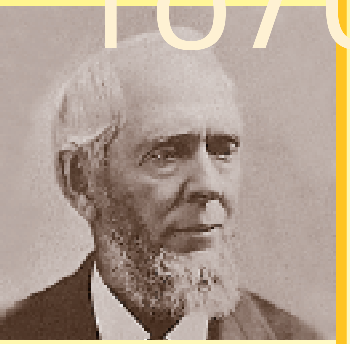
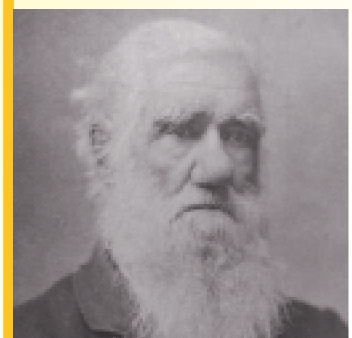
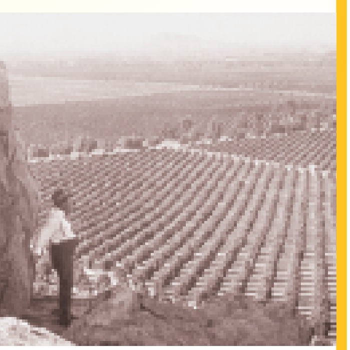


Stewardship:

Generations Past, Present and Future





Riverside Public Utilities

FINANCIAL STATEMENTS 2004-2005

On the Cover:
Top Left: John Wesley North
Below Left: Dr. James P. Greves
Founding Fathers of the City of Riverside

Mission Statement

Mission

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

Vision

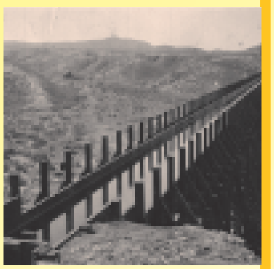
Riverside Public Utilities will be recognized as a community treasure with a national reputation for excellence.

Core Values

(not in priority order)

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

Table of Contents



Board of Public Utilities

Peter G. Hubbard
2004-05 Board Chairman
Occupation: Director Medical Services
Riverside Resident: lifetime
Years of Service: 7

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; and 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 citizen review of all actions by Riverside Public Utilities before any measure is sent to the elected City Council representatives for a final determination.

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

James W. Anderson
2004-05 Board Vice Chairman
Occupation: Retired Attorney,
Environmental and Administrative Law
Riverside Resident: 33 years
Years of Service: 6

Lalit N. Acharya
Occupation: Associate Professor
Communications
Riverside Resident: 15 years
Years of Service: 7

David E. Barnhart
Occupation: Director
of Transportation
Riverside Resident: 11 years
Years of Service: 2

Greg Kraft
Occupation: School
Board Member
Riverside Resident: 19 years
Years of Service: 1

Conrad F. Newberry, Jr.
Occupation: Registered
Mechanical Engineer
Riverside Resident: 11 years
Years of Service: 8

Robert A. Stockton
Occupation: Vice President, Civil
Engineering Consulting
Riverside Resident: 5 years
Years of Service: 2

Ken L. Sutter
Occupation: Retired
California-Licensed Architect
Riverside Resident: 19 years
Years of Service: 1

Joe Tavaglione
Occupation: President of
Construction & Development Co.
Riverside Resident: lifetime
Years of Service: 5

Public Utilities Administration

David H. Wright
Public Utilities
Director

Stephen H. Badgett
Deputy Director -
Energy Delivery

Gary L. Nolff
Assistant Director -
Resources

Jerry D. Rogers
Assistant Director -
Finance/ Customer
Relations

Dieter P. Wirtzfeld
Assistant Director -
Water

Fiscal Message

Stewardship: Generations Past, Present and Future

A flyer printed by the visionary early settlers of Riverside proclaimed their wish "to form a colony of intelligent, industrious and enterprising people, so that each one's industry will help to promote his neighbor's interests as well as his own."

They soon realized that the catalyst to make that happen was water and electricity. In 1871, the Riverside Canal was completed. In 1895, just 13 years after Thomas Edison established an electricity plant in New York City, the Riverside Light Department was formed by local residents.

The Riverside Water Company and the Riverside Light Department were created for the benefit of a growing community that wanted reliable sources of water and power at a reasonable cost. For over 110 years, the people of Riverside have relied on their water and electric utility to be a true partner with and for the community.

The utility's spirit of public stewardship is alive and well. We have prevailed over the obstacles of deregulation and the energy crisis - and we are stronger from the experience.

It is now, as it was then

Financial Stewardship

Fiscal planning spans time and events. Riverside's forefathers should be particularly proud of several financial successes achieved over the past few years:

Recently, the Riverside Public Utilities joined an elite class of three other electric utilities in California by receiving an upgrade from A+ to AA- from the prestigious Fitch Rating Agency. This external confirmation of strong financial management, successful execution of our business strategy and focused leadership will enhance our ability to borrow funds at attractive interest rates.

To further promote future stability, a Long-Range Strategic Plan focusing on the utility's water, electric and financial needs for the next 20 years has been presented to the City Council for consideration and approval.

Fiscal Message

In preparation for deregulation, to build liquidity and enhance operational flexibility, RPU has directly and indirectly shed in excess of one billion dollars of outstanding debt.

Vision and years of fiscal planning are coming to fruition as the Riverside Energy Resource Center comes on line and begins generating power for Riverside's customers. Combined with the Springs Generation Station, between 25 percent and 50 percent of emergency and peak power supply can be generated within city limits.

Water quality and availability are primary goals. Years of planning will evolve in the replacement of portions of the main water transmission facilities that deliver over 70 percent of Riverside Public Utilities' water to our customers.

Our fiscal stewardship of the utility is vital to the general well-being of the city of Riverside enabling the continued transfer of a portion of all revenues to the city's General Fund to be used for essential city services such as police, fire, library, parks and recreation; all done while keeping water and electric rates low in comparison to surrounding providers.

If the early settlers of the Riverside Colony were to visit us now, we are confident they would be proud to see that their vision is being honored and advanced by the current stewardship of Riverside Public Utilities. They would be proud of our excellent financial health and our commitment to provide safe, reliable services to the community they founded. They would, indeed, stand beside us as we fulfill our mission to provide this stewardship for many generations to come.

Jerry D. Rogers
Assistant Director, Finance/Customer Relations

Reiko A. Kerr
Utilities Finance/Rates Manager

It is now, as it was then

The information contained in this report would not be possible without the dedication of our co-workers in Financial Services. Outstanding contributions were made by Cindy Reeley, Shelly Almgren, and Kimberly Wyman. Thank you for all your efforts throughout the year.

Independent Auditor's Report

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

We have audited the accompanying financial statements of the City of Riverside, California, Electric Utility, an enterprise fund of the City, as of and for the years ended June 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the City of Riverside Electric Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Riverside, California, Electric Utility, as of June 30, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 30, 2005 on our consideration of the City of Riverside's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

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

McGladrey & Pullen, LLP

Riverside, California
September 30, 2005

Management's Discussion and Analysis

As management of Riverside Public Utilities (a department of the City of Riverside), we offer the readers of Riverside's Electric Utility financial statements, an enterprise fund of the City, this narrative overview and analysis of the financial activities of the Electric Utility (Utility) for the fiscal years ended June 30, 2005 and 2004. We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, which begin on page 14 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

Fiscal years 2005 and 2004 reflected strong operating results for the Electric Utility, with each year's retail revenues exceeding the previous all-time record – primarily the result of an expanded customer base and the effects of rate increases. Retail sales, net of reserve/recovery were $204,526 and $200,129 for years ended June 30, 2005 and 2004, respectively. As a result of the positive operating results, the Electric Utility was able to increase unrestricted cash reserves by $17,685 and $23,363, respectively, which supports the Utility's long-term financial plan goal of strengthening its financial position and building liquidity.

In August 2005, Fitch upgraded the City of Riverside's Electric Utility's Revenue bonds to AA- from its previous rating of A+.

The assets of the Electric Utility exceeded its liabilities (equity) at the close of fiscal years 2005 and 2004 by $255,202 and $197,748, respectively. Of this amount, $118,880 and $104,026, respectively, may be used to meet the Utility's ongoing obligations to creditors and customers.

The Utility's total equity increased by $57,454 and $32,994 from fiscal years ended June 30, 2005 and 2004, respectively, primarily due to an increase in net retail sales of $4,397 and $25,725, respectively, and contributions from developers totaling $16,716 and $8,227, respectively.

As of June 30, 2005 and 2004, unrestricted equity represented over 63% and 56% of annual operating expenses, respectively.

Overview of the Financial Statements

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

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

accounts payable and accounts receivable. This is called the accrual basis of accounting and is more fully described in the accompanying Notes to the Financial Statements.

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

The ***Notes to the Financial Statements*** provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 18 to 30 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 $255,202 and $197,748 at the close of the fiscal years 2005 and 2004, respectively.

The Electric Utility's overall equity increased by $57,454 and $32,994 during fiscal years 2005 and 2004, respectively. The increase is primarily a result of retail revenues, for each respective year, reaching an historic high and contributions from developers.

A portion of the Utility's equity ($97,207, or 38% and $59,805 or 30% of total equity as of June 30, 2005 and 2004, respectively) reflects its investment in capital assets, such as production, transmission, and distribution facilities, less any related outstanding debt used to acquire those assets. The Electric Utility uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since the capital assets themselves cannot be used to liquidate these long-term liabilities.

The Utility's net assets invested in capital assets, net of related debt as of June 30, 2005 and 2004, increased by $37,402 (62.5%) and $10,502 (21.3%), respectively from the prior fiscal year. Significant projects during these respective fiscal years include $2,800 and $1,500 for the City's portion of capital additions at the San Onofre Nuclear Generating Station ("SONGS"), $47,900 and $7,500 for engineering, construction, and purchases of equipment for the Riverside Energy Resource Center, $10,000 and $2,200 to relocate electrical facilities for the State of California funded Caltrans I-215/60/91 freeway interchange project, $4,600 and $600 for the 4kV to 12kV Downtown Power Upgrade Project, and $29,200 and $14,600 in facility additions to serve existing customers and connect new customers to the electric system.

The largest portion of the Electric Utility's equity is the Unrestricted portion – $118,880 or 47% and $104,026 or 53% for fiscal years ended June 30, 2005 and 2004, respectively – which may be used to meet the Utility's ongoing obligations to creditors and customers.

An additional portion of the Electric Utility's equity ($39,115 or 15% and $33,917 or 17% of total equity as of June 30, 2005 and 2004, respectively) represents resources that are subject to internal and external restrictions on how they may be used. These are reserved for items such as debt repayment, Public Benefit Programs, and other legally restricted assets.

Riverside's Electric Utility's Condensed Statements of Equity (Net Assets)

	2005	2004	2003
Current and other assets	$ 286,227	$ 311,063	$ 186,932
Capital assets	375,523	291,289	272,319
Total assets	661,750	602,352	459,251
Long-term debt outstanding	306,144	322,110	221,921
Other liabilities	100,404	82,494	72,576
Total liabilities	406, 548	404,604	294,497
Equity (net assets)			
Invested in capital assets, net of related debt	97,207	59,805	49,303
Restricted	39,115	33,917	25,786
Unrestricted	118,880	104,026	89,665
Total equity (net assets)	$ 255,202	$ 197,748	$ 164,754

As of June 30, 2005

ASSETS

Total assets for the two most recent fiscal years were $661,750 and $602,352, respectively. The $59,398 (9.9%) increase in total assets is due to a $84,234 increase in net capital assets (Utility plant), relating to the continuing construction of a 99.6 megawatt ("MW") peaking generation plant, and other improvements to the Electric Utility's distribution system, offset by a $24,836 decrease in current and other assets. This $24,836 decrease is comprised primarily of increases of $9,261 in deferred costs, $17,685 in cash from operations, and $3,066 in accounts receivable, offset by a $57,223 decrease in restricted cash and investments (primarily use of bond proceeds for construction projects).

LIABILITIES

Total liabilities as of June 30, 2005 and 2004 were $406,548 and $404,604, respectively, an increase of $1,944 (0.5%). Although long-term obligations decreased by $15,966 (primarily due to current year principal payments of $14,555), this was offset by an increase of $17,910 in other liabilities. This increase in other liabilities primarily represents increases of $2,873 in decommissioning liabilities and $13,690 for the Electric Utility's portion of the City's issuance of pension obligation bonds. Overall, current liabilities are consistent with prior year.

EQUITY (NET ASSETS)

Total Electric fund equity for fiscal years ended June 30, 2005 and 2004 was $255,202 and $197,748, respectively, an increase of $57,454 (29.1%) during the fiscal year. The restricted portion increased by $5,198 primarily due to the effects of Public Benefit Programs. The Unrestricted portion increased by $14,854 primarily attributable to results of operations in the current fiscal year. The portion of equity invested in capital assets, net of related debt, increased by $37,402 due to the amount of capital assets constructed or purchased that are not bond financed.

As of June 30, 2004

ASSETS

Total assets as of June 30, 2004 and 2003, were $602,352 and $459,251, respectively. The $143,101 (31.2%) increase in total assets is due to an $18,970 (7.0%) increase in net capital assets (Utility plant), and a $124,131 (66.4%) increase in current and other assets. This increase in current and other assets is primarily due to an increase of $99,284 in restricted cash and investments, mostly relating to a $110,000 bond issue on June 3, 2004 to construct a 99.6 MW peaking generation plant and make other improvements to the Electric Utility's transmission and distribution system, and $21,827 increase in current assets primarily from positive operating results.

LIABILITIES

Total liabilities as of fiscal years ended June 30, 2004 and 2003, were $404,604 and $294,497, respectively, an increase of $110,107 (37.4%). Long-term debt outstanding increased by $100,189, primarily due to an $110,000 bond issue discussed previously, offset by $11,655 of principal payments. Other liabilities increased by $9,918 from the June 30, 2003 balance, due to increases of $3,013 in decommissioning liabilities, $2,868 in accounts payable, and $3,775 in the current portion of long-term obligations.

EQUITY (NET ASSETS)

Total Electric fund equity as of June 30, 2004 and 2003 was $197,748 and $164,754, respectively, an increase of $32,994 (20.0%). The restricted portion increased by $8,131 primarily due to an increase in the required debt service reserve as a result of the previously discussed $110,000 bond issue. The Unrestricted portion increased by $14,361 primarily attributable to results of operations. The portion of equity invested in capital assets, net of related debt, increased by $10,502 due to the amount of capital assets constructed or purchased that are not bond financed.

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

	2005	2004	2003
Revenues:			
Retail Sales, net	$ 204,526	$ 200,129	$ 174,404
Wholesale sales	15,249	9,581	17,806
Transmission revenues	20,213	20,917	8,661
Investment income	5,183	2,747	4,286
Other operating revenues	14,169	3,315	3,402
Capital contributions	16,716	8,227	4,360
Total revenues	276,056	244,916	212,919
Expenses:			
Production and purchased power	113,747	111,422	116,159
Transmission	28,348	33,651	21,538
Distribution	31,301	25,484	22,554
Depreciation	15,116	14,994	13,516
Interest expense and fiscal charges	11,518	10,194	11,437
Total expenses	200,030	195,745	185,204
Transfers to the City's general fund	(18,572)	(16,177)	(15,333)
Changes in Equity	57,454	32,994	12,382
Equity, July 1	197,748	164,754	152,372
Equity, June 30	$ 255,202	$ 197,748	$ 164,754

Revenues by Sources – Electric Utility

Year ended June 30, 2005

Total revenues for the two most recent fiscal years were $276,056 as compared to $244,916, an increase of $31,140 (12.7%).

Retail sales (residential, commercial, industrial, and other sales), net of reserve/recovery, of $204,526 and $200,129 for the years ended June 30, 2005 and 2004, respectively, continue to be the primary revenue source for the Electric Utility, making up 74.1% and 81.7% of total revenues for the respective years. Retail sales showed an increase of $4,397 (2.2%) from the prior year due to a 2.2% overall rate increase that became effective November 1, 2004. Although the number of electric meters increased by 2,697 (2.7%), the average annual consumption per residential meter decreased by 460 kilowatt hours (5.8%) due to milder and wetter weather patterns.

Wholesale sales were $15,249 at June 30, 2005, an increase of $5,668 (59.2%) above the $9,581 reflected in the prior year. The increase is due to lower than expected retail consumption resulting in "excess" power available for resale, and an increase in the market price of power.

Investment income for the most recent fiscal year was $5,183, an increase of $2,436, or 88.7%, from the $2,747 in the prior year, due to an overall increase in the size of the investment portfolio from an $110,000 bond issue in June 2004, positive operating results and a stabilization of market conditions.

Other revenues were $14,169 and $3,315 for fiscal years 2005 and 2004, respectively, an increase of $10,854 (327.4%). The increase reflects the effects of Public Benefit Programs, settlement reimbursements relating to the power crisis of 2000-2001, as well as an increase in operating grants.

Capital contributions for fiscal years 2005 and 2004 were $16,716 and $8,227, respectively--an increase of $8,489 (103.2%), reflecting an increased level of construction projects funded by others, including $9,904 for relocations of electrical facilities for the State of California funded Caltrans I-215/60/91 freeway interchange project.

Year ended June 30, 2004

Total revenues for the year ended June 30, 2004 were $244,916 compared to $212,919 in the prior fiscal year. The increase in total revenues of $31,997 (15.0%) is primarily due to increases of $25,725 in net retail sales, $12,256 in transmission revenues, and $3,867 in contributions from developers to aid in construction projects, offset by decreases of $8,225 in wholesale sales, and $1,539 in investment income.

Retail sales, net of reserve/recovery, were $200,129 and $174,404 for the fiscal years 2004 and 2003, respectively. Retail sales reflected the largest growth in revenues, increasing by $25,725 (14.8%), comprising 81.7% of total revenues in fiscal year 2004. The growth in retail sales is due to an overall 3.1% rate increase on November 1, 2003, a 1,748 (1.7%) increase in the number of meters at fiscal year end, as well as a 914 kilowatt hour (13.1%) increase in average annual consumption per residential customer due to warmer weather conditions.

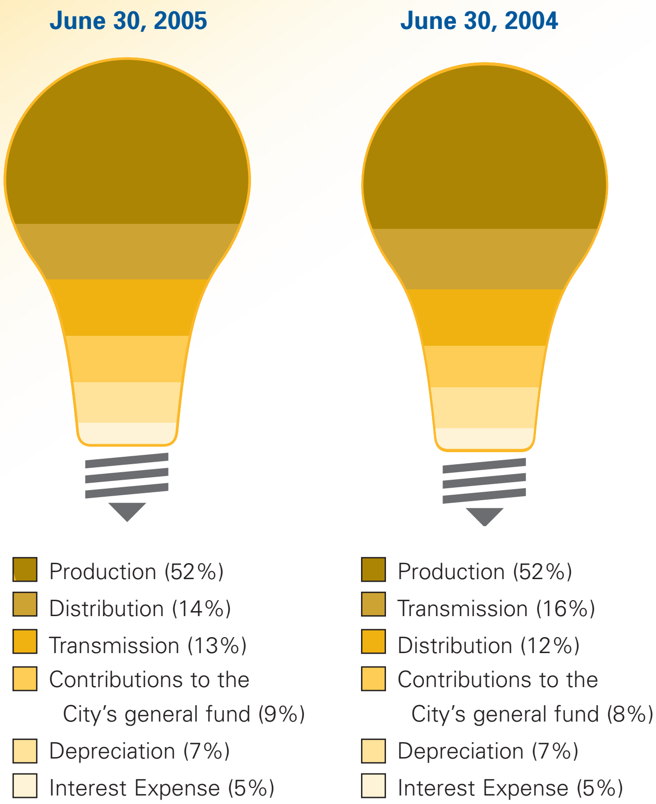
Wholesale sales of $9,581 for fiscal year 2004, decreased by $8,225 (46.2%) below the $17,806 reflected for the 2003 fiscal year. The decrease is due to less "excess" power available for resale due to the increase in retail consumption described above, as well as lower prices received for excess power sales.

Transmission revenues of $20,917 and $8,661 for fiscal years 2004 and 2003, respectively, increased by $12,256 (141.5%) due to the Electric Utility turning over operational control of its transmission facilities to the California Independent System Operator ("ISO") on January 1, 2003. As a result, twelve months of transmission revenues are reflected in the 2004 fiscal year, compared to only six months of transmission revenues reflected in fiscal year 2003 (see Note 9 for more detailed discussions).

Investment income as of June 30, 2004 and 2003 was $2,747 and $4,286, respectively, a decrease of $1,539 (35.9%). The decrease is related to lower cash balances and market conditions that continued to be poor, which resulted in a lower rate of return on the Utility's investment portfolio.

Capital contributions were $8,227 and $4,360 for fiscal years 2004 and 2003, respectively, an increase of $3,867 (88.7%). The increased amount reflects an increased level of construction projects funded by others, including $2,163 for relocations of electrical facilities for the State of California funded Caltrans I-215/60/91 freeway interchange project.

Expenses By Sources – Electric Utility



Year ended June 30, 2005

Total expenses for the year ended June 30, 2005 were $200,030 as compared to $195,745 in the prior year. The increase in total expenses of $4,285 (2.2%) is due to personnel cost increases, cost of living type increases in other operating categories, as well as an increase in borrowing costs due to an $110,000 bond issue in June 2004.

Production and purchased power costs were $113,747 and $111,422 for fiscal years 2005 and 2004, respectively, an increase of $2,325 (2.1%) primarily due to $2,751 in cost increases at the Intermountain Power Project relating to increases in coal, transportation charges, and storm damage repairs.

Transmission costs for the two most recent fiscal years were $ 28,348 as compared to $33,651, a decrease of $5,303 (15.8%), primarily due to a large credit received in the current fiscal year for over charges last fiscal year, as well as fiscal year 2004 reflecting additional costs due to increased retail consumption and increased costs from the ISO relating to settlement of disputes for previous years' transmission costs.

Distribution costs for the year ended June 30, 2005 and 2004, respectively, were $31,301 and $25,484, an increase of $5,817 (22.8%). The largest portion of this increase relates to personnel costs, which increased by $3,628 due to 10 new positions added and an increase in overtime charges in order to operate the Springs generation plant and maintain or increase customer service levels in various functional areas within the Utility (combined $1,987 impact), as well an increase in overall benefit costs ($1,641).

Interest expense and fiscal charges in the current fiscal year of $11,518 increased by $1,324 (13.0%) over the prior year level of $10,194, as a result of an $110,000 bond issue in June 2004, discussed previously.

Year ended June 30, 2004

Total expenses for the year ended June 30, 2004 were $195,745 as compared to $185,204 in the prior year. The increase in total expenses of $10,541 (5.7%) is primarily due to increased operating costs due to system load growth, offset by a decrease in interest expense.

Production and purchased power costs were $111,422 in fiscal year 2004, compared to $116,159 for fiscal year 2003, a decrease of $4,737 (4.1%), primarily due to fiscal year 2003 reflecting the last of purchased power contracts entered into during the energy crisis of 2000-2001, at terms above current market prices, in order to hedge against the volatile power market, and stabilization of market prices in fiscal year 2004, offset by increased costs due to a 10.8% increase in retail consumption.

Transmission costs for the years ended June 30, 2004 and 2003 were $33,651 and $21,538, respectively, an increase of $12,113 (56.2%), primarily due to higher ISO costs relating to the

10.8% increase in retail consumption discussed previously, as well as increased charges due to congestion on the California transmission grid.

Distribution costs were $25,484 and $22,554 for the fiscal years 2004 and 2003, respectively, an increase of $2,930 (13.0%). Personnel costs for the Electric Utility increased by $1,676 due to negotiated raises ($976) and an increase in benefit costs ($700). The remaining increase is primarily due to increases in expenditures for outside legal and professional services.

Depreciation expense for the year ended June 30, 2004 was $14,994, an increase of $1,478 (10.9%) from the $13,516 reflected in the previous fiscal year, primarily due to $46,026 of production assets (primarily Springs Generating Project and the City's portion of improvements at the SONGS) placed in service during fiscal year 2003, and reflecting a full year of depreciation in fiscal year 2004.

Interest expense and fiscal charges in fiscal year 2004 of $10,194, as compared to $11,437 for fiscal year 2003, decreased by $1,243 (10.9%), primarily the result of lower borrowing costs due to a $75,405 refunding bond issue in July 2003.

TRANSFERS

Year ended June 30, 2005

Transfers to the City's general fund are limited by Section 1204(f) of the City Charter to a maximum of 11.5% of prior year gross operating revenue. The Electric Utility transferred $18,572, or approximately 9% of prior year's operating revenues, in the current year, a $2,395 increase from the $16,177 in the prior year, primarily as a result of the $25,725 increase in retail sales for fiscal year 2004 from 2003.

Year ended June 30, 2004

Transfers to the City's general fund of $16,177 increased by $844 from the $15,333 in fiscal year 2003, primarily due to the increase in retail revenues in fiscal year 2003 compared to 2002.

Capital Asset and Debt Administration

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

For descriptions of major capital assets constructed during the fiscal years 2005 and 2004, see discussion under "Utility Financial Analysis" on page 6 of this report.

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

	2005	2004	2003
Production	$ 78,703	$ 81,568	$ 86,473
Transmission	11,871	6,225	6,584
Distribution	172,855	157,577	148,058
General	13,709	13,574	13,742
Construction in progress	95,988	29,941	16,335
Nuclear fuel, at amortized costs	2,397	2,404	1,127
Total	$ 375,523	$ 291,289	$ 272,319

Additional information regarding capital assets can be found in Note 3 on Page 22 of this report.

As of June 30, 2005

Capital assets, net of accumulated depreciation for the Electric Utility were $375,523 and $291,289 as of June 30, 2005 and 2004, respectively. The current period was a record year for construction activity for the Electric Utility, showing an $84,234 (28.9%) increase in net capital assets over the prior year. This increase is primarily due to continued construction of a 99.6 MW generating project, as well as relocation of facilities, replacement of overhead electrical lines with underground facilities, expansion and improvement of existing substations, and system additions and improvements to connect new customers to the Electric system.

As of June 30, 2004

Capital assets for fiscal year 2004 were $291,289, compared to $272,319 for fiscal year 2003. The $18,970 (7.0%) increase reflects assets capitalized for expansion and improvements of existing substation and distribution systems, new underground conversion projects and system additions and improvements to connect new customers to the Electric system.

Electric Utility's Outstanding Debt (Revenue Bonds)

As of fiscal years ended June 30, 2005 and 2004, the City of Riverside's Electric Utility had long-term debt outstanding of $306,144 and $322,110, respectively. This debt is backed by the revenues of the Utility (revenue bonds).

	2005	2004	2003
Revenue bonds	$ 311,110	$ 325,665	$ 230,635
Less: Current portion	(15,015)	(14,555)	(10,780)
Unamortized premium	10,049	11,000	2,066
Total	$ 306,144	$ 322,110	$ 221,921

The Electric Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants, of 1.10. The Electric Utility's debt service coverage ratio was 3.68 at June 30, 2005 and 3.38 at June 30, 2004.

As of June 30, 2005

Long-term debt of $311,110 decreased by $14,555 (4.5%) from June 30, 2004, due to the repayment of principal on the Electric Utility's outstanding revenue bonds.

As of June 30, 2004

Long-term debt of $325,665 increased by $95,030 (41.2%) from June 30, 2003 balance of $230,635, primarily due to principal payments of $11,655, and the issuance of $110,000 Electric Revenue bonds on June 3, 2004, comprised of $27,500 serial bonds and $82,500 of Auction Rate Securities. Assuming a variable rate of 3.5%, the all-in-true interest cost for this issue is 3.94%. The proceeds will be used to finance the acquisition and construction of a 99.6 MW, two unit, simple cycle peaking power plant and related transmission lines, to finance the acquisition and construction of certain other additions and improvements to the Electric System distribution and transmission facilities, and to fund a reserve account.

In addition, on July 31, 2003, the Electric Utility issued $75,405 of Electric Refunding Revenue Bonds, with a true interest cost of 3.35% to advance refund $75,410 of previously outstanding 1993 Electric Revenue bonds and $3,310 of previously outstanding 1994 Electric Revenue bonds issued by the Financing Authority for Resource Efficiency for California (FARECal).

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

Also in August 2005, Standard and Poors affirmed the Electric Utility's A+ rating, and issued a Debt Derivative Profile score of '2' on a 5-point scale (with 1 representing the lowest risk and 5 representing the highest risk) for the swap portfolio (see note 10 regarding the 2005 Electric Revenue Bonds), indicating their view that the swap portfolio is a neutral credit risk.

Additional information on the Electric Utility's long-term debt can be found in Note 4 on pages 23 and 24 of this report.

Economic Factors and Rates

Although inflationary trends in the Riverside region continue to compare favorably to the national indices, history has shown that certain costs such as purchased power during the California energy crisis can exponentially exceed inflation. The FERC imposed price cap on purchased power (June 2001) is still in effect, which continues to help stabilize power prices. Forward price curves have stabilized. However, regulatory actions and other factors, including the volatility in natural gas and coal prices, could impact future power rates.

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

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

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

Requests for Information

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

Balance Sheets

Assets	June 30, 2005	June 30, 2004
	(in thousands)	
UTILITY PLANT:		
Production	$ 179,514	$ 175,595
Transmission	21,067	15,051
Distribution	280,159	257,678
General	26,725	26,388
	507,465	474,712
Less accumulated depreciation	(230,327)	(215,768)
	277,138	258,944
Construction in progress	95,988	29,941
Nuclear fuel, at amortized cost	2,397	2,404
Total utility plant (Note 3)	375,523	291,289
RESTRICTED ASSETS:		
Cash and cash equivalents (Note 2)	13,939	13,472
Cash and investments at fiscal agent (Note 2)	64,742	62,056
Total restricted assets	78,681	75,528
OTHER NON-CURRENT ASSETS:		
Deferred pension costs	13,690	0
Deferred purchased power (Note 8)	15,034	18,374
Deferred bond issuance/refunding costs	11,291	12,380
Total other non-current assets	40,015	30,754
Total non-current assets	494,219	397,571
CURRENT ASSETS:		
Unrestricted:		
Cash and cash equivalents (Note 2)	88,292	70,607
Accounts receivable, less allowance for doubtful accounts 2005 $361; 2004 $264	22,176	20,705
Accounts receivable other utilities and governments, less allowance for doubtful accounts 2005 $2,461; 2004 $2,234	11,792	10,197
Accrued interest receivable	941	697
Prepaid expenses	6,628	4,584
Nuclear materials inventory	1,311	1,229
Total unrestricted assets	131,140	108,019
Restricted assets:		
Cash and investments at fiscal agent (Note 2)	31,551	92,802
Cash and cash equivalents (Note 2)	4,245	3,370
Public Benefit Programs receivable	595	590
Total restricted assets	36,391	96,762
Total current assets	167,531	204,781
Total assets	$ 661,750	$ 602,352

See accompanying notes to the financial statements

Balance Sheets

Equity and Liabilities

	June 30, 2005	June 30, 2004
	(in thousands)	
EQUITY:		
Invested in capital assets, net of related debt	$ 97,207	$ 59,805
Restricted for:		
Debt service (Note 5)	34,383	33,917
Public Benefit Programs	4,732	0
Unrestricted	118,880	104,026
Total equity	255,202	197,748
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4)	306,144	322,110
OTHER NON-CURRENT LIABILITIES:		
Interfund payable-pension obligations (Note 4)	13,690	0
Nuclear decommissioning liability (Note 4)	44,030	41,157
Total non-current liabilities	57,720	41,157
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	2,678	2,557
Public Benefit Programs payable	108	3,960
Current portion of long-term obligations (Note 4)	15,015	14,555
Total current liabilities payable from restricted assets	17,801	21,072
CURRENT LIABILITIES:		
Accounts payable	17,576	12,604
Accrued liabilities	4,708	4,850
Customer deposits	2,599	2,811
Total current liabilities	24,883	20,265
Total liabilities	406,548	404,604
COMMITMENTS AND CONTINGENCIES (NOTES 8 AND 9):		
Total equity and liabilities	$ 661,750	$ 602,352

See accompanying notes to the financial statements

Statements of Revenues, Expenses and Changes in Equity

	For the Fiscal Years Ended June 30, 2005 (in thousands)	2004
OPERATING REVENUES:		
Residential sales	$ 79,786	$ 80,872
Commercial sales	59,998	57,079
Industrial sales	59,157	56,117
Other sales	6,337	6,354
Wholesale sales	15,249	9,581
Transmission revenue	20,213	20,917
Other operating revenue	12,697	2,182
Total operating revenues before (reserve)/recovery	253,437	233,102
Reserve for uncollectible	(761)	(468)
Bad debt recovery	9	175
Total operating revenues, net of (reserve)/recovery	252,685	232,809
OPERATING EXPENSES:		
Production and purchased power	113,747	111,422
Transmission	28,348	33,651
Distribution	31,301	25,484
Depreciation	15,116	14,994
Total operating expenses	188,512	185,551
Operating income	64,173	47,258
NON-OPERATING REVENUES (EXPENSES):		
Investment income	5,183	2,747
Interest expense and fiscal charges	(11,518)	(10,194)
Gain on sale of capital assets	217	84
Other	1,255	1,049
Total non-operating expenses	(4,863)	(6,314)
Income before capital contributions and transfers	59,310	40,944
Capital contributions	16,716	8,227
Transfers out - contributions to the City's general fund	(18,572)	(16,177)
Total capital contributions and transfers out	(1,856)	(7,950)
Increase in equity	57,454	32,994
EQUITY, BEGINNING OF YEAR:	197,748	164,754
EQUITY, END OF YEAR:	$ 255,202	$ 197,748

See accompanying notes to the financial statements

Statements of Cash Flows

	For the Fiscal Years Ended June 30, 2005 (in thousands)	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	$ 245,677	$ 233,785
Cash paid to suppliers and employees	(163,615)	(160,112)
Other receipts	1,255	1,049
Net cash provided by operating activities	83,317	74,722
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(18,572)	(16,177)
Net cash used by non-capital financing activities	(18,572)	(16,177)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(95,562)	(29,004)
Purchase of nuclear fuel	(984)	(1,313)
Proceeds from the sale of utility plant	274	209
Proceeds from sale of revenue bonds, net of bond premium	0	194,665
Deposit to escrow account for advanced bond refunding	0	(78,719)
Principal paid on long-term obligations	(14,555)	(11,655)
Interest paid on long-term obligations	(11,259)	(17,162)
Contributed capital	12,864	4,418
Net cash provided (used) by capital and related financing activities	(109,222)	61,439
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(2,686)	(17,046)
Income from investments	4,939	2,663
Net cash provided (used) by investing activities	2,253	(14,383)
Net increase (decrease) in cash and cash equivalents	(42,224)	105,601
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR:	180,251	74,650
CASH AND CASH EQUIVALENTS, END OF YEAR:	$ 138,027	$ 180,251
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 64,173	$ 47,258
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	15,116	14,994
Amortization of nuclear fuel/purchased power	4,331	3,377
Increase (decrease) in allowance for uncollectible accounts	324	(27)
Decrease (increase) in accounts receivable	(3,395)	1,062
Decrease (increase) in prepaid expenses	(2,044)	694
Increase in nuclear materials inventory	(82)	(79)
Increase in accounts payable	4,971	2,868
Increase (decrease) in accrued liabilities	(142)	242
Increase (decrease) in Public Benefit Programs	(3,851)	330
Decrease in customer deposits	(212)	(59)
Increase in nuclear decommissioning liability	2,873	3,013
Other receipts	1,255	1,049
Net cash provided by operating activities	$ 83,317	$ 74,722
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions – capital assets	3,852	3,808
Interfund payable – pension obligations	13,690	0

See accompanying notes to the financial statements

ELECTRIC

Notes to the Financial Statements

NOTE 1. Summary of Significant Accounting Policies

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

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

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

Revenue Recognition Electric Utility customers are billed monthly. Unbilled electric service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled $10,813 at June 30, 2005, and $9,958 at June 30, 2004.

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

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

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

Production plant	17-30 years
Transmission and distribution plant	20-50 years
General plant and equipment	3-15 years

Nuclear Fuel The Electric Utility amortizes and charges to expense, the cost of nuclear fuel, on the basis of actual thermal energy produced relative to total thermal energy expected to be produced over the life of the fuel. In accordance with the Nuclear Waste Disposal Act of 1982, the Electric Utility is charged one dollar per megawatt-hour of energy generated by the City's share of San Onofre Nuclear Generating Station's Units 2 and 3 to provide for estimated future storage and disposal of spent nuclear fuel. The Electric Utility pays this fee to its operating agent, Southern California Edison Co (SCE), on a quarterly basis (see Note 7).

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 service 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

City-wide information concerning cash and investments for the year ended June 30, 2005, including authorized investments, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and investments may be found in the notes to the City's "Comprehensive Annual Financial Report."

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

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

Nuclear Decommissioning Liability Federal regulations require the Electric Utility to provide for the future decommissioning of its ownership share of the nuclear units at San Onofre. The Electric Utility has established a trust account to accumulate resources for the decommissioning of the nuclear power plant and restoration of the beachfront at San Onofre. Based on the most recent site specific cost estimate as of June 30, 2005 prepared by ABZ Incorporated, the Electric Utility plans to set aside approximately $1,600 per year to fund this obligation. The funding will occur over the useful life of the generating plant or until the account is fully funded.

Increases to the trusts are from amounts set aside and investment earnings. The investment earnings are included in investment income in the Utility's financial statements. These amounts, as well as amounts set aside, are contributed to the trusts and reflected as decommissioning expense, which are considered part of power supply costs. The total amounts held in the trust accounts are classified as restricted assets and other non-current liability in the accompanying Balance Sheets. To date, the Electric Utility has set aside $44,030 in cash investments with the trustee as Riverside's estimated share of the decommissioning cost of San Onofre. The plant site easement at San Onofre terminates May 2050. The plant must be decommissioned and the site restored by the time the easement terminates.

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, 2005 and 2004 respectively are as follows: Regulatory Risk Reserve $31,900 and $19,900, Energy Risk Management Reserve $11,000 and $11,000 and Operating Reserve $21,400 and $14,700, for a combined total of $64,300 and $45,600 and are reflected in cash and cash equivalents in the accompanying Balance Sheets.

Customer Deposits The City holds customer deposits as security for the payment of utility bills. The Electric Utility's portion of these deposits as of June 30, 2005 and 2004, was $2,599 and $2,811, respectively.

NOTE 1. Summary of Significant Accounting Policies (Continued)

Compensated Absences The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due employees at June 30, 2005 and 2004. The Electric Utility treats compensated absences due employees as a current liability. The amount accrued for compensated absences was $4,708 at June 30, 2005, and $4,850 at June 30, 2004, and is included in accrued liabilities in the accompanying Balance Sheets.

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

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

Insurance Programs The Electric Utility participates in a self-insurance program for worker's compensation and general liability coverage that is administered by the City. The Electric Utility pays an amount to the City representing an estimate of amounts to be paid for reported claims incurred, and incurred but unreported claims based upon past experience, modified for current trends and information. The City maintains property insurance on most City property holdings, including Utility Plant with a limit of $100 million.

Citywide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risks for the year ended June 30, 2005, may be found in the notes to the City's "Comprehensive Annual Financial Report."

Although the ultimate amount of losses incurred through June 30, 2005 is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. Premiums paid to the City by the Electric Utility were $773 and $522 for the years ended June 30, 2005 and 2004, respectively. Any losses above the City's reserves would be covered through increased rates charged to the Electric Utility in future years.

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

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

Employee contributions are 8.0 percent of their annual covered salary. The Electric Utility is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The employer portion of the PERS funding as of June 30, 2005 and 2004 was 12.34 percent and 3.328 percent, respectively, of annual covered payroll. The Electric Utility pays both the employee and employer contributions. The total Electric Utility's contribution to PERS as of June 30, 2005 and 2004 was $3,609 and $1,921, respectively.

Citywide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the year ended June 30, 2005 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, 2005.

NOTE 1. Summary of Significant Accounting Policies (continued)

Pension Obligation Bonds During the year, the City issued Pension Obligation Bonds in the amount of $60,000, of which the Electric Utility's share is $13,690 as reflected in the accompanying Balance Sheets as deferred pension costs and a corresponding long-term obligation. The deferred charge relating to the net pension asset will be amortized over 19 years in accordance with the method used by CalPERS for calculating actuarial gains and losses. The Bonds will be used to fund the unfunded actuarial accrued liability for non-safety employees and the proceeds were deposited with CalPERS. 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, 2005.

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

<u>Invested in capital assets, net of related debt</u> – 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.

<u>Restricted</u> – 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.

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

Contributions to the City's General Fund Pursuant to the City Charter, the Electric Utility may transfer up to 11.5 percent of its prior year's gross operating revenues to the City's general fund. In fiscal years 2004-05 and 2003-04, the Electric Utility transferred approximately 9 percent of gross operating revenues, or $18,572 and $16,177, respectively.

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

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

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

Notes to the Financial Statements

NOTE 2. Cash and Investments

Cash and investments at June 30, 2005 and 2004, consist of the following (in thousands):

	June 30, 2005	June 30, 2004
	Fair Value	
Deposits with City Treasurer's investment pool	$ 106,476	$ 87,449
Cash and investments at fiscal agent	96,293	154,858
Total cash and investments	$ 202,769	$ 242,307

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

	June 30, 2005	June 30, 2004
Unrestricted cash and cash equivalents	$ 88,292	$ 70,607
Restricted assets:		
Cash and cash equivalents	18,184	16,842
Cash and investments at fiscal agent	31,551	92,802
Total cash and cash equivalents	138,027	180,251
Cash and investments at fiscal agent	64,742	62,056
Total cash and investments	$ 202,769	$ 242,307

Cash and investments at fiscal agent are as follows:

		Remaining Maturity (in Months)			
Investment Type		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Money Market Funds	$ 782	$ 782	$ 0	$ 0	$ 0
Federal Agency Securities	46,505	7,135	20,214	19,156	0
Investment Contracts[1]	49,006	0	4,722	27,846	16,438
Total	$ 96,293	$ 7,917	$ 24,936	$ 47,002	$ 16,438

All cash and investments held by fiscal agent are held in AAA investments

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

NOTE 3. Utility Plant

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2005 and 2004 (in thousands):

	Balance, As of 6/30/2003	Additions	Retirements/ Transfers	Balance, As of 6/30/2004	Additions	Retirements/ Transfers	Balance, As of 6/30/2005
Production	$ 174,035	$ 1,560	$ 0	$ 175,595	$ 3,919	$ 0	$ 179,514
Transmission	15,043	8	0	15,051	6,016	0	21,067
Distribution	241,531	16,423	(276)	257,678	22,529	(48)	280,159
General	25,190	1,215	(17)	26,388	903	(566)	26,725
Construction in progress	16,335	32,812	(19,206)	29,941	99,414	(33,367)	95,988
Nuclear fuel	1,127	1,313	(36)	2,404	984	(991)	2,397
Subtotal	473,261	53,331	(19,535)	507,057	133,765	(34,972)	605,850
Less accumulated depreciation	(200,942)	(14,993)	167	(215,768)	(15,116)	557	(230,327)
Total utility plant	$ 272,319	$ 38,338	($ 19,368)	$ 291,289	$ 118,649	($ 34,415)	$ 375,523

NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2005 and 2004 (in thousands):

	Balance, As of 6/30/2003	Additions	Reductions	Balance, As of 6/30/2004	Additions	Reductions	Balance, As of 6/30/2005
Revenue bonds	$ 232,701	$ 194,579	($ 90,615)	$ 336,665	$ 0	($ 15,506)	$ 321,159
Interfund payable-pension obligation bonds	0	0	0	0	13,690	0	13,690
Nuclear decommissioning liability	38,144	3,013	0	41,157	2,873	0	44,030
Total long-term obligations	$ 270,845	$ 197,592	($ 90,615)	$ 377,822	$ 16,563	($ 15,506)	$ 378,879

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

Revenue Bonds Payable

	June 30, 2005	June 30, 2004
$98,730 1998 Electric Refunding/Revenue Bonds: $63,165 serial bonds due in annual installments from $5,270 to $7,085 through October 1, 2013, interest from 5.0 percent to 5.38 percent; $21,595 term bonds due October 1, 2018, interest at 5.0 percent; $13,970 term bonds due October 1, 2022, interest at 5.0 percent	$ 89,085	$ 94,080
$47,215 2001 Electric Revenue Bonds: $47,215 serial bonds due in annual installments from $2,940 to $4,750 through October 1, 2016, interest from 3.1 percent to 5.25 percent	44,360	47,215
$75,405 2003 Electric Refunding Revenue Bonds: $75,405 serial bonds due in annual installments from $6,805 to $8,535 through October 1, 2013, interest from 3.0 percent to 5.0 percent	67,665	74,370
$110,000 2004 Electric Revenue Bonds:		
A - $27,500 2004 Series A Bonds - Serial bonds due in annual installments from $2,615 to $3,695 through October 1, 2014, interest from 4.0 percent to 5.5 percent	27,500	27,500
B - $82,500 2004 Series B Bonds - Auction Rate Securities due in annual installments from $1,250 to $7,000 from October 1, 2014 through October 1, 2029. Interest is variable and rate is subject to weekly repricing (rate at June 30, 2005 was 2.0 percent)	82,500	82,500
Total electric revenue bonds payable	311,110	325,665
Unamortized bond premium	10,049	11,000
Total long-term electric revenue bonds payable, net of bond premium	321,159	336,665
Less current portion	(15,015)	(14,555)
Total long-term electric revenue bonds payable	$ 306,144	$ 322,110

Notes to the Financial Statements

NOTE 4. Long-Term Obligations (Continued)

Annual debt service requirements to maturity, excluding amounts for nuclear decommissioning liability, as of June 30, 2005, are as follows (in thousands):

	2006	2007	2008	2009	2010	2011-2015	2016-2020	2021-2025	2026-2030	Total
Principal	$ 15,015	$ 18,215	$ 18,935	$ 19,795	$ 20,725	$ 98,580	$ 49,935	$ 37,460	$ 32,450	$ 311,110
Interest	13,353	12,728	11,983	11,133	10,197	35,840	17,536	8,814	2,701	124,285
Total	$ 28,368	$ 30,943	$ 30,918	$ 30,928	$ 30,922	$134,420	$ 67,471	$ 46,274	$ 35,151	$ 435,395

■ **Advance Refunding** On July 31, 2003, $75,405 of Electric Refunding Revenue Bonds were sold with a true interest cost of 3.35%, to advance refund $75,410 of previously outstanding 1993 Electric Revenue bonds and $3,310 of previously outstanding 1994 Electric Revenue bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $2,222. This difference, reported in the accompanying financial statements as a deduction from bond proceeds, is being charged to operations through 2013 using a proportional method. The City completed the advance refunding to allow more lenient bond covenants, reduce net aggregate debt service payments over the next 11 years by $6,595 and to obtain an economic gain (difference between present value of the old and new debt service payments) of $5,437.

■ **2004 Electric Revenue Bonds** On June 3, 2004, the Electric Utility issued $110,000 of Electric Revenue bonds to finance the costs of acquisition and construction of a 99.6 megawatt, two unit, simple cycle power plant and related transmission lines, to finance the costs of acquisition and construction of certain other additions and improvements to the Electric System distribution and transmission facilities, and to fund a reserve account. Series A is comprised of $27,500 serial bonds, with principal payments from October 1, 2006 through October 1, 2014 ranging from $2,615 to $3,695 at rates between 4.0% and 5.5%. Series B is comprised of $82,500 variable Auction Rate Securities term bonds, maturing on October 1, 2014 through October 1, 2029, with principal payments ranging from $1,250 to $7,000. Assuming a variable rate of 3.5%, the all-in true interest cost for this issue is 3.94%.

NOTE 5. Restricted Equity

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

NOTE 6. Jointly-Governed Organizations

■ **Southern California Public Power Authority** On November 1, 1980, the City of Riverside joined with the Imperial Irrigation District and the cities of Los Angeles, Anaheim, Vernon, Azusa, Banning, Colton, Burbank, Glendale and Pasadena to create the Southern California Public Power Authority (SCPPA) by a Joint Powers Agreement under the laws of the state of California. As of July 2001, the cities of Cerritos and San Marcos were admitted as members of SCPPA. In August 2003, the Authority rescinded the membership of the City of San Marcos, as the City no longer met the criteria for membership. The primary purpose of SCPPA is to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. SCPPA is governed by a Board of Directors, which consists of one representative for each of the members. During the 2004-05 and 2003-04 fiscal years, the Electric Utility paid approximately $13,032 and

NOTE 6. Jointly-Governed Organizations (Continued)

$21,236, respectively, to SCPPA under various take-or-pay contracts that are described in greater detail in Note 8. These payments are reflected as a component of production and purchased power or transmission expense in the financial statements.

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

NOTE 7. Jointly-Owned Utility Project

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

SCE, as operating agent, has declared an "operating impairment" due to deterioration of the steam generators ("SGs"), which would likely result in permanent shutdown of the plant in the 2009-2010 timeframe. The estimated costs to replace the SGs is $680,000, of which approximately $12,200 would represent the City's share. Replacement of the SGs is expected to enable plant operations through at least 2022, and perhaps beyond if Nuclear Regulatory Commission approval is obtained. Although the City Council has approved participation in the replacement of the SGs, both Anaheim and San Diego Gas and Electric Company have opted not to participate. As a result, upon replacement of the SGs, Riverside will retain its 1.79 percent share and SCE will assume both Anaheim's and San Diego Gas and Electric Company's interest, for a combined 98.21 percent interest in both units 2 and 3 at SONGS.

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

There are no separate financial statements for the jointly-owned utility plant since each participant's interests in the utility plant and operating expenses are included in their respective financial statements. The Electric Utility's 1.79 percent share of the capitalized construction costs for SONGS totaled $132,912 and $130,042 for fiscal years ended June 30, 2005 and 2004, respectively. During the current fiscal year the City Council approved participation in SONGS through the extended operations date. As a result, all acquisitions are now depreciated through 2022, including the construction recapture extension period. The accumulated depreciation amounted to $97,647 and $92,382 for the fiscal years ended June 30, 2005 and 2004, respectively. The Electric Utility made provisions for future decommissioning costs of $1,581 for both fiscal years plus earnings on the Decommissioning Trust Fund of $1,293 and $1,431 for fiscal years June 30, 2005 and June 30, 2004, respectively (see Note 1). The Electric Utility's portion of current and long-term debt associated with SONGS is included in the accompanying financial statements.

NOTE 7. JOINTLY-OWNED UTILITY PROJECT (CONTINUED)

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

NOTE 8. COMMITMENTS

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

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

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

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

PROJECT	PERCENT SHARE	ENTITLEMENT	FINAL MATURITY	CONTRACT EXPIRATION
Palo Verde Nuclear Generating Station	5.4 percent	11.7 MW	2017	2030
Southern Transmission System	10.2 percent	195.0 MW	2023	2027
Hoover Dam Uprating	31.9 percent	30.0 MW	2017	2017
Mead-Phoenix Transmission	4.0 percent	12.0 MW	2020	2030
Mead-Adelanto Transmission	13.5 percent	118.0 MW	2020	2030

NOTE 8. COMMITMENTS (CONTINUED)

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

Interest rates on the outstanding debt associated with the take-or-pay obligations range from 3.0 percent to 6.125 percent. The schedule below details the amount of principal and interest that is due and payable by the Electric Utility as part of the take-or-pay contract for each project in the fiscal year indicated.

DEBT SERVICE PAYMENTS (in thousands) Year Ending June 30,	IPA	SCPPA					TOTAL
	Intermountain Power Project	Palo Verde Nuclear Generating Station	Southern Transmission System	Hoover Dam Uprating	Mead-Phoenix Transmission	Mead-Adelanto Transmission	**All Projects**
2006	$ 22,532	$ 830	$ 6,968	$ 708	$ 132	$ 1,388	$ 32,558
2007	22,361	825	7,192	704	259	2,816	34,157
2008	22,847	825	6,693	704	260	2,819	34,148
2009	22,087	825	6,575	704	259	2,814	33,264
2010	23,026	688	6,329	703	259	2,818	33,823
2011-2015	120,056	3,438	35,315	3,494	1,385	13,960	177,648
2016-2020	104,117	1,374	35,944	2,075	1,238	13,979	158,727
2021-2025	45,824	0	29,327	0	248	2,805	78,204
Total	$ 382,850	$ 8,805	$ 134,343	$ 9,092	$ 4,040	$ 43,399	$ 582,529

In addition to debt service, Riverside's entitlements require the payment of fuel costs, operating and maintenance, administrative and general and other miscellaneous costs associated with the generation and transmission facilities discussed above. These costs do not have a similar structured payment schedule as debt service and vary each year. The costs incurred for the years ended June 30, 2005 and 2004, are as follows (in thousands):

FISCAL YEAR	Intermountain Power Project	Palo Verde Nuclear Generating Station	Southern Transmission System	Mead-Adelanto Transmission	Mead-Phoenix Transmission	Hoover Dam Uprating	TOTAL
2005	$ 21,362	$ 1,906	$ 1,714	$ 212	$ 43	$ 90	$ 25,327
2004	$ 20,766	$ 1,927	$ 1,812	$ 141	$ 46	$ 84	$ 24,776

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

NOTE 8. COMMITMENTS (CONTINUED)

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

Minimum Obligations 2005-2006 (in thousands)

Supplier	Capacity	Energy	Total
Deseret	$ 3,463	$ 1,839	$ 5,302
CDWR III	523	0	523
CDWR IV	682	0	682
BPA (two agreements)	1,810	0	1,810
Total:	$ 6,478	$ 1,839	$ 8,317

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

As of June 30, 2005 and 2004, Deferred purchased power was $15,034 and $18,374, respectively, and the Utility had recorded amortization of $3,341 in both fiscal years.

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

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

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

NOTE 8. COMMITMENTS (CONTINUED)

Renewable Portfolio Standard On June 6, 2003 and July 8, 2003, the Public Utilities Board and the City Council respectively, adopted a Renewable Portfolio Standard to increase procurement of renewable resources to reach a target of 20 percent of the Utility's energy by 2015. The contracts in the following table were executed as part of compliance with this standard. The Utility also has an agreement with Bonneville Power Administration for the purchase of energy credits that add to the total renewable portfolio. In the current year, renewable resources provided 14 percent of retail energy requirements, or approximately 10 percent of total power produced or purchased.

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

SUPPLIER	Type	Maximum Contract	Contract Expiration	Estimated Annual Cost For 2006
Milliken Genco	Landfill Gas	2.3 MW	12/31/2007	$ 825
Mid Valley Genco	Landfill Gas	2.3 MW	12/31/2007	943
Riverside County (Badlands Landfill)	Landfill Gas	1.2 MW	12/31/2008	255
Wintec	Wind	1.3 MW	4/30/2018	162
Salton Sea Power LLC	Geothermal	20.0 MW	5/31/2013	9,619
Total:		27.1 MW		$ 11,804

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

Construction Commitments As of June 30, 2005, the Electric Utility had major commitments of approximately $28,100, with respect to unfinished capital projects, of which $1,400 is expected to be funded by others, $24,600 funded by bonds and $2,100 funded by rates.

Forward Purchase Agreements In order to meet summer peaking requirements, the utility may contract on a monthly or quarterly basis, for energy and or capacity products on a short term basis. As of June 30, 2005, the electric utility had summer peaking commitments for fiscal years 05/06 through 07/08, of approximately $5,600, with a market value of $7,000.

NOTE 9. LITIGATION

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

On January 1, 2003, the City became a PTO with the ISO, entitling the City to receive compensation for use of its transmission facilities committed to the ISO's operational control. The compensation is based on the City's TRR as approved by the FERC. The California Investor Owned Utilities (IOUs), the CDWR, and the CPUC, among others, objected to various aspects of the City's TRR at the FERC. The City and the objecting parties submitted, and the FERC accepted for filing, a settlement agreement that disposes of all City TRR issues except for CDWR's and CPUC's contention that the City is not entitled to its TRR for the majority of its transmission facilities committed to the ISO's control. After trial on this TRR issue, the FERC Administrative Law Judge rendered a decision in favor of the City in March 2005. The objecting parties are appealing this decision to the full commission. It is unknown when the commission will render its decision. If the objecting parties prevail upon appeal, up to $26,600 of transmission revenue collected through June 30, 2005 may have to be refunded to the ISO.

The City is owed approximately $300 by the California Independent System Operator (ISO) and $1,000 by the California Power Exchange (PX), primarily due to Pacific Gas & Electric's (PG&E) defaulting on its payments to

NOTE 9. Litigation (continued)

the ISO and PX in early 2001. These amounts were fully reserved with an allowance for potentially uncollectible receivables in fiscal year 2001, and any amounts subsequently collected will be included in earnings in the period collected. After PG&E's default on its payments in 2001, PG&E and the PX filed voluntary Chapter 11 petitions in the U.S. Bankruptcy Courts in San Francisco, California, and Los Angeles, California, respectively. PG&E was the largest purchaser of electricity from the ISO and the PX, and therefore was the largest creditor of the ISO and PX. PG&E's various creditors' classes and the Bankruptcy Court approved a Settlement Plan under which PG&E paid the PX and ISO 100% of its debts to creditors in the same class as the City. Payments to the City of the City's share of these PG&E funds by the PX and ISO are contingent upon the FERC's issuance of orders in various dockets that will determine the methodology for the ISO's and PX's calculations of refunds and charge backs to its participants, including the City.

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

NOTE 10. Subsequent Event

■ **2005 Electric Revenue Bonds** On September 13, 2005, the City Council authorized the issuance of up to $130,000 Electric ($65,000 Series A and $65,000 Series B) variable rate, Revenue and Refunding bonds, in the form of Auction Rate Securities, to finance capital improvement programs and refund certain existing Electric bonds. $60,000 of Electric revenue bonds will be used to finance the costs of certain improvements to the City's Electric System as part of the Capital Improvement Program. The remaining portion will be used to refund $30,915 of the outstanding 1998 and $9,260 of the outstanding 2001 Electric bond issues.

The City Council also approved entering into synthetic interest rate swap agreements on the entire not-to-exceed $130,000 Electric issuances. Under the swap agreements, the City pays the counterparty a fixed rate of 3.201% on the Electric Series A, and 3.204% on the Electric Series B, 2005 Revenue and Refunding bonds. In exchange the City receives a floating rate index equal to 62.68% of the London Interbank Offered Rate (LIBOR), plus 12 basis points.

Also on September 13, 2005, the City Council authorized a similarly structured synthetic rate swap agreement for the outstanding $82,500 Electric 2004 Series B, Auction Rate Securities. Under the swap agreement, the City pays the counter-party a fixed rate of 3.11% and in exchange the City receives a floating rate index equal to 62.68% of LIBOR, plus 12 basis points.

The actual issuance and closing for the 2005 Revenue and Refunding bonds will occur on October 6, 2005.

Various risks associated with this derivative instrument (including credit, counterparty, basis, and tax risk) have been identified and analyzed, and are considered acceptable by management, in order to hedge against rising interest rates and better manage the Electric Utility's balance sheet.

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

Statistics

POWER SUPPLY (MWH)	2004/05	2003/04	2002/03	2001/02	2000/01
Nuclear					
San Onofre	282,700	316,600	321,800	312,100	250,100
Palo Verde	87,500	86,400	97,200	94,700	94,800
Coal					
Intermountain Power	1,081,600	1,091,700	1,029,400	1,027,000	1,028,600
Deseret	432,200	404,300	404,600	394,700	418,800
Hoover (Hydro)	28,100	35,600	36,200	40,200	41,100
Springs (Gas)	1,700	1,900	9,800	1,300	0
Renewable Resources	270,200	237,600	224,700	109,500	0
Other purchases	440,000	437,200	270,900	538,000	754,800
Exchanges In	83,300	95,100	89,300	115,000	89,400
Exchanges Out	(79,100)	(171,700)	(137,700)	(172,700)	(89,100)
Total:	2,628,200	2,534,700	2,346,200	2,459,800	2,588,500
System peak (MW)	519.1	517.2	474.2	446.6	463.8

ELECTRIC USE

Number of meters as of year end	2004/05	2003/04	2002/03	2001/02	2000/01
Residential	92,914	90,583	89,149	88,044	86,455
Commercial	10,060	9,683	9,356	9,203	9,069
Industrial	344	351	374	403	391
Other	145	149	139	143	141
Total:	103,463	100,766	99,018	97,793	96,056
Millions of kilowatt-hours sales					
Residential	675	707	618	600	610
Commercial	530	522	451	434	432
Industrial	707	687	658	629	654
Wholesale sales	470	354	378	541	600
Other	50	52	49	53	54
Total:	2,432	2,322	2,154	2,257	2,350

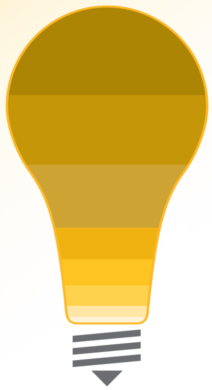
ELECTRIC FACTS	2004/05	2003/04	2002/03	2001/02	2000/01
Average annual kWh per residential customer	7,424	7,884	6,970	6,905	7,125
Average price (cents/kWh) per residential customer	11.81	11.44	10.99	10.77	10.73
Debt service coverage ratio	3.68	3.38	2.91	2.27	2.69
Operating income as a percent of operating revenues	25.4%	20.3%	14.4%	6.7%	7.7%
Employees[1]	307	306	292	283	281

[1]Approved positions

ELECTRIC

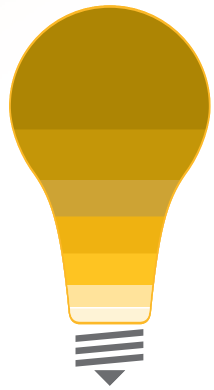
2004/05 Electric Revenue and Resources

Source of Revenue



- Residential Sales (29¢)
- Commercial Sales (22¢)
- Industrial Sales (21¢)
- Other Revenues (11¢)
- Transmission Revenue (7¢)
- Wholesale Sales (6¢)
- Other Sales (2¢)
- Investment Income (2¢)

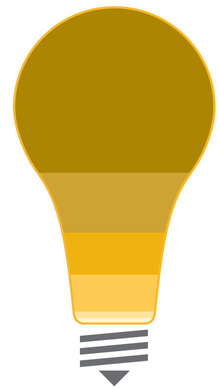
Distribution of Revenue



- Production (41¢)
- Additions & Replacements to the System (13¢)
- Distribution (11¢)
- Debt Service (10¢)
- Transmission (10¢)
- Additional Reserves (8¢)
- Transfers to the City's general fund* (7¢)

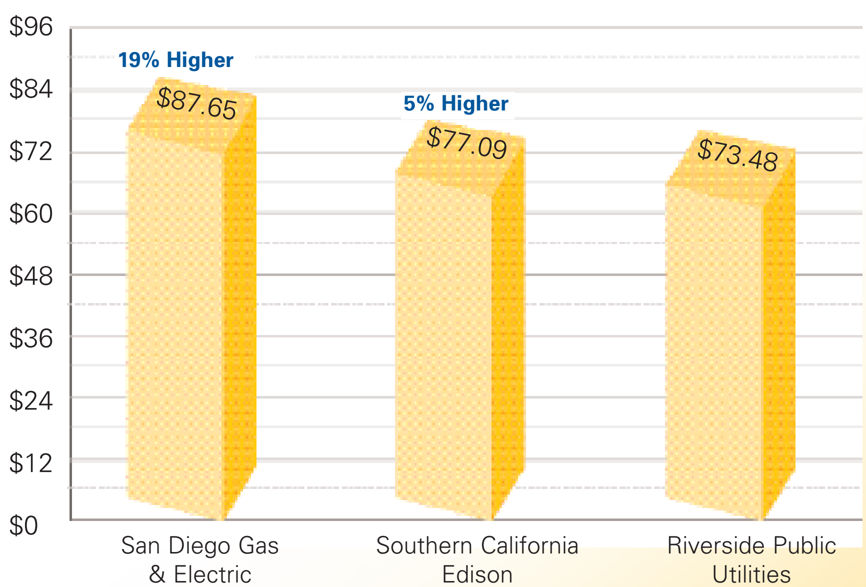
Based on transfer of 9.0 percent of fiscal year 2003/04 revenues (excludes wholesale sales, interest and other non-operating income).

Energy Resources



- Coal (58%)
- Other Purchases (17%)
- Nuclear (14%)
- Renewables (10%)
- Hydropower (1%)
- Gas (<1%)

Residential Electrical Rate Comparison
600 kWh per month

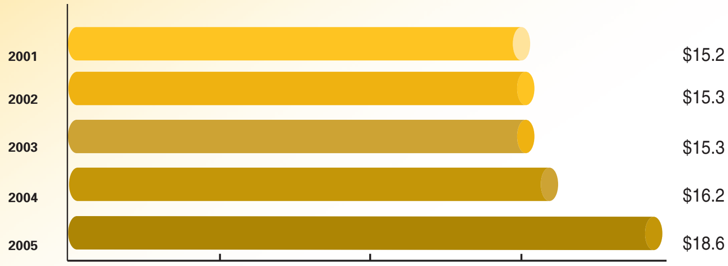


RATE COMPARISONS AS OF JUNE 1, 2005

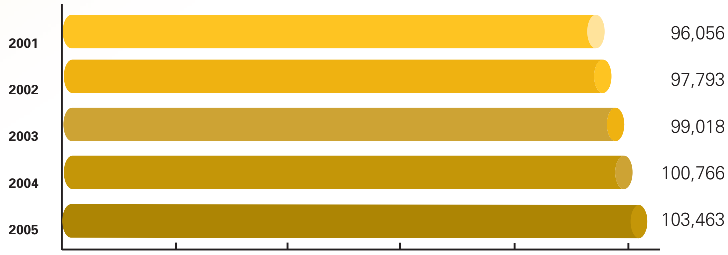
ELECTRIC

Statistics

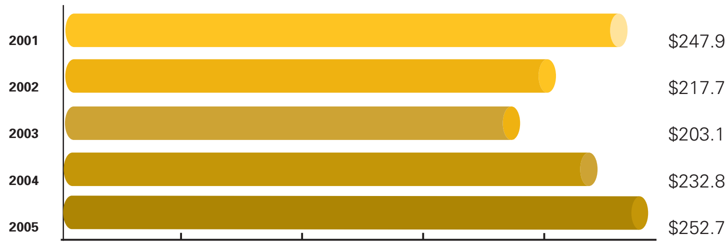
General Fund Transfer (in millions)



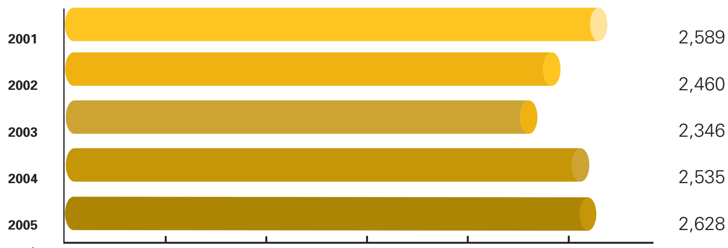
Number of Meters at Year End



Total Operating Revenue (in millions)

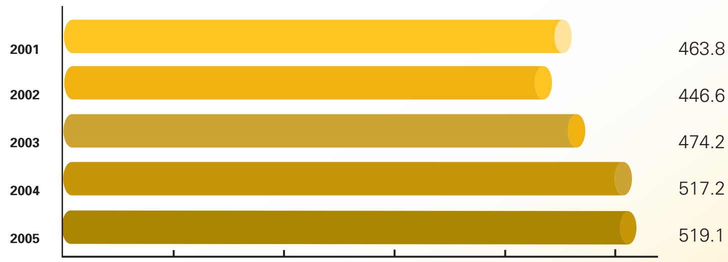


Production (in million kilowatt-hours)[1]



[1] Energy shown before losses, net of exchanges

Peak Day Demand (in megawatts)



Electric Facts and System Statistics

Established:	1895
Service Area Population:	285,000
Service Area Size (square miles):	79.4
System Statistics:	
Transmission lines (circuit miles):	86.3
Distribution lines (circuit miles):	1,153
Number of substations:	14
2004-05 Peak Day (megawatts):	519
Highest single hourly use:	
8/10/04, 4pm, 103 degrees	
Historical peak (megawatts):	519
Highest single hourly use:	
8/10/04, 4pm, 103 degrees	

Bond Ratings

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

ELECTRIC

Independent Auditors' Report

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

We have audited the accompanying financial statements of the City of Riverside, California, Water Utility, an enterprise fund of the City, as of and for the years ended June 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the City of Riverside Water Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Riverside, California, Water Utility, as of June 30, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 30, 2005 on our consideration of the City of Riverside's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

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

McGladrey & Pullen, LLP

Riverside, California
September 30, 2005

Management's Discussion and Analysis

As management of Riverside Public Utilities (a department of the City of Riverside), we offer the readers of Riverside's Water Utility financial statements, an enterprise fund of the City, this narrative overview and analysis of the financial activities of the Water Utility (Utility) for the fiscal years ended June 30, 2005 and 2004. We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, which begin on page 43 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

The assets of the Water Utility exceeded its liabilities (equity) at the close of fiscal years 2005 and 2004 by $199,483 and $194,342, respectively. Of this amount, $15,870 and $18,586, respectively, may be used to meet the Utility's ongoing obligations to creditors and customers.

The Utility's total equity as of June 30, 2005 and 2004, respectively, increased by $5,141 and $12,597 from fiscal years ended June 30, 2004 and 2003, respectively.

As of June 30, 2005 and 2004, unrestricted equity represented over 48% and 62% of annual operating expenses, respectively.

Overview of the Financial Statements

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

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

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

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

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

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

The ***Notes to the Financial Statements*** provide additional information that is essential to a full understanding of the data provided in the Water Utility's financial statements. The notes to the financial statements can be found on pages 47 to 54 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 $199,483 and $194,342 at the close of the fiscal years 2005 and 2004, respectively.

The Water Utility's overall equity increased by $5,141 and $12,597 during fiscal years 2005 and 2004, respectively, primarily due to capital contributions from developers and other parties totaling $11,826 and $15,494, respectively, offset by contributions to the general fund of $3,487 and $3,163, respectively. The current fiscal year is further reduced by a special item write off of $3,014, discussed more fully in Note 8 on Page 54 of this report.

The largest portion of the Water Utility's equity (88% and 86% as of June 30, 2005 and 2004, respectively) reflects its investment in capital assets, such as treatment, pumping, source of supply, transmission and distribution facilities, less any related outstanding debt used to acquire those assets. The Water Utility uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since the capital assets themselves cannot be used to liquidate these long-term liabilities.

The Utility's net assets invested in capital assets, net of related debt as of June 30, 2005, and 2004 was $175,041 and $167,325, respectively, an increase of $7,716 (4.6%) and $14,607 (9.6%), from the respective prior fiscal year. Significant projects during the corresponding fiscal years included $4,500 and $4,900 for the pipeline replacement program, $1,700 and $4,000 to relocate water facilities for the State of California funded Caltrans I-215/60/91 freeway interchange project, $4,600 and $2,900 to rehabilitate the Riverside Canal to facilitate future water deliveries, and $5,200 and $1,300 in system expansion and improvements. In addition, during fiscal year 2004, $2,400 was spent to complete water treatment facilities and $2,100 was spent to retrofit the Mocking Bird Canyon Dam for flood control purposes.

The Unrestricted portion of the Utility's net assets (8% and 10% for fiscal years ended June 30, 2005 and 2004, respectively) may be used to meet the Utility's ongoing obligations to creditors and customers.

An additional portion of the Water Utility's equity (4% as of June 30, 2005 and 2004) represents resources that are subject to internal and external restrictions on how they may be used. These are reserved for items such as debt repayment, and funds collected for the Water Conservation and Reclamation programs.

Riverside's Water Utility's Condensed Statements of Equity (Net Assets)

	2005	2004	2003
Current and other assets	$ 37,701	$ 40,754	$ 47,463
Capital assets	241,699	230,912	212,105
Total assets	279,400	271,666	259,568
Long-term debt outstanding	63,684	66,593	69,361
Other liabilities	16,233	10,731	8,462
Total liabilities	79,917	77,324	77,823
Equity (net assets)			
Invested in capital assets, net of related debt	175,041	167,325	152,718
Restricted	8,572	8,431	8,417
Unrestricted	15,870	18,586	20,610
Total equity (net assets)	$ 199,483	$ 194,342	$ 181,745

Management's Discussion and Analysis

As of June 30, 2005

ASSETS

Total assets for the two most recent fiscal years were $279,400 and $271,666, respectively. The $7,734 (2.8%) increase in total assets is due to a $10,787 increase in net capital assets (Utility plant), primarily relating to improvements to the Water Utility's distribution system, offset by a $3,053 decrease in current and other assets. The $3,053 decrease is comprised of a $5,890 increase in deferred pension costs, offset by decreases of $5,749 in restricted cash and investments (primarily use of bond proceeds for construction projects), $1,701 in accounts receivable, and $1,391 in cash from operations.

LIABILITIES

Total liabilities as of June 30, 2005 and 2004 were $79,917 and $77,324, respectively, an increase of $2,593 (3.4%). Although long-term obligations decreased by $2,909 primarily due to current year principal payments, this was offset by an increase of $5,502 in other liabilities, primarily representing the Water Utility's portion of the City's issuance of pension obligation bonds. Overall, current liabilities are consistent with prior year.

EQUITY (NET ASSETS)

Total Water fund equity for the fiscal year ended June 30, 2005 and 2004 was $199,483 and $194,342, respectively, an increase of $5,141 (2.6%) during the fiscal year. The restricted portion increased by $141, primarily due to the unspent Water Conservation and Reclamation funds. The Unrestricted portion decreased by $2,716 primarily attributable to results of operations in the current fiscal year. The portion of equity invested in capital assets, net of related debt, increased by $7,716 due to the amount of capital assets constructed or purchased that are not bond financed.

As of June 30, 2004

ASSETS

Total assets as of June 30, 2004 and 2003, were $271,666 and $259,568, respectively. The $12,098 (4.7%) increase in total assets is primarily due to an $18,807 increase in capital assets from improvements to the Water Utility's distribution system, offset by a $6,709 decrease in current and other assets. The $6,709 decrease is due to a $7,242 decrease in restricted cash and investments (mostly use of bond funds to construct capital projects) and a $3,018 decrease in cash and investments from operations, offset by a $3,631 increase in receivables, primarily due to timing of reimbursements to relocate facilities for the State of California funded Caltrans I-215/60/91 freeway interchange project.

LIABILITIES

Total liabilities as of fiscal years ended June 30, 2004 and 2003, were $77,324 and $77,823, respectively, a decrease of $499 (0.6%). Although long-term obligations decreased by $2,768 primarily due to current year principal payments, this was offset by an increase $2,269 in other liabilities--primarily $2,238 in accrued liabilities/accounts payables due to timing of payments to construction vendors.

EQUITY (NET ASSETS)

Total Water fund equity as of June 30, 2004 and 2003 was $194,342 and $181,745, respectively, an increase of $12,597 (6.9%) during the 2004 fiscal year. The restricted portion was consistent for both fiscal years. The Unrestricted portion decreased by $2,024 primarily attributable to results of operations in the 2004 fiscal year. The portion of equity invested in capital assets, net of related debt, increased by $14,607 due to the amount of capital assets constructed or purchased that are not bond financed.

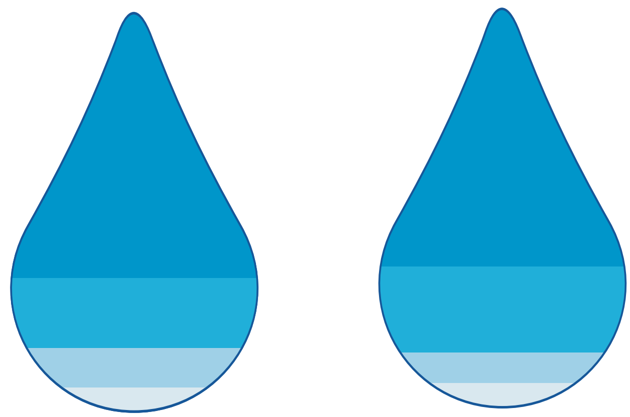
Management's Discussion and Analysis

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

	2005	2004	2003
Revenues:			
Retail Sales, net	$ 30,754	$ 30,363	$ 27,337
Other revenues	4,769	2,881	2,339
Investment income	582	664	1,763
Wholesale sales	142	149	560
Conservation and reclamation	155	0	0
Capital contributions	11,826	15,494	8,405
Total revenues	48,228	49,551	40,404
Expenses:			
Operations and maintenance	20,105	17,432	15,096
Purchased energy	3,822	3,724	3,619
Purchased water	2,509	2,481	1,077
Depreciation	6,314	6,273	5,554
Conservation and reclamation	24	0	0
Interest expense and fiscal charges	3,812	3,881	4,233
Total expenses	36,586	33,791	29,579
Transfers to the City's general fund	(3,487)	(3,163)	(3,182)
Special Item	(3,014)	0	0
Changes in Equity	5,141	12,597	7,643
Equity, July 1	194,342	181,745	174,102
Equity, June 30	$ 199,483	$ 194,342	$ 181,745

Revenues by Sources – Water Utility

June 30, 2005 **June 30, 2004**



June 30, 2005:
- Retail Sales (64%)
- Capital Contributions (25%)
- Other (10%)
- Investment Income (1%)

June 30, 2004:
- Retail Sales (62%)
- Capital Contributions (31%)
- Other (6%)
- Investment Income (1%)

Year ended June 30, 2005

Total revenues for the two most recent fiscal years were $48,228 as compared to $49,551, a decrease of $1,323 (2.7%).

Retail sales (residential, commercial, industrial, and other sales), net of reserve/recovery were $30,754 and $30,363 for years ended June 30, 2005 and 2004, respectively, and continue to be the primary revenue source for the Water Utility, making up 63.8% and 61.3% of total revenues in the respective fiscal years. Retail sales, net of reserve/recovery increased $391 (1.3%) from the prior year due to a 8.5% rate increase that become effective June 1, 2004, offset by 8.9% lower water consumption due to cooler and wetter weather conditions.

Other revenues of $4,769 and $2,881 at June 30, 2005 and 2004, respectively, increased by $1,888 (65.5%) due to an additional $1,025 of operating treatment costs reimbursed by other responsible parties for contaminating the City's water supply and $903 received in the current year for sales of surplus property.

Capital contributions during fiscal years 2005 and 2004 were $11,826 and $15,494, respectively, a decrease of $3,668 (23.7%). The decrease reflects a reduction in relocations of water facilities for the State of California funded Caltrans I-215/60/91 freeway interchange project.

New for this year is money collected for Conservation and Reclamation efforts of $155, implemented as part of the current three year rate plan (see discussion under "Economic Factors and Rates" on page 41 and 42 of this report).

Year ended June 30, 2004

Total revenues for the year ended June 30, 2004 were $49,551 compared to $40,404 in the prior fiscal year. The increase in total revenues of $9,147 (22.6%) is primarily due to increases in contributions from developers, retail sales, and other revenues, offset by a decrease in investment income.

Retail sales, net of reserve/recovery, of $30,363 and $27,337 for fiscal years 2004 and 2003, respectively, increased $3,026 (11.1%) due to 7.7% higher consumption as a result of warmer weather and load growth, and the full year impact of an overall 3.9% rate increase effective March 1, 2003.

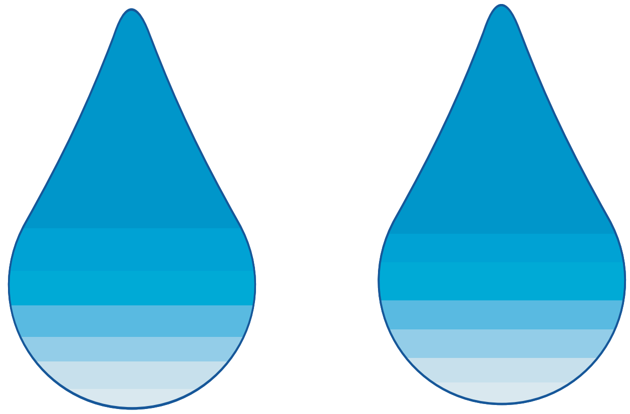
Investment income of $664 for fiscal year 2004 decreased by $1,099 (62.3%) below the $1,763 reflected for the 2003 fiscal year. The decrease is due to lower cash balances and market conditions that continued to be poor, which have resulted in lower earnings for the Utility's investment portfolio.

Wholesale sales as of June 30, 2004 and 2003 were $149 and $560, respectively, a decrease of $411 (73.4%) below the prior year levels, due to the increase in consumption discussed above resulting in less "excess" water available to sell.

Capital contributions were $15,494 and $8,405 for fiscal years 2004 and 2003, respectively, an increase of $7,089 (84.3%), reflecting an increased level of construction projects funded by others, including $4,037 for relocations of water facilities for the State of California funded Caltrans I-215/60/91 freeway interchange project.

EXPENSES BY SOURCES – WATER UTILITY

June 30, 2005 | June 30, 2004



June 30, 2005	June 30, 2004
Operations (33%)	Operations (38%)
Maintenance (17%)	Maintenance (9%)
Depreciation (16%)	Depreciation (17%)
Purchased Energy (10%)	Purchased Energy (10%)
Interest Expense (9%)	Interest Expense (10%)
Contributions to City's General Fund (9%)	Contributions to City's General Fund (9%)
Purchased Water (6%)	Purchased Water (7%)

Year ended June 30, 2005

Total expenses for the year ended June 30, 2005 were $36,586 as compared to $33,791 in the prior year. The increase in total expenses of $2,795 (8.3%) is due to personnel cost increases in the current year and cost of living type increases in other operating categories,

Operations and maintenance costs were $20,105 and $17,432 for fiscal years 2005 and 2004, respectively, an increase of $2,673 (15.3%). The majority of the increase is primarily due to a $1,287 increase in salary costs – including overtime expenses to maintain or increase customer service levels ($545) and related benefits ($742), and an increase in professional services ($736) to prepare the water master and water supply plans.

Year ended June 30, 2004

Total expenses for the year ended June 30, 2004 were $33,791 as compared to $29,579 in the prior year. The increase in total expenses of $4,212 (14.2%) is primarily due to increased costs for operations and maintenance, purchased water, and depreciation.

Operations and maintenance costs were $17,432 for fiscal year 2004 compared to $15,096 in the prior fiscal year, an increase of $2,336 (15.5%). During fiscal year 2004, the Water Utility added 7 full time positions. Personnel increases relating to salary (new positions and union negotiated raises) and overtime increased by $700, with related benefits increasing by $485. Other operating costs with significant increases were professional services ($259) and taxes and assessments relating to the Utility's ownership interest in various water companies ($478).

Purchased water costs for the years ended June 30, 2004 and 2003 were $2,481 and $1,077, respectively, an increase of $1,404 (130.4%). Drought conditions in the Southern California region continued, preventing the local Watermaster from declaring excess water available for pumping from local ground water sources. This, coupled with warmer weather causing increased demand, resulted in the need to purchase additional water.

Depreciation expense was $6,273 and $5,554 for fiscal years 2004 and 2003, respectively, an increase of $719 (12.9%) primarily due to $33,015 of capital assets placed in service during fiscal year 2003, and reflecting a full year of depreciation in fiscal year 2004.

TRANSFERS

Year ended June 30, 2005

Transfers to the City's general fund are limited by Section 1204(f) of the City Charter to a maximum of 11.5% of prior year gross operating revenue. The Water Utility transferred approximately 11.5% of prior year operating revenues, or $3,487 in the current year, compared to $3,163 in the prior year, a $324 increase, primarily as a result of the $3,026 increase in retail sales for fiscal year 2004 over the prior year levels.

Year ended June 30, 2004

Transfers to the City's general fund of $3,163 decreased by $19 from the fiscal year 2003 amount of $3,182, primarily due to the decrease in retail revenues in fiscal year 2003 compared to 2002.

Capital Asset and Debt Administration

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

For descriptions of major capital assets constructed during the fiscal years 2005 and 2004, see discussion under "Utility Financial Analysis" on page 36 of this report.

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

	2005	2004	2003
Source of supply	$ 28,003	$ 19,526	$ 19,577
Pumping	4,747	3,237	3,350
Treatment	12,880	13,257	12,644
General	3,353	1,489	1,729
Transmission and distribution	173,791	160,775	158,734
Intangible	6,269	6,269	6,269
Construction in progress	12,656	26,359	9,802
Total	$ 241,699	$ 230,912	$ 212,105

Additional information regarding capital assets can be found in Note 3 on Page 51 of this report.

As of June 30, 2005

Capital assets, net of depreciation, for the Water Utility were $241,699 compared to $230,912 as of June 30, 2005 and 2004, respectively, a $10,787 (4.7%) increase. The majority of assets capitalized in the current year were for transmission and distribution and source of supply facilities. For more detailed description of assets constructed in the current fiscal year, see discussion above under "UTILITY FINANCIAL ANALYSIS."

As of June 30, 2004

Capital assets for fiscal year 2004 were $230,912, compared to $212,105 for fiscal year 2003. The increase of $18,807 (8.9%) in capital assets over the prior year reflects an historic high for construction projects in the Water Utility. The majority of assets capitalized for this period were additions or improvements to the transmission and distribution system. Additional information on projects constructed during the fiscal year is discussed above under "UTILITY FINANCIAL ANALYSIS."

City of Riverside Water Utility's Outstanding Debt (Revenue Bonds and Contracts Payable)

At the end of fiscal years ended June 30, 2005 and 2004 the City of Riverside's Water Utility had long-term debt outstanding of $63,684 and $66,593, respectively. This debt is backed by the revenues of the Utility (revenue bonds).

	2005	2004	2003
Revenue bonds	$ 71,015	$ 75,060	$ 79,070
Contracts payable	1,015	1,039	1,083
Less:			
Unamortized bond discount/capital appreciation	(4,121)	(5,311)	(6,632)
Less: Current portion	(4,225)	(4,195)	(4,160)
Total	$ 63,684	$ 66,593	$ 69,361

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 2.85 at June 30, 2005 and 3.52 at June 30, 2004.

As of June 30, 2005

Long-term debt of $71,015 decreased by $4,045 (5.4%) from June 30, 2004, due to the repayment of principal on the Water Utility's outstanding revenue bonds.

As of June 30, 2004

Long-term debt of $75,060 decreased by $4,010 (5.1%) from June 30, 2003, due to the repayment of principal on the Water Utility's outstanding revenue bonds.

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

Additional information on the Water Utility's long-term debt can be found in Note 4 on pages 51 and 52 of this report.

Economic Factors and Rates

Although inflationary trends in the Riverside region continue to compare favorably to the national indices, the Water Utility's escalation in costs are not strictly attributable to inflation. One of the main drivers of the increase in costs relates to the multiple years of drought conditions in the Southern California region. Although the most recent fiscal year experienced significant rainfall, the local ground water basin remains below historical averages, which requires additional pumping costs to deliver water from deeper elevation levels, as well as additional costs to purchase water. Another factor affecting the Water Utility is the cost of several expensive capital projects, that had previously been delayed multiple times due to budget constraints, that management believes can no longer be postponed.

Management's Discussion and Analysis

The projected increase in costs are substantial, and in an effort to maintain the Water Utility's historically strong financial position, the Riverside City Council, after the requisite Public Hearing, unanimously approved a three-year water rate increase effective June 1, 2004, 2005, and 2006, respectively, in order to meet the increased costs of operating the Utility and improve system reliability by investing in system improvements. The increase is 8.5% per year for most rate classes, for an overall 25.5% increase. A portion of the rate increase (an additional 0.5% each year, for a cumulative 1.5%) will be used to fund programs to promote conservation, education and water use efficiency; to encourage the use of reclaimed water; for research, development and demonstration programs to advance science and technology with respect to water conservation and reclamation; and for water service provided to low-income customers. An additional 2.0 % of the rate increase will be used to fully implement (including 2.0% previously implemented, for a cumulative 4.0%) the expanded water main replacement program approved by City Council and the Board of Public Utilities in 1999.

Also as part of the rate increase process, the Water Utility restructured its rates by extending the summer season by one month (when weather is still warm, the demand for water is still high, and purchasing additional water to meet customer needs is expensive) and implemented a fourth tier to the residential rate structure in order to send the appropriate price signals to high consumers of water.

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

Requests for Information

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

Balance Sheets

Assets	June 30, 2005 (in thousands)	June 30, 2004
UTILITY PLANT:		
Source of supply	$ 37,384	$ 28,509
Pumping	10,549	8,859
Treatment	14,434	14,419
Transmission and distribution	251,642	233,762
General	8,977	7,040
Intangible	6,269	6,269
	329,255	298,858
Less accumulated depreciation	(100,212)	(94,305)
	229,043	204,553
Construction in progress	12,656	26,359
Total utility plant (Note 3)	241,699	230,912
RESTRICTED ASSETS:		
Cash and cash equivalents (Note 2)	3,943	4,248
Cash and investments at fiscal agent (Note 2)	4,457	4,161
Total restricted assets	8,400	8,409
OTHER NON-CURRENT ASSETS:		
Deferred Pension Costs	5,890	0
Deferred bond issuance/refunding costs	1,245	1,325
Advances to the City's general fund	48	72
Total other non-current assets	7,183	1,397
Total non-current assets	257,282	240,718
CURRENT ASSETS:		
Unrestricted:		
Cash and cash equivalents (Note 2)	15,911	17,302
Accounts receivable, less allowance for doubtful accounts 2005 $51; 2004 $42	3,776	3,644
Accounts receivable, other utilities and governments, less allowance for doubtful accounts 2005 $172; 2004 $165	2,077	3,949
Accrued interest receivable	217	178
Total unrestricted assets	21,981	25,073
Restricted assets:		
Cash and investments at fiscal agent (Note 2)	5	5,875
Cash and cash equivalents (Note 2)	121	0
Conservation and Reclamation Programs Receivable	11	0
Total restricted assets	137	5,875
Total current assets	22,118	30,948
Total assets	$ 279,400	$ 271,666

See accompanying notes to the financial statements

Balance Sheets

Equity And Liabilities

	June 30, 2005	June 30, 2004
	(in thousands)	
EQUITY:		
Invested in capital assets, net of related debt	$ 175,041	$ 167,325
Restricted for:		
Debt service (Note 5)	8,440	8,431
Conservation & Reclamation Programs	132	0
Unrestricted	15,870	18,586
Total equity	199,483	194,342
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4)	63,684	66,593
OTHER NON-CURRENT LIABILITIES:		
Interfund payable-pension obligations	5,890	0
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	610	616
Conservation & Reclamation Programs	1	0
Current portion of long-term debt (Note 4)	4,075	4,045
Total current liabilities payable from restricted assets	4,686	4,661
CURRENT LIABILITIES:		
Accounts payable	2,115	3,363
Accrued liabilities	2,027	2,163
Current portion of long-term debt (Note 4)	150	150
Customer deposits	1,365	394
Total current liabilities	5,657	6,070
Total liabilities	79,917	77,324
COMMITMENTS AND CONTINGENCIES (NOTES 7 AND 9)		
Total equity and liabilities	$ 279,400	$ 271,666

WATER

See accompanying notes to the financial statements

Statements of Revenues, Expenses and Changes in Equity

	For the Fiscal Years Ended June 30, 2005	2004
	(in thousands)	
OPERATING REVENUES:		
Residential sales	$ 20,043	$ 19,921
Commercial sales	9,252	9,182
Other sales	1,582	1,380
Wholesale sales	142	149
Conservation & Reclamation	155	0
Other operating revenue	2,978	1,750
Total operating revenues before (reserve)/recovery	34,152	32,382
Reserve for uncollectible, net of bad debt recovery	(123)	(120)
Total operating revenues, net of (reserve)/recovery	34,029	32,262
OPERATING EXPENSES:		
Operations	13,293	14,051
Maintenance	6,812	3,381
Purchased energy	3,822	3,724
Purchased water	2,509	2,481
Conservation & Reclamation Programs	24	0
Depreciation	6,314	6,273
Total operating expenses	32,774	29,910
Operating income	1,255	2,352
NON-OPERATING REVENUES (EXPENSES):		
Investment income	582	664
Interest expense and fiscal charges	(3,812)	(3,881)
Gain on sale of capital assets	620	47
Other	1,171	1,084
Total non-operating expenses	(1,439)	(2,086)
Income (loss) before contributions and transfers	(184)	266
Capital contributions	11,826	15,494
Transfers out - contributions to the City's general fund	(3,487)	(3,163)
Total capital contributions and transfers out	8,339	12,331
Income before special item	8,155	12,597
SPECIAL ITEM:		
Canal abandonment	(3,014)	0
Increase in equity	5,141	12,597
EQUITY, BEGINNING OF YEAR:	194,342	181,745
EQUITY, END OF YEAR:	$ 199,483	$ 194,342

See accompanying notes to the financial statements

Statements of Cash Flows

	For the Fiscal Years Ended June 30, 2005	2004
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	$ 36,852	$ 28,710
Cash paid to suppliers and employees	(27,966)	(21,519)
Other receipts	1,171	1,084
Canal Abandonment	(1,147)	0
Net cash provided by operating activities	8,910	8,275
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(3,487)	(3,163)
Net cash used by non-capital financing activities	(3,487)	(3,163)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(17,242)	(22,553)
Proceeds from the sale of utility plant	999	61
Principal paid on long-term debt	(4,069)	(4,054)
Interest paid on long-term debt	(2,548)	(2,487)
Capital contributions	9,721	12,954
Net cash used by capital and related financing activities	(13,139)	(16,079)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Reduction (increase) in advances to the City's general fund	24	(10)
Proceeds (purchases) of investment securities	(296)	4
Income from investments	543	717
Net cash provided by investing activities	271	711
Net decrease in cash and cash equivalents	(7,445)	(10,256)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	27,425	37,681
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 19,980	$ 27,425
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 1,255	$ 2,352
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,314	6,273
Increase in uncollectible accounts receivable	16	66
Decrease (increase) in accounts receivable	1,713	(3,740)
Increase (decrease) in accounts payable	(1,248)	2,067
Increase (decrease) in accrued liabilities	(136)	171
Increase in Conservation & Reclamation Programs	1	0
Increase in customer deposits	971	2
Other receipts	1,171	1,084
Canal Abandonment	(1,147)	0
Net cash provided by operating activities	$ 8,910	$ 8,275
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions – capital assets	2,105	2,540
Canal abandonment	1,867	0
Interfund Payable – pension obligations	5,890	0

See accompanying notes to the financial statements

Notes to the Financial Statements

NOTE 1. Summary of Significant Accounting Policies

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

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

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

■ **Revenue Recognition** Water Utility customers are billed monthly. Unbilled water service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled $2,152 at June 30, 2005, and $1,869 at June 30, 2004.

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

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

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The City values its cash and investments in accordance with provisions of Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and External Investment Pools (GASB 31), which requires governmental entities, including governmental external investment pools, to report certain investments at fair value in the Statements of Net Assets/Balance Sheets and recognize the corresponding change in the fair value of investments in the year in which the change occurred. Fair value is determined using 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, 2005, including authorized investments, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and investments may be found in the notes to the City's "Comprehensive Annual Financial Report."

■ **Cash and Investments at Fiscal Agents** Cash and investments maintained by fiscal agents are considered restricted by the Utility and are pledged as collateral for payment of principal and interest on outstanding bonds.

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

■ **Customer Deposits** The City holds customer deposits as security for the payment of utility bills. The Water Utility's portion of these deposits as of June 30, 2005 and 2004, was $1,365 (includes $1,004 held on behalf of La Sierra Water Company pending dissolution and distribution of remaining cash asset to shareholders, of which the City is the largest owner) and $394, respectively.

■ **Compensated Absences** The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due employees at June 30, 2005 and 2004. The Water Utility treats compensated absences due employees as a current liability. The amount accrued for compensated absences was $2,027 at June 30, 2005, and $2,163 at June 30, 2004, and is included in accrued liabilities in the accompanying Balance Sheets.

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

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

■ **Insurance Programs** The Water Utility participates in a self-insurance program for worker's compensation and general liability coverage that is administered by the City. The Water Utility pays an amount to the City representing an estimate of amounts to be paid for reported claims incurred and incurred but unreported claims based upon past experience, modified for current trends and information. The city maintains property insurance on most city property holdings, including Utility plant with a limit of $100 million.

NOTE 1. Summary of Significant Accounting Policies (continued)

City-wide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risks for the year ended June 30, 2005, may be found in the notes to the City's "Comprehensive Annual Financial Report."

Although the ultimate amount of losses incurred through June 30, 2005, is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. Premiums paid to the City by the Water Utility were $614 and $293 for the years ended June 30, 2005 and 2004, respectively. Any losses above the City's reserves would be covered through increased rates charged to the Water Utility in future years.

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

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

Employee contributions are 8.0 percent of their annual covered salary. The Water Utility is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The employer portion of PERS funding as of June, 30 2005 and 2004, was 12.34 percent and 3.328 percent, respectively, of annual covered payroll. The Water Utility pays both the employee and employer contributions. The total Water Utility's contribution to PERS as of June 30, 2005 and 2004, was $1,537 and $829, respectively.

City-wide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the fiscal year ended June 30, 2005, 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, 2005.

■ **Pension Obligation Bonds** During the year, the City issued Pension Obligation Bonds in the amount of $60,000, of which the Water Utility's share is $5,890 as reflected in the accompanying Balance Sheet as deferred pension costs and a corresponding long-term obligation. The deferred charge relating to the net pension asset will be amortized over 19 years in accordance with the method used by CalPERS for calculating actuarial gains and losses. The Bonds will be used to fund the unfunded actuarial accrued liability for non-safety employees and the proceeds were deposited with PERS. 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, 2005.

■ **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 balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

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

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

NOTE 1. Summary of Significant Accounting Policies (Continued)

Contributions to the City's General Fund
Pursuant to the City Charter, the Water Utility may transfer up to 11.5 percent of its prior year's gross operating revenues to the City's general fund. In fiscal years 2004-05 and 2003-04, the Water Utility transferred 11.5 percent of gross operating revenues, or $3,487 and $3,163, respectively.

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

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

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

NOTE 2. Cash and Investments

Cash and investments at June 30, 2005 and 2004, consist of the following (in thousands):

	June 30, 2005	June 30, 2004
	Fair Value	
Deposits with City Treasurer's investment pool	$ 19,975	$ 21,550
Cash and investments at fiscal agent	4,462	10,036
Total cash and investments	$ 24,437	$ 31,586

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

	June 30, 2005	June 30, 2004
Unrestricted cash and cash equivalents	$ 15,911	$ 17,302
Restricted assets		
Cash and cash equivalents	4,064	4,248
Cash and investments at fiscal agent	5	5,875
Total cash and cash equivalents	19,980	27,425
Cash and investments at fiscal agent	4,457	4,161
Total cash and investments	$ 24,437	$ 31,586

Cash and investments held by fiscal agent are as follows:

		Remaining Maturity (in Months)			
Investment Type		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Money Market Funds	$ 391	$ 391	$ 0	$ 0	$ 0
Federal Agency Securities	2,404	0	2,404	0	0
Investment Contracts	1,667	402	0	0	1,265
Total	$ 4,462	$ 793	$ 2,404	$ 0	$ 1,265

All cash and investments held by fiscal agent are held in AAA investments

NOTE 3. Utility Plant

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2005 and 2004 (in thousands):

	Balance, As of 6/30/2003	Additions	Retirements/ Transfers	Balance, As of 6/30/2004	Additions	Retirements/ Transfers	Balance, As of 6/30/2005
Source of supply	$ 28,213	$ 296	$ 0	$ 28,509	$ 11,040	($ 2,165)	$ 37,384
Pumping	8,790	69	0	8,859	1,690	0	10,549
Treatment	13,438	981	0	14,419	15	0	14,434
Transmission and distribution	226,986	6,902	(126)	233,762	18,074	(194)	251,642
General	6,810	296	(66)	7,040	2,202	(265)	8,977
Intangible	6,269	0	0	6,269	0	0	6,269
Construction in progress	9,802	25,138	(8,581)	26,359	19,375	(33,078)	12,656
Subtotal	300,308	33,682	(8,773)	325,217	52,396	(35,702)	341,911
Less accumulated depreciation	(88,203)	(6,273)	171	(94,305)	(6,313)	406	(100,212)
Total utility plant	$ 212,105	$ 27,409	($ 8,602)	$ 230,912	$ 46,083	($ 35,296)	$ 241,699

NOTE 4. Long-Term Obligations

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2005 and 2004 (in thousands):

	Balance, As of 6/30/2003	Additions	Reductions	Balance, As of 6/30/2004	Additions	Reductions	Balance, As of 6/30/2005
Revenue bonds	$ 72,438	$ 0	($ 2,689)	$ 69,749	$ 0	($ 2,855)	$ 66,894
Interfund payable-pension obligation bonds	0	0	0	0	5,890	0	5,890
Water stock acquisition rights	1,083	0	(44)	1,039	0	(24)	1,015
Total long-term obligations	$ 73,521	$ 0	($ 2,733)	$ 70,788	$ 5,890	($ 2,879)	$ 73,799

WATER

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

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

	June 30, 2005	June 30, 2004
Contracts Payable		
Water Stock Acquisitions: Payable on demand to various water companies	$ 1,015	$ 1,039
Total contracts payable	1,015	1,039
Revenue Bonds Payable		
$69,840 1991 Water Revenue Bonds: $25,900 serial capital appreciation bonds due in annual installments from $3,235 to $3,240 from October 1, 2005, to October 1, 2010, interest from 6.9 percent to 7.0 percent; (partially advance refunded in 1998)	19,425	22,665
$4,710 1994 FARECal Revenue Bonds: $2,420 serial bonds due in annual installments from $200 to $255 through July 1, 2010, interest from 5.6 percent to 5.9 percent; $2,290 term bonds due July 1, 2017, at 6.0 percent	3,425	3,615
$30,965 1998 Water Refunding/Revenue Bonds: $15,055 serial bonds due in annual installments from $260 to $4,055 through October 1, 2013, interest from 4.4 percent to 5.38 percent; $10,155 term bonds due October 1, 2018, interest at 5.0 percent; $5,755 term bonds due October 1, 2027, interest at 5.0 percent	29,230	29,480
$20,000 2001 Water Revenue Bonds: $10,070 serial bonds due in annual installments from $375 to $745 through October 1, 2021, interest from 3.1 percent to 5.0 percent; $4,345 term bonds due October 1, 2026, interest at 5.0 percent; $5,585 term bonds due October 1, 2031, interest at 5.0 percent	18,935	19,300
Total water revenue bonds payable	71,015	75,060
Total water revenue bonds and contracts payable	72,030	76,099
Unamortized capital appreciation	(3,499)	(4,654)
Unamortized bond discount	(622)	(657)
Total water revenue bonds and contracts payable, net of bond discount and capital appreciation	67,909	70,788
Less current portion	(4,225)	(4,195)
Total long-term water revenue bonds and contracts payable	$63,684	$66,593

Annual debt service requirements to maturity, as of June 30, 2005, are as follows (in thousands):

	2006	2007	2008	2009	2010	2011-2015	2016-2020	2021-2025	2026-2030	2031-2035	Total
Principal	$ 4,225	$ 4,265	$ 4,305	$ 4,340	$ 4,395	$ 23,635	$ 10,245	$ 6,955	$ 7,265	$ 2,400	$ 72,030
Interest	2,565	2,530	2,491	2,451	2,406	9,777	5,021	3,320	1,427	121	32,109
Total	$ 6,790	$ 6,795	$ 6,796	$ 6,791	$ 6,801	$ 33,412	$ 15,266	$ 10,275	$ 8,692	$ 2,521	$ 104,139

NOTE 5. Restricted Equity

Pursuant to applicable bond indentures, a reserve for debt service has been established by restricting assets and reserving a portion of equity. Bond indentures for Riverside's water revenue bonds require reserves that equate to the maximum annual debt service required in future years plus three months interest and nine months principal due in the next fiscal year. The reserve for Riverside's portion of FARECal revenue bonds is equal to 10.0 percent of the program agreement amounts. Additional reserves for the 1998 revenue bonds are not required due to the purchase of surety bonds to cover the reserve requirements.

NOTE 6. Jointly-Governed Organizations

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

NOTE 7. Litigation

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

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

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

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

NOTE 8. Special Item

In 1984 the City adopted a report by the Riverside Canal Abandonment Task Force, which outlined recommendations for abandoning those portions of the Riverside Canal that do not serve any agricultural water conveyance purposes. One critical component of the abandonment required significant construction of new storm drain facilities to transport water that would otherwise be carried in the Riverside Canal. During the current fiscal year, the required construction by the Water Utility has been completed. The remaining portions of the storm drain will be constructed in conjunction with a development project planned adjacent to the Riverside canal, and upon completion, the Water Utility will then abandon its portions of the canal. These new facilities will be owned and operated by Riverside County Flood Control District. As a result, the Water Utility has recorded a charge against operations in the current period of $3,014, comprising $1,147 in current period and $1,867 in prior period construction costs.

NOTE 9. Construction Commitments

As of June 30, 2005, the Water Utility had major commitments of approximately $648 with respect to unfinished capital projects, which is expected to be funded by a 4% surcharge included in the Water Utility's rates.

NOTE 10. Subsequent Event

On September 13, 2005, the City Council authorized the issuance of a $65,000 variable rate, Water Revenue and Refunding bonds, in the form of Auction Rate Securities, to finance capital improvement programs and refund certain existing Water bonds. $30,000 of Water revenue bonds will be used to finance the costs of certain improvements to the City's Water System as part of the Capital Improvement Program. The remaining portion will refund all the outstanding 1994 FARECal bonds ($3,425), $7,705 of the outstanding 1998, and $13,320 of the outstanding 2001 Water bond issues.

The City Council also approved entering into a synthetic interest rate swap agreement on the entire not-to-exceed $65,000 Water issuances. Under the swap agreement, the City pays the counter-party a fixed rate of 3.2% on the Water 2005 Revenue and Refunding bonds. In exchange the City receives a floating rate index equal to 62.68% of the London Interbank Offered Rate (LIBOR), plus 12 basis points.

The actual issuance and closing for the 2005 Revenue and Refunding bonds will occur on October 6, 2005.

Various risks associated with this derivative instrument (including credit, counter-party, basis and tax risk) have been identified and analyzed, and are considered acceptable by management, in order to hedge against rising interest rates and better manage the Water Utility's balance sheet.

Statistics

WATER SUPPLY (ACRE FEET)

	2004/05	2003/04	2002/03	2001/02	2000/01
Pumping	73,732	81,797	70,977	79,937	74,647
Purchases	4,137	1,693	695	900	498
Total:	77,869	83,490	71,672	80,837	75,145
Percentage pumped	94.7%	98.0%	99.0%	98.9%	99.3%
System peak day (gallons)	112,094,000	105,029,000	101,484,000	102,241,000	99,861,000

WATER USE

Number of meters as of year end	2004/05	2003/04	2002/03	2001/02	2000/01
Residential	56,916	56,254	55,376	54,910	54,626
Commercial/Industrial	5,114	4,932	4,782	4,776	4,711
Other	462	482	467	373	372
Total:	62,492	61,668	60,625	60,059	59,709
*CCF sales					
Residential	17,245,315	19,056,556	17,824,440	18,653,037	17,517,449
Commercial/Industrial	9,252,639	9,988,578	9,411,391	9,820,471	9,577,374
Other	1,199,448	1,361,809	995,815	945,519	949,425
Wholesale	177,851	189,377	1,052,205	1,263,144	1,243,085
Total:	27,875,253	30,596,320	29,283,851	30,682,171	29,287,333

*(CCF equals 100 cubic feet)

WATER FACTS

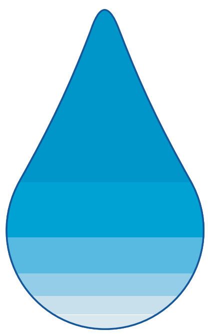
	2004/05	2003/04	2002/03	2001/02	2000/01
Average annual CCF per residential customer	308	342	324	343	323
Average price ($/CCF) per residential customer	$ 1.16	$ 1.05	$ 1.01	$ .97	$ .94
Debt service coverage ratio	2.85	3.52	2.60	3.89	3.31
Employees[1]	130	130	125	123	122

[1]Approved positions

WATER

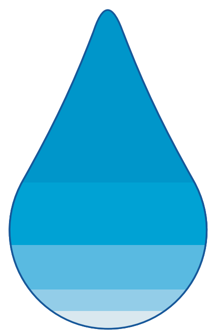
2004/05 Water Revenue and Resources

Source of Revenue



- Residential Sales (38¢)
- Other Revenues (33¢)
- Commercial & Industrial Sales (18¢)
- Use of Reserves (7¢)
- Other Sales (3¢)
- Investment Income (1¢)

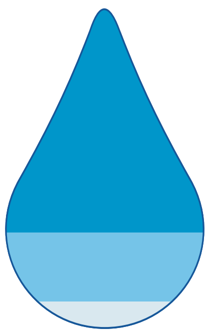
Distribution of Revenue



- Operation & Maintenance (46¢)
- Additions & Replacements to the System (29¢)
- Debt Service (13¢)
- Transfers to the City's general fund* (7¢)
- Water Supply (5¢)

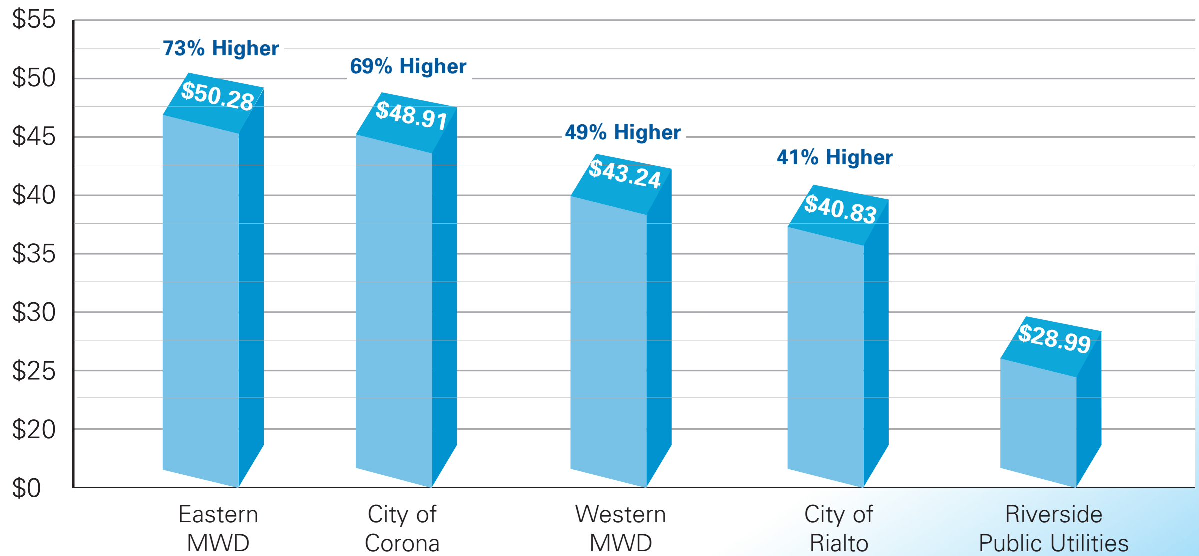
**Based on transfer of 11.5 percent of fiscal year 2003/04 revenues (excludes special item).*

Water Resources



- San Bernardino Basin Wells (69.6%)
- Riverside Basin Wells (25.1%)
- Purchased Water (5.3%)

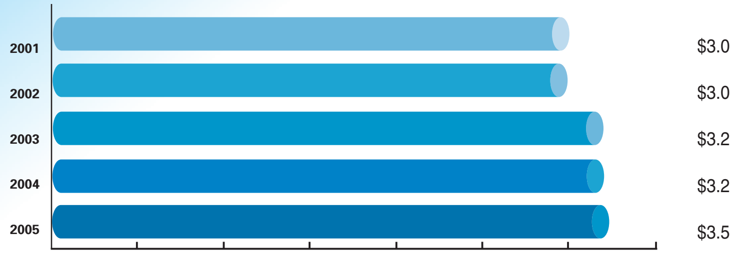
Residential Water Rate Comparison
Monthly Usage of 27 CCF



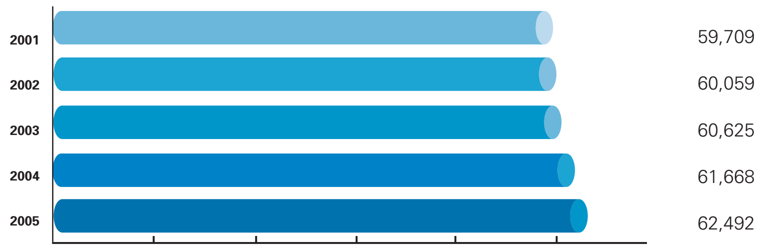
RATE COMPARISONS AS OF JUNE 1, 2005

Statistics

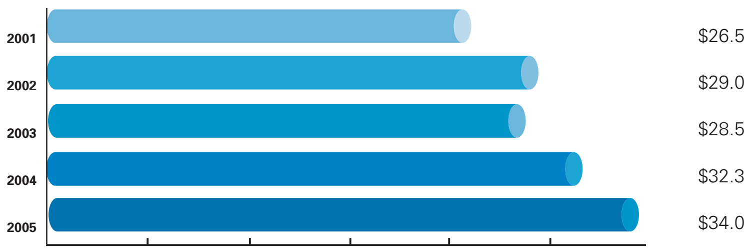
General Fund Transfer (in millions)



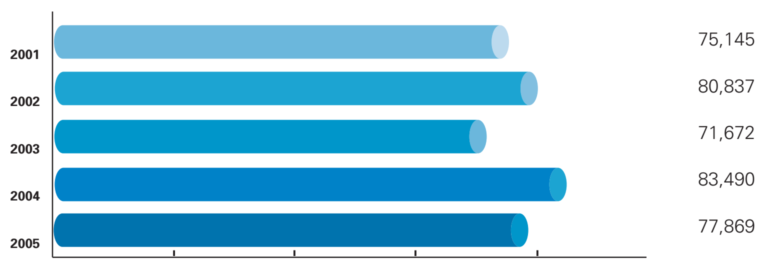
Number of Meters at Year End



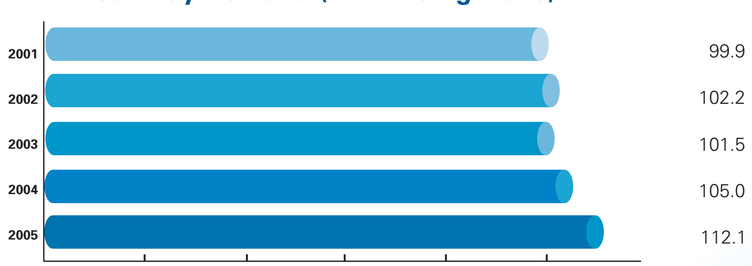
Total Operating Revenue (in millions)



Production (in acre feet)



Peak Day Demand (in million gallons)



Water Facts and System Statistics

Established:	1913
Service Area Population:	285,000
Service Area Size (square miles):	76.4
System Statistics:	
Smallest pipeline:	2.0"
Largest pipeline:	72.0"
Miles of pipeline:	957
Number of domestic wells:	53
Number of active reservoirs:	16
Total reservoir capacity (gallons):	100,400,000
Number of treatment plants:	9
Number of treatment vessels:	76
Miles of canal:	14
Number of fire hydrants:	6,926
Daily average production (gallons):	64,579,583
2004-05 Peak day (gallons):	112,094,000
7/17/04, 101 degrees	
Historical peak (gallons):	112,094,000
7/17/04, 101 degrees	

Bond Ratings

FITCH, INC.	AA
STANDARD & POOR'S	AA

WATER