32,054
Distribution	440,297	25,196	(2,056)	463,437	32,142	(661)	494,918
General	55,857	1,726	(4,601)	52,982	1,172	(361)	53,793
Intangibles	-	-	-	-	292	-	292
Depreciable utility plant	799,030	180,407	(7,291)	972,146	41,670	(83,495)	930,321
Less accumulated depreciation:							
Production [1]	(147,832)	(11,741)	106	(159,467)	(11,316)	67,832	(102,951)
Transmission	(12,171)	(650)	-	(12,821)	(671)	-	(13,492)
Distribution	(150,450)	(11,972)	2,056	(160,366)	(12,577)	660	(172,283)
General	(20,763)	(3,327)	4,401	(19,689)	(2,913)	294	(22,308)
Intangibles					(5)	-	(5)
Accumulated depreciation	(331,216)	(27,690)	6,563	(352,343)	(27,482)	68,786	(311,039)
Net depreciable utility plant	467,814	152,717	(728)	619,803	14,188	(14,709)	619,282
Nuclear fuel, at amortized cost	4,773	1,554	(1,449)	4,878	4,907	(953)	8,832
Production [1]	-	-	-	-	-	14,641	14,641
Land	7,612	60	(27)	7,645	9	-	7,654
Intangibles, non-amortizable	-	9,821	-	9,821	-	-	9,821
Construction in progress	126,578	50,813	(137,604)	39,787	45,771	(42,353)	43,205
Nondepreciable utility plant	134,190	60,694	(137,631)	57,253	45,780	(27,712)	75,321
Total utility plant	$ 606,777	$ 214,965	$ (139,808)	$ 681,934	$ 64,875	$ (43,374)	$ 703,435

1 The San Onofre Generating Station (SONGS) Units 2 and 3 were taken offline in January 2012 and remain offline for extensive inspections, testing and analysis resulting from excessive wear of tubes in the steam generators (See Note 7 for further information on SONGS). It is anticipated that Unit 2 could restart months in advance of Unit 3. Due to the uncertainty of Unit 3 restart date, the capital assets of Unit 3 are reclassified from a depreciable to a non-depreciable utility plant asset until it is restored to service. Unit 2 will remain classified as a depreciable utility plant asset since it is anticipated that it could be restored to service in the coming months.

NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2012 and 2011 (in thousands):

	Balance As of 6/30/10	Additions	Reductions	Balance As of 6/30/11	Additions	Reductions	Balance As of 6/30/12	Due Within One Year
Revenue bonds	$ 501,879	$ 192,722	$ (79,048)	$ 615,553	$ -	$ (25,311)	$ 590,242	$ 18,050
Arbitrage liability	27	75	-	102	88	-	190	-
Advance from City - pension obligation	12,705	-	(324)	12,381	-	(378)	12,003	-
Postemployment benefits payable	2,004	771	-	2,775	1,034	-	3,809	-
Nuclear decommissioning liability	63,552	4,417	-	67,969	3,740	-	71,709	-
Capital leases	2,073	-	(381)	1,692	-	(389)	1,303	402
Loan Payable	-	45,569	-	45,569	-	(1,428)	44,141	1,481
Total long-term obligations	$ 582,240	$ 243,554	$ (79,753)	$ 746,041	$ 4,862	$ (27,506)	$ 723,397	$ 19,933

LOAN PAYABLE

The Electric Utility entered into the Clearwater Power Plant Purchase and Sale Agreement dated March 3, 2010 with the City of Corona for the acquisition of Clearwater Cogeneration Facility (Clearwater) located in Corona. Clearwater is a combined-cycle, natural gas generating facility with a gross plant output of 29.5 MW. Following a “transition period” during which the Utility engaged in pre-closing activities and due diligence inspection, the transaction closed on September 1, 2010 and the Utility took ownership of the plant. The purchase also included construction of a substation and the 69,000 volt facilities necessary to transfer power from Clearwater Power Plant to the SCE’s electrical distribution system to California’s high voltage transmission grid. The useful life of Clearwater and the related transmission facilities is anticipated to be at least thirty years. The total purchase price for Clearwater was $45,569, and will be funded through a series of payments ranging from $181 to $1,480 from September 2012 through March 2014. In addition, two payments of $36,406 and $7,367 are due in September 2013 and 2015, respectively, and will be funded primarily from bond proceeds.

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

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

REVENUE BONDS PAYABLE

	June 30, 2012	June 30, 2011
$47,215 2001 Electric Revenue Bonds: all outstanding bonds were called 10/1/2011	$ -	$ 7,525
$75,405 2003 Electric Refunding/Revenue Bonds: serial bonds due in annual installments from $6,880 to $8,535 through October 1, 2013, interest from 4.3 percent to 5.0 percent	15,415	23,665
$27,500 2004 Electric Revenue Series A Bonds: serial bonds due in annual installments from $2,645 to $3,695 through October 1, 2014, interest from 5.0 percent to 5.5 percent	9,845	13,125
$141,840 2008 Electric Refunding/Revenue Bonds:		
A - **$84,515 2008 Series A Bonds** - variable rate bonds due in annual installments from $1,250 to $7,835 from October 1, 2014 through October 1, 2029. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 27, 2012 was 3.1 percent)	84,515	84,515
C - **$57,325 2008 Series C Bonds** - variable rate bonds due in annual installments from $700 to $5,200 through October 1, 2035. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 27, 2012 was 3.2 percent)	55,125	56,450
$209,740 2008 Electric Revenue Series D Bonds: fixed rate bonds due in annual installments from $3,460 to $25,345 from October 1, 2017 through October 1, 2038, interest from 3.6 to 5.0 percent	209,740	209,740
$34,920 2009 Electric Refunding/Revenue Series A Bonds: fixed rate bonds due in annual installments from $1,150 to $7,260 through October 1, 2018, interest from 3.0 percent to 5.0 percent	24,335	27,425
$140,380 2010 Electric Revenue Bonds:		
A - **$133,290 2010 Electric Revenue Series A Bonds:** fixed rate, federally taxable Build America Bonds due in annual installments from $2,300 to $33,725 from October 1, 2020 through October 1, 2040, interest from 3.9 percent to 4.9 percent	133,290	133,290
B - **$7,090 2010 Electric Revenue Series B Bonds:** fixed rate bonds due in annual installments from $95 to $2,440, from October 1, 2016 through October 1, 2019, interest from 3.0 percent to 5.0 percent	7,090	7,090
$56,450 2011 Electric Revenue/Refunding Series A Bonds: variable rate bonds due in annual installments from $725 to $5,175 through October 1, 2035. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 27, 2012 was 3.1 percent)	55,125	56,450
Total electric revenue bonds payable	594,480	619,275
Unamortized deferred bond refunding costs	(12,877)	(13,813)
Unamortized bond premium	8,639	10,091
Total electric revenue bonds payable, net of deferred bond refunding costs and bond premium	590,242	615,553
Less current portion of revenue bonds payable	(18,050)	(20,940)
Total long-term electric revenue bonds payable	$ 572,192	$ 594,613

Revenue bonds annual debt service requirements to maturity as of June 30, 2012, are as follows (in thousands):

	2013	2014	2015	2016	2017	2018-22	2023-27	2028-32	2033-37	2038-41	Total
Principal	$ 18,050	$ 20,685	$ 14,480	$ 15,415	$ 12,745	$ 70,800	$ 84,895	$ 103,885	$ 127,900	$ 125,625	$ 594,480
Interest	25,455	24,543	23,745	23,113	22,620	105,832	91,074	71,403	46,144	12,824	446,753
Total	$ 43,505	$ 45,228	$ 38,225	$ 38,528	$ 35,365	$ 176,632	$ 175,969	$ 175,288	$ 174,044	$ 138,449	$ 1,041,233

The Electric Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants of 1.10. The Electric Utility's debt service coverage ratio was 2.24 and 2.21 at June 30, 2012 and 2011, respectively. This debt (revenue bonds) is backed by the revenues of the Utility.

PRIOR YEAR DEFEASANCE OF DEBT

In prior years, the Electric Utility defeased certain Revenue Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Utility's financials statements. At fiscal year ended June 30, 2012, no bonds outstanding were considered defeased.

2010 ELECTRIC REVENUE BONDS

On December 16, 2010, the Electric Utility issued $133,290 of Electric Revenue Series A Bonds (federally taxable, Build America Bonds) to finance certain Electric System Improvements as outlined in the 5-year Capital Improvement Program, including system reliability projects such as a 230-69 kV transmission substation and upgrades to the Utility's generation stations. Annual principal payments ranging from $2,300 to $33,725 are due from October 1, 2020 through October 1, 2040, with associated interest rates of 3.91% to 4.94%.

On December 16, 2010, the Utility also issued $7,090 of Electric Revenue Series B Bonds to finance certain Electric System Improvements as outlined in the 5-year Capital Improvement Program. Annual principal payments ranging from $95 to $2,440 are due from October 1, 2016 through October 1, 2019, with associated interest rates of 3.00% to 5.00%.

2011 ELECTRIC REFUNDING/REVENUE BONDS

In April 2008, the Electric Utility refinanced $199,115 of Auction Rate Securities (ARS) with Variable Rate Demand Notes (VRDNs). The VRDNs require credit enhancements (e.g. insurance or a bank letter of credit) to ensure the debt service payments to bondholders are made should the Utility fail to make payment. Bank of America/Merrill Lynch (BAML) provided the Letter of Credit (LOC) at attractive rates. The LOC with BAML expired in April 2011. Renewing the existing LOC with BAML would result in higher rates due to a limited number of highly-rated banks offering this service. To mitigate various risk exposure and to provide an overall lower cost of financing, the Utility restructured one of three 2008 VRDNs by refunding the 2008 VRDNs with the 2011 VRDNs.

On April 28, 2011, $56,450 of Electric Refunding/Revenue Series A Bonds were sold with an all-in true interest cost of 3.89% to refund $56,450 of previously outstanding 2008 Electric Refunding/Revenue Series B Bonds. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $193. The difference is being charged to operations using the proportional method. Principal payments are due on October 1, 2011 until the maturity date of October 1, 2035 ranging from $725 to $5,175.

INTEREST RATE SWAPS ON REVENUE BONDS

The Electric Utility has three cash flow hedging derivative instruments, which are pay-fixed swaps. These swaps were employed as a hedge against debt that was refunded in 2008 and 2011. At the time of the refunding, hedge accounting ceased to be applied. The balance of the deferral account for each swap is included in the net carrying amount of the new bonds. The swaps were also employed as a hedge against the new debt. Hedge accounting was applied to that portion of the hedging relationship, which was determined to be effective.

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

A summary of the derivative activity for the year ended June 30, 2012 is as follows:

		Notional Amount		Fair Value as of 6/30/2012		Change in Fair Value for Fiscal Year
2008 Electric Refunding/Revenue Bonds Series A	$	84,515	$	(14,985)	$	(7,957)
2008 Electric Refunding/Revenue Bonds Series C	$	57,325	$	(11,584)	$	(6,476)
2011 Electric Refunding/Revenue Bonds Series A	$	56,450	$	(11,554)	$	(6,474)

Objective: In order to lower borrowing costs as compared to fixed-rate bonds, the Utility entered into interest rate swap agreements in connection with its $141,840 2008 Electric Refunding/Revenue Bonds (Series A and C) and $56,450 2011(Series A).

Terms: Per the existing swap agreements, the Utility pays the counterparty a fixed payment 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. The notional value of the swaps and the principal amounts of the associated debt decline by $1,250 to $7,835 (2008 Series A), $700 to $5,200 (2008 Series C) and $725 to $5,175 (2011 Series A) until the debt is completely retired in fiscal year 2036.

The bonds and the related swap agreements for the Electric Refunding/Revenue 2008 (Series A) Bonds mature on October 1, 2029 and the 2008 (Series C) and 2011 (Series A) Bonds mature on October 1, 2035. As of June 30, 2012, rates were as follows:

Interest rate swap:	Terms	2008 Electric Refunding/Revenue Series A Bonds Rates	2008 Electric Refunding/Revenue Series C Bonds Rates	2011 Electric Refunding/Revenue Series A Bonds Rates
Fixed payment to counterparty	Fixed	3.11100%	3.20400%	3.20100%
Variable payment from counterparty	62.68 LIBOR + 12bps	(0.51321%)	(0.51505%)	(0.26627%)
Net interest rate swap payments		2.59779%	2.68895%	2.93473%
Variable-rate bond coupon payments		0.47253%	0.46955%	0.13270%
Synthetic interest on bonds		3.07032%	3.15850%	3.06743%

Fair value: As of June 30, 2012, in connection with all swap agreements, the transactions had a total negative fair value of ($38,123). Because the coupons on the Utility'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 swaps, 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, 2012, the Utility was not exposed to credit risk because the swaps had a negative fair value. The swaps counterparties, J.P. Morgan Chase & Co and Merrill Lynch were rated A and A-, respectively by Standard & Poor's. To mitigate the potential for credit risk, the swap agreements require the fair value of the swaps to be collateralized by the counterparty with U.S. Government securities if the counterparties' rating decreases to negotiated trigger points. Collateral would be posted with a third-party custodian. At June 30, 2012, there is no requirement for collateral posting for any of the outstanding swaps.

Basis risk: As noted above, the swaps expose the Utility to basis risk should the relationship between LIBOR and the variable interest 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 Utility if either counterparty's credit quality falls below "BBB-" as issued by Standard & Poor's. The Utility 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 Utility 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, 2012, the debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are summarized as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30,	Variable-Rate Bonds Principal	Interest	Interest Rate Swaps, Net	Total
2013	$ 2,750	$ 723	$ 5,218	$ 8,691
2014	2,850	715	5,138	8,703
2015	4,800	697	5,006	10,503
2016	12,275	654	4,669	17,598
2017	11,500	612	4,355	16,467
2018-2022	38,375	2,618	18,908	59,901
2023-2027	38,760	1,777	13,483	54,020
2028-2032	44,105	902	8,001	53,008
2033-2036	39,350	183	1,709	41,242
Total	$ 194,765	$ 8,881	$ 66,487	$ 270,133

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 the Utility's electric revenue and refunding bonds require debt service reserves that equate to the maximum annual debt service required in future years and bond service reserves of three months interest and nine months principal due in the next fiscal year. Variable rate revenue and refunding bonds require 110% of the monthly accrued interest to be included in the reserve. Active electric revenue bonds requiring reserves are issues 2003, 2004A, and 2008A & C. Certain revenue/refunding bond issues are covered by a Surety Bond (2008D) and certain issues have no debt service reserve requirements (2009A, 2010A & B and 2011A).

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 from each of the members. During the 2011-12 and 2010-11 fiscal years, the Electric Utility paid approximately $20,855 and $18,725, 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 and transmission expenses in the financial statements.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NOTE 6. JOINTLY-GOVERNED ORGANIZATIONS (CONTINUED)

POWER AGENCY OF CALIFORNIA

On July 1, 1990, the City of Riverside joined with the cities of Azusa, Banning and Colton to create the Power Agency of California (PAC) by a Joint Powers Agreement under the laws of the State of California. The City of Anaheim joined PAC on July 1, 1996. The primary purpose of PAC is to take advantage of synergies and economies of scale as a result of the five cities acting in concert. PAC has the ability to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. PAC is governed by a Board of Directors, which consist of one representative from 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 – SONGS

Pursuant to a settlement agreement with Southern California Edison (SCE), dated August 4, 1972, the Electric Utility was granted the right to acquire a 1.79 percent ownership interest in the 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 Utility entered into the SONGS Participation Agreement that sets forth the terms and conditions under which the 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. In 2006, Anaheim sought and received approval to transfer its 3.16 percent to SCE for a total of 78.21 percent ownership. The Amended and Restated Operating Agreement was updated to reflect the change in ownership. Maintenance and operation of SONGS remain the responsibility of SCE, as operating agent for the Utility.

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. It has been reported that SCE is pursuing a license extension from the Nuclear Regulatory Commission (NRC) to continue operations through 2042. To date, there is no final ruling on this extension request.

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 $164,945 and $159,907 and accumulated depreciation totaled $135,664 and $133,260 for fiscal years ended June 30, 2012 and 2011, respectively. Capital assets are depreciated through 2022, to include the construction recapture extension period. The Utility sets aside approximately $1,600 per year to fund decommissioning costs (see Note 1). The Utility's portion of current and long-term debt associated with SONGS is included in the accompanying financial statements.

RECENT DEVELOPMENTS

In fiscal years 2010 and 2011, SCE completed the replacement of four steam generators at SONGS Units 2 and 3. The total cost of the project was $758,000 of which approximately $13,600 represented the Utility's share. On January 31, 2012, a water leak was detected in one of the heat transfer tubes in Unit 3 steam generators which required Unit 3 to be taken offline. During this same timeframe, Unit 2 was offline for a planned maintenance and refueling outage. During inspections of Unit 2 in February 2012, similar unexpected wear was observed in some Unit 2 heat transfer tubes albeit much less extensive than Unit 3 tube wear. Both Units 2 and 3 remain offline for extensive inspections, testing and analysis of the steam generators.

NOTE 7. JOINTLY-OWNED UTILITY PROJECT – SONGS (CONTINUED)

In March 2012, the NRC issued a Confirmatory Action Letter that required NRC permission to restart Units 2 and 3 and further outlined actions that SCE must complete before permission to restart either Unit may be considered. SCE is continuing to evaluate repairs and mitigation plans. Each Unit will be restarted only when the repairs and appropriate mitigation plans are completed in accordance with the NRC's letter and SCE is satisfied that it is safe to do so.

On August 3, 2012, SCE declared an "operating impairment", as defined in the Operating Agreement, for SONGS Units 2 and 3 and provided formal notification to the co-owners that the impairment resulted from excessive wear of the tubes in the steam generators. To date, SCE does not have a cost estimate and schedule for completing Restoration Work that will return both Units to service. SCE understands that the tube-to-tube contact arose from excessive vibration of the tubes in certain areas of the steam generators. Because Unit 2 experienced considerably less tube-to-tube wear, it is currently anticipated that Unit 2 could restart months in advance of Unit 3 and would only be able to operate at reduced power levels and with mid-cycle outages to provide assurance of safe operation. As a result, as shown in Note 3, the capital assets of Unit 3 are reclassified from a depreciable to a non-depreciable utility plant asset until it is restored to service.

On October 4, 2012, SCE submitted its response to the NRC Confirmatory Action Letter, along with its restart plan for SONGS Unit 2. The response and restart plans are being submitted simultaneously to provide the NRC with all the relevant information needed to evaluate the full spectrum of repairs, corrective actions and additional safety measures proposed to restart safe operations at the plant. SONGS Unit 3 will remain offline while the utility continues to study the potential solutions that are unique to this unit. The unit cannot be restarted until all plans have been approved by the NRC.

Due to the Fukushima nuclear power plant crisis in Japan in March 2011, NRC has instituted a comprehensive review of disaster preparedness of all nuclear power plants currently in operation in the U.S. SONGS has participated and is continuing to participate in this comprehensive disaster preparedness assessment effort. The ultimate outcome of this assessment is currently undetermined.

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

The Utility is a member of 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 Utility participates in projects developed by SCPPA, it has entered into Power Purchase or Transmission Service Agreements, entitling the Utility to the power output or transmission service, as applicable, and the Utility will be obligated for its proportionate share of the project costs whether or not such generation output of transmission service is available.

The projects and the 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	12.3 MW	2017	2030
Southern Transmission System	10.2 percent	244.0 MW	2027	2027
Hoover Dam Uprating	31.9 percent	30.0 MW	2017	2017
Mead-Phoenix Transmission	4.0 percent	18.0 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 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.

Outstanding debts associated with the take-or-pay obligations have variable interest rates for the Palo Verde Nuclear Generating Station Project and the remaining projects have fixed interest rates which range from 1.25 percent to 6.13 percent. The schedule below details the amount of principal and interest that is due and payable by the Utility as part of the take-or-pay contract for each project in the fiscal year indicated.

	IPA	SCPPA					TOTAL
Debt Service Payment (in thousands) Year Ending June 30,	Intermountain Power Project	Palo Verde Nuclear Generating Station	Southern Transmission System	Hoover Dam Uprating	Mead-Phoenix Transmission	Mead-Adelanto Transmission	All Projects
2013	$ 17,514	$ 672	$ 8,191	$ 717	$ 318	$ 3,090	$ 30,502
2014	22,693	676	8,213	719	274	3,117	35,692
2015	21,114	680	8,242	718	265	3,004	34,023
2016	23,975	683	8,093	718	257	2,901	36,627
2017	14,046	687	8,001	717	258	2,905	26,614
2018-2022	93,494	-	40,607	-	772	8,719	143,592
2023-2027	10,883	-	22,568	-	-	-	33,451
Total	$ 203,719	$ 3,398	$ 103,915	$ 3,589	$ 2,144	$ 23,736	$ 340,501

In addition to debt service, the Utility'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, 2012 and 2011, are as follows (in thousands):

FISCAL YEAR	Intermountain Power Project	Palo Verde Nuclear Generating Station	Southern Transmission System	Hoover Dam Uprating	Mead-Phoenix Transmission	Mead-Adelanto Transmission	All Projects
2012	$ 22,555	$ 2,843	$ 2,677	$ 102	$ 40	$ 300	$ 28,517
2011	$ 29,530	$ 2,792	$ 2,460	$ 100	$ 43	$ 298	$ 35,223

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

The Utility has become a Participating Transmission Owner (PTO) with the CAISO (see Note 9) and has turned over the operational control of its transmission entitlements including the Southern Transmission System, Mead-Phoenix and Mead-Adelanto Transmission Projects. In return users of the California's high voltage transmission grid are charged for, and the Utility receives reimbursement for, its transmission revenue requirements (TRR), including the costs associated with these three transmission projects.

NOTE 8. COMMITMENTS (CONTINUED)

HOOVER UPRATING PROJECT

The Hoover Uprating Project has Contractors from Arizona, Nevada, and California. Over the past two years, the Contractors have been meeting to negotiate terms for the renewal of contracts for electric services, which are set to expire on September 30, 2017. The Contractors developed proposed legislation, that became known as the Hoover Power Allocation Act (the "Act"), which would extend the availability of Hoover power to the existing Contractors for an additional fifty years and create a pool for new entrants.

In December 2011, President Obama signed the Hoover Power Allocation Act of 2011 (H.R. 470 Legislation) which provides for the extension of the existing contract for an additional 50 years from 2017 to 2067. The new Legislation requires the Utility to relinquish 5% (1.5 MW) of their current power for a new entitlement of 28.5 MW, effective October 1, 2017. The power relinquished will be used to create a new resource pool equal to 5% of the full rated capacity of 2,074,000 KW, and associated firm energy, and would be allocated to new entities as follows: two-thirds to the Western Area Power Administration and one-third allocated equally to new contractors in Nevada, California and Arizona including federally recognized Indian tribes that do not currently purchase Hoover power. The new entities will be required to execute the Boulder Canyon Project Implementation Agreement which will include a provision requiring them to pay a proportionate share of their State's respective contribution to the cost of the Lower Colorado River Multi-Species Conservation Program and the Uprate Program. Any of the capacity and firm energy not allocated to the new entities and not placed under contract by October 1, 2017, will be returned to the existing contractors in the same proportion as the contractor's allocations. The Utility's cost incurred for the Multi-Species Conservation Program will be reduced and the Utility will receive reimbursement for a proportionate share of the uprating costs.

POWER PURCHASE AGREEMENTS

The Electric Utility has executed two firm power purchase agreements with Bonneville Power Administration (BPA). The first agreement with BPA was 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. This agreement terminated on March 3, 2011. The second BPA agreement is for the purchase of capacity (50 megawatts during the summer months and 13 megawatts during the winter months) beginning April 30, 1996, for 20 years. Effective May 1, 1998, these summer and winter capacity amounts increased to 60 megawatts and 15 megawatts, respectively, for the remainder of the second agreement.

NUCLEAR INSURANCE

The Price-Anderson Act (the Act) requires that all utilities with nuclear generating facilities purchase the maximum private primary nuclear liability insurance available ($375 Million) and participate in the industry's secondary financial protection plan. The secondary financial protection program is the industry's retrospective assessment plan that uses deferred premium charges from every licensed reactor owner if claims and/or costs resulting from a nuclear incident at any licensed reactor in the United States were to exceed the primary nuclear insurance at that plant's site. The Act limits liability from third-party claims to approximately $12.6 billion per incident. Under the industry wide retrospective assessment program provided for under the Act, assessments are limited to $117.5 million per reactor for each nuclear incident occurring at any nuclear reactor in the United States, with payments under the program limited to $17.5 million per reactor, per year, per event to be indexed for inflation every five years. The next inflation adjustment will occur no later than October 29, 2013. Based on the Electric Utility's interest in Palo Verde and ownership in SONGS, the Utility would be responsible for a maximum assessment of $5,331, limited to payments of $794 per incident, per year. If the public liability limit above is insufficient, federal regulations may impose further revenueraising measures to pay claims, including a possible additional assessment on all licensed reactor operators.

RENEWABLE PORTFOLIO STANDARD (RPS)

On April 12, 2011, the California Renewable Energy Resources Act (SB 2 (1X)) was passed by the State Legislative and signed by the Governor. SB 2 (1X) revised the amount of statewide retail electricity sales from renewable resources in the State Renewable Energy Resources Program to 33% by December 31, 2020 in three stages: average of 20% of retail sales during 2011-2013; 25% of retail sales by December 31, 2016; and 33% of retail sales by December 31, 2020. The Riverside Public Utilities Board and

City Council approved the enforcement program required by SB 2 (1X) on November 18, 2011 and December 13, 2011, respectively. The Utility met SB 2 (1X) Stage 1 requirement for 2011 which requires an average of 20% of retail sales come from renewable resources. The Utility does not anticipate it will have difficulty meeting the remaining requirements of SB 2 (1X).

The contracts in the following table were executed as part of compliance with this standard. The Electric Utility also has an agreement with Bonneville Power Administration for the purchase of energy credits that add to the total renewable portfolio.

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

Supplier	Type	Maximum Contract	Contract Expiration	Estimated Annual Cost For 2013
Salton Sea Power LLC	Geothermal	46.0 MW	5/31/2020	$ 21,176
Wintec	Wind	1.3 MW	12/30/2018	205
Total		47.3 MW		$ 21,381

All contracts are contingent on energy production from specific related generating facilities. The Utility 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 Purchase Power Agreement ("PPA") between Salton Sea and the Utility. The agreement increases the amount of renewable energy available to the Utility from 20 MW to 46 MW effective June 1, 2009 through May 31, 2020, at the same price under the current contract until 2013, with escalation thereafter based on an inflationary type index. Similar to other renewable power purchase agreements, the Utility is only obligated for purchases of energy delivered to the City.

On November 10, 2006, the Utility entered into a second Renewable PPA with Wintec Energy, Ltd for wind generation capacity of up to 8.0 MW on their proposed Wintec Facility II Wind Turbine Project. The contract term is for 15 years, expiring November 10, 2021. The developer is encountering challenges in finding suitable wind turbines to complete the project and the project is expected to continue to be delayed. The Utility does not expect to receive more than 1.3 MW from Wintec per the original contract which expires in December 2018. Due to the delay of the proposed Wintec Facility II Wind Turbine Project, on February 7, 2012, Wintec Energy, Ltd entered into an Assignment Agreement with WKN Wagner, LLC for the purpose of assigning to WKN all of Wintec's right, title, and interest in the Renewable PPA dated November 10, 2006. The Utility was in agreement with the Assignment and is currently in negotiations with WKN on a Power Purchase Agreement.

CONSTRUCTION COMMITMENTS

As of June 30, 2012, the Electric Utility had major commitments (encumbrances) of approximately $13,343 with respect to unfinished capital projects, of which $12,623 is expected to be funded by bonds and $720 funded by rates.

FORWARD PURCHASE/SALE AGREEMENTS

In order to meet summer peaking requirements, the Electric Utility may contract on a monthly or quarterly basis, for the purchase or sale of natural gas, electricity and/or capacity products on a short term horizon. As of June 30, 2012, the Electric Utility has net commitments for fiscal year 2013 and thereafter, of approximately $24,079, with a market value of $20,435.

NOTE 9. LITIGATION

The Utility is a defendant in various lawsuits arising in the normal course of business. Present lawsuits and other claims against the Utility are incidental to the ordinary course of operations of the 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 operations of the Utility.

NOTE 9. LITIGATION (CONTINUED)

CALIFORNIA ENERGY CRISIS SETTLEMENT

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

TRANSMISSION REVENUE REQUIREMENT (TRR) FILING

The Electric Utility continues to participate in key FERC dockets impacting the Utility, such as the CAISO's Market Redesign and Technology Upgrade (MRTU). On January 1, 2003, the Utility became a PTO with the CAISO, entitling the Utility to receive compensation for use of its transmission facilities committed to the CAISO's operational control. The compensation is based on the Utility's TRR as approved by the FERC.

On July 1, 2011, the Utility filed a revised TRR at FERC. In its filing, the Utility updated its projected transmission costs and confirmed the Utility's ability to automatically recover further cost increases imposed by SCE without filing an application with FERC for a new TRR tariff. On December 19, 2011, FERC approved the Utility's new TRR of $29,414,941, an increase of $3,900,000 from the previous TRR of $25,514,941. The new TRR became effective August 1, 2011.

NOTE 10. SPECIAL ITEM

On January 4, 2011, City Council approved the purchase of the 56-acre AB Brown Sports Complex property from the Water Utility to the Electric Utility for a fair market value of $11,600. The purchase was facilitated to balance the short and long-term investment and reserve assets of the Electric and Water Utility. The purchase will allow future appreciation of the property to accrue to the Electric Utility and will increase the financial liquidity of the Water Utility, both in efforts to maintain high credit ratings and to improve the overall financial position of both utilities.

The original and carrying value of the land in the Electric Utility was $17. The balance between the purchase price and carrying value of $11,583 was recorded as a special item.

On March 1, 2011, City Council approved the purchase of certain property (Reid Park land and a 64 acre portion of the former Riverside Golf Course) from the Water Utility to the Electric Utility for a fair market value of $720 and $4,838 for the park and the golf course, respectively, for a combined total of $5,558 with a subsequent sale from the Electric Utility to the City's former Redevelopment Agency. The land was originally purchased by the Water Utility in the 1930's to acquire water rights and expand certain well locations and is in excess to the current and long-term needs of the water system. The City intends that portions of the property (including the park) will remain public facilities and will be further developed for recreational purposes to benefit the community with another portion to be used for redevelopment purposes. The sale to the City's former Redevelopment Agency is secured by a 20-year promissory note.

The original and carrying value of the property was $27. The balance between the purchase price and carrying value was $5,531 and was recorded as a special item.

KEY HISTORICAL OPERATING DATA: ELECTRIC

KEY HISTORICAL OPERATING DATA

POWER SUPPLY (MWH)

	2011/12	2010/11	2009/10	2008/09	2007/08
Nuclear					
San Onofre	191,900	284,900	240,000	281,400	286,500
Palo Verde	101,100	102,000	96,300	97,700	85,200
Coal					
Intermountain Power	799,700	895,600	1,068,500	1,051,200	1,094,100
Deseret	0	0	187,400	406,000	427,600
Hoover (Hydro)	35,300	32,900	30,000	32,500	33,700
Gas					
Springs	2,300	3,100	1,400	3,300	2,300
RERC	39,400	34,500	11,500	48,700	46,800
Clearwater	17,000	9,700	0	0	0
Renewable Resources	409,800	385,700	354,900	233,000	247,800
Other purchases	682,500	464,200	276,500	349,200	594,100
Exchanges In	75,200	92,200	92,700	90,000	115,700
Exchanges Out	(133,500)	(176,100)	(156,200)	(160,600)	(202,600)
Total:	2,220,700	2,128,700	2,203,000	2,432,400	2,731,200
System peak (MW)	581.2	579.7	560.3	534.1	604.4

ELECTRIC USE

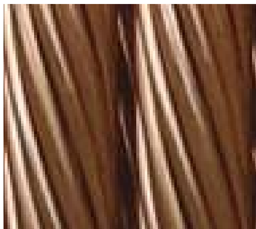
	2011/12	2010/11	2009/10	2008/09	2007/08
Number of meters as of year end					
Residential	95,988	95,676	95,258	95,214	94,691
Commercial	10,425	10,185	10,073	10,178	10,258
Industrial	822	908	916	904	978
Other	86	86	88	89	88
Total:	107,321	106,855	106,335	106,385	106,015
Millions of kilowatt-hours sales					
Residential	688	666	701	733	734
Commercial	413	400	406	433	441
Industrial	969	912	906	946	960
Other	31	31	32	33	34
Subtotal:	2,101	2,009	2,045	2,145	2,169
Wholesale	2	7	44	137	357
Total:	2,103	2,016	2,089	2,282	2,526

ELECTRIC FACTS

	2011/12	2010/11	2009/10	2008/09	2007/08
Average annual kWh per residential customer	7,208	7,006	7,397	7,739	7,779
Average price (cents/kWh) per residential customer	16.07	16.17	15.31	14.39	13.61
Debt service coverage ratio (DSC)[2]	2.24	2.21	2.75	2.58	2.62
Operating income as a percent of operating revenues	22.1%	18.9%	23.5%	22.2%	16.4%
Employees[1]	453	449	427	416	405

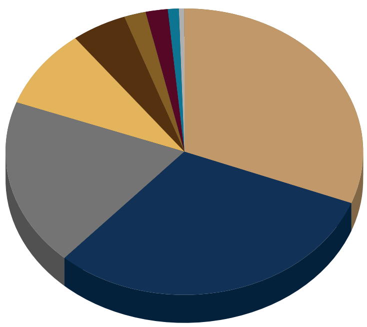
[1]Approved Positions

[2]For FY 11/12, interest expense used to calculate DSC is net of federal subsidy on Build America Bonds.



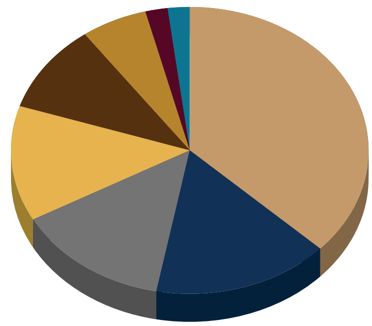
2011/2012 ELECTRIC REVENUE AND RESOURCES

Source of Revenue



- Residential Sales 31¢
- Industrial Sales 31¢
- Commercial Sales 19¢
- Transmission Revenue 9¢
- Other Revenue 5¢
- Investment Income 2¢
- Public Benefit Programs 2¢
- Other Sales 1¢
- Wholesale Sales (less than 1¢)

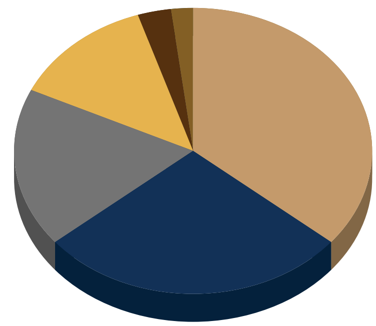
Distribution of Revenue



- Production 37¢
- Debt Service 16¢
- Distribution 14¢
- Transmission 13¢
- Transfers to the City's General Fund* 10¢
- Additional Reserves 6¢
- Public Benefit Programs 2¢
- Additions and Replacements to the System 2¢

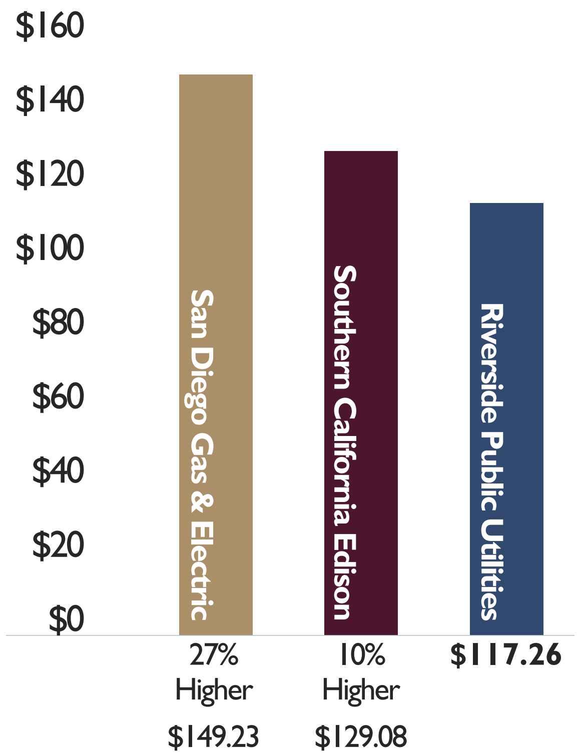
** Based on transfer of 11.5% of fiscal year 2010/2011 operating revenues (excludes wholesale sales and Public Benefit Programs revenues).*

Energy Resources

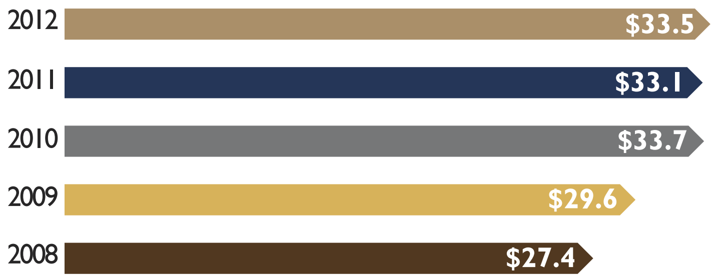


- Coal 36%
- Other Purchases 28%
- Renewables 18%
- Nuclear 13%
- Gas 3%
- Hydropower 2%

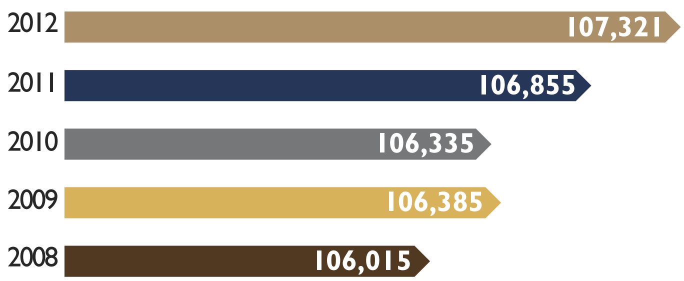
ELECTRIC RATE COMPARISON – 750 KWH PER MONTH (AS OF JUNE 30, 2012)



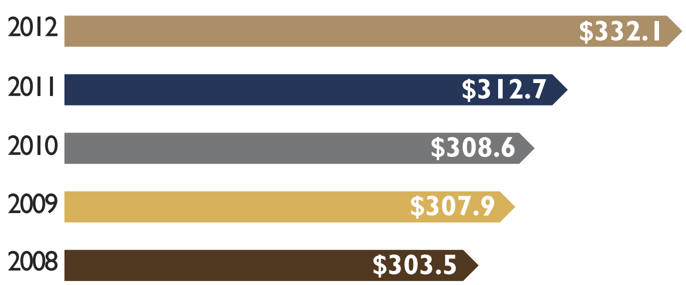
GENERAL FUND TRANSFER (IN MILLIONS)



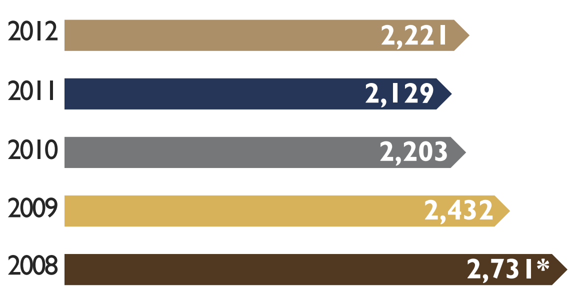
NUMBER OF METERS AT YEAR END



TOTAL OPERATING REVENUE (IN MILLIONS)



PRODUCTION (IN MILLION KILOWATT-HOURS)

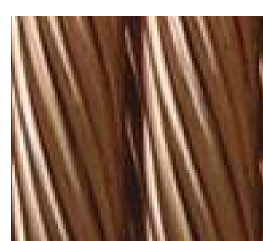


** Energy shown before transmission losses net of exchanges*

PEAK DAY DEMAND (IN MEGAWATTS)

ELECTRIC FACTS AND SYSTEM DATA

Established	1895
Service Area Population	308,452
Service Area Size (square miles)	81.5
System Data:	
Transmission lines (circuit miles)	91.1
Distribution lines (circuit miles)	1,319
Number of substations	14
2011-2012 Peak day (megawatts):	581
Highest single hourly use:	
09/17/2011, 4 pm, 101 degrees	
Historical peak (megawatts):	604
08/31/2007, 4 pm, 106 degrees	
Bond Ratings	
Fitch Ratings	AA-
Standard & Poor's	AA-
Debt Derivative Profile Score on Swap Portfolio	2
(1 representing the lowest risk and 4 representing the highest risk)	



steel pipeline
water pumped to
higher elevations
intake screens
wood plank

W A T E R


into which the flowing water is discharged
presents no obstruction above the bottom
of the opening through which the flow
is made. The amount of water dis-
charged through such an opening
in the manner indicated is
about 9 gallons per min.
Magnolia
Victoria
Heights
Arlington

CITY OF RIVERSIDE
CELEBRATING 100 YEARS
WATER DEPARTMENT 1913

INDEPENDENT AUDITORS' REPORT: WATER

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Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying balance sheet of the City of Riverside, California, Water Utility (Water Utility), as of and for the year ended June 30, 2012, and the related statement of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Water Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the Water Utility for the year ended June 30, 2011, and in our report dated October 14, 2011, we expressed unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Water Utility and do not purport to, and do not, present fairly the financial position of the City of Riverside, as of June 30, 2012, and the changes in its financial position, or, where applicable, its cash flows for the year then ended 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 Water Utility as of June 30, 2012 and the results of its individual and combined operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with the auditing standards generally accepted in the United States of America, which consisted of inquiries with management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial information included as supplementary information following the financial statements and notes to financial statements is provided for purposes 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 audit of the financial statements and we do not express an opinion on it.

Moss Adams LLP

Los Angeles, California
October 24, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS: WATER

As management of Riverside Public Utilities, a department of the City of Riverside (the City), we offer the readers this narrative overview and analysis of the 2011-12 financial report for the period ended June 30, 2012 and 2011 for Riverside's Water Utility (the Utility), an enterprise fund of the City. We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, which begin on page 71 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

Fiscal years 2012 and 2011 reflected strong operating results for the Water Utility, with retail sales exceeding the previous year's results, primarily from the effects of rate increases, expanded customer base, and an increase in consumption.

- Retail sales, net of reserve/recovery, were $59,620 and $55,186 for the years ended June 30, 2012 and 2011, respectively. The increase in sales was primarily due to a full year of rate increases under the SAFE W.A.T.E.R (Water Available to Everyone in Riverside) Plan required to support the Utility's Water Master, Water Supply and Asset Management Plans and a 4.4% increase in retail consumption.
- The assets of the Utility exceeded its liabilities (equity) at the close of fiscal years 2012 and 2011 by $313,939 and $301,733, respectively. Of this amount, $61,859 and $52,181, respectively, may be used to meet the Utility's ongoing obligations to creditors and customers.
- The Utility's total equity as of June 30, 2012 and 2011 increased by $12,206 and $23,739 from fiscal years ended June 30, 2011 and 2010, respectively, primarily due to positive operating results and an intra-entity property sale.
- As of June 30, 2012 and 2011, unrestricted equity represented 129% and 110% 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 are comprised of two components: 1) financial statements, and 2) notes to the financial statements. In addition, this report also contains other supplementary information to provide the reader with additional information about the Water Utility, including key historical operating and other relevant data.

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

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

The ***Statements of Revenues, Expenses and Changes in Equity*** present information showing how the Utility's equity changed during the most recent two fiscal years. Results of operations are reported as underlying events occur, regardless of the timing of cash flows. Thus, revenues and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods, e.g., accounts payable and accounts receivable. This is called the accrual basis of accounting and is described in more detail 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 77 to 89 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 $313,939 and $301,733 at the close of the fiscal years 2012 and 2011, respectively.

The following table summarizes the Utility's financial condition as of June 30:

CONDENSED STATEMENTS OF EQUITY (NET ASSETS)

	2012	2011	2010
Current and other assets	$ 141,346	$ 143,395	$ 148,966
Capital assets	409,675	392,264	372,792
Total assets	551,021	535,659	521,758
Long-term debt outstanding	204,526	209,112	219,414
Other liabilities	32,556	24,814	24,350
Total liabilities	237,082	233,926	243,764
Invested in capital assets, net of related debt	243,997	241,552	237,366
Restricted	8,083	8,000	8,599
Unrestricted	61,859	52,181	32,029
Total equity (net assets)	$ 313,939	$ 301,733	$ 277,994

ASSETS

Fiscal Year 2012 Total assets of $551,021 reflect an increase of $15,362 (2.9%), mainly due to the following:

- Current and other assets, comprised of restricted and unrestricted assets, reflect the use of $19,477 of bond proceeds for capital projects offset by a cash and cash equivalent increase of $7,123 primarily due to positive operating results and an increase of $6,838 in deferred debits on an interest rate swap fair valuation in accordance with Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). See Notes 1 and 4 in the accompanying financial statements for additional information.
- Net capital assets (Utility plant net of depreciation), increased by $17,411 primarily due to an increase of $31,287 in completed transmission and distribution system assets related to pipeline replacement, system expansion and improvements, facilities rehabilitation and reservoir construction, offset by a decrease of $13,876 in construction in progress. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section of the financial analysis.

Fiscal Year 2011 Total assets of $535,659 reflect an increase of $13,901 (2.7%), due to the use of $25,620 of bond proceeds for capital projects and a decrease of $6,580 in deferred debits on an interest rate swap fair valuation in accordance with GASB 53 offset by an increase in current and other assets of $27,434 primarily due to intra-entity property sale and positive operating results. Net capital assets (Utility plant) increased by $19,472 as a result of completed transmission and distribution system assets and an increase in construction in progress for pipeline replacement, system expansion and improvements, facilities rehabilitation and reservoir construction.

LIABILITIES

Fiscal Year 2012 The Utility's total liabilities were $237,082, an increase of $3,156 (1.3%), mainly due to the following:

- Other liabilities increased by $7,742 primarily due to $7,320 increase in derivative instruments related to interest rate swap fair valuation in accordance with GASB 53. See Note 4 in the accompanying financial statements for additional information.
- Long-term debt outstanding decreased by $4,586 primarily due to $4,545 in principal payments.

Fiscal Year 2011 The Utility's total liabilities were $233,926 a decrease of $9,838 (4.0%), primarily due to long-term debt outstanding decreased by $10,302 due to $4,660 in principal payments and $5,675 in unamortized deferred bond refunding costs.

EQUITY (NET ASSETS)

Fiscal Year 2012 The Utility's equity, which represents the difference between the Utility's resources and its obligations, totaled $313,939 an increase of $12,206 (4.0%) is comprised of the following:

- The largest portion of the Utility's equity is $243,997 (77.7% of total equity), 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 these assets. This portion increased by $2,445 (1.0%) primarily due to an increase in capital assets constructed or purchased during the fiscal year, net of the debt used to acquire these assets. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.
- The restricted portion totaled $8,083 (2.6% of total equity), an increase of $83 from prior fiscal year. Restricted equity is subject to internal and external restrictions on use and is reserved for items such as debt repayment and funds collected for the Conservation and Reclamation Programs.
- The unrestricted portion totaled $61,859 (19.7% of total equity), an increase of $9,678, primarily attributable to positive operating results.

Fiscal Year 2011 The Utility's equity increased by $23,739 (8.5%) to $301,773. The largest portion of the equity, $241,552 (80.0%), is represented by investment in capital assets, which increased by $4,186 (1.8%) primarily due to an increase in capital assets constructed or purchased during the fiscal year, net of the debt used to acquire these assets. The restricted portion decreased by $599 due to decreases in debt service reserves for principal and interest payments for new bond issues. The unrestricted portion increased by $20,152, primarily attributable to the intra-entity property sale and positive operating results.

UTILITY FINANCIAL ANALYSIS (CONTINUED)

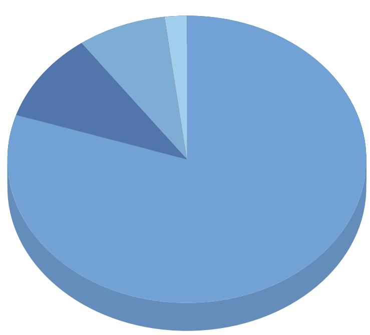
The Water Utility's overall increase in equity of $12,206 and $23,739 during fiscal years 2012 and 2011, respectively, was due to positive operating results that can be further explained in the following Condensed Statements of Changes in Equity:

CONDENSED STATEMENTS OF CHANGES IN EQUITY (NET ASSETS)

	2012	2011	2010
Revenues:			
Retail sales, net	$ 59,620	$ 55,186	$ 51,147
Other revenues	6,543	8,936	8,553
Investment income	1,428	2,635	1,815
Capital contributions	7,440	1,982	2,052
Total revenues	75,031	68,739	63,567
Expenses:			
Operations and maintenance	31,633	31,411	32,151
Purchased energy	4,600	4,558	4,362
Depreciation	11,824	11,386	10,660
Interest expenses and fiscal charges	8,510	8,912	7,886
Total expenses	56,567	56,267	55,059
Transfers to the City's general fund	(6,258)	(5,847)	(5,657)
Special item	-	17,114	-
Changes in equity	12,206	23,739	2,851
Equity, July 1	301,733	277,994	275,143
Equity, June 30	$ 313,939	$ 301,733	$ 277,994

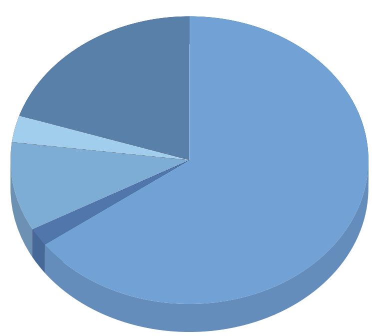
REVENUES BY SOURCES

June 30, 2012



- Retail Sales 80%
- Capital Contributions 10%
- Other 8%
- Investment Income 2%
- Special Item 0%

June 30, 2011



- Retail Sales 65%
- Capital Contributions 2%
- Other 10%
- Investment Income 3%
- Special Item 20%

Fiscal Year 2012 Total revenues of $75,031 decreased by $10,822 (12.6%) from prior fiscal year, due to the following major changes:

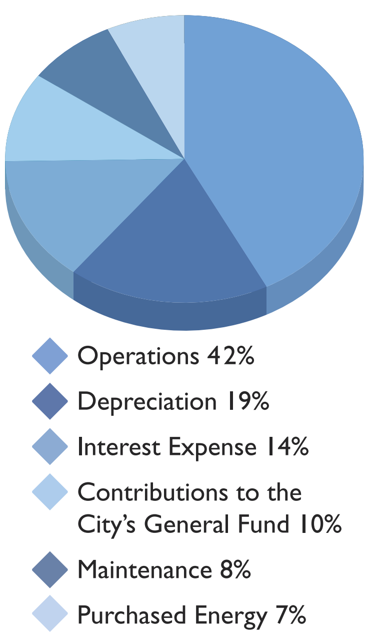
- Retail sales (residential, commercial, industrial, and others), net of reserve/recovery, totaled $59,620, an increase of $4,434 (8.0%) over the prior fiscal year. Retail sales continue to be the primary revenue source for the Water Utility, making up 80% of total revenues. The increase in sales was primarily due to a full year rate increase of 10% that became effective November 1, 2010 as part of the SAFE W.A.T.E.R. Plan, and a 4.4% increase in retail consumption.
- A prior year special item of $17,114 for an intra-entity property sale.
- Other revenues of $6,543 decreased by $2,393 (26.8%), primarily due to a decrease of $1,064 on gain on the sale of assets in the prior fiscal year and a decrease of $1,221 in other operating revenue.
- Investment income of $1,428 decreased by $1,207 (45.8%), due to a decrease in cash as a result of the use of bond proceeds for capital projects.
- Capital contributions of $7,440 increased by $5,458 (275.4%), primarily due to an increase in project activity related to Riverside County Transportation Commission (RCTC).

Fiscal Year 2011 Total revenues of $85,853, which included a special item, increased by $22,286 (35.1%) from prior fiscal year due to the following major changes:

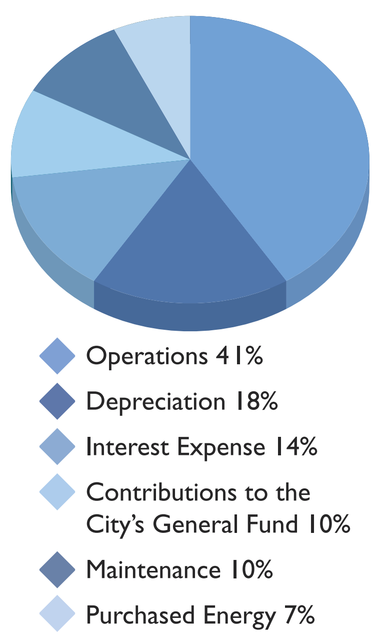
- Net retail sales were $55,186, 65% of total revenues, reflecting an increase of $4,039 (7.9%) in net retail sales from the prior fiscal year primarily due to a 10.0% rate increase that became effective November 1, 2010 as part of the SAFE W.A.T.E.R. Plan, offset by a 3.0% decrease in retail consumption.
- A special item of $17,114 represented an intra-entity property sale.
- Investment income of $2,635 increased by $820 (45.2%), due to interest earned on the increase in cash as a result of the intra-entity property sale and a full year's interest on bond proceeds.

EXPENSES BY SOURCES

June 30, 2012



June 30, 2011



UTILITY FINANCIAL ANALYSIS (CONTINUED)

Fiscal Year 2012 Total expenses, excluding general fund transfer, were $56,567, an increase of $300 (0.5%) over the prior year's expenses.

Fiscal Year 2011 Total expenses were $56,267, reflecting an increase of $1,208 (2.2%), due to an increase in interest expense and fiscal charges due to the 2011 bond issuance and a full year of interest for the 2009 bond issuance and an increase in depreciation expense due to the completion of $20,622 of capital projects that were included as depreciable capital assets.

TRANSFERS

Pursuant to the City of Riverside Charter, the Water Utility may transfer up to 11.5 percent of prior year's gross operating revenues including adjustments to the City's general fund. 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 2012 The Water Utility transferred the maximum allowable by the City Charter to the City's general fund, or $6,258, an increase of $411, primarily the result of a $4,039 increase in retail sales for fiscal year 2011.

Fiscal Year 2011 Transfers to the City's general fund of $5,847 increased by $190, primarily the result of increased retail sales of $1,556 for fiscal year 2010.

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, land, intangibles, 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:

	2012	2011	2010
Source of supply	$ 33,888	$ 32,955	$ 33,215
Pumping	17,871	17,175	16,885
Treatment	36,355	34,998	35,739
Transmission and distribution	289,285	260,134	248,994
General	4,069	5,266	5,721
Land	10,996	10,861	10,809
Intangible	6,519	6,307	6,307
Construction in progress	10,692	24,568	15,122
Total	$ 409,675	$ 392,264	$ 372,792

Fiscal Year 2012 The Utility's investment in capital assets was $409,675, an increase of $17,411 (4.4%). The increase (net of accumulated depreciation) resulted mainly from the following significant capital projects:

- $15,653 for system expansion and improvements, facilities rehabilitation and reservoir construction.
- $6,050 for continued pipeline replacement programs.
- $5,987 for the Riverside County Transportation Commission project (RCTC).

Fiscal Year 2011 Investment in capital assets (net of accumulated depreciation) for the Utility increased by $19,472 (5.2%), for a total of $392,264. Major capital projects included $22,101 for system expansion and improvements including, facilities rehabilitation and reservoir construction, and $6,299 for continued pipeline replacement programs.

Additional information regarding capital assets can be found in Note 3 on Page 85 of this report.

DEBT ADMINISTRATION

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

		2012		2011		2010
Revenue bonds	$	213,320	$	217,865	$	222,525
Unamortized bond premium		4,341		4,797		4,987
Contracts payable		947		947		949
Less:						
Current portion		(4,845)		(4,695)		(4,810)
Unamortized deferred bond refunding costs		(9,237)		(9,802)		(4,127)
Unamortized capital appreciation		-		-		(110)
Total	$	204,526	$	209,112	$	219,414

The Water Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants, of 1.25. The Water Utility's debt service coverage ratio was 2.82, 3.49, and 2.08 at June 30, 2012, 2011, and 2010, respectively. The debt is backed by the revenues of the Utility (revenue bonds).

Fiscal Year 2012 Total long-term debt decreased by $4,586 (2.2%) to $204,526 primarily due to $4,545 of principal payments.

Fiscal Year 2011 Long-term debt of $209,112 decreased by $10,302 (4.7%) primarily due to $4,660 of principal payments and $5,675 in unamortized deferred bond refunding costs.

Additional information on the Water Utility's long-term debt can be found in Note 4 on pages 85 to 88 of this report.

CREDIT RATINGS

In April 2012, Standard & Poor's affirmed its "AAA" long-term credit rating on the Water Utility's outstanding debt and its"A-1+" on the short-term rating on the 2011A Variable Rate Water Refunding Revenue Bonds. The ratings reflect the Utility's "strong historical and projected debt service coverage and strong cash reserves; advantageous water supply position with low-cost groundwater sources providing nearly all of the city's water, thereby helping the Utility to maintain low rates to its customers; and local economic base that is enduring the economic downturn."

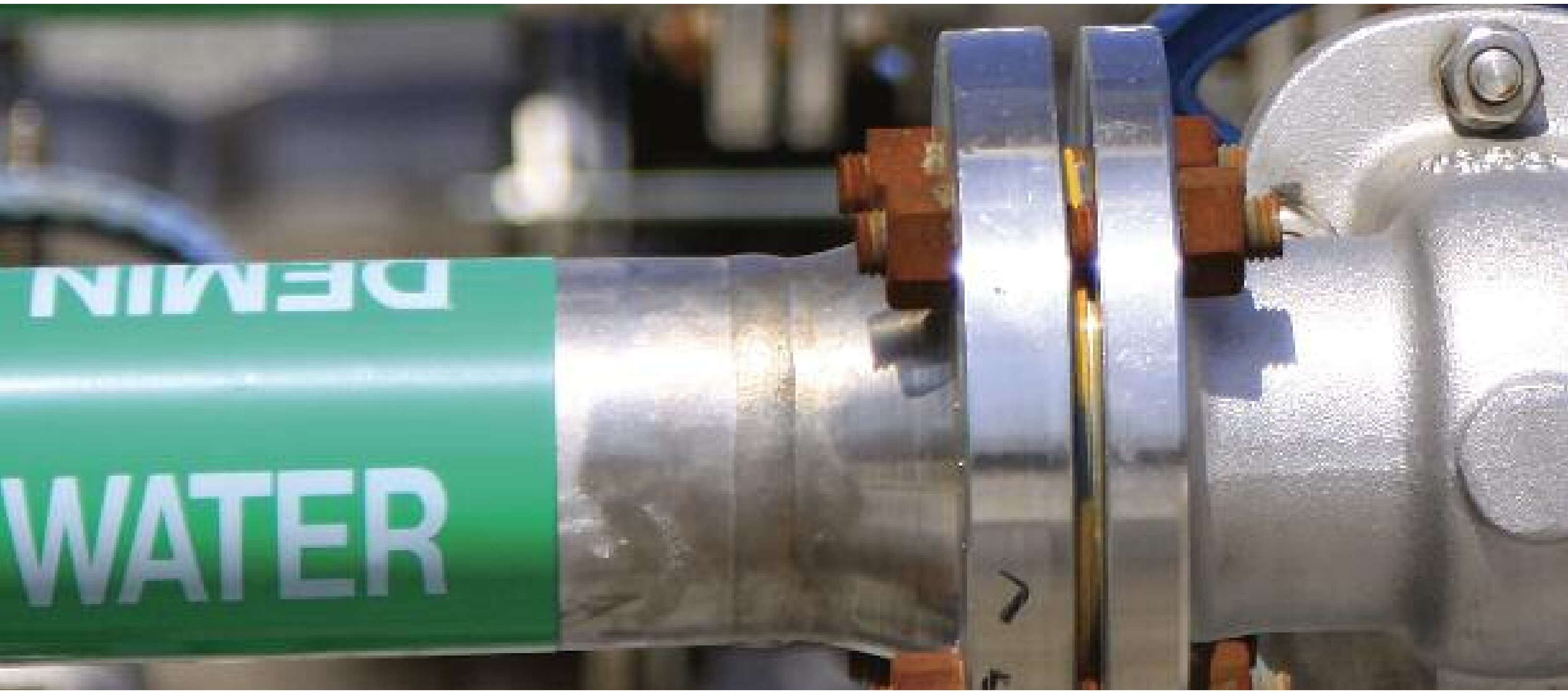
In April 2012, Moody's also affirmed its "Aa2" long-term rating on the 2011A Variable Rate Water Refunding Revenue Bonds. The ratings reflect the Utility's "consistent rate increases that have helped drive sound current and projected fiscal operations, strong levels of unrestricted cash reserves, water source independence which should insulate the Utility from the vulnerabilities of the State's water supply, and solid debt service coverage levels."

In May 2011, Fitch Ratings assigned an "AA+" long-term rating on the 2011A Variable Rate Water Refunding Revenue Bonds and affirmed the "AA+" rating on the Water Utility's outstanding debt. The ratings reflect the Utility's "healthy debt service coverage and liquidity levels, minimal reliance on connection fee revenues, rate flexibility is strong and competitive rates, capital plan that is designed to increase system reliability and water system that provides an essential service with a low cost of supplies."

REGULATORY AND LEGISLATIVE FACTORS

Utilities are faced with ongoing regulatory and legislative mandates enacted at the federal and state level that will have significant impact on the operations of the Utility.

The adoption of the Utility's SAFE W.A.T.E.R. Plan in March 2006, was to implement system improvements contained in the Water Master, Water Supply and Asset Management Plans. The SAFE W.A.T.E.R. Plan was initially funded by a fifty-two percent, five-year water rate increase, consisting of a twelve percent and four-ten percent increases effective November 1, 2006, 2007, 2008,



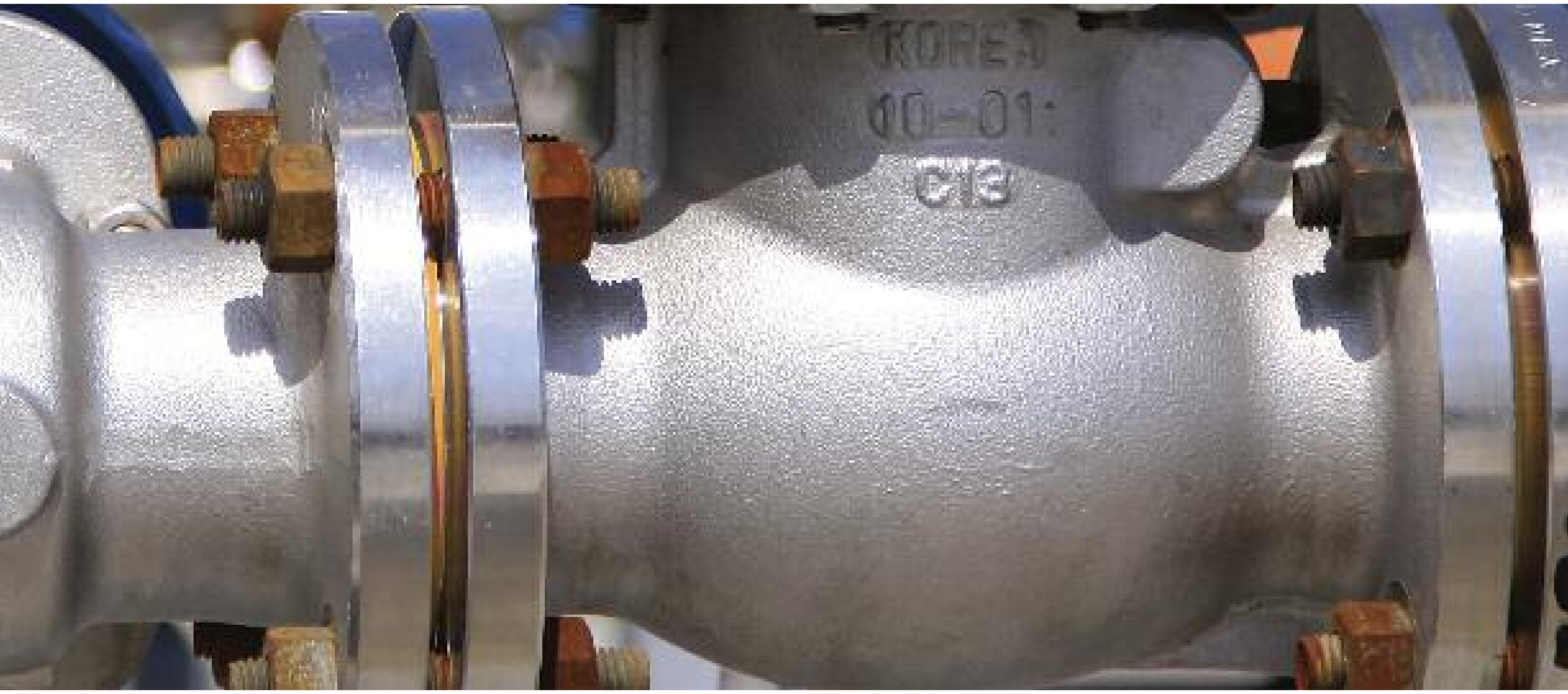
2009, and 2010, respectively. The Utility continues to make significant progress in replacing its aging infrastructure and since implementation of the rate increases, the Utility has invested approximately $162,000 in infrastructure improvements.

With the completion of the J.W. North Treatment Plant, the Utility is water independent and does not rely on state projects for water supply. However, under certain emergency conditions or a prolonged interruption of water supply, the challenges faced at the state level could impact the Utility. The state's primary water system, the Sacramento-San Joaquin River Delta, is in an ecological crisis that has led to historic restrictions on water deliveries from northern to southern California and threatens California's economy and endangered species. The levees that protect the Delta are at risk of failure and climate change will exacerbate the existing water management challenges.

In November 2009, the California legislature enacted a comprehensive set of laws aimed at improving the state's water supply reliability and restoring the Sacramento-San Joaquin River Delta ecosystem. The package included four policy bills and an $11.14 billion general obligation bond measure targeted for the November 2012 ballot. However, due to the economic downturn and state budget crisis, the general obligation bond measure has been postponed from the November 2012 ballot. One of the bills enacted, SB X7-7, requires a statewide 20% reduction in urban percapita water use by 2020. It also requires development of agricultural water management plans by December 31, 2012. The Utility has developed a comprehensive Water Efficiency Master Plan that outlines the steps necessary to comply with this requirement. For more information on the Utility's conservation efforts and available programs, visit BlueRiverside.com

In August 2011, the United States Fish and Wildlife Service (FWS) issued a draft rule designating portions of the Santa Ana River as critical habitat for the Southwestern Willow Flycatcher *(Empidonax traillii extimus)*, a federally threatened bird species. If approved, this could increase costs to planned water supply projects.

In December 2010, the FWS issued a final rule designating the Santa Ana River and the San Gabriel River as critical habitat for the Santa Ana Sucker *(Catostomus santaanae)*, a federally threatened fish species. This final rule expanded the existing designation of 8,305 acres to 9,331 acres of the Santa Ana River and the San Gabriel River as critical habitat for the Santa Ana Sucker. This expansion can potentially impact a number of water supply projects planned by the Utility. The Utility has joined with eleven other local cities and water agencies in filing a lawsuit against the federal government to overturn the rule. A hearing on plaintiffs' and defendant's motions for Summary Judgment was held in U.S. District Court in Santa Ana on September 20, 2012. A decision is expected by the end of calendar year 2012. Additionally, a recently formed collaborative between a number of the agencies involved in the lawsuit, the FWS, the California Department of Fish and Game, and the US Army Corps of Engineers is seeking



projects to improve habitat and serve as mitigation for planned projects within the Santa Ana River. The Utility will remain engaged and will continue to advocate at the state and federal level for sound environmental policy.

In September 2010 and July 2011, respectively, the U.S. Environmental Protection Agency (EPA) issued a first and second draft of the Scientific Human Health Assessment (toxicological review of Hexavalent Chromium, also known as Chrome-6). Water supply from underground aquifers in the Riverside and San Bernardino areas contain trace levels of naturally occurring Hexavalent Chromium, but at levels well exceeding the EPA standards. The EPA is developing new drinking water standards for Hexavalent Chromium and plan to release the third draft in 2013. In the interim period, the EPA is providing guidance to water systems on how they may monitor for Chromium 6, in addition to the monitoring they are required to perform for total chromium. Depending on the final drinking water standard adopted, there could be a significant impact to water supply costs. Management continues to monitor the progress of these rules and will advocate for standards that protect human health and are based on the best available science.

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/Administration, Riverside Public Utilities, 3750 University Avenue, 3rd floor, Riverside, CA 92501. Additional financial information can also be obtained by visiting RiversidePublicUtilities.com.

FINANCIAL STATEMENTS: WATER

RiversidePublicUtilities.com

BALANCE SHEETS

ASSETS	June 30, 2012	June 30, 2011
	(in thousands)	
UTILITY PLANT:		
Utility plant, net of depreciation (Note 3)	$ 409,675	$ 392,264
RESTRICTED ASSETS:		
Cash and cash equivalents (Note 2)	5,764	5,684
Cash and investments at fiscal agent (Note 2)	41,810	61,287
Total restricted non-current assets	47,574	66,971
OTHER NON-CURRENT ASSETS:		
Deferred pension costs	5,327	5,480
Deferred bond issuance costs	1,882	1,957
Deferred debits (Note 4)	6,838	-
Total other non-current assets	14,047	7,437
Total non-current assets	471,296	466,672
CURRENT ASSETS:		
Unrestricted assets:		
Cash and cash equivalents (Note 2)	63,927	56,804
Accounts receivable, less allowance for doubtful accounts 2012 $111; 2011 $261	12,105	9,385
Accrued interest receivable	280	435
Advances to City	976	-
Prepaid expenses	23	2
Total unrestricted current assets	77,311	66,626
Restricted assets:		
Conservation and Reclamation - Cash and cash equivalents (Note 2)	2,294	2,245
Conservation and Reclamation Programs receivable	120	116
Total restricted current assets	2,414	2,361
Total current assets	79,725	68,987
Total assets	$ 551,021	$ 535,659

See accompanying notes to the financial statements

BALANCE SHEETS

EQUITY AND LIABILITIES	June 30, 2012	June 30, 2011
	(in thousands)	
EQUITY:		
Invested in capital assets, net of related debt	$ 243,997	$ 241,552
Restricted for:		
Debt service (Note 5)	5,764	5,684
Conservation and Reclamation Programs	2,319	2,316
Unrestricted	61,859	52,181
Total equity	313,939	301,733
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4)	204,526	209,112
OTHER NON-CURRENT LIABILITIES:		
Advance from City - Pension obligation (Notes 1 and 4)	5,164	5,327
Postemployment benefits payable (Notes 1 and 4)	1,644	1,222
Derivative instrument (Note 4)	12,768	5,448
Deferred charges on derivative instrument (Note 4)	-	482
Total other non-current liabilities	19,576	12,479
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	1,858	1,891
Conservation and Reclamation Programs payable	95	45
Current portion of long-term obligations (Note 4)	4,695	4,545
Total current liabilities payable from restricted assets	6,648	6,481
CURRENT LIABILITIES:		
Accounts payable and other accruals	5,458	5,026
Current portion of long-term obligations (Note 4)	150	150
Customer deposits	724	678
Total current liabilities	6,332	5,854
Total liabilities	237,082	233,926
COMMITMENTS AND CONTINGENCIES (NOTES 6 AND 7)	-	-
Total equity and liabilities	$ 551,021	$ 535,659

See accompanying notes to the financial statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN EQUITY

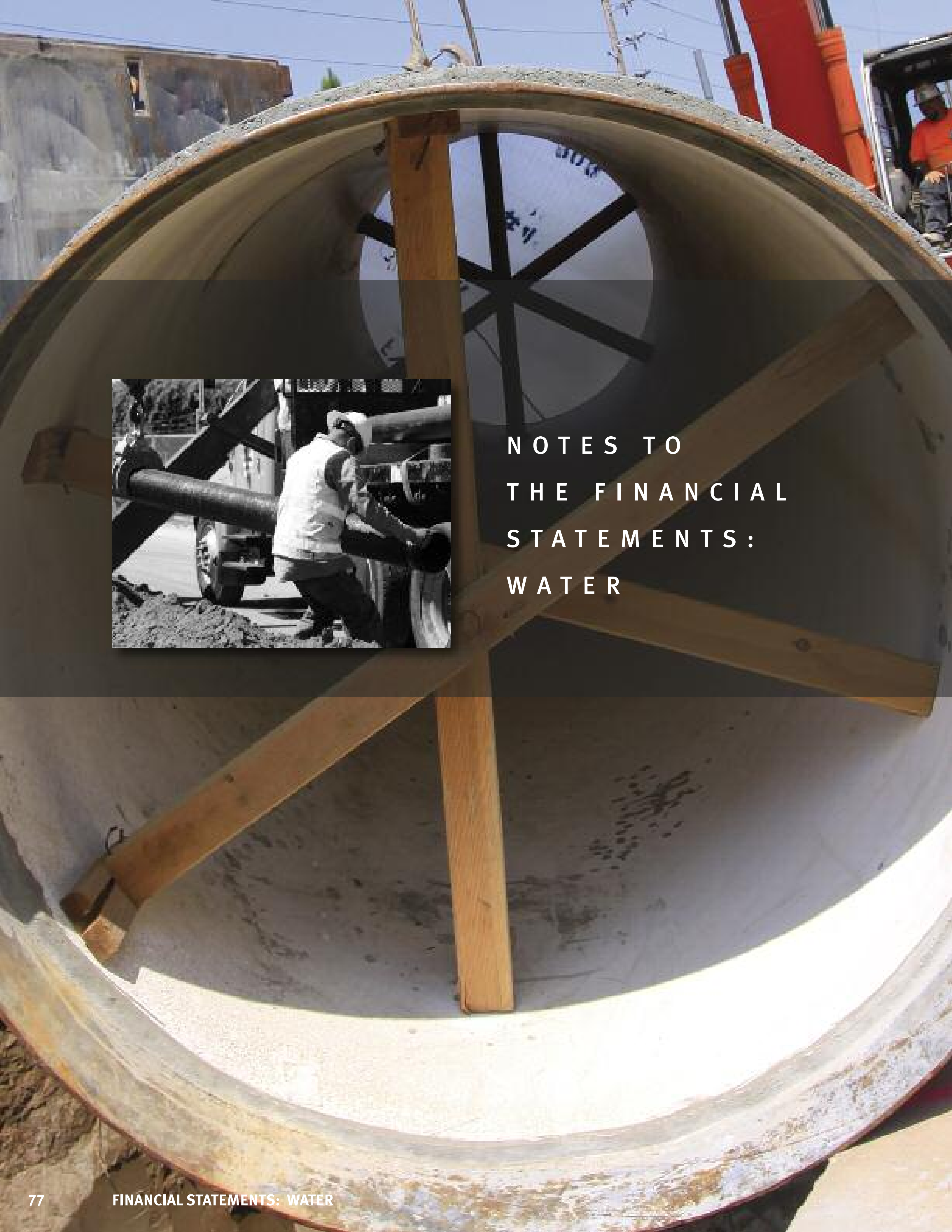
	For the Fiscal Years Ended June 30, 2012 (in thousands)	2011
OPERATING REVENUES:		
Residential sales	$ 38,552	$ 35,721
Commercial sales	19,353	17,863
Other sales	1,863	1,725
Wholesale sales	2,599	2,745
Conservation and Reclamation Programs	928	898
Other operating revenue	1,911	3,132
Total operating revenues before (reserve)/recovery	65,206	62,084
Reserve for uncollectible, net of bad debt recovery	(148)	(123)
Total operating revenues, net of (reserve)/recovery	65,058	61,961
OPERATING EXPENSES:		
Operations	25,668	24,791
Maintenance	5,040	5,872
Purchased energy	4,600	4,558
Conservation and Reclamation Programs	925	748
Depreciation	11,824	11,386
Total operating expenses	48,057	47,355
Operating income	17,001	14,606
NON-OPERATING REVENUES (EXPENSES):		
Investment income	1,428	2,635
Interest expense and fiscal charges	(8,510)	(8,912)
Gain on sale of capital assets	187	1,251
Other	918	910
Total non-operating revenues (expenses)	(5,977)	(4,116)
Income before contributions and transfers	11,024	10,490
Capital contributions	7,440	1,982
Transfers out - contributions to the City's general fund	(6,258)	(5,847)
Total capital contributions and transfers out	1,182	(3,865)
Income before special item	12,206	6,625
SPECIAL ITEM:		
Intra-entity property sale	-	17,114
Increase in equity	12,206	23,739
EQUITY, BEGINNING OF YEAR	301,733	277,994
EQUITY, END OF YEAR	$ 313,939	$ 301,733

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

	For the Fiscal Years Ended June 30, 2012	2011
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	$ 64,610	$ 60,023
Cash paid to suppliers and employees	(35,345)	(34,101)
Other receipts	918	910
Net cash provided by operating activities	30,183	26,832
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(6,258)	(5,847)
Intra-entity property acquisition	(976)	-
Payment on Advance from City - pension obligation	(163)	(139)
Net cash used by non-capital financing activities	(7,397)	(5,986)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(27,794)	(29,754)
Proceeds from the sale of utility plant	208	18,379
Principal paid on long-term obligations	(4,545)	(4,660)
Interest paid on long-term obligations	(9,273)	(9,268)
Bond issuance costs	-	(402)
Capital contributions	4,810	3,706
Net cash used by capital and related financing activities	(36,594)	(21,999)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investment securities	149	6,998
Income from investments	1,583	2,385
Net cash provided by investing activities	1,732	9,383
Net (decrease) increase in cash and cash equivalents	(12,076)	8,230
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR **(including $68,532 and $87,736 at June 30, 2011 and June 30, 2010, respectively, reported in restricted accounts)**	125,336	117,106
CASH AND CASH EQUIVALENTS, END OF YEAR **(including $49,333 and $68,532 at June 30, 2012 and June 30, 2011, respectively, reported in restricted accounts)**	$ 113,260	$ 125,336
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 17,001	$ 14,606
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	11,824	11,386
Amortization of deferred charges-pension costs	153	125
Decrease in allowance for uncollectible accounts	(150)	(57)
Increase in accounts receivable	(491)	(2,067)
(Increase) decrease in prepaid expenses	(21)	3
Increase in accounts payable and other accruals	432	1,496
Increase in postemployment benefits payable	422	341
Increase in Conservation & Reclamation Programs	49	26
Increase in customer deposits	46	63
Other receipts	918	910
Net cash provided by operating activities	$ 30,183	$ 26,832
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions - capital assets	548	626
Principal balance of revenue bonds refunded	-	59,000

See accompanying notes to the financial statements



NOTES TO THE FINANCIAL STATEMENTS: WATER

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Water Utility exists under, and by virtue of, the City of Riverside (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. The accompanying financial statements present only the financial position and the results of operations of the Water Utility (the Utility), which is an enterprise fund of the City, and are not intended to present fairly the financial position and results of operations of the City in conformity with generally accepted accounting principles. However, certain disclosures are for the City as a whole, since such information is generally not available for the Utility on a separate fund basis. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

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 Utility are also in conformity with the Uniform System of Accounts prescribed by the California Public Utilities Commission. The Utility is not subject to the regulations of the California Public Utilities Commission. The 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

The Water Utility customers are billed monthly. Unbilled water service charges including the Conservation and Reclamation Programs, are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled $3,475 at June 30, 2012, and $3,355 at June 30, 2011.

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

The Water Utility defines capital assets as assets with an initial, individual cost of more than five thousand dollars and an estimated useful life in excess of one year. 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. Intangible assets that cost more than one hundred thousand dollars with useful lives of at least three years are capitalized and are recorded at cost.

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	5-50 years
Intangibles	5 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 Water Utility began collecting a surcharge for 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, to be in effect for services rendered on or after June 1, 2004 through May 31, 2014. 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. The activity associated with the surcharge 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 Water 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 Utility values its cash and investments in accordance with provisions of Governmental Accounting Standards Board 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, 2012, 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 Water Utility and are pledged as collateral for payment of principal and interest on outstanding bonds, or for use on construction of capital assets.

DERIVATIVES

On July 1, 2009, the Water Utility adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). This Statement requires the Utility to report its derivative instruments at fair value. Changes in fair value for effective hedges are to be reported as deferrals on the Balance Sheets. Changes in fair value of derivative instruments not meeting the criteria for an effective hedge, or that are associated with investments are to be reported in the investment section of the Statements of Revenues, Expenses and Changes in Equity.

The Utility has determined that its interest rate swaps associated with variable rate obligations are derivative instruments under GASB 53. See Note 4 Long-Term Obligations for further discussion related to the Utility's interest rate swaps.

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

Bond premium/discounts, issuance costs and gains and losses on refunding (including gains and losses related to interest rate swap transactions) are deferred and amortized over the term of the bonds using the effective interest method. Bond premium/discounts, 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.

CUSTOMER DEPOSITS

The City holds customer deposits as security for the payment of utility bills and plan check fee deposits for future water connection. The Water Utility's portion of these deposits as of June 30, 2012 and 2011 was $724 and $678, respectively (including $77 and $115, respectively, held on behalf of La Sierra Water Company pending dissolution and distribution of remaining cash asset to shareholders, of which the Utility is the largest owner).

COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due to employees at June 30, 2012 and 2011. The Water Utility including the Conservation and Reclamation Programs, treats compensated absences due to employees as an expense and a current liability and is included in accounts payable and other accruals in the accompanying Balance Sheets. The amount accrued for compensated absences was $1,428 at June 30, 2012, and $1,429 at June 30, 2011.

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 Water Utility participates in a self-insurance program for workers' compensation and general liability coverage that is administered by the City. The 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 the Utility plant with a limit of $1 billion.

City-wide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risks for the year ended June 30, 2012, may be found in the notes to the City's "Comprehensive Annual Financial Report."

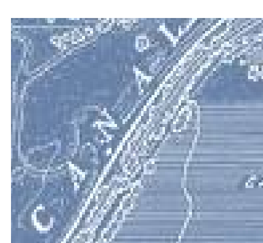
Although the ultimate amount of losses incurred through June 30, 2012 is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. Premiums paid to the City by the Water Utility including the Conservation and Reclamation Programs, were $662 and $620 for the years ended June 30, 2012 and 2011, respectively. Any losses above the City's reserves would be covered through increased rates charged to the Utility in future years.

EMPLOYEE RETIREMENT PLAN

The City contributes to the California Public Employees Retirement System (PERS), a public employee retirement system that services more than 3,000 public agency employers within the State of California and acts as a common investment and administrative agency for those participating public entities.

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. For new employees hired after December 9, 2011, all bargaining units including management, SEIU, and IBEW, agreed to change the calculation from utilizing the highest year of salary to the average of the highest three years of salary. 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 Utility pays both the employee and employer contributions except for new employees hired after October 19, 2011, who pay their own 8.0 percent contribution. 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 total Water Utility's contribution to PERS



NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

including the Conservation and Reclamation Programs as of June 30, 2012 and 2011 was $3,095 and $2,603, respectively. The employer portion of PERS funding as of June 30, 2012 and 2011 was 18.44 percent and 14.51 percent, respectively, of annual covered payroll.

City-wide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the fiscal year ended June 30, 2012, 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, 2012.

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. The deferred charge relating to the net pension asset will be amortized over 19 years in accordance with the method used by PERS for calculating actuarial gains and losses. The Bond proceeds were deposited with PERS to fund the unfunded actuarial accrued liability for non-safety employees. The balance in deferred pension costs as of June 30, 2012 and 2011 was $5,327 and $5,480, 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, 2012.

OTHER POSTEMPLOYMENT BENEFITS

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

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

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

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

The Utility's annual OPEB cost (expense) for each plan is calculated based on annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) (UAAL) over a period not to exceed thirty years. The Water Utility's OPEB liability including the Conservation and Reclamation Programs as of June 30, 2012 and 2011 was $1,656 and $1,228, respectively.

City-wide information concerning the description of the plans, funding policy and annual OPEB cost, funding status and funding progress, and actuarial methods and assumptions for the year ended June 30, 2012 can be found in the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2012.

EQUITY

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

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

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

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

CONTRIBUTIONS TO THE CITY'S GENERAL FUND

Pursuant to the City of Riverside Charter, the Water Utility may transfer up to 11.5 percent of prior year's gross operating revenues including adjustments to the City's general fund. In fiscal years ended June 30, 2012 and 2011, $6,258 and $5,847, respectively was transferred representing 11.5 percent.

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 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 Water Utility's prior year financial statements, from which this selected financial data was derived.

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2012 and 2011, consist of the following (in thousands):

	June 30, 2012	June 30, 2011
	Fair Value	
Equity interest in City Treasurer's investment pool	$ 71,985	$ 64,733
Cash and investments at fiscal agent	41,287	60,764
	113,272	125,497
Certificate of Deposit with financial institutions at fiscal agent[3]	523	523
Total cash and investments	$ 113,795	$ 126,020

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

	June 30, 2012	June 30, 2011
Unrestricted cash and cash equivalents	$ 63,927	$ 56,804
Restricted cash and cash equivalents	8,058	7,929
Restricted cash and investments at fiscal agent	41,810	61,287
Total cash and investments	$ 113,795	$ 126,020

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**
Held by fiscal agent				
Money market funds	$ 12	$ 12	$ -	$ -
Investment contracts [1]	41,275	41,275	-	-
City Treasurer's investment pool [2]				
Money market funds	12,334	12,334	-	-
Federal agency securities	32,019	3,895	7,371	20,753
Corp medium term notes	9,877	1,672	3,429	4,776
State investment pool	16,454	16,454	-	-
Negotiable Certificate of Deposit	1,301	41	814	446
Total [3]	$ 113,272	$ 75,683	$ 11,614	$ 25,975

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**	**Unrated**
Held by fiscal agent					
Money market funds	$ 12	$ 12	$ -	$ -	$ -
Investment contracts [1]	41,275	-	-	-	41,275
City Treasurer's investment pool [2]					
Money market funds	12,334	300	7,141	4,893	-
Federal agency securities	32,019	32,019	-	-	-
Corp medium term notes	9,877	-	8,107	1,770	-
State investment pool	16,454	-	-	-	16,454
Negotiable Certificate of Deposit	1,301	-	-	-	1,301
Total [3]	$ 113,272	$ 32,331	$ 15,248	$ 6,663	$ 59,030

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."

3 $523 in Certificates of Deposits is not considered an investment under GASB Statement No. 40, *Deposit and Investment Risk Disclosures,* and is excluded above from the Investment Type presentation above.

NOTE 3. UTILITY PLANT

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2012 and 2011 (in thousands):

	Balance As of 6/30/10	Additions	Retirements /Transfers	Balance As of 6/30/11	Additions	Retirements /Transfers	Balance As of 6/30/12
Source of supply	$ 45,465	$ 987	$ -	$ 46,452	$ 1,852	$ -	$ 48,304
Pumping	24,673	891	-	25,564	1,305	-	26,869
Treatment	41,165	35	-	41,200	2,497	-	43,697
Transmission and distribution	356,201	18,669	(906)	373,964	37,089	(2,392)	408,661
General	14,080	792	(507)	14,365	38	(362)	14,041
Intangible	137	-	-	137	216	-	353
Depreciable utility plant	481,721	21,374	(1,413)	501,682	42,997	(2,754)	541,925
Less accumulated depreciation							
Source of supply	(12,250)	(1,247)	-	(13,497)	(919)	-	(14,416)
Pumping	(7,788)	(601)	-	(8,389)	(609)	-	(8,998)
Treatment	(5,426)	(776)	-	(6,202)	(1,140)	-	(7,342)
Transmission and distribution	(107,207)	(7,529)	906	(113,830)	(7,938)	2,392	(119,376)
General	(8,359)	(1,232)	492	(9,099)	(1,214)	341	(9,972)
Intangible	(137)	-	-	(137)	(4)	-	(141)
Accumulated depreciation	(141,167)	(11,385)	1,398	(151,154)	(11,824)	2,733	(160,245)
Net depreciable utility plant	340,554	9,989	(15)	350,528	31,173	(21)	381,680
Land	10,809	95	(43)	10,861	135	-	10,996
Intangible	6,307	-	-	6,307	-	-	6,307
Construction in progress	15,122	30,068	(20,622)	24,568	29,368	(43,244)	10,692
Nondepreciable utility plant	32,238	30,163	(20,665)	41,736	29,503	(43,244)	27,995
Total utility plant	$ 372,792	$ 40,152	$ (20,680)	$ 392,264	$ 60,676	$ (43,265)	$ 409,675

NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2012 and 2011 (in thousands):

	Balance As of 6/30/2010	Additions	Reductions	Balance As of 6/30/2011	Additions	Reductions	Balance As of 6/30/2012	Due Within One Year
Revenue bonds	$ 223,275	$ 50,010	$ (60,425)	$ 212,860	$ -	$ (4,436)	$ 208,424	$ 4,695
Advance from City - pension obligation	5,466	-	(139)	5,327	-	(163)	5,164	
Postemployment benefits payable	881	341	-	1,222	422	-	1,644	
Water stock acquisition rights	949	-	(2)	947	-	-	947	150
Total long-term obligations	$ 230,571	$ 50,351	$ (60,566)	$ 220,356	$ 422	$ (4,599)	$ 216,179	$ 4,845

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

	June 30, 2012	June 30, 2011
CONTRACTS PAYABLE		
Water Stock Acquisitions: Payable on demand to various water companies	$ 947	$ 947
Total contracts payable	947	947
REVENUE BONDS PAYABLE		
$20,000 2001 Water Revenue Bonds: serial bonds due in annual installments from $490 to $510 through October 1, 2013, interest from 4.3 percent to 4.4 percent (partially advance refunded in 2005 and 2009 with final maturity in 2013)	1,000	1,470
$58,235 2008 Water Revenue Series B Bonds: fixed rate bonds due in annual installments from $1,210 to $7,505 from October 1, 2016 through October 1, 2038, interest from 4.0 percent to 5.0 percent	58,235	58,235
$31,895 2009 Water Refunding/Revenue Series A Bonds: fixed rate bonds due in annual installments from $2,270 to $4,335 through October 1, 2020, interest from 3.0 percent to 5.0 percent	28,095	31,370
$67,790 2009 Water Revenue Series B Bonds: fixed rate, federally taxable, Build America Bonds due in annual installments from $2,475 to $4,985 from October 1, 2021 through October 1, 2039, interest from 3.3 percent to 4.1 percent	67,790	67,790
$59,000 2011 Water Revenue/Refunding Series A Bonds: variable rate bonds due in annual installments from $600 to $3,950 through October 1, 2035. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 27, 2012 was 3.2 percent)	58,200	59,000
Total water revenue bonds payable	213,320	217,865
Total water revenue bonds and contracts payable	214,267	218,812
Unamortized deferred bond refunding costs	(9,237)	(9,802)
Unamortized bond premium	4,341	4,797
Total water revenue bonds and contracts payable, net of deferred bond refunding costs and bond premium	209,371	213,807
Less current portion	(4,845)	(4,695)
Total long-term water revenue bonds and contracts payable	$ 204,526	$ 209,112

Revenue Bonds annual debt service requirements, including contracts payable, to maturity, as of June 30, 2012, are as follows (in thousands):

	2013	2014	2015	2016	2017	2018-22	2023-27	2028-32	2033-37	2038-40	Total
Principal	$ 4,845	$ 5,020	$ 5,165	$ 5,410	$ 5,330	$ 29,512	$ 35,270	$ 42,730	$ 51,960	$ 29,025	$ 214,267
Interest	8,678	8,487	8,276	8,046	7,814	35,597	29,439	21,747	12,229	1,647	141,960
Total	$ 13,523	$ 13,507	$ 13,441	$ 13,456	$ 13,144	$ 65,109	$ 64,709	$ 64,477	$ 64,189	$ 30,672	$ 356,227

The Water Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants of 1.25. The Water Utility's debt service coverage ratio was 2.82 and 3.49 at June 30, 2012 and 2011, respectively. The debt (revenue bonds) is backed by the revenues of the Utility.

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

PRIOR YEAR DEFEASANCE OF DEBT

In prior years, the Water Utility defeased certain Revenue Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Utility's financial statements. At fiscal year ended June 30, 2012, no bonds outstanding were considered defeased.

2011 WATER REFUNDING/REVENUE BONDS

In May 2008, the Water Utility refinanced $60,300 of Auction Rate Securities (ARS) with Variable Rate Demand Notes (VRDNs). The VRDNs require credit enhancements (e.g. insurance or a bank letter of credit) to ensure debt service payments to bondholders are made should the Utility fail to make payment. Bank of America/Merrill Lynch (BAML) provided the Letter of Credit (LOC) at attractive rates. The LOC with BAML expired in May 2011. Renewing the existing LOC with BAML would result in higher rates due to a limited number of highly-rated banks offering this service. To mitigate various risk exposure and to provide an overall lower cost of financing, the Utility restructured the 2008 VRDN by refunding the 2008 VRDN with the 2011 VRDN.

On May 26, 2011, $59,000 of Water Refunding/Revenue Series A Bonds were sold with an all-in true interest cost of 3.33% to refund $59,000 of previously outstanding 2008 Water Refunding/Revenue Bonds. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $434. The difference is being charged to operations using the proportional method. Principal payments are due on October 1, 2011 until the maturity date of October 1, 2035 ranging from $600 to $3,950.

INTEREST RATE SWAPS ON REVENUE BONDS

The Water Utility has one cash flow hedging derivative instrument, which is a pay-fixed swap. The swap was employed as a hedge against debt that was refunded in 2008 and 2011. At the time of the refunding, hedge accounting ceased to be applied. The balance of the deferral account for the swap is included in the net carrying amount of the new bonds. The swap was also employed as a hedge against the new debt. Hedge accounting was applied to that portion of the hedging relationship, which was determined to be effective.

A summary of the derivative activity for the year ended June 30, 2012 is as follows:

	Notional Amount	Fair Value as of 6/30/2012	Change in Fair Value for Fiscal Year
2011 Water Refunding/Revenue Bonds Series A	$ 59,000	$ (12,768)	$ (7,320)

Objective: In order to lower borrowing costs as compared to fixed-rate bonds, the Utility entered into an interest rate swap agreement in connection with its $59,000 2011 Water Refunding/Revenue Series A Bonds.

Terms: Per the existing swap agreement, the Utility 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 swap has a notional amount equal to the principal amount stated above. The notional value of the swap and principal amount of the associated debt decline by $600 to $3,950 until the debt is completely retired in fiscal year 2036.

The bonds and the related swap agreement for the 2011 Water Refunding/Revenue Series A Bonds mature on October 1, 2035. As of June 30, 2012, rates were as follows:

Interest rate swap:	Terms	Rates
Fixed payment to counterparty	Fixed	3.20000%
Variable payment from counterparty	62.68 LIBOR + 12bps	(0.26684%)
Net interest rate swap payments		2.93316%
Variable-rate bond coupon payments		0.21969%
Synthetic interest on bonds		3.15285%

Fair value: As of June 30, 2012, in connection with the swap agreement, the transactions had a total negative fair value of ($12,768). Because the coupons on the Utility'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, 2012, the Utility was not exposed to credit risk because the swap had a negative fair value. The swap counterparty, J.P. Morgan Chase & Co. was rated A by Standard & Poor's. To mitigate the potential for credit risk, the swap agreement requires the fair value of the swap to be collateralized by the counterparty with U.S. Government securities if the counterparty's rating decreases to negotiated trigger points. Collateral would be posted with a third-party custodian. At June 30, 2012, there is no requirement for collateral posting for the outstanding swap.

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

Termination risk: The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination event." That is, a swap may be terminated by the Utility if the counterparty's credit quality falls below "BBB-" as issued by Standards & Poor's. The Utility 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 Utility 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, 2012, 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**
2013	$ 825	$ 126	$ 1,683	$ 2,634
2014	850	124	1,658	2,632
2015	875	122	1,632	2,629
2016	925	120	1,605	2,650
2017	600	119	1,588	2,307
2018-2022	10,550	531	7,087	18,168
2023-2027	14,025	388	5,185	19,598
2028-2032	15,700	225	3,007	18,932
2033-2036	13,850	51	680	14,581
Total	$ 58,200	$ 1,806	$ 24,125	$ 84,131

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 the Utility's water revenue and refunding bonds require debt service reserves that equate to the maximum annual debt service required in future years and bond service reserves of three months interest and nine months principal due in the next fiscal year. Variable rate revenue and refunding bonds require 110% of the monthly accrued interest to be included in the reserve. Active water revenue bonds requiring reserves is issue 2001. Certain revenue/refunding bond issues are covered by a Surety Bond (2008B) and certain issues have no debt service reserve requirements (2009A & B and 2011A).

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 Utility are incidental to the ordinary course of operations of the 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 operations of the Utility.

The Utility is a plaintiff in a lawsuit against several entities that either owned or leased a property site in the City of Colton and City of Rialto that is contaminated by perchlorate. The lawsuit was filed March 31, 2009, and no trial date has been set.

NOTE 7. CONSTRUCTION COMMITMENTS

As of June 30, 2012, the Water Utility had major commitments (encumbrances) of approximately $8,550 with respect to unfinished capital projects of which $4,678 is expected to be funded by bonds and $3,872 to be funded by other sources.

NOTE 8. SPECIAL ITEM

On January 4, 2011 and March 1, 2011, City Council approved the sale of the 56-acre AB Brown Sports Complex and a certain property (Reid Park land and a 64 acre portion of the former Riverside Golf Course) from the Water Utility to the Electric Utility. The properties were sold for a fair market value of $11,600 (AB Brown Sports Complex) and $5,558 ($720 Reid Park and $4,838 Riverside Golf Course), respectively. The original and carrying value of the properties was $17 and $27, respectively. The balance between the sales price and carrying value of $11,583 and $5,531, respectively, was recorded as a special item in fiscal year ended June 30, 2011.

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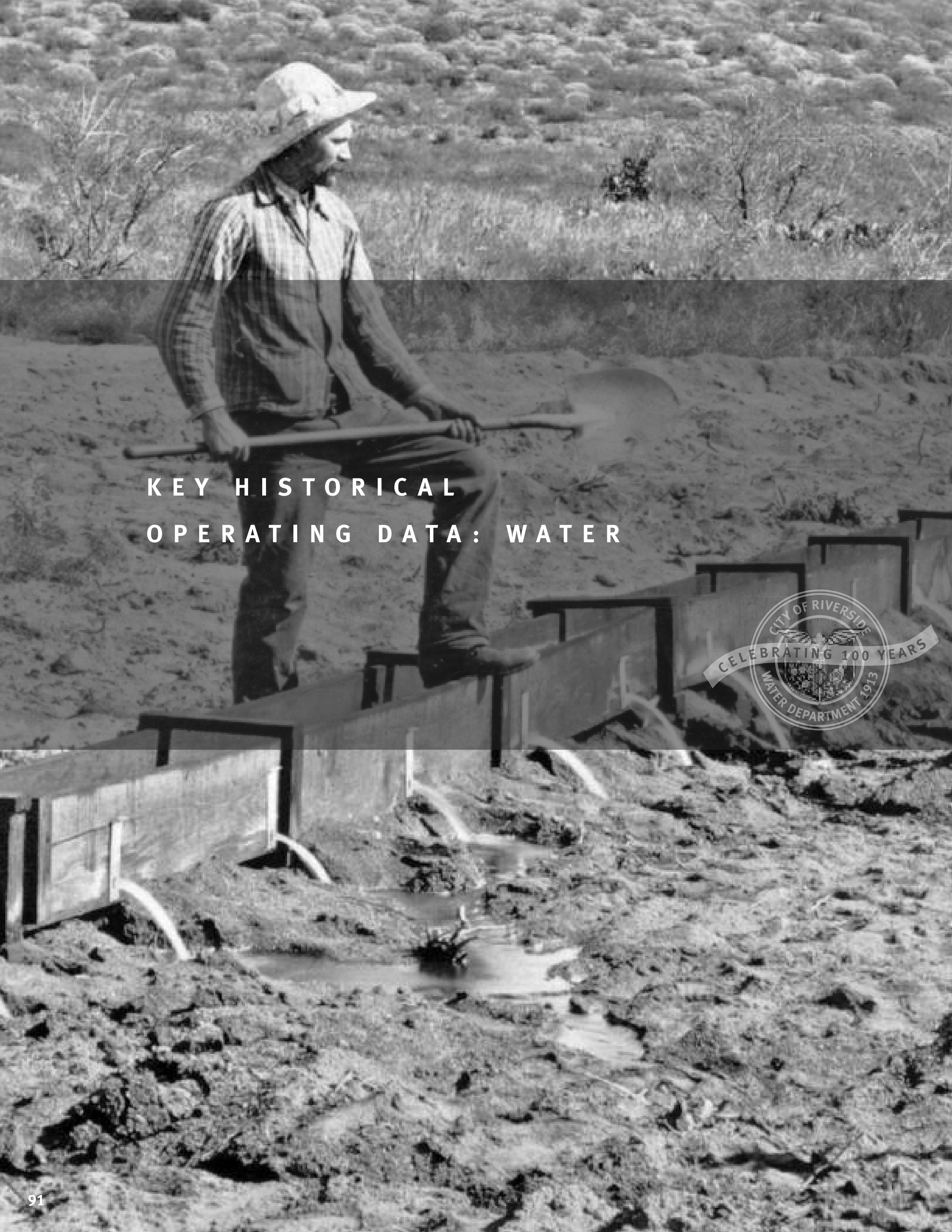
KEY HISTORICAL OPERATING DATA: WATER



KEY HISTORICAL OPERATING DATA

WATER SUPPLY (ACRE FEET)

	2011/12	2010/11	2009/10	2008/09	2007/08
Pumping	69,564	66,492	69,676	76,830	80,974
Purchases	0	0	0	0	1,643
Total:	69,564	66,492	69,676	76,830	82,617
Percentage pumped	100.00%	100.00%	100.00%	100.00%	98.0%
System peak day (gallons)	88,370,000	90,556,000	98,017,000	105,780,000	111,300,000

WATER USE

	2011/12	2010/11	2009/10	2008/09	2007/08
Number of meters as of year end					
Residential	58,506	58,460	58,372	58,152	57,694
Commercial/Industrial	5,504	5,482	5,451	5,519	5,446
Other	357	407	408	391	354
Total:	64,367	64,349	64,231	64,062	63,494
*CCF sales					
Residential	16,288,918	15,698,321	16,321,425	17,898,798	18,483,522
Commercial/Industrial	9,703,162	9,219,913	9,344,085	10,342,284	10,510,953
Other	893,971	826,165	871,396	983,553	970,239
Subtotal:	26,886,051	25,744,399	26,536,906	29,224,635	29,964,714
Wholesale	176,091	158,040	150,365	496,601	618,552
Total:	27,062,142	25,902,439	26,687,271	29,721,236	30,583,266

*(CCF equals 100 cubic feet)

WATER FACTS

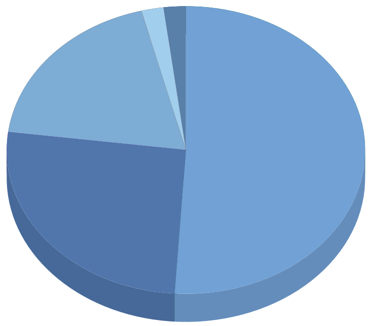
	2011/12	2010/11	2009/10	2008/09	2007/08
Average annual CCF per residential customer	278	269	280	308	320
Average price ($/CCF) per residential customer	$2.37	$2.28	$2.05	$1.81	$1.63
Debt service coverage ratio (DSC)[2]	2.82	3.49	2.08	2.25	3.88
Employees[1]	181	180	178	167	167

[1]Approved positions

[2]For FY 09/10 and thereafter, interest expense used to calculate DSC is net of federal subsidy on Build America Bonds.

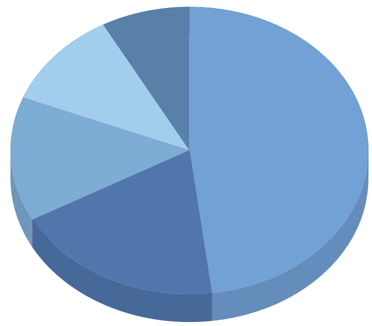
2011/2012 WATER REVENUE AND RESOURCES

Source of Revenue



- Residential Sales 51¢
- Commercial Sales 26¢
- Other Revenues 19¢
- Investment Income 2¢
- Other Sales 2¢

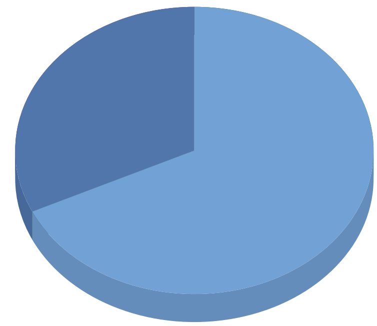
Distribution of Revenue



- Operations and Maintenance 48¢
- Debt Service 19¢
- Additional Reserves 14¢
- Additions and Replacements to the System 11¢
- Transfers to the City's General Fund* 8¢

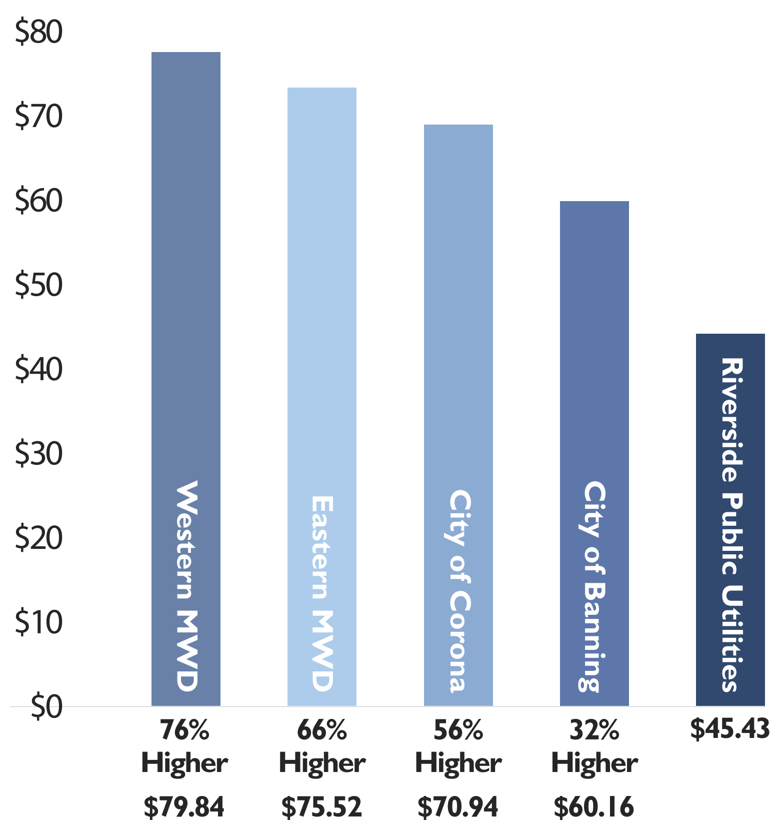
** Based on transfer of 11.5% of fiscal year 2010/2011 operating revenues (excludes wholesale sales and Conservation and Reclamation revenue)*

Water Resources



- San Bernardino Basin Wells 68%
- Riverside Basin Wells 32%
- Purchased Water 0%

RESIDENTIAL WATER RATE COMPARISON – 23 CCF PER MONTH (AS OF JUNE 30, 2012)

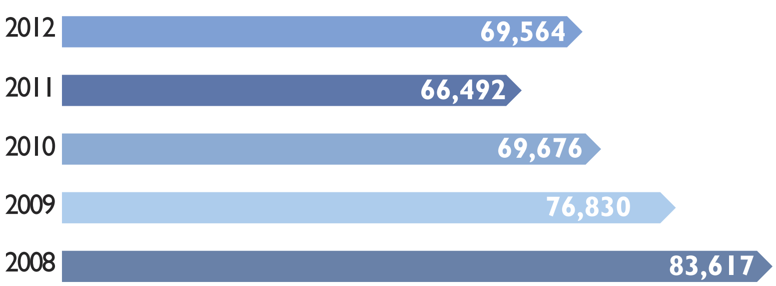


GENERAL FUND TRANSFER (IN MILLIONS)

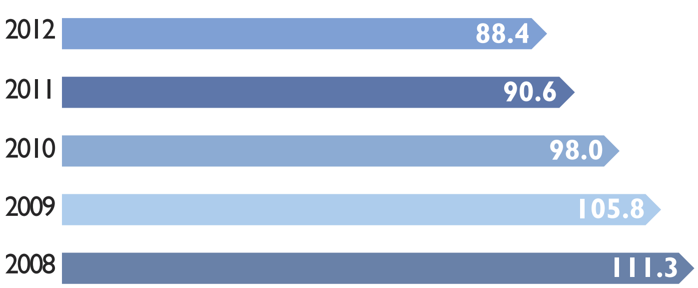
NUMBER OF METERS AT YEAR END

TOTAL OPERATING REVENUE (IN MILLIONS)

PRODUCTION (IN ACRE FEET)



PEAK DAY DEMAND (IN MILLION GALLONS)

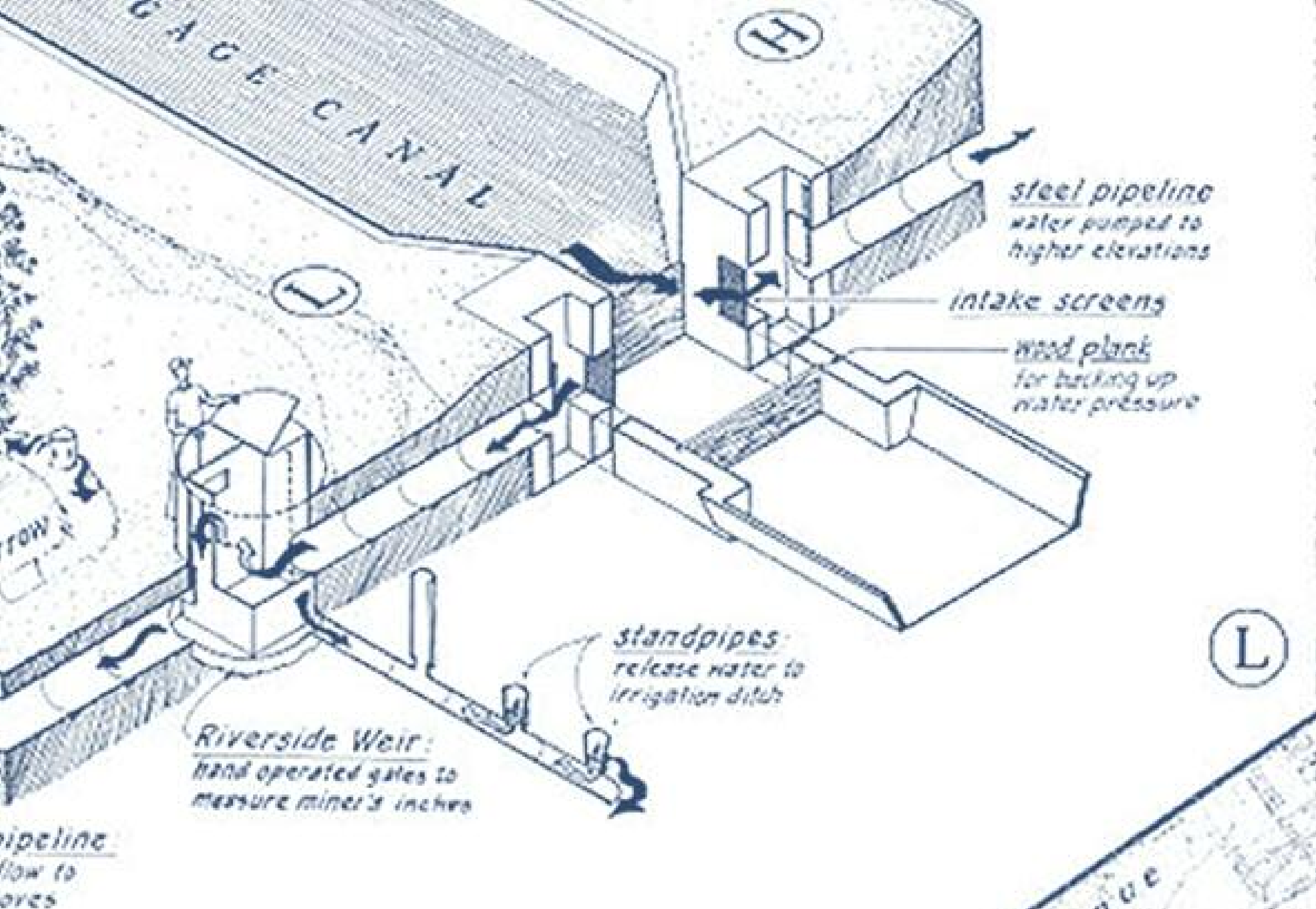


WATER FACTS AND SYSTEM DATA

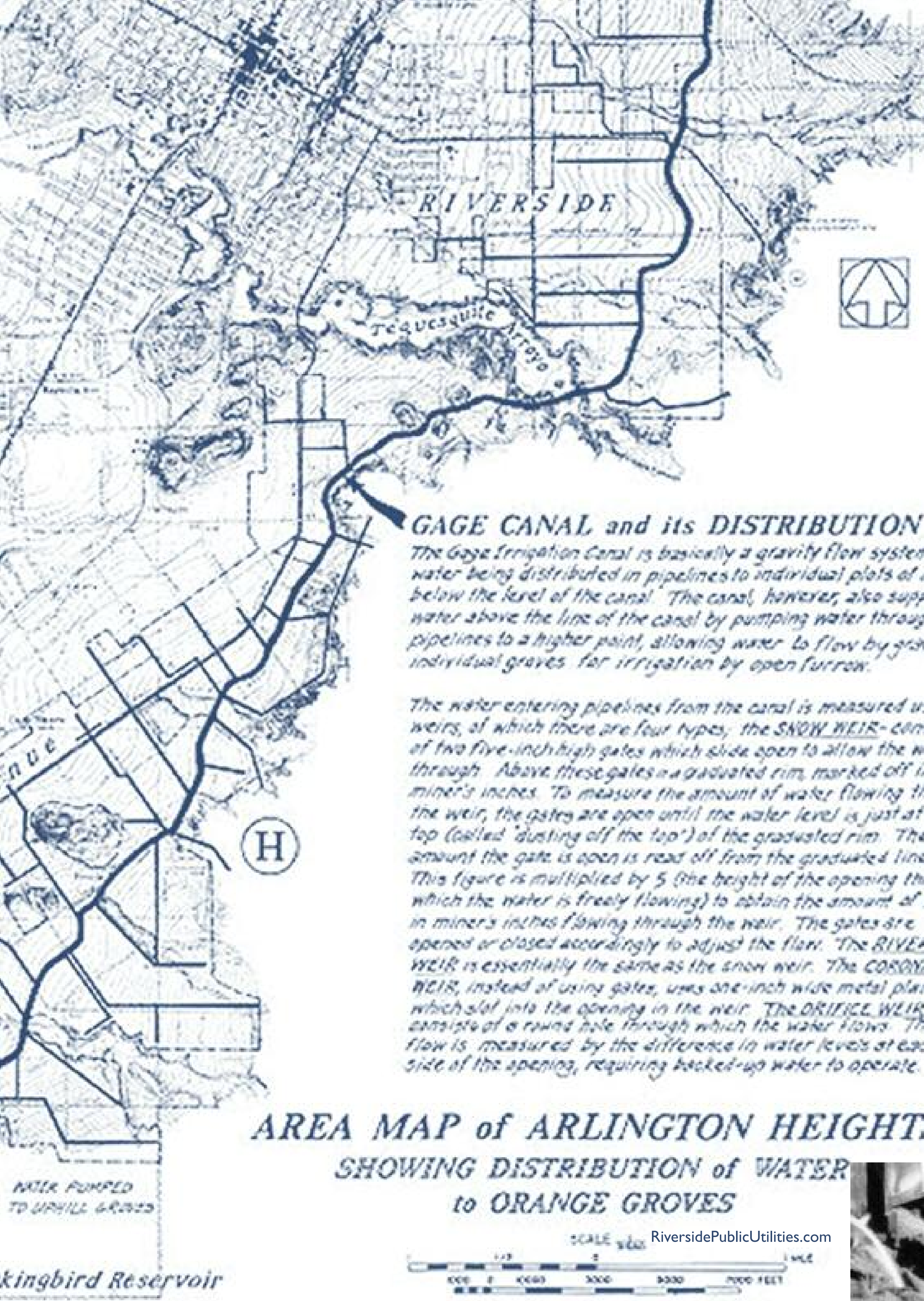
Established	1913
Service Area Population	308,452
Service Area Size (square miles)	74.40
System Data:	
Smallest pipeline	2.0”
Largest pipeline	72.0”
Miles of pipeline	1,000
Number of domestic wells	53
Number of active reservoirs	16
Total reservoir capacity (gallons)	108,500,000
Number of treatment plants	6
Number of treatment vessels	84
Miles of canal	14
Number of fire hydrants	7,682
Daily average production (gallons)	60,014,625
2011-2012 Peak day (gallons)	88,370,000
07/07/11, 101 degrees	
Historical peak (gallons)	118,782,000
08/09/05, 99 degrees	

Bond Ratings

Fitch Ratings	AA+
Moody’s	Aa2
Standard & Poor’s	AAA



ner's Inch is the volume of water discharged through a
opening one inch square in a board one inch thick,
rface of the water from which the flow is made
four inches above the center of the opening
h which the water flows, and the space
hich the flowing water is discharged
nts no obstruction above the bottom
opening through which the flow
e. The amount of water dis-
d through such an opening
manner indicated is
9 gallons per min.



GAGE CANAL and its DISTRIBUTION

The Gage Irrigation Canal is basically a gravity flow system with water being distributed in pipelines to individual plots of land below the level of the canal. The canal, however, also supplies water above the line of the canal by pumping water through pipelines to a higher point, allowing water to flow by gravity to individual groves for irrigation by open furrow.

The water entering pipelines from the canal is measured using weirs, of which there are four types; the SNOW WEIR- consists of two five-inch high gates which slide open to allow the water through. Above these gates is a graduated rim, marked off in miner's inches. To measure the amount of water flowing through the weir, the gates are open until the water level is just at the top (called 'dusting off the top') of the graduated rim. The amount the gate is open is read off from the graduated line. This figure is multiplied by 5 (the height of the opening through which the water is freely flowing) to obtain the amount of water in miner's inches flowing through the weir. The gates are opened or closed accordingly to adjust the flow. The RIVERSIDE WEIR is essentially the same as the snow weir. The CORONA WEIR, instead of using gates, uses one-inch wide metal plates which slot into the opening in the weir. The ORIFICE WEIR consists of a round hole through which the water flows. The flow is measured by the difference in water levels at each side of the opening, requiring backed-up water to operate.

AREA MAP of ARLINGTON HEIGHTS

SHOWING DISTRIBUTION of WATER to ORANGE GROVES

Riverside Public Utilities
Administration
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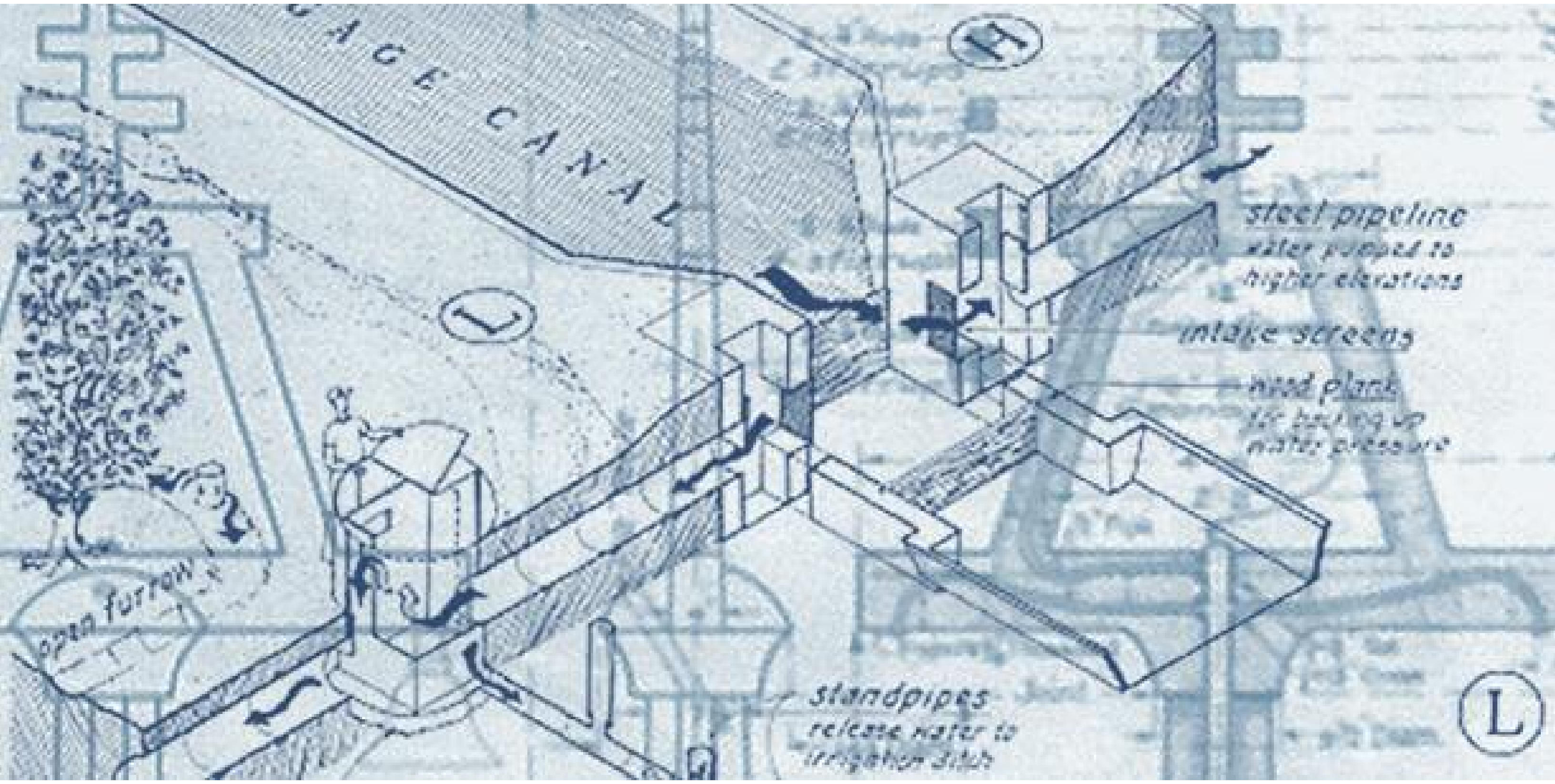
RiversidePublicUtilities.com



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