Financial Report 2011

RiversidePublicUtilities.com

WATER | ENERGY | LIFE

CITY OF RIVERSIDE

PUBLIC UTILITIES

Inside

Our Mission

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

Our Vision

Our **customers** will recognize Riverside Public Utilities as a unique **community asset** with a global reputation for innovation, sustainability and an enhanced **quality of life**.

Three-Year Goals

- **Protect** the financial health of Riverside Public Utilities
- **Enhance** system reliability in electric and water
- Enhance **awareness** of Riverside Public Utilities as a leader in utility and environmental stewardship
- **Impact** positively legislation and regulations at all levels of government
- **Improve** collaboration between Riverside Public Utilities and the IT Department to meet specialized utility industry needs

Our Core Values

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

Board of Public Utilities and Administration

The Board of Public Utilities is composed of nine citizen-volunteers appointed by the City Council to four-year terms without compensation. Board members oversee the utility's policies, operations, revenues, expenditures, planning, and regulatory compliance. In addition to bi-weekly Board meetings, members also serve on subcommittees to provide input on the development of new facilities and equipment; performance measures; programs to conserve energy and water resources; and appropriate technology to protect our water supply and secure our energy resources.

The citizen-volunteers who serve on the Board of Public Utilities provide an ongoing, year-round review of all actions by Riverside Public Utilities before any measure is sent to the elected City Council representatives for final determination.

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

Public Utilities Administration

David H. Wright
General Manager

Stephen H. Badgett
Deputy General Manager

Michael J. Bacich
Assistant General Manager
Customer Relations/Marketing

Reiko A. Kerr
Assistant General Manager
Finance/Administration

Kevin S. Milligan
Assistant General Manager
Water

Gary L. Nolff
Assistant General Manager
Resources

Board of Public Utilities

Robert Elliott
Board Chair

Bernie Titus
Board Vice-Chair

Darrell Ament

Susan Cash

Mary Curtin

Ian J. Davidson

Justin Scott-Coe

Gustavo Segura

Ken Sutter

Fiscal Message

Over the past 116 years, many things have changed in the City of Riverside. However, one thing has remained constant – Riverside Public Utilities' responsibility to provide reliable energy and water services that exceed the expectations of our customer-owners.

Our commitment and contributions to the community have provided the strength and foresight to weather difficult financial climates and still be able to maintain, upgrade, and expand our resources and infrastructure to meet customer demand and industry regulations.

The fiscal strength of our water utility was highlighted again this year when Standard & Poor's Rating Services raised its underlying rating on our water revenue bonds to its highest category of AAA, and assigned their top A-1+ short-term rating to the water utility's 2011A Variable Rate Refunding Water Revenue Bonds. This elite fiscal status, shared by only a handful of California's top retail water companies, provides the highest degree of confidence with our bondholders. This will ensure the lowest cost funding for future reservoir, pipeline, and recycled water projects and allow us to remain water independent.

With the completion of the Riverside Energy Resource Center (RERC) generation units 3 & 4, and the acquisition of the Clearwater Cogeneration facility from the city of Corona, we moved closer to energy self-reliance. Through our RERC, Clearwater, and Springs generation facilities, we can now provide more than half of our average energy demands through local generation if necessary. We have 262 megawatts of locally generated power at the flip of switch, to meet peak energy demands and provide emergency power needs for the City of Riverside.

Ongoing work with the Sub-Transmission Project has made valuable improvements to the eastern side of RPU's energy delivery system, further strengthening our reliability commitments. While efforts to create a much needed second connection to the state's power grid continued.

Years of exceptional and diligent financial, operational, and managerial oversight have elevated us to one of the top municipally-owned utilities in California and the nation. Backed by state-of-the-art facilities, and dedicated staff striving for excellence, we will continue to meet our service obligations and exceed our customers' expectations today, and well into the future.

Reiko Kerr

Reiko A. Kerr
Assistant General Manager - Finance/Administration

Electric 2011

WWW.MOSSADAMS.COM

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying balance sheet of the City of Riverside, California, Electric Utility (Electric Utility), as of and for the year ended June 30, 2011, and the related statement of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Electric Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements present only the Electric Utility and do not purport to, and do not, present fairly the financial position of City of Riverside, as of June 30, 2011, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric Utility as of June 30, 2011 and the results of its individual and combined operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis preceding the financial statements is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which 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.

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Independent Auditors' Report: Electric

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial information included as supplementary information following the financial statements and notes to financial statements is provided for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and we do not express an opinion on it.

The financial statements of the City of Riverside, California, Electric Utility, as of June 30, 2010, were audited by other auditors, whose report dated October 18, 2010, expressed an unqualified opinion on those statements.

Moss Adams LLP

Los Angeles, California
October 14, 2011

Independent Auditors' Report: Electric

Management's Discussion and Analysis: Electric

As management of Riverside Public Utilities, a department of the City of Riverside (the City), we offer the readers this narrative overview and analysis of the 2010-11 financial report for the period ended June 30, 2011 and 2010 for Riverside's Electric Utility (the Utility), an enterprise fund of the City. We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, which begin on page 26 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

Fiscal years 2011 and 2010 reflected strong operating results for the Electric Utility, with each year's retail revenues exceeding the previous all-time record, primarily from the effects of rate increases and an expanded customer base.

- Retail sales, net of reserve/recovery were $278,406 and $274,206 for years ended June 30, 2011 and 2010, respectively.
- The assets of the Utility exceeded its liabilities (equity) at the close of fiscal years 2011 and 2010 by $450,120 and $440,051, respectively. Of this amount, $199,057 and $189,431, respectively, may be used to meet the Utility's ongoing obligations to creditors and customers.
- The Utility's overall equity increased by $10,069 and $41,785 for fiscal years ended June 30, 2011 and 2010 due to positive operating results from the historic levels of retail sales and other items discussed in this report.
- As of June 30, 2011 and 2010, unrestricted equity represented over 78% and 80% of annual operating expenses, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

The ***Notes to the Financial Statements*** provide additional information that is essential to a full understanding of the data provided in the financial statements. The Notes to the Financial Statements can be found on pages 32 to 55 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 $450,120 and $440,051 at the close of the fiscal years 2011 and 2010, respectively.

The following table summarizes the Utility's financial condition as of June 30, 2011, 2010 and 2009:

CONDENSED STATEMENTS OF EQUITY (NET ASSETS)

	2011	2010	2009
Current and other assets	$ 557,097	$ 462,869	$ 471,083
Capital assets	681,934	606,777	565,894
Total assets	1,239,031	1,069,646	1,036,977
Long-term debt outstanding	594,613	479,174	502,415
Other liabilities	194,298	150,421	136,296
Total liabilities	788,911	629,595	638,711
Invested in capital assets, net of related debt	225,055	222,016	208,695
Restricted	26,008	28,604	28,602
Unrestricted	199,057	189,431	160,969
Total equity (net assets)	$ 450,120	$ 440,051	$ 398,266

ASSETS

Fiscal Year 2011 The Utility's total assets of $1,239,031 reflect an increase of $169,385 (15.8%), primarily due to the following:

- Current and other assets, comprised of restricted and unrestricted assets, had a net increase of $94,228.
    - Restricted assets increased by $88,310 primarily due to the $140,380 issuance of the 2010 Electric Revenue Series A and B bonds and an increase of $3,947 in nuclear decommissioning reserve, offset by the use of bond proceeds to fund capital projects and the use of Public Benefit Programs' funds due to increased participation.
    - Unrestricted assets increased by $5,918 primarily due to an increase of $9,103 in advances to the City and increases of $5,927 in accounts receivable and prepaid expenses. The increase was offset by a $1,387 decrease in operating cash and reserves and a decrease of $8,263 in deferred debits on interest rate swap fair valuation as a result of the implementation of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). See Note 1 in the accompanying financial statements for additional information on GASB 53.
- Net capital assets (Utility plant) increased by $75,157, primarily due to an increase in production system assets of $140,439 resulting from the completion of the Riverside Energy Resource Center (RERC) Units 3 and 4 and the purchase of the Clearwater Cogeneration Facility (Clearwater), an increase of $9,905 in distribution system assets from continued improvements to the Electric Utility's distribution system, and a $9,821 addition of intangible assets, offset by a $86,791 reduction in construction in progress. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section of the financial analysis.

UTILITY FINANCIAL ANALYSIS (CONTINUED)

Fiscal Year 2010 Total assets were $1,069,646, an increase of $32,669 (3.2%), comprised of a $40,883 increase in Utility plant for improvements to the distribution system, including $24,344 for construction in progress as a result of the continued construction of RERC Units 3 and 4, offset by the impact of depreciation, and a $8,214 net decrease in current and other assets. The $8,214 net decrease resulted from a $43,250 decrease in restricted assets primarily due to the use of $48,583 of bond proceeds to fund capital projects offset by a $4,480 increase in nuclear decommissioning reserve. The decrease also included net decreases of $8,915 in advances receivable from the City, deferred purchased power, accounts receivable, and prepaid expenses, offset by the increases of $35,409 in operating cash and reserves due to positive operating results and an increase of $9,207 in deferred debits on interest rate swap fair valuation.

LIABILITIES

Fiscal Year 2011 The Utility's total liabilities were $788,911, an increase of $159,316 (25.3%), due to the following:

- Long-term debt outstanding increased by $115,439, primarily due to the $140,380 issuance of the 2010 Electric Revenue Series A and B bonds, offset by principal payments of $22,705 and the amortization of bond premiums and deferred bond refunding costs.
- Other liabilities increased by $43,877, primarily due to increases of $45,569 in a loan payable due to the acquisition of Clearwater from the City of Corona, $4,417 in nuclear decommissioning, and $2,297 in accrued interest payable, offset by decreases of $4,857 in the fair value of interest rate swaps resulting from the implementation of GASB 53 and $4,155 in accounts payable/other accruals and current portion of long-term obligations.

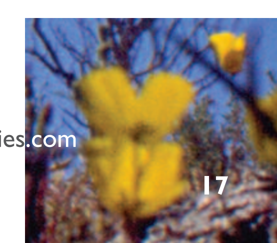
Fiscal Year 2010 Total liabilities were $629,595, a decrease of $9,116 (1.4%), primarily due to a $23,241 decrease in long-term debt outstanding resulting from principal payments and the amortization of bond premiums and deferred bond refunding costs, offset by a $14,125 increase in other liabilities primarily due to increases of $9,208 in the fair value of interest rate swaps and $4,480 in nuclear decommissioning.

EQUITY (NET ASSETS)

Fiscal Year 2011 The Utility's equity, which represents the difference between the Utility's resources and its obligations, totaled $450,120, an increase of $10,069 (2.3%), primarily due to rate increases and positive operating results and is comprised of the following:

- The largest portion of the Utility's equity is $225,055 (50.0%), and reflects its investment in capital assets, such as production, transmission, and distribution facilities, less any related outstanding debt used to acquire those assets. This portion increased by $3,039 (1.4%) primarily due to an increase in capital assets constructed or purchased during the fiscal year, net of the debt used to acquire these assets. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.
- The restricted portion totaled $26,008 (5.8% of total equity), and represents resources that are subject to internal and external restrictions on how they may be used. These are reserved for items such as debt repayment, Public Benefit Programs, and other legally restricted assets.
- The unrestricted portion equals $199,057, (44.2% of total equity), an increase of $9,626 (5.1%), and is primarily attributable to positive operating results. This portion may be used to meet the Utility's ongoing obligations to creditors and customers.

Fiscal Year 2010 The Utility's equity increased by $41,785 (10.5%) to a total of $440,051. Investment in capital assets, net of related debt, increased by $13,321 primarily due to an increase in capital assets constructed or purchased during the fiscal year, net of the debt used to acquire these assets. Restricted equity remained consistent and the unrestricted portion increased by $28,462, primarily attributable to positive operating results.



UTILITY FINANCIAL ANALYSIS (CONTINUED)

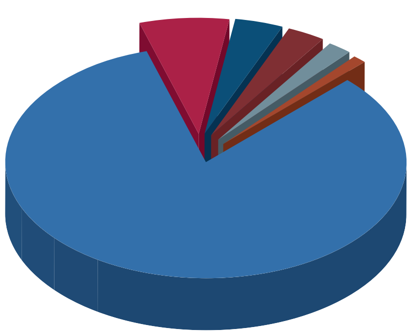
Positive operating results in the Electric Utility increased equity by $10,069 and $41,785 during fiscal years 2011 and 2010, respectively, as reflected in the following Condensed Statements of Changes in Equity:

CONDENSED STATEMENTS OF CHANGES IN EQUITY (NET ASSETS)

	2011	2010	2009
Revenues:			
Retail sales, net	$ 278,406	$ 274,206	$ 272,298
Wholesale sales	124	1,466	4,674
Transmission revenues	22,091	21,100	18,673
Investment income	10,368	16,009	17,625
Other revenues	12,063	6,711	5,894
Public Benefit Programs	8,046	8,049	8,268
Capital contributions	4,056	3,477	7,060
Total revenues	335,154	331,018	334,492
Expenses:			
Production and purchased power	128,962	127,162	135,947
Transmission	40,434	33,030	32,677
Distribution	44,931	41,637	38,755
Public Benefit Programs	11,664	8,784	9,053
Depreciation	27,690	25,375	23,091
Interest expenses and fiscal charges	21,220	19,589	23,417
Total expenses	274,901	255,577	262,940
Transfers to the City's general fund	(33,070)	(33,656)	(29,583)
Special Item	(17,114)	-	-
Changes in equity	10,069	41,785	41,969
Equity, July 1	440,051	398,266	356,297
Equity, June 30	$ 450,120	$ 440,051	$ 398,266

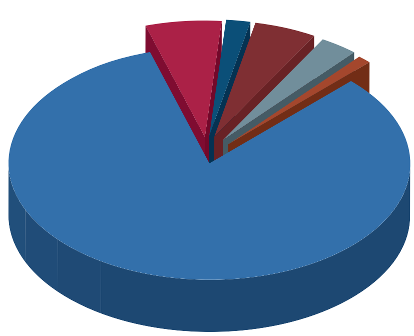
REVENUES BY SOURCES

June 30, 2011



Retail Sales 83%
Transmission Revenues 7%
Other 4%
Investment Income 3%
Public Benefit Programs 2%
Capital Contributions 1%
Wholesale Sales <1%

June 30, 2010



Retail Sales 83%
Transmission Revenues 6%
Other 2%
Investment Income 5%
Public Benefit Programs 3%
Capital Contributions 1%
Wholesale Sales <1%

Fiscal Year 2011 Total revenues for the years ended June 30, 2011 and 2010 were $335,154 and $331,018, respectively, an increase of $4,136 (1.2%), with changes in the following:

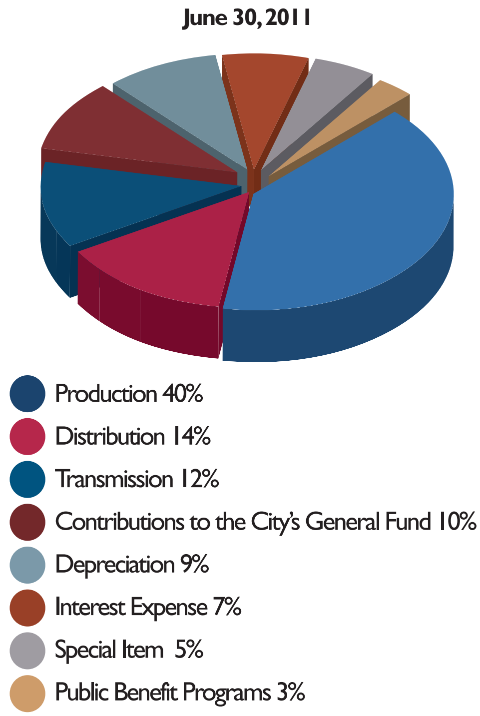
- Retail sales (residential, commercial, industrial, and other sales), net of reserve/recovery, totaled $278,406, a $4,200 (1.5%) increase. Retail sales continue to be the primary revenue source for the Electric Utility, accounting for 83.1% of total revenues. The increase was due to the positive effects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

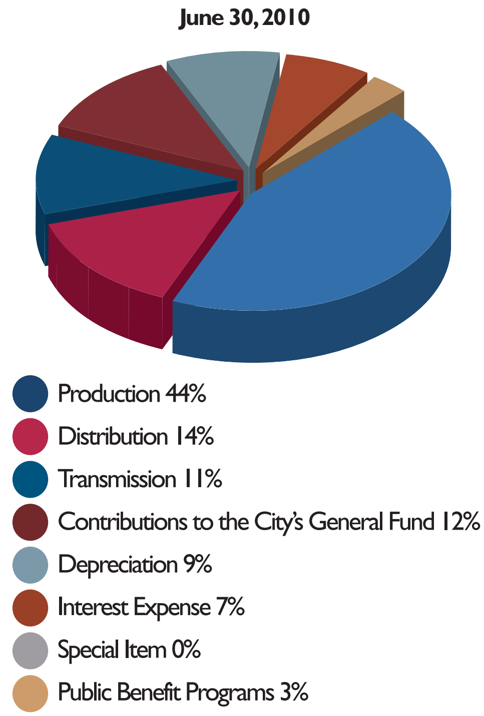
Fiscal Year 2010 Total revenues were $331,018, a decrease of $3,474 (1.0%), with changes in the following areas:

- Net retail sales of $274,206 (82.8% of total revenues) increased by $1,908 (0.7%). The increase was primarily due to the positive effects of rate increases on January 1, 2009 and January 1, 2010 as a result of the Electric Rate Plan, offset by a 4.7% reduction in retail consumption.
- Wholesale sales of $1,466 decreased by $3,208 (68.6%), due to a lower volume of “excess” power available for sale, and a lower overall price for market sales.
- Transmission revenues of $21,100 increased by $2,427 (13.0%), primarily due to higher transmission revenues authorized by the Federal Energy Regulatory Commission (FERC) as of July 1, 2009.
- Investment income of $16,009 reflected a decrease of $1,616 (9.2%), due to a decrease in a lower overall earnings rate.
- Capital contributions were $3,477, a decrease of $3,583 (50.8%) reflecting a lower level of construction projects funded by others due to the economic downturn.

UTILITY FINANCIAL ANALYSIS (CONTINUED)

EXPENSES BY SOURCES





Fiscal Year 2011 Total expenses, excluding general fund transfer and special item, for the years ended June 30, 2011 and 2010 were $274,901 and $255,577, respectively, an increase of $19,324 (7.6%). The increase was primarily due to the following:

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

Fiscal Year 2010 Total expenses were $255,577, a decrease of $7,363 (2.8%), due to the items discussed below:

- Production and purchased power costs of $127,162 decreased by $8,785 (6.5%), primarily due to lower generation costs resulting from lower natural gas and power prices due to demand destruction as a result of the economic decline.
- Distribution expenses of $41,637 increased by $2,882 (7.4%), primarily due to increases in personnel-related expenses.
- Depreciation expense of $25,375 increased by $2,284 (9.9%) primarily due to the completion of prior year distribution and generation system assets.
- Interest expense and fiscal charges of $19,589 decreased by $3,828 (16.3%), primarily due to lower interest costs as a result of lower debt outstanding and an increase in capitalized interest resulting from the continued construction of RERC Units 3 and 4.

UTILITY FINANCIAL ANALYSIS (CONTINUED)

TRANSFERS

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

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

Fiscal Year 2010 The Electric Utility transferred $33,656 to the City's general fund. This amount was generally 11.5% of prior year's gross operating revenues less wholesale sales and Public Benefit Programs revenues.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

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

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

	2011	2010	2009
Production	$ 266,744	$ 126,305	$ 129,051
Transmission	16,331	16,313	16,003
Distribution	312,218	302,313	283,558
General	24,510	22,883	23,470
Land	7,645	7,612	7,612
Intangibles	9,821	-	-
Construction in progress	39,787	126,578	102,234
Nuclear fuel, at amortized costs	4,878	4,773	3,966
Total	$ 681,934	$ 606,777	$ 565,894

Fiscal Year 2011 The Utility's investment in capital assets, net of accumulated depreciation, was $681,934, an increase of $75,157 (12.4%). The increase resulted primarily from the following significant capital projects:

- $45,569 for the purchase of Clearwater which provides the Utility with 29.5 MW of additional generation.
- $19,908 in additions and improvements to Electric facilities to serve existing and connect new customers.
- $13,387 of expenditures related to the completion of RERC Units 3 and 4 which provides the Utility with 96 MW of additional generation facilities within the City limits.
- $7,736 for the initial stages of the Riverside Transmission Reliability Project (RTRP) and related reliability improvements to the Utility's Sub-Transmission System (STS) for additional generation import capability for a second point of interconnection with the state's high voltage transmission grid to serve future retail needs.
- $7,322 for the Utility's portion of capital additions at the San Onofre Nuclear Generating Station (SONGS), including costs to replace the steam generators which will extend the life of the plant.

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Fiscal Year 2010 The Utility's investment in capital assets, net of accumulated depreciation, was $606,777, an increase of $40,883 (7.2%). The increase resulted from $6,429 in expenditures for the Utility's portion of capital additions at SONGS including steam generators, $28,763 of expenditures related to the construction of RERC Units 3 and 4, $4,278 for the initial stages of the RTRP and related reliability improvements to STS, and $17,875 in additions and improvements to Electric facilities to serve existing and connect new customers.

Additional information regarding capital assets can be found in Note 3 on Page 42 of this report.

DEBT ADMINISTRATION

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

	2011	2010	2009
Revenue bonds	$ 619,275	$ 501,600	$ 524,780
Unamortized premium	10,091	11,421	9,760
Less:			
Current portion	(20,940)	(22,705)	(21,300)
Unamortized bond refunding costs	(13,813)	(11,142)	(10,825)
Total	$ 594,613	$ 479,174	$ 502,415

The Electric Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants, of 1.10. The Electric Utility's debt service coverage ratio was 2.21, 2.75, and 2.58 at June 30, 2011, 2010 and 2009, respectively. This debt is backed by the revenues of the Utility (revenue bonds).

Fiscal Year 2011 Total long-term debt increased by $115,439 (24.1%) to $594,613, due to the $140,380 issuance of the 2010 Electric Revenue Series A and B Bonds, offset by principal payments of $22,705 and the amortization of bond premiums and deferred bond refunding costs.

Fiscal Year 2010 Total long-term debt decreased by $23,241 (4.6%) to $479,174, due to $21,300 in principal payments and the amortization of bond premiums and deferred refunding costs. On December 22, 2009, the Utility issued the 2009 Electric Refunding/Revenue Series A Bonds in the amount of $34,920 to advance refund the outstanding balance of the 1998 Electric Refunding/Revenue Bonds and a portion ($8,340) of the 2001 Electric Revenue Bonds.

Additional information on the Electric Utility's long-term debt can be found in Note 4 on pages 43 through 47 of this report.

CREDIT RATINGS

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

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

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

ENVIRONMENTAL AND ECONOMIC FACTORS

Although inflationary trends in the Riverside region generally compare favorably to the national indices, history has shown that certain costs such as purchased power during the California energy crisis or escalation in natural gas prices in 2008 can exponentially exceed inflation.

The California Independent System Operator (CAISO) successfully launched the Market Redesign and Technology Upgrade (MRTU) on April 1, 2009, in order to implement a day-ahead wholesale electricity market, improve electricity grid management reliability, operational efficiencies and related technology infrastructure. In general, the energy bid cap was initially set and currently is at $500/MWh and will increase over time to $1,000/MWh. However, under certain transmission constraints, prices could exceed that amount, and are limited by the CAISO's price floor of ($2,500)/MWh and a price cap of $2,500/MWh, authorized by the FERC with a yet-to-be-determined sunset date. The CAISO continues to monitor and test the extreme price swings to ensure they are not caused by the CAISO's very complex software systems. The new markets under MRTU present both risks and opportunities and are expected to impact costs to the Electric Utility. The Utility is seizing the new opportunities without increasing costs to its ratepayers. The Utility continues to be vigilant in monitoring the MRTU outcomes, is actively participating in the new market initiatives, and is implementing changes to the appropriate Utility systems, software and market strategies in the MRTU.

The MRTU markets continue to be favorable to load serving entities such as the Utility, although the power markets have not been stressed due to generally milder weather patterns, low natural gas prices due to excess supply, and more importantly, the availability of excess generation due to the economic downturn and its impact on load reduction due to reduced power usage and high foreclosures. Forward price curves have stabilized. However, regulatory actions and other factors, including volatility in natural gas and coal prices, low snowpack in the Pacific Northwest, high temperatures in Southern California, and transmission constraints or system integration under the complex CAISO business systems under a "stressed" MRTU market environment could impact future power rates.

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

Senate Bill 1368 pertains specifically to power generation and long-term procurement of electricity, and requires the California Public Utilities Commission and the California Energy Commission to adopt Greenhouse Gas (GHG) performance standards applicable to investor and publicly owned utilities. Baseload resources, greater than 5 MW and exceeding five years duration, must equal the performance of a combined-cycle gas turbine generator (e.g., emissions are limited to 1,100 pounds of carbon dioxide per megawatt hour).

In April 2011, SBX1 2 expanded and amended the then existing Renewable Portfolio Standard (RPS) [SB 1078, 2002] which required a 20 percent RPS portfolio standard target in 2010 to a 33 percent standard by December 2020. This implementation will occur in three phases: Phase 1, (1/1/2011-12/31/2013), requires 20 percent of retail sales to come from renewable resources; Phase 2, (1/1/2014-12/31/2016), requires 25 percent; and Phase 3, (1/1/2017-12/31/2020), requires 33 percent by 2020. The Utility increased its current supply of electricity from renewable resources and achieved the amended 20 percent target by 2010. The Utility is committed and on track to meet or exceed the 33 percent RPS target by 2020 as mandated by legislation.

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was enacted to provide regulatory oversight of financial institutions primarily as a result of the economic meltdown. There are many facets of this Act and due to the complexity and broad discretion of authority granted to regulators, the full impact of the proposed changes will not be known until the regulatory implementation of the Act is completed. A portion of the Act, Title VII, the "Wall Street Transparency and Accountability


B
LINE

ENVIRONMENTAL AND ECONOMIC FACTORS (CONTINUED)

Act of 2010" could have the largest impact on the functions of the utility industry. This Act redefines a new framework for regulating swaps and over the counter (OTC) derivative transactions that has historically been a normal activity in the utility industry to reduce business risk and price volatility and previously were exempt from regulatory oversight. Since the Utility actively engages in swap transactions and employs hedging strategies as a mechanism to control costs due to price fluctuations, this Act, if passed, could require the utility industry participants to post margin requirements (e.g., cash) thereby restricting available funds. The Utility is actively participating in the regulatory proceedings and rulemakings that will fully implement the Dodd-Frank Act and is aggressively advocating for an exemption for publicly owned utilities serving load.

Proposals in the state and federal legislatures and other external factors could impact the revenues or costs of, and/or rates charged by the Utility depending on whether they are ultimately enacted and how they are implemented. These include a competing state, federal and/or regional cap and trade program (including the allocation of emission credits, availability of offsets, and the phase-in period to meet specific GHG emission reduction targets); additional renewable portfolio standard mandates—including eligibility requirements such as "simultaneous delivery", or in-state generation; or an attempt by either the federal or state Environmental Protection Agency to implement GHG reduction measures; the California State Water Resources Control Board's final policy on once-through-cooling and its potential impact on SONGS and/or the wholesale energy markets; demand response and energy efficiency programs; cost allocation for federal and state high-voltage transmission infrastructure expansion, grid reliability enhancements, and renewable integration to the high voltage transmission system; continued disruption in the financial markets; California's MRTU markets under stressed conditions or impacts from future initiatives, the Utility proportion of any distributed generation mandate, and technological advances for carbon capture and geologic sequestration. Although the financial impacts to the Utility cannot be determined at this time, management is diligent in monitoring and analyzing these and other factors that could impact Utility operations, and proactively advocates solutions most beneficial or least harmful to its ratepayers.

ECONOMIC DEVELOPMENT AND GREEN INITIATIVES

Since Riverside's 2009 designation by the State of California as the first "Emerald City," the City has remained committed to environmental issues, including water conservation, energy efficiency, solid waste reduction, motor vehicle and fuel use reduction, open-space land, and other issues.

The Utility has a green economic development plan, a multi-faceted strategic initiative that promotes economic development while remaining environmentally responsible. This plan, known as the Environmental and Economic Effectiveness Effort (E4), includes components for energy efficiency, renewable energy, green jobs, economic development and low income assistance. This plan includes an electric rate "freeze" through the end of 2012.

As a regional leader in sustainability, the Utility's newest efforts include the California Green Communities Challenge, a competition that encourages participants to build sustainable communities, and Route 5 ("Being a Green Machine") of Riverside's *Seizing our Destiny* initiative.

These and other sustainability projects have placed the Utility on the cutting edge of green economic development and conservation. For more information, visit GreenRiverside.com.

REQUESTS FOR INFORMATION

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

Financial Statements: Electric


evapco

BALANCE SHEETS

ASSETS	June 30, 2011	June 30, 2010
	(in thousands)	
UTILITY PLANT:		
Production	$ 426,064	$ 274,030
Transmission	29,152	28,484
Distribution	477,373	456,691
General	39,557	39,825
	972,146	799,030
Less accumulated depreciation	(352,343)	(331,216)
	619,803	467,814
Land	7,645	7,612
Intangible	9,821	-
Construction in progress	39,787	126,578
Nuclear fuel, at amortized cost	4,878	4,773
Total utility plant (Note 3)	681,934	606,777
RESTRICTED ASSETS:		
Cash and cash equivalents (Note 2)	22,237	21,215
Cash and investments at fiscal agent (Note 2)	270,273	179,777
Total restricted non-current assets	292,510	200,992
OTHER NON-CURRENT ASSETS:		
Advances to City	5,558	650
Deferred pension costs (Note 1)	12,736	13,027
Deferred bond issuance costs	7,128	6,847
Deferred debits (Note 4)	10,016	18,279
Total other non-current assets	35,438	38,803
Total non-current assets	1,009,882	846,572
CURRENT ASSETS:		
Unrestricted assets:		
Cash and cash equivalents (Note 2)	168,905	170,292
Accounts receivable, less allowance for doubtful accounts 2011 $1,161; 2010 $2,003	35,524	31,509
Advances to City	4,195	-
Accrued interest receivable	1,381	913
Prepaid expenses	12,660	10,748
Nuclear materials inventory	1,905	1,825
Total unrestricted current assets	224,570	215,287
Restricted assets:		
Public Benefit Programs - Cash and cash equivalents (Note 2)	3,882	7,168
Public Benefit Programs receivable	697	619
Total restricted current assets	4,579	7,787
Total current assets	229,149	223,074
Total assets	$ 1,239,031	$ 1,069,646

See accompanying notes to the financial statements

BALANCE SHEETS

EQUITY AND LIABILITIES	June 30, 2011	June 30, 2010
	(in thousands)	
EQUITY:		
Invested in capital assets, net of related debt	$ 225,055	$ 222,016
Restricted for:		
Debt service (Note 5)	22,237	21,215
Public Benefit Programs	3,771	7,389
Unrestricted	199,057	189,431
Total equity	450,120	440,051
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4)	594,613	479,174
OTHER NON-CURRENT LIABILITIES:		
Pension obligation (Notes 1 and 4)	12,381	12,705
Nuclear decommissioning liability (Notes 1 and 4)	67,969	63,552
Postemployment benefits payable (Notes 1 and 4)	2,775	2,004
Derivative instruments (Note 4)	17,216	22,073
Loan Payable - Corona (Note 4)	44,141	-
Capital leases payable (Notes 1 and 4)	1,303	1,699
Total non-current liabilities	145,785	102,033
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	6,382	4,085
Public Benefit Programs payable	808	398
Current portion of long-term obligations (Note 4)	20,940	22,705
Total current liabilities payable from restricted assets	28,130	27,188
CURRENT LIABILITIES:		
Accounts payable and other accruals	15,922	18,312
Customer deposits	3,033	2,888
Loan Payable - Corona (Note 4)	1,428	-
Total current liabilities	20,383	21,200
Total liabilities	788,911	629,595
COMMITMENTS AND CONTINGENCIES (Notes 8 and 9)	-	-
Total equity and liabilities	$ 1,239,031	$ 1,069,646

See accompanying notes to the financial statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN EQUITY

	For the Fiscal Years Ended June 30, 2011	2010
	(in thousands)	
OPERATING REVENUES:		
Residential sales	$ 107,792	$ 107,301
Commercial sales	64,039	65,091
Industrial sales	102,067	97,458
Other sales	5,529	5,639
Wholesale sales	124	1,466
Transmission revenue	22,091	21,100
Other operating revenue	4,015	3,806
Public Benefit Programs	8,046	8,049
Total operating revenues before (reserve)/recovery	313,703	309,910
Reserve for uncollectible, net of bad debt recovery	(1,021)	(1,283)
Total operating revenues, net of (reserve)/recovery	312,682	308,627
OPERATING EXPENSES:		
Production and purchased power	128,962	127,162
Transmission	40,434	33,030
Distribution	44,931	41,637
Public Benefit Programs	11,664	8,784
Depreciation	27,690	25,375
Total operating expenses	253,681	235,988
Operating income	59,001	72,639
NON-OPERATING REVENUES (EXPENSES):		
Investment income	10,368	16,009
Interest expense and fiscal charges	(21,220)	(19,589)
Gain on retirement of utility plant	5,931	543
Other	2,117	2,362
Total non-operating revenues (expenses)	(2,804)	(675)
Income before capital contributions and transfers	56,197	71,964
Capital contributions	4,056	3,477
Transfers out - contributions to the City's general fund	(33,070)	(33,656)
Total capital contributions and transfers out	(29,014)	(30,179)
Income before special item	27,183	41,785
SPECIAL ITEM:		
Intra-entity property acquisition	(17,114)	-
Increase in equity	10,069	41,785
EQUITY, BEGINNING OF YEAR	440,051	398,266
EQUITY, END OF YEAR	$ 450,120	$ 440,051

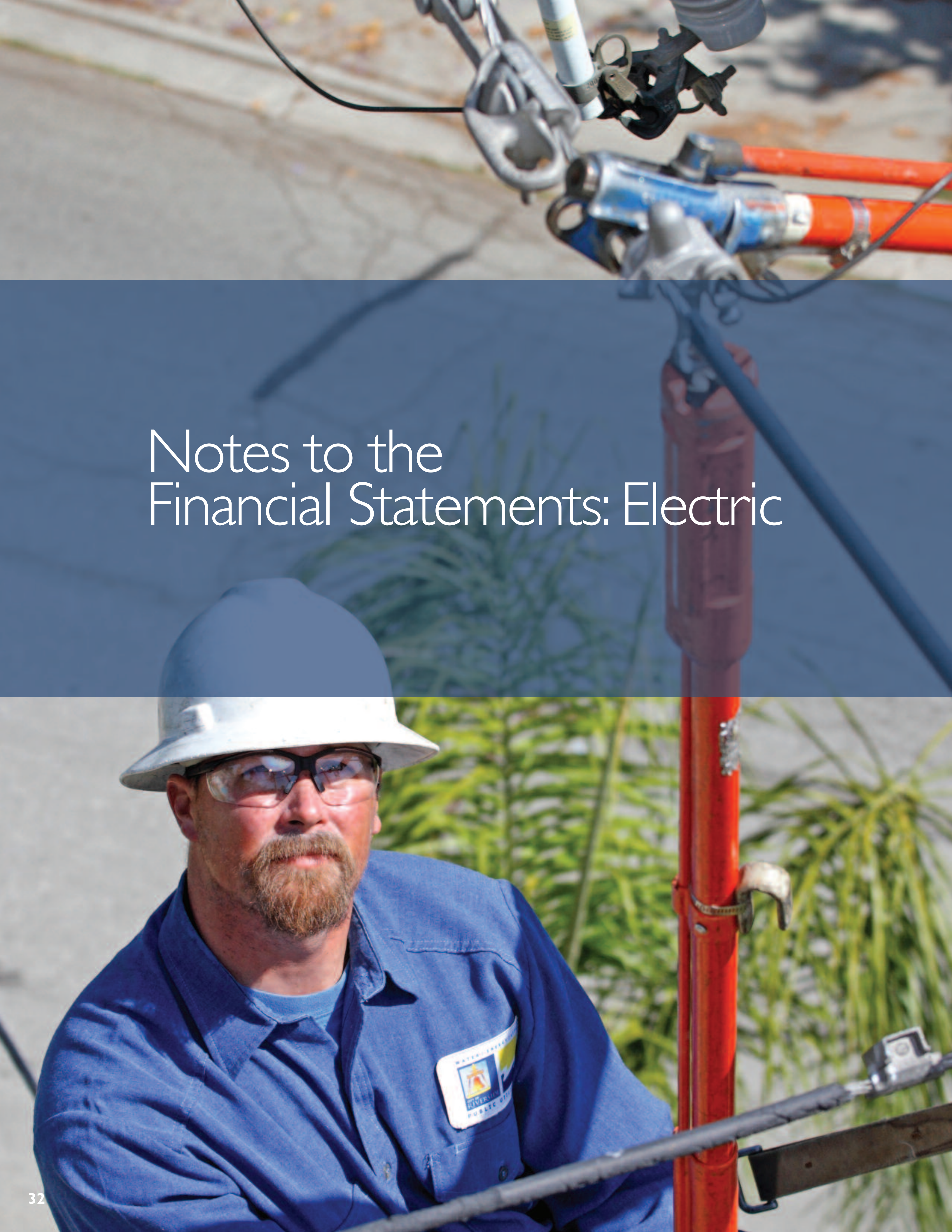
See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

	For the Fiscal Years Ended June 30, 2011	2010
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	$ 308,733	$ 315,305
Cash paid to suppliers and employees	(223,049)	(207,844)
Other receipts	2,117	2,362
Net cash provided by operating activities	87,801	109,823
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(33,070)	(33,656)
Principal paid on pension obligation bonds	(324)	(274)
Intra-entity property acquisition	(17,114)	-
Advances to City	(3,545)	5,269
Net cash used by non-capital financing activities	(54,053)	(28,661)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(50,331)	(60,218)
Purchase of nuclear fuel	(1,554)	(1,854)
Proceeds from the sale of utility plant	495	787
Deposit to escrow account for advanced bond refunding	-	(36,800)
Proceeds from revenue bonds, including premium	140,857	37,124
Principal paid on long-term obligations	(23,086)	(21,674)
Interest paid on long-term obligations	(24,985)	(23,404)
Capital contributions	2,925	1,610
Bond issuance costs	(1,124)	(348)
Net cash provided (used) by capital and related financing activities	43,197	(104,777)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds (purchase) of investment securities	273	(5,822)
Income from investments	9,900	15,841
Net cash provided by investing activities	10,173	10,019
Net increase (decrease) in cash and cash equivalents	87,118	(13,596)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (**including $110,095 and $159,100 at June 30, 2010 and June 30, 2009, respectively, reported in restricted accounts)**	280,387	293,983
CASH AND CASH EQUIVALENTS, END OF YEAR (**including $198,600 and $110,095 at June 30, 2011 and June 30, 2010, respectively, reported in restricted accounts)**	$ 367,505	$ 280,387
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 59,001	$ 72,639
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	27,690	25,375
Amortization of deferred charges-pension costs	291	232
Amortization of nuclear fuel/purchased power	1,449	2,717
Decrease in allowance for uncollectible accounts	(843)	(2)
(Increase) decrease in accounts receivable	(3,251)	6,571
Increase in prepaid expenses	(1,912)	(4,524)
Increase in nuclear materials inventory	(80)	(75)
Decrease in accounts payable and other accruals	(2,404)	(343)
Increase in postemployment benefits payable	771	775
Increase (decrease) in Public Benefit Programs	410	(492)
Increase in customer deposits	145	108
Increase in decommissioning liability	4,417	4,480
Other receipts	2,117	2,362
Net cash provided by operating activities	$ 87,801	$ 109,823
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions - capital assets	1,131	1,867
(Decrease) increase in fair value of investments	(470)	1,788
Principal balance of revenue bonds refunded	56,450	-

See accompanying notes to the financial statements

Notes to the Financial Statements: Electric



NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Electric Utility exists under, and by virtue of, the City of Riverside (the City) Charter enacted in 1883. The Electric Utility is responsible for the generation, transmission and distribution of electric power for sale in the City. The accompanying financial statements present only the financial position and the results of operations of the Electric Utility (the Utility), which is an enterprise fund of the City, and are not intended to present fairly the financial position and results of operations of the City in conformity with generally accepted accounting principles. However, certain disclosures are for the City as a whole, since such information is generally not available for the Fund on a separate fund basis. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

BASIS OF ACCOUNTING

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

USE OF ESTIMATES

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

REVENUE RECOGNITION

The Electric Utility customers are billed monthly. Unbilled electric service charges including the Public Benefit Programs, are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable, totaled $13,339 at June 30, 2011, and $13,271 at June 30, 2010.

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

UTILITY PLANT AND DEPRECIATION

The Electric Utility defines capital assets as assets with an initial, individual cost of more than five thousand dollars and an estimated useful life in excess of one year. Utility plant assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Costs include labor; materials; interest during construction; allocated indirect charges such as engineering, supervision, construction and transportation equipment; retirement plan contributions and other fringe benefits. Contributed plant assets are valued at estimated fair value on the date contributed. The cost of relatively minor replacements is included in maintenance expense. Intangible assets that cost more than one hundred thousand dollars with useful lives of at least three years are capitalized and are recorded at cost.

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

Production plant	11-30 years
Transmission and distribution plant	20-50 years
General plant and equipment	3-50 years

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NUCLEAR FUEL

The Electric Utility amortizes and charges to expense, the cost of nuclear fuel, on the basis of actual thermal energy produced relative to total thermal energy expected to be produced over the life of the fuel. In accordance with the Nuclear Waste Disposal Act of 1982, the Utility is charged one dollar per megawatt-hour of energy generated by the Utility's share of San Onofre Nuclear Generating Station's (SONGS) Units 2 and 3 to provide for estimated future storage and disposal of spent nuclear fuel. The Utility pays this fee to its operating agent, Southern California Edison 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 services for low-income electric customers. The activity associated with the surcharge for Public Benefit Programs is reflected in the accompanying financial statements on the Balance Sheets, Statements of Revenues, Expenses and Changes in Equity, and Statements of Cash Flows.

CASH AND INVESTMENTS

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

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

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

City-wide information concerning cash and investments for the year ended June 30, 2011, including authorized investments, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and investments may be found in the notes to the City's "Comprehensive Annual Financial Report."

CASH AND INVESTMENTS AT FISCAL AGENTS

Cash and investments maintained by fiscal agents are considered restricted by the Electric Utility and are pledged as collateral for payment of principal and interest on outstanding bonds, funds set aside to decommission the Utility's proportionate share of units 2 and 3 at SONGS, or for use on construction of capital assets.

INTERNALLY RESTRICTED CASH RESERVES

Effective July 1, 2003, the City Council approved a Regulatory Risk Reserve Account of $4,000, an Energy Risk Management Reserve Account of $11,000, and an Operating Reserve Account of $14,000, all of which are considered internally restricted

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

assets. The balance as of June 30, 2011 and 2010 respectively are as follows: Regulatory Risk Reserve $15,000 and $15,000, Energy Risk Management Reserve $30,000 and $30,000 and Operating Reserve $95,031 and $80,531, for a combined total of $140,031 and $125,531 and are reflected in cash and cash equivalents in the accompanying Balance Sheets.

ADVANCES

Advances have been recorded as a result of agreements between the Electric Utility and the City. The balance as of June 30, 2011 and 2010 was $9,753 and $650, respectively.

DERIVATIVES

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

The Utility has determined that its interest rate swaps associated with variable rate obligations are derivative instruments under GASB 53. The swaps are comprised of an "At-the-Market Swap" derivative instrument and an "Off-Market Swap" deferral balance as described below.

The Utility's evaluation of the "At-the-Market Swap" has concluded that it is an effective hedge under the synthetic instrument method. As a result, upon implementation of GASB 53 beginning July 1, 2009, the negative fair value of the "At-the-Market Swap" has been recorded and deferred on the Balance Sheets. The Balance Sheets for June 30, 2009 have been restated to reflect the retroactive application of GASB 53. Disclosure requirements are presented in Note 4 under Interest Rate Swaps on Revenue Bonds.

The "Off-Market Swap" deferral balance was a result of the refunding of the variable rate obligations that occurred in 2008 and 2011. Under GASB 53, hedge accounting ceased to be applied on the interest rate swaps associated with the obligations upon the occurrence of the refunding. Since new variable rate bonds were issued in the refunding, the deferral balance has been treated as a deferred loss and is included in the net carrying amount of the new bonds as reported on the Balance Sheets under long-term obligations.

Various transactions permitted in the Utility's Power Resources Risk Management Policies may be considered derivatives, including energy and/or gas transactions for swaps, options, forward arrangements and congestion revenue rights. GASB 53 allows an exception for the Balance Sheet deferral hedges that meet the normal purchases and normal sales exception. It is the Utility's policy to apply the normal purchases and normal sales exception as appropriate.

The Utility determined for fiscal year ended June 30, 2010 that congestion revenue rights (CRRs) associated with power transmission within the California Independent System Operator (CAISO) were derivative instruments under GASB 53 for the reporting year and did not meet the normal purchases and normal sales exception. However, in December 2010, GASB reversed its position on CRRs and allowed the application of normal purchases and normal sales exception in which the fair values are not required to be deferred on the Balance Sheets. Thus, the Utility has reversed its recording of derivative instruments assets and deferred credits related to the CRRs that were previously reported on its Balance Sheets. The Balance Sheets for June 30, 2010 have been restated to reflect the reversal of GASB 53 position as it relates to the CRRs.

BOND PREMIUMS, ISSUANCE COSTS, GAINS AND LOSSES ON REFUNDING

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NUCLEAR DECOMMISSIONING LIABILITY

Federal regulations require the Electric Utility to provide for the future decommissioning of its ownership share of the nuclear units at San Onofre. The Utility has established a trust account to accumulate resources for the decommissioning of the nuclear power plant and restoration of the beachfront at San Onofre. Based on the most recent site specific cost estimate as of February 2009 prepared by ABZ Incorporated, the Utility plans to set aside approximately $1,600 per year to fund this obligation. The funding will occur over the useful life of the generating plant or until the account is fully funded.

Increases to the trusts are from amounts set aside and investment earnings. The investment earnings are included in investment income in the Utility's financial statements. These amounts, as well as amounts set aside, are contributed to the trusts and reflected as decommissioning expense, which are considered part of power supply costs. The total amounts held in the trust accounts are classified as restricted assets and other non-current liability in the accompanying Balance Sheets. To date, the Utility has set aside $67,969 in cash investments with the trustee as the Utility's estimated share of the decommissioning cost of San Onofre. The plant site easement at San Onofre terminates May 2024. The plant must be decommissioned and the site restored by the time the easement terminates.

CAPITAL LEASES

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

For fiscal year ended June 30, 2011 and 2010, the total liability was $1,692 and $2,073, respectively, with the current portion included in accounts payable and other accruals. The minimum annual lease payments for the life of the leases are $442 annually through fiscal year ended June 30, 2014, $429 in the fiscal year ended June 30, 2015, and $65 in the fiscal year ended June 30, 2016. Total outstanding lease payments are $1,819, with $1,692 representing the present value of the net minimum lease payments and $127 representing interest.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2011 and 2010 was $3,033 and $2,888, respectively.

COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due to employees at June 30, 2011 and 2010. The Electric Utility including the Public Benefit Programs, treats compensated absences due to employees as an expense and a current liability. The amount accrued for compensated absences was $4,275 at June 30, 2011, and $4,092 at June 30, 2010, and is included in accounts payable and other accruals in the accompanying Balance Sheets.

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

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

INSURANCE PROGRAMS

The Electric Utility participates in a self-insurance program for workers' compensation and general liability coverage that is administered by the City. The Utility pays an amount to the City based on actuarial estimates of the amounts needed to fund prior and current year claims and incidents that have been incurred but not reported. The City maintains property insurance on most City property holdings, including the Utility Plant with a limit of $1 billion.

City-wide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risk for the year ended June 30, 2011, may be found in the notes to the City's "Comprehensive Annual Financial Report."

Although the ultimate amount of losses incurred through June 30, 2011 is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. Premiums paid to the City by the Electric Utility including the Public Benefit Programs, were $713 and $884 for the years ended June 30, 2011 and 2010, respectively. Any losses above the City's reserves would be covered through increased rates charged to the Utility in future years.

EMPLOYEE RETIREMENT PLAN

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

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

Employee contributions are 8.0 percent of their annual covered salary. The Electric Utility including the Public Benefit Programs 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, 2011 and 2010 was 14.51 percent and 14.22 percent, respectively, of annual covered payroll. The Utility pays both the employee and employer contributions. The total Electric Utility's contribution to PERS as of June 30, 2011 and 2010 was $7,063 and $6,885 respectively.

City-wide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the year ended June 30, 2011 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, 2011.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PENSION OBLIGATION BONDS

In 2005, the City issued Pension Obligations Bonds in the amount of $60,000, of which the Electric Utility's, including the Public Benefit Programs, share is $13,690. The deferred charge relating to the net pension asset will be amortized over 19 years in accordance with the method used by PERS for calculating actuarial gains and losses. The Bond proceeds were deposited with PERS to fund the unfunded actuarial accrued liability for non-safety employees. The balance in deferred pension costs as of June 30, 2011 and 2010 was $12,736 and $13,027, respectively as reflected in the accompanying Balance Sheets as deferred pension costs and a corresponding long-term obligation. For more discussion relating to the City's issue, see the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2011.

OTHER POSTEMPLOYMENT BENEFITS

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

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

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

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

The Utility's annual OPEB cost (expense) for each plan is calculated based on annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) (UAAL) over a period not to exceed thirty years. The Electric Utility's OPEB liability including the Public Benefit Programs as of June 30, 2011 and 2010 was $2,834 and $2,053, respectively.

City-wide information concerning the description of the plans, funding policy and annual OPEB cost, funding status and funding progress, and actuarial methods and assumptions for the year ended June 30, 2011 can be found in the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2011.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ARBITRAGE LIABILITY

The Tax Reform Act of 1986 (the Act) requires the Electric Utility to calculate and remit rebatable arbitrage earnings to the Internal Revenue Service. Certain debt and interest earnings on the proceeds of the Utility are subject to the requirements of the Act which contain yield restrictions on investment of proceeds from tax-exempt financing in higher yielding taxable securities. The balance in the arbitrage liability as of June 30, 2011 and June 30, 2010 was $102 and $27 respectively, and is included in accounts payable and other accruals in the accompanying Balance Sheets.

EQUITY

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

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

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

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

CONTRIBUTIONS TO THE CITY'S GENERAL FUND

Pursuant to the City of Riverside Charter, the Electric Utility may transfer up to 11.5 percent of its prior year's gross operating revenues to the City's general fund. In fiscal years ended June 30, 2011 and 2010, the Electric Utility transferred approximately 11.5 percent of gross operating revenues less wholesale sales and Public Benefit Programs revenues, or $33,070 and $33,656, 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.

BUDGET AND BUDGETARY ACCOUNTING

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

RECLASSIFICATIONS

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

PRIOR YEAR DATA

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

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2011 and 2010, consist of the following (in thousands):

	June 30, 2011	June 30, 2010
	Fair Value	
Equity interest in City Treasurer's investment pool	$ 195,024	$ 198,675
Cash and investments at fiscal agent	270,273	179,777
Total cash and investments	$ 465,297	$ 378,452

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

	June 30, 2011	June 30, 2010
Unrestricted cash and cash equivalents	$ 168,905	$ 170,292
Restricted cash and cash equivalents	26,119	28,383
Restricted cash and investments at fiscal agent	270,273	179,777
Total cash and investments	$ 465,297	$ 378,452

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

		Remaining Maturity (In Months)			
Investment Type	**Total**	**12 Months or less**	**13 to 24 Months**	**25 to 60 Months**	**More than 60 Months**
Held by fiscal agent					
Money market funds	$ 3,963	$ 3,963	$ -	$ -	$ -
State investment pool	29,188	29,188	-	-	-
Federal agency securities	46,276	2,160	6,511	24,861	12,744
Investment contracts [1]	166,543	-	-	151,828	14,715
Corp medium term notes	24,303	1,230	3,154	11,674	8,245
City Treasurer's investment pool [2]		-	-	-	-
Money market funds	14,560	14,560	-	-	-
Federal agency securities	93,198	8,071	34,564	50,563	-
Corp medium term notes	25,208	4,911	7,603	12,694	-
State investment pool	59,839	59,839	-	-	-
Neg Certificate of Deposit	2,219	-	120	2,099	-
Total	$ 465,297	$ 123,922	$ 51,952	$ 253,719	$ 35,704

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

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

Investment Type	Total	Rating as of Year End AAA	AA	A	Unrated
Held by fiscal agent					
Money market funds	$ 3,963	$ 3,922	$ -	$ -	$ 41
State investment pool	29,188	-	-	-	29,188
Federal agency securities	46,276	46,276	-	-	-
Investment contracts	166,543	-	-	-	166,543
Corp medium term notes	24,303	-	18,573	5,730	-
City Treasurer's investment pool [2]		-	-	-	-
Money market funds	14,560	9,460	5,100	-	-
Federal agency securities	93,198	93,198	-	-	-
Corp medium term notes	25,208	25,208	-	-	-
State investment pool	59,839	-	-	-	59,839
Neg Certificate of Deposit	2,219	-	-	-	2,219
Total	$ 465,297	$ 178,064	$ 23,673	$ 5,730	$ 257,830

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

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

NOTE 3. UTILITY PLANT

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2011 and 2010 (in thousands):

	Balance, As of 6/30/2009	Additions	Retirements/ Transfers	Balance, As of 6/30/2010	Additions	Retirements/ Transfers	Balance, As of 6/30/2011
Production	$ 266,470	$ 7,560	$ -	$ 274,030	$ 152,668	$ (634)	$ 426,064
Transmission	27,544	940	-	28,484	668	-	29,152
Distribution	426,515	30,798	(622)	456,691	22,738	(2,056)	477,373
General	38,752	2,052	(979)	39,825	4,333	(4,601)	39,557
Depreciable utility plant	759,281	41,350	(1,601)	799,030	180,407	(7,291)	972,146
Less accumulated depreciation:							
Production	(137,419)	(10,306)	-	(147,725)	(11,701)	106	(159,320)
Transmission	(11,541)	(630)	-	(12,171)	(650)	-	(12,821)
Distribution	(142,957)	(12,043)	622	(154,378)	(12,833)	2,056	(165,155)
General	(15,282)	(2,396)	736	(16,942)	(2,506)	4,401	(15,047)
Accumulated depreciation	(307,199)	(25,375)	1,358	(331,216)	(27,690)	6,563	(352,343)
Net depreciable utility plant	452,082	15,975	(243)	467,814	152,717	(728)	619,803
Land	7,612	-	-	7,612	60	(27)	7,645
Intangibles	-	-	-	-	9,821	-	9,821
Construction in progress	102,234	65,695	(41,351)	126,578	50,813	(137,604)	39,787
Nuclear fuel	3,966	1,924	(1,117)	4,773	1,554	(1,449)	4,878
Nondepreciable utility plant	113,812	67,619	(42,468)	138,963	62,248	(139,080)	62,131
Total utility plant	$ 565,894	$ 83,594	$ (42,711)	$ 606,777	$ 214,965	$ (139,808)	$ 681,934

NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2011 and 2010 (in thousands):

	Balance As of 6/30/2009	Additions	Reductions	Balance As of 6/30/2010	Additions	Reductions	Balance As of 6/30/2011	Due Within One Year
Revenue bonds	$ 523,715	$ 36,401	$ (58,237)	$ 501,879	$ 192,722	$ (79,048)	$ 615,553	$ 20,940
Pension obligation	12,979	-	(274)	12,705	-	(324)	12,381	379
Postemployment benefits			-					
payable	1,229	775	-	2,004	771	-	2,775	-
Nuclear decommissioning								
liability	59,072	4,480	-	63,552	4,417	-	67,969	-
Capital leases	2,433	-	(360)	2,073	-	(381)	1,692	388
Loan Payable Corona	-	-	-	-	45,569	-	45,569	1,428
Total long-term obligations	$ 599,428	$ 41,656	$ (58,871)	$ 582,213	$ 243,479	$ (79,753)	$ 745,939	$ 23,135

LOAN PAYABLE

The Electric Utility entered into the Clearwater Power Plant Purchase and Sale Agreement dated March 3, 2010 with the City of Corona for the acquisition of Clearwater Cogeneration Facility (Clearwater) located in Corona. Clearwater is a combined-cycle, natural gas generating facility with a gross plant output of 29.5 MW. Following a "transition period" during which the Utility engaged in pre-closing activities and due diligence inspection, the transaction closed on September 1, 2010 and the Utility took ownership of the plant. The purchase also included construction of a substation and the 69,000 volt facilities necessary to transfer power from Clearwater Power Plant to the SCE's electrical distribution system to California's high voltage transmission grid. The useful life of Clearwater and the related transmission facilities is anticipated to be at least thirty years. The total purchase price for Clearwater is $45,569, and will be funded through a series of semi-annual payments ranging from $1,158 to $2,664 through 2013, and $182 through $413 from 2014 through 2015. In addition, two payments of $36,406 and $7,367 are due in 2013 and 2015, respectively, and will be funded primarily from bond proceeds.

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

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

REVENUE BONDS PAYABLE

	June 30, 2011	June 30, 2010
$47,215 2001 Electric Revenue Bonds: serial bonds due in annual installments from $3,670 to $3,855 through October 1, 2012, interest at 5.0 percent; (partially advance refunded in 2005 and 2009)	$ 7,525	$ 11,030
$75,405 2003 Electric Refunding/Revenue Bonds: serial bonds due in annual installments from $880 to $8,535 through October 1, 2013, interest from 4.0 percent to 5.0 percent	23,665	31,625
$27,500 2004 Electric Revenue Series A Bonds: serial bonds due in annual installments from $2,645 to $3,695 through October 1, 2014, interest from 5.0 percent to 5.5 percent.	13,125	16,295
$199,115 2008 Electric Refunding/Revenue Bonds:		
A - **$84,515 2008 Series A Bonds** - variable rate bonds due in annual installments from $1,250 to $7,835 from October 1, 2014 through October 1, 2029. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 29, 2011 was 3.1 percent)	84,515	84,515
B - **$57,275 2008 Series B Bonds** - all outstanding bonds were refinanced with the 2011 series A Revenue/Refunding Bonds on April 28, 2011	-	56,725
C - **$57,325 2008 Series C Bonds** - variable rate bonds due in annual installments from $700 to $5,200 through October 1, 2035. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 29, 2011 was 3.2 percent)	56,450	56,750
$209,740 2008 Electric Revenue Series D Bonds: fixed rate bonds due in annual installments from $1,875 to $24,960 from October 1, 2017 through October 1, 2038, interest from 3.6 to 5.0 percent	209,740	209,740
$34,920 2009 Electric Refunding/Revenue Series A Bonds: fixed rate bonds due in annual installments from $450 to $6,105 through October 1, 2018, interest from 3.0 percent to 5.0 percent	27,425	34,920
$140,380 2010 Electric Revenue Bonds:		
A - **$133,290 2010 Electric Revenue Series A Bonds:** fixed rate, federally taxable Build America Bonds due in annual installments from $2,300 to $33,725 from October 1, 2020 through October 1, 2040, interest from 3.9 percent to 4.9 percent	133,290	-
B - **$7,090 2010 Electric Revenue Series B Bonds:** fixed rate bonds due in annual installments from $95 to $2,440, from October 1, 2016 through October 1, 2019, interest from 3.0 percent to 5.0 percent	7,090	-
$56,450 2011 Electric Revenue/Refunding Series A Bonds: variable rate bonds due in annual installments from $725 to $5,175, from October 1, 2011 through October 1, 2035. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 29, 2011 was 3.1 percent)	56,450	-
Total electric revenue bonds payable	619,275	501,600
Unamortized deferred bond refunding costs	(13,813)	(11,142)
Unamortized bond premium	10,091	11,421
Total electric revenue bonds payable, net of deferred bond refunding costs and bond premium	615,553	501,879
Less current portion	(20,940)	(22,705)
Total long-term electric revenue bonds payable	$ 594,613	$ 479,174

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

Annual debt service requirements to maturity, excluding amounts for nuclear decommissioning liability, as of June 30, 2011, are as follows (in thousands):

	2012	2013	2014	2015	2016	2017-2021	2022-2026	2027-2031	2032-2036	2037-2041	Total
Principal	$ 20,940	$ 21,905	$ 20,685	$ 14,480	$ 15,415	$ 68,380	$ 81,705	$ 99,720	$ 122,650	$ 153,395	$ 619,275
Interest	$ 26,531	$ 25,551	$ 24,543	$ 23,745	$ 23,113	$ 108,340	$ 94,398	$ 75,736	$ 51,670	$ 19,753	473,380
Total	$ 47,471	$ 47,456	$ 45,228	$ 38,225	$ 38,528	$ 176,720	$ 176,103	$ 175,456	$ 174,320	$ 173,148	$ 1,092,655

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

PRIOR YEAR DEFEASANCE OF DEBT

In prior years, the Electric Utility defeased certain Revenue Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Utility's financials statements. At fiscal year ended June 30, 2011, $17,600 of bonds outstanding are considered defeased.

2010 ELECTRIC REVENUE BONDS

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

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

2011 ELECTRIC REFUNDING/REVENUE BONDS

In April 2008, the Electric Utility refinanced $199,115 of Auction Rate Securities (ARS) with Variable Rate Demand Notes (VRDNs). Due to the 2008 financial market meltdown, the ARS experienced failed auctions. VRDNs in conjunction with the Utility's interest rate hedges (discussed in the Interest Rate Swaps on Revenue Bonds section) have proven to be very effective in lowering the overall debt costs. VRDNs require additional credit enhancements (e.g. insurance or a bank letter of credit) to ensure timely payment to the bondholders. In 2008, the Utility used Letter of Credit (LOC) provided by Bank of America/Merrill Lynch (BAML), at very attractive rates, which required BAML to make debt service payments to bondholders should the Utility fail to make payment. The LOC with BAML expired in April 2011 and due to the number of entities seeking to renew their expiring LOCs combined with the shrinking number of highly-rated banks offering this service, renewing the existing LOC with BAML resulted in higher rates. Therefore, the Utility decided to restructure one of the three 2008 VRDNs in order to mitigate various risk exposures and to provide an overall lower cost of financing by refunding the 2008 VRDNs with the 2011 VRDNs (as described below).

Because one variable rate debt product was exchanged for another, the typical refunding disclosure measuring the difference in aggregate debt service and calculating an economic gain or loss is less relevant, as the future cash flows of each leg of the calculation are uncertain. For this reason, only the terms of the transaction are described.

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

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

INTEREST RATE SWAPS ON REVENUE BONDS

The Electric Utility has three cash flow hedging derivative instruments, which are pay-fixed swaps. These swaps were determined to be hedge-effective under the synthetic instrument method. The changes in fair value during the reporting period were reported as deferred debits.

A summary of the derivative activity for the year ended June 30, 2011 is as follows:

	Notional Amount	Fair Value as of 6/30/2011	Change in Fair Value for Fiscal Year
2008 Electric Refunding/Revenue Bonds Series A	$ 84,515	$ (7,028)	$ 1,719
2008 Electric Refunding/Revenue Bonds Series C	$ 57,325	$ (5,108)	$ 1,569
2011 Electric Refunding/Revenue Bonds Series A	$ 56,450	$ (5,080)	$ 1,569

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

Terms: Per the existing swap agreements, the Utility pays the counterparty a fixed payment and receives a variable payment computed as 62.68% of the London Interbank Offering Rate ("LIBOR") one month index plus 12 basis points. The swaps have notional amounts equal to the principal amounts stated above. The notional value of the swaps and the principal amounts of the associated debt decline by $1,250 to $7,835 (2008 Series A), $700 to $5,200 (2008 Series C) and $725 to $5,175 (2011 Series A) until the debt is completely retired in fiscal year 2036.

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

		2008 Electric Refunding/Revenue Series A Bonds	2008 Electric Refunding/Revenue Series C Bonds	2011 Electric Refunding/Revenue Series A Bonds
Interest rate swap:	Terms	Rates	Rates	Rates
Fixed payment to counterparty	Fixed	3.11100%	3.20400%	3.20100%
Variable payment from counterparty	62.68 LIBOR + 12bps	(0.58955%)	(0.59206%)	(0.24534%)
Net interest rate swap payments		2.52145%	2.61194%	2.95566%
Variable-rate bond coupon payments		0.58891%	0.58498%	0.14349%
Synthetic interest on bonds		3.11036%	3.19692%	3.09915%

Fair value: As of June 30, 2011, in connection with all swap agreements, the transactions had a total negative fair value of ($17,216). Because the coupons on the Utility's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was developed by a pricing service using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Credit risk: As of June 30, 2011, the Utility was not exposed to credit risk because the swap had a negative fair value. The swap counterparties, J.P. Morgan Chase & Co and Merrill Lynch were rated A+ and A, respectively by Standard & Poor's. To mitigate the potential for credit risk, the swap agreements require the fair value of the swap to be collateralized by the counterparty with U.S. Government securities if the counterparties' rating decreases to negotiated trigger points. Collateral would be posted with a third-party custodian. At June 30, 2011, there is no requirement for collateral posting for any of the outstanding swaps.

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

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

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

Swap payments and associated debt: As of June 30, 2011, the debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are summarized as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30,	Variable-Rate Bonds Principal	Interest	Interest Rate Swaps, Net	Total
2012	$ 2,650	$ 899	$ 5,200	$ 8,749
2013	2,750	889	5,124	8,763
2014	2,850	879	5,044	8,773
2015	4,800	858	4,914	10,572
2016	12,275	805	4,583	17,663
2017-2021	40,925	3,413	19,571	63,909
2022-2026	39,850	2,385	14,265	56,500
2027-2031	42,940	1,305	9,079	53,324
2032-2036	48,375	365	2,787	51,527
Total	$ 197,415	$ 11,798	$ 70,567	$ 279,780

NOTE 5. RESTRICTED EQUITY

Pursuant to applicable bond indentures, a reserve for debt service has been established by restricting assets and reserving a portion of equity. Bond indentures for the Utility's electric revenue and refunding bonds require debt service reserves that equate to the maximum annual debt service required in future years and bond service reserves of three months interest and nine months principal due in the next fiscal year. Variable rate revenue and refunding bonds require 110% of the monthly accrued interest to be included in the reserve. Certain bond issues are covered by a Surety Bond (2008 Revenue Series D) and certain issues have no debt service reserve requirements (2009 Revenue/Refunding Series A, 2010 Revenue Series A and B and 2011 Refunding Series A bonds).


200 120V 3W TYPE CN1SR 30TA 1.0Kh
CITY OF RIVERSIDE
CA 0.5
FM12S
60Hz
52 438 579
Itron
WATTHOUR METER
USA 9/07
200 120V 3W TYPE CN1SR 30TA 1.0Kh
CITY OF RIVERSIDE
CA 0.5
FM12S
60Hz
52 438 538
Itron
WATTHOUR METER
USA 9/07

NOTE 6. JOINTLY-GOVERNED ORGANIZATIONS

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

On November 1, 1980, the City of Riverside joined with the Imperial Irrigation District and the cities of Los Angeles, Anaheim, Vernon, Azusa, Banning, Colton, Burbank, Glendale and Pasadena to create the Southern California Public Power Authority (SCPPA) by a Joint Powers Agreement under the laws of the State of California. As of July 2001, the cities of Cerritos and San Marcos were admitted as members of SCPPA. In August 2003, the Authority rescinded the membership of the City of San Marcos, as the City no longer met the criteria for membership. The primary purpose of SCPPA is to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. SCPPA is governed by a Board of Directors, which consists of one representative from each of the members. During the 2010-11 and 2009-10 fiscal years, the Electric Utility paid approximately $18,725 and $15,151, 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 consist of one representative from each of the members. The term of the Joint Powers Agreement is 50 years. Effective June 30, 2001, PAC was placed in an inactive status by the Board of Directors. The Agency can only be reactivated by authorization of the Agency Board.

NOTE 7. JOINTLY-OWNED UTILITY PROJECT

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

During 2006, the FERC, Nuclear Regulatory Commission (NRC) and the California Public Utility Commission (CPUC) approved the transfer of Anaheim's shares to SCE, and as a result, SCE's ownership was increased to 78.21 percent in SONGS Units 2 and 3.

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. During fiscal year ended June 30, 2006, the City Council approved participation in SONGS through the extended operations date. It has been reported that SCE is pursuing a license extension from the NRC to continue operations through 2042, although the City Council has not approved its participation in the project through the extended term.

SCE, as operating agent, declared an "operating impairment" due to deterioration of the steam generators (SGs), which would have likely resulted in permanent shutdown of the plant in 2009-2010 timeframe. The estimated cost to replace the SGs is

NOTE 7. JOINTLY-OWNED UTILITY PROJECT (CONTINUED)

$680,000, of which approximately $12,200 would represent the Utility's share. Replacement of the SGs is expected to enable plant operations through at least 2022, and perhaps beyond if NRC approval is obtained. The City Council has approved participation in the replacement of the SGs. The SG replacement for SONGS Unit 2 was completed in April 2010 and the SG replacement for Unit 3 was completed in February 2011.

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

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 $159,907 and $152,586 for fiscal years ended June 30, 2011 and 2010, respectively.

All acquisitions or construction of capital assets are depreciated through 2022, to include the construction recapture extension period. The accumulated depreciation amounted to $133,260 and $126,837 for the fiscal years ended June 30, 2011 and 2010, 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 $2,836 and $2,898 for fiscal years June 30, 2011 and June 30, 2010, respectively (see Note 1). The Utility's portion of current and long-term debt associated with SONGS is included in the accompanying financial statements.

NOTE 8. COMMITMENTS

TAKE-OR-PAY CONTRACTS

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

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

The Utility is a member of SCPPA, a joint powers agency (see Note 6). SCPPA provides for the financing and construction of electric generating and transmission projects for participation by some or all of its members. To the extent the Utility participates in projects developed by SCPPA, it has entered into Power Purchase or Transmission Service Agreements, entitling the Utility to the power output or transmission service, as applicable, and the Utility will be obligated for its proportionate share of the project costs whether or not such generation output of transmission service is available.

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

Project	Percent Share	Entitlement	Final Maturity	Contract Expiration
Palo Verde Nuclear Generating Station	5.4 percent	12.3 MW	2017	2030
Southern Transmission System	10.2 percent	244.0 MW	2027	2027
Hoover Dam Uprating	31.9 percent	30.0 MW	2017	2017
Mead-Phoenix Transmission	4.0 percent	18.0 MW	2020	2030
Mead-Adelanto Transmission	13.5 percent	118.0 MW	2020	2030

NOTE 8. COMMITMENTS (CONTINUED)

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

Interest rates on the outstanding debt associated with the take-or-pay obligations range from variable rates from 0.03 percent to 3.00 percent and fixed rates from 3.50 percent to 6.00 percent. The schedule below details the amount of principal and interest that is due and payable by the Utility as part of the take-or-pay contract for each project in the fiscal year indicated.

	IPA	SCPPA					TOTAL
Debt Service Payment (in thousands) Year Ending June 30,	Intermountain Power Project	Palo Verde Nuclear Generating Station	Southern Transmission System	Hoover Dam Upgrading	Mead-Phoenix Transmission	Mead-Adelanto Transmission	All Projects
2012	$ 22,118	$ 659	$ 7,140	$ 706	$ 311	$ 3,026	$ 33,961
2013	20,017	662	11,069	704	310	3,019	35,781
2014	22,712	664	8,482	705	310	3,019	35,892
2015	21,154	668	8,503	703	261	3,005	34,294
2016	23,942	672	8,527	702	267	2,999	37,109
2017-2021	93,356	1,353	37,159	1,399	1,264	14,274	148,804
2022-2026	25,182	-	32,209	-	-	-	57,391
2027-2031	-	-	7,154	-	-	-	7,154
Total	$ 228,481	$ 4,678	$ 120,243	$ 4,919	$ 2,723	$ 29,342	$ 390,386

In addition to debt service, the Utility's entitlements require the payment of fuel costs, operating and maintenance, administrative and general and other miscellaneous costs associated with the generation and transmission facilities discussed above. These costs do not have a similar structured payment schedule as debt service and vary each year. The costs incurred for the year ended June 30, 2011 and 2010, are as follows (in thousands):

FISCAL YEAR	Intermountain Power Project	Palo Verde Nuclear Generating Station	Southern Transmission System	Hoover Dam Upgrading	Mead-Phoenix Transmission	Mead-Adelanto Transmission	All Projects
2011	$ 29,530	$ 2,792	$ 2,460	$ 100	$ 43	$ 298	$ 35,223
2010	$ 27,458	$ 2,991	$ 1,779	$ 68	$ 40	$ 265	$ 32,601

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

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

POWER PURCHASE AGREEMENTS

The Electric Utility has executed two firm power purchase agreements with Bonneville Power Administration (BPA). The first agreement with BPA was for the purchase of firm capacity (23 megawatts in the summer months and 16 megawatts in the winter months) beginning February 1, 1991, for a period of 20 years. This agreement terminated on March 3, 2011. The second BPA agreement is for the purchase of capacity (50 megawatts during the summer months and 13 megawatts during the winter months) beginning April 30, 1996, for 20 years. Effective May 1, 1998, these summer and winter capacity amounts increased to 60 megawatts and 15 megawatts, respectively, for the remainder of the second agreement.

NOTE 8. COMMITMENTS (CONTINUED)

NUCLEAR INSURANCE

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

RENEWABLE PORTFOLIO STANDARD (RPS)

On June 6, 2003 and July 8, 2003, the Public Utilities Board and the City Council respectively, adopted a RPS to increase procurement of renewable resources to reach a target of 20% of the Utility's energy by 2015. On March 16, 2007, the Public Utilities Board approved a new RPS, increasing the targets to 20% and 25% by 2010 and 2015, respectively. On May 4, 2007, the Public Utilities Board added an additional target of 33% by 2020. The City Council, on December 9, 2008, unanimously approved the revised RPS.

The contracts in the following table were executed as part of compliance with this standard. The Electric Utility also has an agreement with Bonneville Power Administration for the purchase of energy credits that add to the total renewable portfolio. The Utility met its 20% goal by the end of 2010 calendar year, as adopted by the City Council.

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

Supplier	Type	Maximum Contract	Contract Expiration	Estimated Annual Cost For 2012
Salton Sea Power LLC	Geothermal	46.0 MW	5/31/2020	$ 21,139
Wintec	Wind	8.0 MW	11/10/2021	200
Total		54.0 MW		$ 21,339

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

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

On November 10, 2006, the Utility entered into a second Renewable PPA with Wintec Energy, Ltd for wind generation capacity of up to 8 MW on their proposed Wintec Facility II Wind Turbine Project. The contract term is for 15 years, expiring November 10, 2021. The developer is encountering challenges in finding suitable wind turbines to complete the project and the project is expected to continue to be delayed.

On June 19, 2008, and December 12, 2008, respectively the Utility entered into two separate Renewable Power Purchase Agreements with Shoshone Renaissance, LLC (Renaissance). The contract term for each agreement is 30 years, and provides a combined 96 megawatts of geothermal energy. Like the majority of renewable projects, Renaissance continues to experience

NOTE 8. COMMITMENTS (CONTINUED)

difficulty securing financing due to the meltdown in the financial markets. In November 2010, the Utility entered into the Amended and Restated PPA I and terminated PPA II. The Amended and Restated PPA I reduced the geothermal power deliveries from 64 MW to 46 MW with the new commercial operation date extended to April 1, 2014. Measurable milestone dates and enforceable agreement termination "off-ramps" for the Utility were built into this agreement to allow the Utility the unilateral ability to terminate the Amended and Restated PPA I. On February 15, 2011 Shoshone Renaissance failed the first milestone as established in the Amended and Restated PPA I. The Utility notified Shoshone Renaissance in March 2011 of the Utility's intent to terminate the Amended and Restated PPA I by April 1, 2011 and provided an opportunity to Shoshone Renaissance to cure its failure to reach the first milestone. However, Shoshone Renaissance failed to provide evidence to cure its default by April 1, 2011. Thus, the Utility provided the final termination notice to Shoshone Renaissance and the Amended and Restated PPA I was terminated on April 1, 2011.

CONSTRUCTION COMMITMENTS

As of June 30, 2011, the Electric Utility had major commitments (encumbrances) of approximately $19,290 with respect to unfinished capital projects, of which $17,248 is expected to be funded by bonds and $2,042 funded by other sources.

FORWARD PURCHASE/SALE AGREEMENTS

In order to meet summer peaking requirements, the Electric Utility may contract on a monthly or quarterly basis, for the purchase or sale of natural gas, electricity and/or capacity products on a short term horizon. As of June 30, 2011, the Electric Utility has net commitments for fiscal year 2012 and thereafter, of approximately $15,307, with a market value of $14,383.

NOTE 9. LITIGATION

The Electric Utility continues to participate in key FERC dockets impacting the Utility, such as the CAISO's Market Redesign and Technology Upgrade (MRTU).

On January 1, 2003, the Utility became a PTO with the CAISO, entitling the Utility to receive compensation for use of its transmission facilities committed to the CAISO's operational control. The compensation is based on the Utility's TRR as approved by the FERC.

On July 1, 2011, the Utility filed a revised TRR at FERC. In its filing, the Utility updated its projected transmission costs and proposed to reaffirm an automatic adjustment mechanism to reflect its actual costs incurred under existing transmission contracts with Southern California Edison which have become the most volatile component of its TRR.

Numerous parties have filed timely motions to intervene, with some parties protesting various portions of the TRR. The Electric Utility has required an increased TRR of $31,693, an increase of $6,178 to the Utility's existing Base TRR. The Utility expects that this matter will be scheduled for briefing and hearings before FERC. The Utility has again requested that FERC allow the Utility to automatically recover further cost increases imposed by Southern California Edison without filing an application with FERC for a new TRR tariff, and expects that this request will be granted.

During the California Energy Crisis of 2001-2002, the Utility made numerous power sales into the California centralized markets. Due to financial problems experienced by numerous market participants, notably Pacific Gas & Electric (PG&E) and the California Power Exchange (PX) who filed for Chapter 11 bankruptcy in 2001, the Utility was not paid for many of these transactions. On June 4, 2008, the FERC approved a settlement agreement between the Utility and numerous California entities, including all of the Investor-Owned Utilities and the California Attorney General, under which the Utility was paid all of its unpaid receivables, plus interest, minus $1.27 million in refunds. The net payout to the Electric Utility was $3.7 million (including all unpaid receivables, including interest and its deposit with the Cal PX, minus $269,000 paid to the City of Banning for transactions made on its behalf by the Utility).
Under the settlement, the Utility may receive additional distributions of refunds from other sellers. The Utility also may

NOTE 9. LITIGATION (CONTINUED)

be responsible for paying its allocated portion (as determined by FERC) of payments due to other sellers for any Emission Offset, Fuel Cost Allowance, or Cost Offset associated with sales by such other sellers during the energy crisis. It is not possible at this time to estimate the net effect of any such future distributions to or payments by the Utility. The Utility is a defendant in various lawsuits arising in the normal course of business. Present lawsuits and other claims against the Utility are incidental to the ordinary course of operations of the Utility and are largely covered by the City's self-insurance program. In the opinion of management and the City Attorney, such claims and litigation will not have a materially adverse effect upon the financial position or results of operation of the Utility.

NOTE 10. SPECIAL ITEM

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

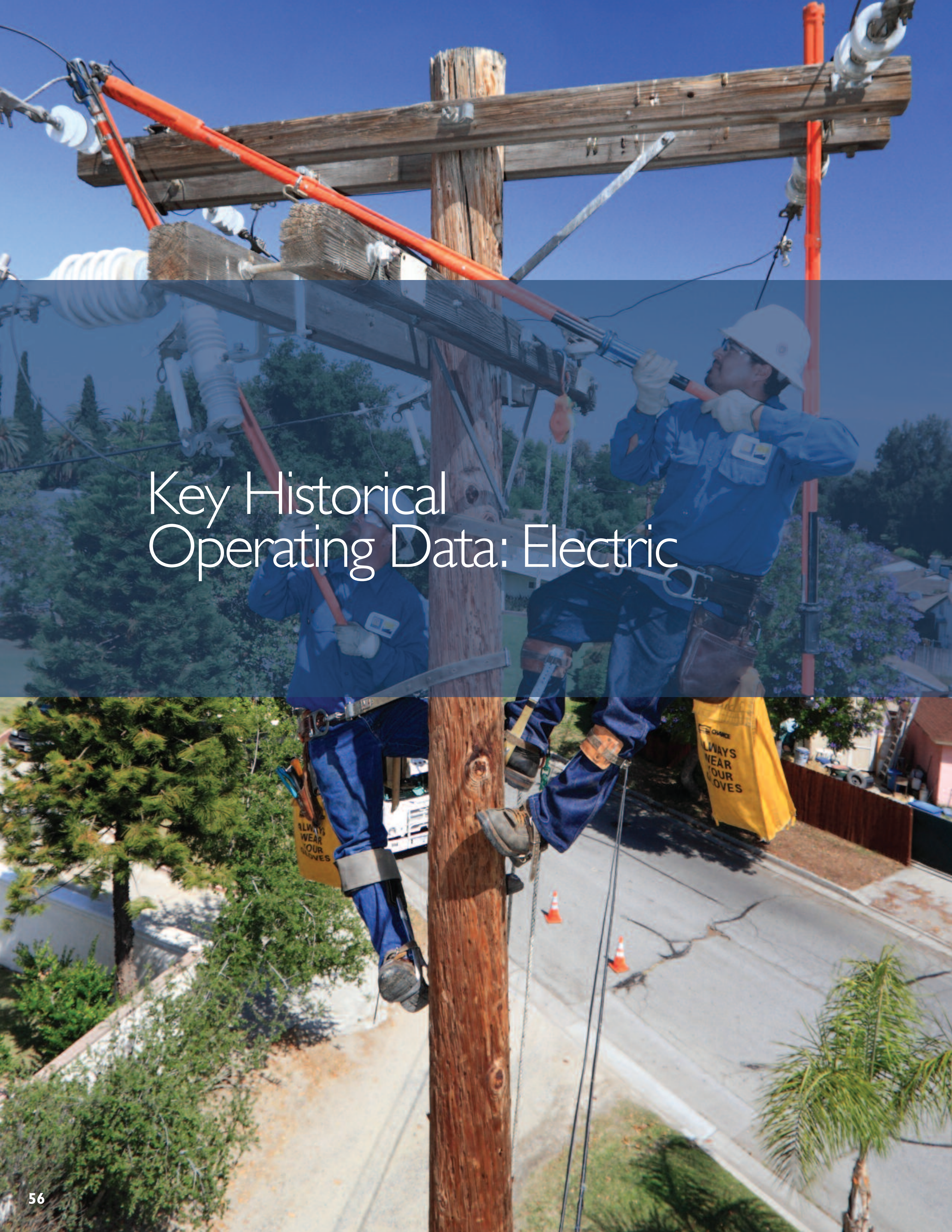
The original and carrying value of the land in the Electric Utility is $17. The balance between the purchase price and carrying value of $11,583 is recorded as a special item.

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

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

NOTE 11. SUBSEQUENT EVENT

Hoover Uprating Project – Contract Renewals - Over the past two years, contractors from Arizona, Nevada, and California for the Hoover Uprating Project, have been meeting to negotiate terms for renewal of the contracts for electric service, which expire on September 30, 2017. The Contractors developed proposed legislation, that became known as the Hoover Power Allocation Act (the "Act"), which would extend the availability of Hoover power to the existing Contractors for an additional fifty years and create a pool for new entrants. The Act was first presented to both houses of Congress in late December 2009. Concurrently, Western proceeded with their administrative renewal process and drafted a similar proposal, including public comment meetings. The Act was passed by the House of Representatives on October 3, 2011 and by the Senate on October 18th, but because of some technical language changes to the enrollment of the bill, the House may need to pass a correcting resolution that authorizes these changes before the Act can become law. Western's process will be discontinued when the Act is passed and the Contractors plan to meet with Western to negotiate an agreement in conformity with the new law.



Key Historical Operating Data: Electric

KEY HISTORICAL OPERATING DATA

POWER SUPPLY (MWH)

	2010/11	2009/10	2008/09	2007/08	2006/07
Nuclear					
San Onofre	284,900	240,000	281,400	286,500	310,400
Palo Verde	102,000	96,300	97,700	85,200	90,000
Coal					
Intermountain Power	895,600	1,068,500	1,051,200	1,094,100	1,130,000
Deseret	0	187,400	406,000	427,600	400,000
Hoover (Hydro)	32,900	30,000	32,500	33,700	34,500
Gas					
Springs	3,100	1,400	3,300	2,300	1,600
RERC	34,500	11,500	48,700	46,800	62,000
Clearwater	9,700	0	0	0	0
Renewable Resources	385,700	354,900	233,000	247,800	245,000
Other purchases	464,200	276,500	349,200	594,100	462,000
Exchanges In	92,200	92,700	90,000	115,700	107,400
Exchanges Out	(176,100)	(156,200)	(160,600)	(202,600)	(191,900)
Total:	2,128,700	2,203,000	2,432,400	2,731,200	2,651,000
System peak (MW)	579.7	560.3	534.1	604.4	586.3

ELECTRIC USE

	2010/11	2009/10	2008/09	2007/08	2006/07
Number of meters as of year end					
Residential	95,676	95,258	95,214	94,691	94,232
Commercial	10,185	10,073	10,178	10,258	10,063
Industrial	908	916	904	978	837
Other	86	88	89	88	94
Total:	106,855	106,335	106,385	106,015	105,226
Millions of kilowatt-hours sales					
Residential	666	701	733	734	748
Commercial	400	406	433	441	456
Industrial	912	906	946	960	924
Other	31	32	33	34	39
Subtotal:	2,009	2,045	2,145	2,169	2,167
Wholesale	7	44	137	357	295
Total:	2,016	2,089	2,282	2,526	2,462

ELECTRIC FACTS

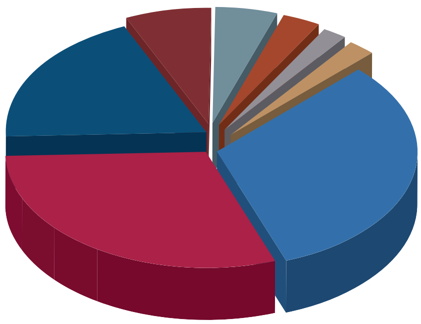
	2010/11	2009/10	2008/09	2007/08	2006/07
Average annual kWh per residential customer	7,006	7,397	7,739	7,779	7,959
Average price (cents/kWh) per residential customer	16.17	15.31	14.39	13.61	12.62
Debt service coverage ratio (DSC)[2]	2.21	2.75	2.58	2.62	3.09
Operating income as a percent of operating revenues	18.9%	23.5%	22.2%	16.4%	22.0%
Employees[1]	449	427	416	405	367

[1] Approved Positions

[2] For FY 10/11, interest expense used to calculate DSC is net of federal subsidy on Build America Bonds.

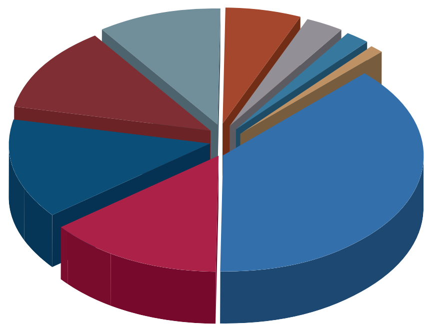
2010/2011 ELECTRIC REVENUE AND RESOURCES

Source of Revenue



- Residential Sales 32¢
- Industrial Sales 30¢
- Commercial Sales 19¢
- Transmission Revenue 7¢
- Other Revenue 5¢
- Investment Income 3¢
- Other Sales 2¢
- Public Benefit Programs 2¢
- Wholesale Sales (less than 1¢)

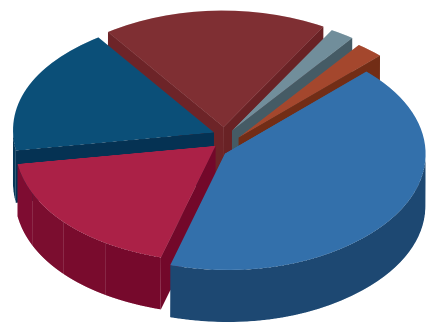
Distribution of Revenue



- Production 38¢
- Distribution 14¢
- Debt Service 14¢
- Transmission 12¢
- Transfers to the City's General Fund* 10¢
- Special Item 6¢
- Public Benefit Programs 3¢
- Additional Reserves 2¢
- Additions and Replacements to the System 1¢

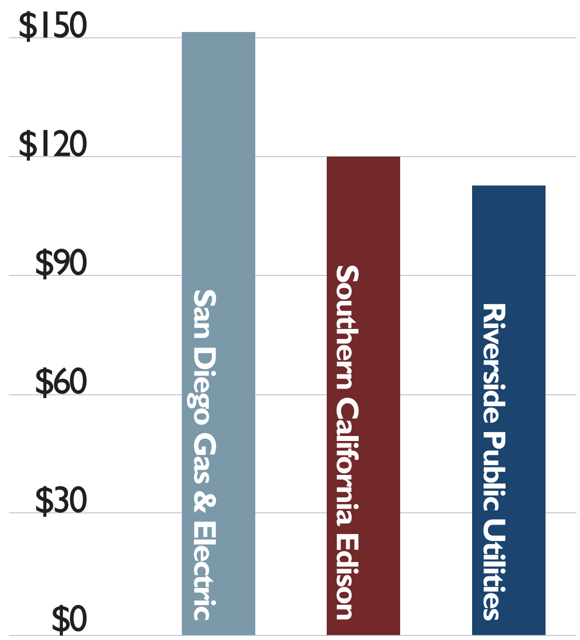
** Based on transfer of 11.5% of fiscal year 2009/2010 operating revenues (excludes wholesale sales and Public Benefit Programs revenues).*

Energy Resources



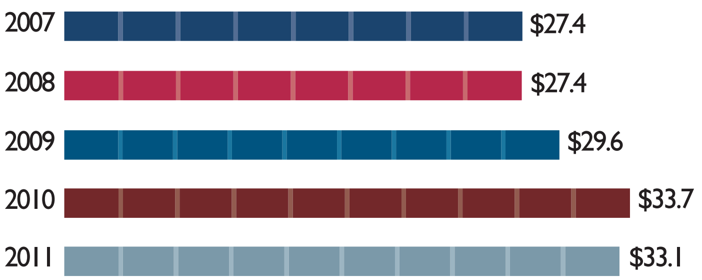
- Coal 42%
- Renewables 18%
- Nuclear 18%
- Other Purchases 18%
- Hydropower 2%
- Gas 2%

ELECTRIC RATE COMPARISON – 750 KWH PER MONTH (AS OF JUNE 30, 2011)

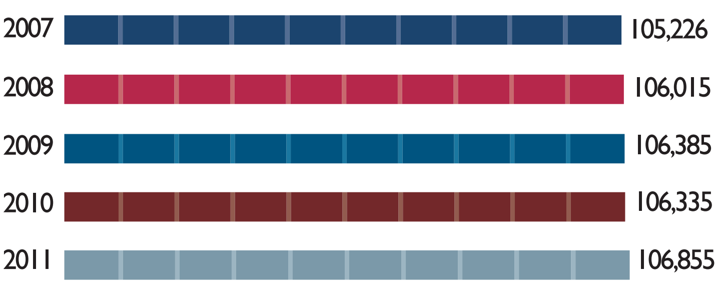


San Diego Gas & Electric	Southern California Edison	Riverside Public Utilities
34% Higher	6% Higher	**$117.26**
$157.16	$124.43	

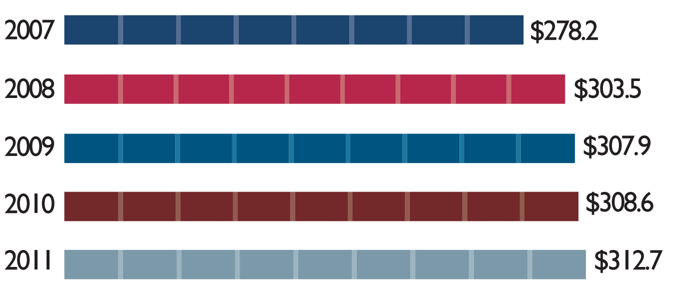
GENERAL FUND TRANSFER (IN MILLIONS)



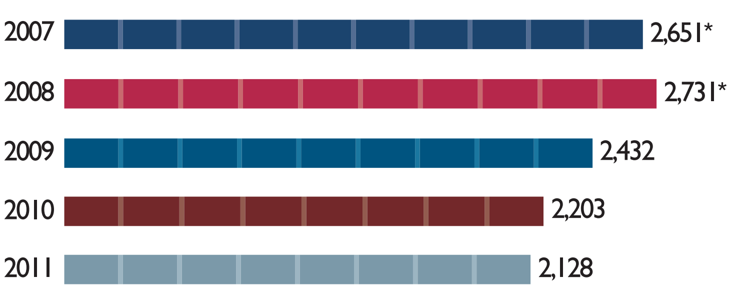
NUMBER OF METERS AT YEAR END



TOTAL OPERATING REVENUE (IN MILLIONS)

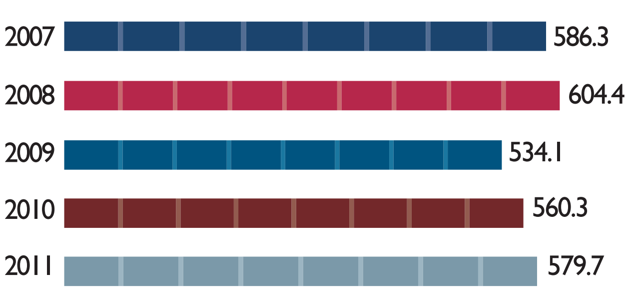


PRODUCTION (IN MILLION KILOWATT-HOURS)



** Energy shown before transmission losses net of exchanges*

PEAK DAY DEMAND (IN MEGAWATTS)



ELECTRIC FACTS AND SYSTEM DATA

Established	1895
Service Area Population	306,779
Service Area Size (square miles)	81.5
System Data:	
Transmission lines (circuit miles)	91.1
Distribution lines (circuit miles)	1,308
Number of substations	14
2010-2011 Peak day (megawatts):	580
Highest Single hourly use:	
08/26/2010, 4 pm, 101 degrees	
Historical peak (megawatts):	604
08/31/2007, 4 pm, 106 degrees	

Bond Ratings

Fitch Ratings	AA-
Standard & Poor's	AA-
Debt Derivative Profile Score on Swap Portfolio (1 representing the lowest risk and 4 representing the highest risk)	2

Water 2011

WWW.MOSSADAMS.COM

MOSS ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying balance sheet of the City of Riverside, California, Water Utility (Water Utility), as of and for the year ended June 30, 2011, and the related statement of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Water Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements present only the Water Utility and do not purport to, and do not, present fairly the financial position of City of Riverside, as of June 30, 2011, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Utility as of June 30, 2011 and the results of its individual and combined operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis preceding the financial statements is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which 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 audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial information included as supplementary information following the financial statements and notes to financial statements is provided for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and we do not express an opinion on it.

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Independent Auditors' Report: Water

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

The financial statements of the City of Riverside, California, Water Utility, as of June 30, 2010, were audited by other auditors, whose report dated October 18, 2010, expressed an unqualified opinion on those statements.

Moss Adams LLP

Los Angeles, California
October 14, 2011

Independent Auditors' Report: Water

Management's Discussion and Analysis: Water

As management of Riverside Public Utilities, a department of the City of Riverside (the City), we offer the readers this narrative overview and analysis of the 2010-11 financial report for the period ended June 30, 2011 and 2010 for Riverside's Water Utility (the Utility), an enterprise fund of the City. We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, which begin on page 74 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

Fiscal years 2011 and 2010 reflected strong operating results for the Water Utility, with retail sales exceeding the previous year's results, primarily from the effects of rate increases and an expanded customer base, offset by a decrease in consumption.

- Retail sales, net of reserve/recovery were $55,186 and $51,147 for the years ended June 30, 2011 and 2010, respectively. The increase in sales was primarily due to the final year of rate increases under the SAFE W.A.T.E.R (Water Available to Everyone in Riverside) Plan required to support the Utility's Water Master, Water Supply and Asset Management Plans, offset by a 3% reduction in retail consumption.
- The assets of the Utility exceeded its liabilities (equity) at the close of fiscal years 2011 and 2010 by $301,733 and $277,994, respectively. Of this amount, $52,181 and $32,029, respectively, may be used to meet the Utility's ongoing obligations to creditors and customers.
- The Utility's total equity as of June 30, 2011 and 2010 increased by $23,739 and $2,851 from fiscal years ended June 30, 2010 and 2009, respectively, primarily due to the intra-entity property sale and positive operating results.
- As of June 30, 2011 and 2010, unrestricted equity represented over 110% and 68% of annual operating expenses, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

The ***Notes to the Financial Statements*** provide additional information that is essential to a full understanding of the data provided in the Water Utility's financial statements. The notes to the financial statements can be found on pages 80 to 92 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 $301,733 and $277,994 at the close of the fiscal years 2011 and 2010, respectively.

The following table summarizes the Utility's financial condition as of June 30, 2011, 2010 and 2009:

CONDENSED STATEMENTS OF EQUITY (NET ASSETS)

	2011	2010	2009
Current and other assets	$ 143,395	$ 148,966	$ 85,935
Capital assets	392,264	372,792	356,089
Total assets	535,659	521,758	442,024
Long-term debt outstanding	209,112	219,414	142,972
Other liabilities	24,814	24,350	23,909
Total liabilities	233,926	243,764	166,881
Invested in capital assets, net of related debt	241,552	237,366	237,738
Restricted	8,000	8,599	7,044
Unrestricted	52,181	32,029	30,361
Total equity (net assets)	$ 301,733	$ 277,994	$ 275,143

ASSETS

Fiscal Year 2011 Total assets of $535,659 reflect an increase of $13,901 (2.7%), mainly due to the following:

- Current and other assets, comprised of restricted and unrestricted assets, reflect a cash and cash equivalent increase of $27,434 primarily due to the intra-entity property sale (Note 8) and positive operating results, offset by the use of $25,620 of bond proceeds for capital projects and a decrease of $6,580 in deferred debits on an interest rate swap fair valuation as a result of the implementation of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). See Notes 1 and 4 in the accompanying financial statements for additional information.
- Net capital assets (Utility plant net of depreciation), increased by $19,472 primarily due to an increase of $11,145 in completed transmission and distribution system assets and an increase of $9,446 in construction in progress related to the pipeline replacement program, system expansion and improvements, facilities rehabilitation and reservoir construction. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section of the financial analysis.

Fiscal Year 2010 Total assets of $521,758 reflect an increase of $79,734 (18.0%), due to an increase in current and other assets of $63,031 primarily due to the issuance of the 2009 Water Refunding/Revenue Series A and B Bonds, offset by the use of $19,969 of bonds proceeds for capital projects and an increase of $2,865 in deferred debits on an interest rate swap fair valuation as a result of the implementation of GASB 53. Net capital assets (Utility plant) increased by $16,703 as a result of significant investment in the pipeline replacement program, system expansion and improvements, and construction of treatment facilities.

UTILITY FINANCIAL ANALYSIS (CONTINUED)

LIABILITIES

Fiscal Year 2011 The Utility's total liabilities were $233,926, a decrease of $9,838 (4.0%), mainly due to the following:

- Long-term debt outstanding decreased by $10,302 primarily due to $4,660 in principal payments and $5,675 increase in unamortized deferred bond refunding costs.

Fiscal Year 2010 The Utility's total liabilities were $243,764, an increase of $76,883 (46.1%), primarily due to long-term debt outstanding increased by $76,442 due to the issuance of the 2009 Water Refunding/Revenue Series A and B Bonds, offset by $4,415 in principal payments and advance refundings of $21,765. Other liabilities increased by $441 primarily due to a $2,865 increase in the fair value of swap derivatives, offset by a $2,602 decrease in payables.

EQUITY (NET ASSETS)

Fiscal Year 2011 The Utility's equity, which represents the difference between the Utility's resources and its obligations, totaled $301,733, an increase of $23,739 (8.5%) is comprised of the following:

- The largest portion of the Utility's equity is $241,552 (80.0%), and reflects its investment in capital assets, such as treatment, pumping, source of supply, transmission and distribution facilities, less any related outstanding debt used to acquire those assets. This portion increased by $4,186 (1.8%) primarily due to an increase in capital assets constructed or purchased during the fiscal year, net of the debt used to acquire these assets. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.
- The restricted portion totaled $8,000 (2.7% of total equity), and represents resources that are subject to internal and external restrictions on how they may be used. These are reserved for items such as debt repayment and funds collected for the Conservation and Reclamation Programs. This portion decreased by $599 from prior fiscal year primarily due to decreases in debt service reserves for principal and interest payments for bond issues.
- The unrestricted portion totaled $52,181 (17.3% of total equity), an increase of $20,152, was primarily attributable to the intra-entity property sale (Note 8) and positive operating results.

Fiscal Year 2010 The Utility's equity increased by $2,851 (1.0%) to $277,994. The largest portion of the equity, $237,366 (85.4%), is represented by investment in capital assets, which decreased slightly by $372 (less than 1.0%) primarily due to an increase in capital assets constructed or purchased during the fiscal year, net of the debt used to acquire these assets, offset by depreciation expense. The restricted portion increased by $1,555 due to increases in debt service reserves for principal and interest payments for new bond issues. The unrestricted portion increased by $1,668, primarily attributable to positive operating results.

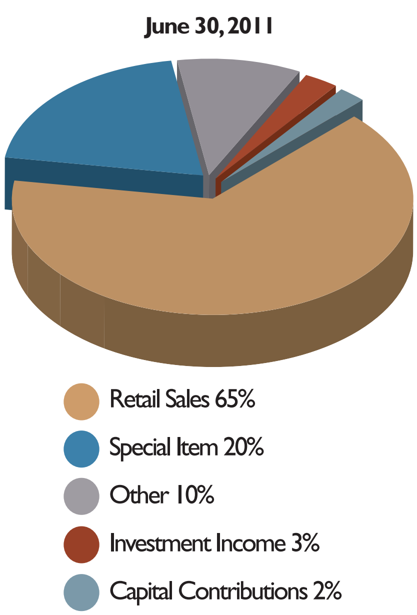
UTILITY FINANCIAL ANALYSIS (CONTINUED)

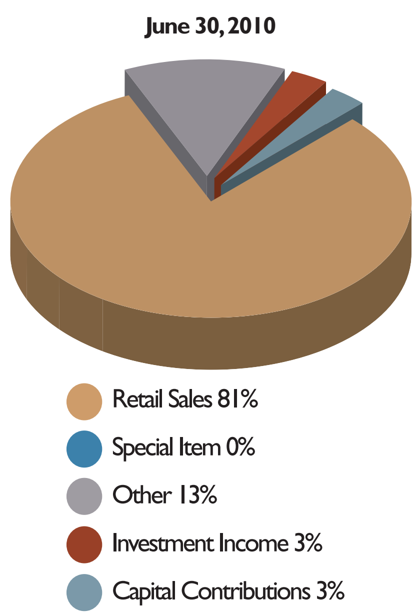
The Water Utility's overall increase in equity of $23,739 and $2,851 during fiscal years 2011 and 2010, respectively, was due to the intra-entity property sale and positive operating results that can be further explained in the following Condensed Statements of Changes in Equity:

CONDENSED STATEMENTS OF CHANGES IN EQUITY (NET ASSETS)

	2011	2010	2009
Revenues:			
Retail sales, net	$ 55,186	$ 51,147	$ 49,591
Other revenues	8,936	8,553	5,311
Investment income	2,635	1,815	3,169
Capital contributions	1,982	2,052	7,148
Total revenues	68,739	63,567	65,219
Expenses:			
Operations and maintenance	31,411	32,151	31,501
Purchased energy	4,558	4,362	4,578
Depreciation	11,386	10,660	9,771
Interest expenses and fiscal charges	8,912	7,886	7,049
Total expenses	56,267	55,059	52,899
Transfers to the City's general fund	(5,847)	(5,657)	(5,276)
Special item	17,114	-	(6,388)
Changes in equity	23,739	2,851	656
Equity, July 1	277,994	275,143	274,487
Equity, June 30	$ 301,733	$ 277,994	$ 275,143

REVENUES BY SOURCES





UTILITY FINANCIAL ANALYSIS (CONTINUED)

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

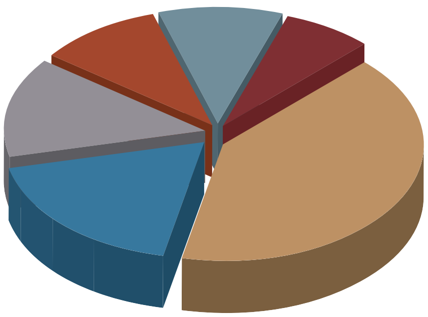
- Retail sales (residential, commercial, industrial, and other sales), net of reserve/recovery, totaled $55,186, an increase of $4,039 (7.9%) over the prior fiscal year. Retail sales continue to be the primary revenue source for the Water Utility, making up 65% of total revenues. The increase in sales was primarily due to a 10% rate increase that became effective November 1, 2010 as part of the SAFE W.A.T.E.R. Plan, offset by a 3% decrease in retail consumption.
- Special item of $17,114 represents an intra-entity property sale (Note 8).
- Investment income of $2,635 increased by $820 (45.2%) primarily due to interest earned on the increase in cash as a result of the intra-entity property sale (Note 8) and a full year's interest on bond proceeds.

Fiscal Year 2010 Total revenues of $63,567 decreased by $1,652 (2.5%) from prior fiscal year due to the following major changes:

- Net retail sales were $51,147, 80.5% of total revenues, reflecting an increase of $1,556 (3.1%) in net retail sales from the prior fiscal year primarily due to a 10.0% rate increase that became effective November 1, 2009 as part of the SAFE W.A.T.E.R. Plan, offset by a 9.2% decrease in retail consumption.
- Other revenues of $8,553 increased by $3,242 (61.0%) predominantly due to a $963 increase in wholesale sales attributed to the Western Municipal Water Wheeling agreement and an increased gain on sale of land in the amount of $1,801.
- Investment income of $1,815 reflects a decrease of $1,354 (42.7%), due to an overall decrease of $640 in the fair market value and interest from investments and a decrease of $714 on interest earned on bond construction cash.
- Capital contributions were $2,052 and reflect a decrease of $5,096 (71.3%), primarily due to a decrease of $2,187 in contributions from State grants for reimbursable capital project costs, decreases of $2,656 in non-cash developer contributions, and $267 from developers for construction projects due to the slowdown in development related activities.

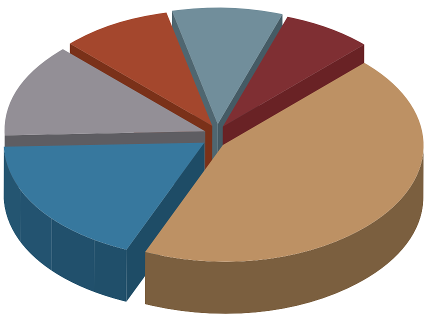
EXPENSES BY SOURCES

June 30, 2011



- Operations 41%
- Depreciation 18%
- Interest Expense 14%
- Maintenance 10%
- Contributions to the City's General Fund 10%
- Purchased Energy 7%

June 30, 2010



- Operations 44%
- Depreciation 18%
- Interest Expense 13%
- Maintenance 9%
- Contributions to the City's General Fund 9%
- Purchased Energy 7%

UTILITY FINANCIAL ANALYSIS (CONTINUED)

Fiscal Year 2011 Total expenses, excluding general fund transfer, were $56,267, an increase of $1,208 (2.2%), due to the items discussed below:

- Interest expense and fiscal charges were $8,912, and reflect an increase of $1,026 (13%), due to interest costs associated with the 2011 bond issuance and a full year of interest for the 2009 bond issuance issued December 2009.
- Depreciation expense of $11,386 increased $726 (6.8%) primarily due to the completion of $20,622 of capital projects that were included as depreciable capital assets.

Fiscal Year 2010 Total expenses were $55,059, reflecting an increase of $2,160 (4.1%), due to an increase in personnel-related expenses, offset by a decrease in general operating expenses mainly due to over-pumping of entitlements in previous years which were recorded in fiscal year 2009. Overall purchased energy costs were consistent with prior year. Interest expense and fiscal charges increased due to increased interest costs associated with the 2009 bond issues and depreciation expense increased due to the completion of $36,416 of capital projects that were included as depreciable capital assets.

TRANSFERS

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

Fiscal Year 2011 The Water Utility transferred the maximum allowable by the City Charter to the City's general fund, or $5,847, an increase of $190, primarily the result of a $1,556 increase in retail sales for fiscal year 2010.

Fiscal Year 2010 Transfers to the City's general fund of $5,657 increased by $381, primarily the result of increased retail sales of $3,427 for fiscal year 2009.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

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

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

	2011	2010	2009
Source of supply	$ 49,454	$ 49,708	$ 49,485
Pumping	17,175	16,884	13,534
Treatment	18,499	19,246	19,843
Transmission and distribution	260,141	248,996	226,454
General	5,259	5,720	5,542
Land	10,861	10,809	10,809
Intangible	6,307	6,307	6,015
Construction in progress	24,568	15,122	24,407
Total	$ 392,264	$ 372,792	$ 356,089

Fiscal Year 2011 The Utility's investment in capital assets was $392,264, an increase of $19,472 (5.2%). The increase (net of accumulated depreciation) resulted mainly from the following significant capital projects:

- $22,101 for system expansion and improvements, facilities rehabilitation and reservoir construction.
- $6,299 for continued pipeline replacement programs.

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Fiscal Year 2010 Investment in capital assets (net of accumulated depreciation) for the Utility increased by $16,703 (4.7%), for a total of $372,792. Major capital projects included $19,221 for system expansion and improvements including pump station replacements, reservoir construction and facilities rehabilitation, $5,074 for continued pipeline replacement programs and $442 for completion of the John W. North Treatment facility.

Additional information regarding capital assets can be found in Note 3 on Page 88 of this report.

DEBT ADMINISTRATION

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

	2011	2010	2009
Revenue bonds	$ 217,865	$ 222,525	$ 149,020
Contracts payable	947	949	949
Less:			
Current portion	(4,695)	(4,810)	(4,565)
Unamortized deferred bond refunding costs	(9,802)	(4,127)	(3,651)
Unamortized capital appreciation	-	(110)	(427)
Unamortized bond premium (discount)	4,797	4,987	1,646
Total	$ 209,112	$ 219,414	$ 142,972

The Water Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants, of 1.25. The Water Utility's debt service coverage ratio was 3.49, 2.08, and 2.25 at June 30, 2011, 2010, and 2009, respectively. The debt is backed by the revenues of the Utility (revenue bonds).

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

Fiscal Year 2010 Long-term debt of $219,414 increased by $76,442 (53.5%) primarily due to the issuance of the 2009 Water Refunding/Revenue Series A (Tax-exempt Bonds) and B (Federally-taxable Build America Bonds) bond proceeds in the amount of $99,685 issued on December 22, 2009, offset by $4,415 of principal payments and advance refundings of $20,090 for all of the 1998 Water Refunding/Revenue Bonds and $1,675 of the outstanding 2001 Water Revenue Bonds.

Additional information on the Water Utility's long-term debt can be found in Note 4 on pages 88 to 91 of this report.

CREDIT RATINGS

In May 2011, Standard & Poor's upgraded the long-term credit rating on the Water Utility's outstanding debt to a "AAA" from a "AA+" and assigned its highest "A-1+" short-term rating on the 2011A Variable Rate Water Refunding Revenue Bonds. The ratings reflect the Utility's "strong financial performance and metrics including past and projected debt service coverage and ample cash reserves; advantageous water supply position with low-cost groundwater sources providing nearly all of the City's water, thereby helping the Utility to maintain low rates to its customers; and local economic base that is enduring the economic downturn."

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

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

ECONOMIC FACTORS AND RATES

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

To address this concern, in March 2006, the Board of Public Utilities, after the requisite public hearing, adopted and the City Council unanimously approved the SAFE W.A.T.E.R. Plan. This plan implements system improvements contained in the Water Master, Water Supply and Asset Management Plans. The SAFE W.A.T.E.R. Plan was initially funded by a fifty-two percent, five-year water rate increase, consisting of a twelve percent and four-ten percent increases effective November 1, 2006, 2007, 2008, 2009, and 2010, respectively. The Utility continues to make significant progress in replacing its aging infrastructure and since implementation of the rate increases, the Utility has invested approximately $134 million in infrastructure improvements over the five year period.

The Utility is impacted by the ongoing economic decline affecting virtually all industries in the United States, with retail consumption decreasing 3.0% and 9.2% in fiscal years 2011 and 2010, respectively, over the previous year levels. The water revenues are dependent on weather conditions, with significant wet weather years impacting revenue as residents reduce water used for outdoor landscaping.

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

In November 2009, the California legislature enacted a comprehensive set of laws aimed at improving the state's water supply reliability and restoring the Sacramento-San Joaquin River Delta ecosystem. The package included four policy bills and an $11.14 billion general obligation bond measure now targeted for the November 2012 ballot. One of the bills enacted, SBX7 7, established a statewide water conservation program that requires a 20% reduction in urban per-capita water use by 2020. It also requires development of agricultural water management plans by December 31, 2012.

The Utility has developed a comprehensive Water Efficiency Master Plan that outlines the steps necessary to comply with the 20% per capita reduction requirement. Significant conservation of resources by our consumers could negatively impact revenues and water rates. Management monitors water sales, revenue and expenses and ensures that ongoing adjustments to budgets are made to keep expenses in line with revenues. For more information on the Utility's conservation efforts and available programs, visit BlueRiverside.com

With completion of the John W. North Water Treatment Plant, the Utility is water independent and does not expect any increased costs to its customers due to the curtailment of water deliveries to Southern California. This new plant created a new source of supply and the Utility has executed an agreement with another local water supplier which is expected to produce additional revenues of $1.8 to $2.0 million per year.

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

In December 2010, the FWS issued a final rule designating the Santa Ana River and the San Gabriel River as critical habitat for the Santa Ana Sucker *(Catostomus santaanae)*, a federally threatened fish species. This final rule expanded the existing designation of 8,305 acres to 9,331 acres of the Santa Ana River and the San Gabriel River as critical habitat for the Santa Ana Sucker. This expansion potentially will impact a number of planned water supply projects by the Utility. The City of Riverside Water Utility has joined with eleven other local cities and water agencies in filing a lawsuit against the federal government to overturn the rule. Additionally, a recently formed collaborative between a number of the agencies involved in the lawsuit, the FWS, the California

ECONOMIC FACTORS AND RATES (CONTINUED)

Department of Fish and Game, and the US Army Corps of Engineers is seeking projects to improve habitat and serve as mitigation for planned projects within the Santa Ana River. The Utility will remain engaged and will continue to advocate at the state and federal level for sound environmental policy.

In 2010, the California Environmental Protection Agency (EPA) promulgated a Public Health Goal for Hexavalent Chromium, also known as Chrome-6. Water supply from underground aquifers in the Riverside and San Bernardino areas contain trace levels of naturally occurring Hexavalent Chromium, but at levels well exceeding the Public Health Goal. The US EPA is also developing new drinking water standards for Hexavalent Chromium. Depending on the final drinking water standard adopted, there is significant potential impact to water supply costs. Management continues to monitor the progress of these rules and advocating for development of standards that are protective of human health and based on the best available science.

REQUESTS FOR INFORMATION

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

Financial Statements: Water

BALANCE SHEETS

ASSETS	June 30, 2011	June 30, 2010
	(in thousands)	
UTILITY PLANT:		
Source of supply	$ 63,813	$ 62,820
Pumping	25,564	24,673
Treatment	23,976	23,947
Transmission and distribution	373,973	356,201
General	14,356	14,080
	501,682	481,721
Less accumulated depreciation	(151,154)	(141,167)
	350,528	340,554
Land	10,861	10,809
Intangible	6,307	6,307
Construction in progress	24,568	15,122
Total utility plant (Note 3)	392,264	372,792
RESTRICTED ASSETS:		
Cash and cash equivalents (Note 2)	5,684	6,433
Cash and investments at fiscal agent (Note 2)	61,287	86,907
Total restricted non-current assets	66,971	93,340
OTHER NON-CURRENT ASSETS:		
Deferred pension costs	5,480	5,605
Deferred bond issuance costs	1,957	2,076
Deferred debits (Note 4)	-	6,580
Total other non-current assets	7,437	14,261
Total non-current assets	466,672	480,393
CURRENT ASSETS:		
Unrestricted assets:		
Cash and cash equivalents (Note 2)	56,804	29,370
Accounts receivable, less allowance for doubtful accounts 2011 $261; 2010 $318	9,385	9,620
Accrued interest receivable	435	185
Prepaid expenses	2	5
Total unrestricted current assets	66,626	39,180
Restricted assets:		
Conservation and Reclamation - Cash and cash equivalents (Note 2)	2,245	2,079
Conservation and Reclamation Programs receivable	116	106
Total restricted current assets	2,361	2,185
Total current assets	68,987	41,365
Total assets	$ 535,659	$ 521,758

See accompanying notes to the financial statements

BALANCE SHEETS

EQUITY AND LIABILITIES	June 30, 2011	June 30, 2010
	(in thousands)	
EQUITY:		
Invested in capital assets, net of related debt	$ 241,552	$ 237,366
Restricted for:		
Debt service (Note 5)	5,684	6,433
Conservation and Reclamation Programs	2,316	2,166
Unrestricted	52,181	32,029
Total equity	301,733	277,994
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4)	209,112	219,414
OTHER NON-CURRENT LIABILITIES:		
Pension obligation (Notes 1 and 4)	5,327	5,466
Postemployment benefits payable (Notes 1 and 4)	1,222	881
Derivative instrument (Note 4)	5,448	7,130
Deferred charges on derivative instrument (Note 4)	482	-
Total other non-current liabilities	12,479	13,477
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	1,891	1,899
Conservation and Reclamation Programs payable	45	19
Current portion of long-term obligations (Note 4)	4,545	4,660
Total current liabilities payable from restricted assets	6,481	6,578
CURRENT LIABILITIES:		
Accounts payable and other accruals	5,026	3,530
Current portion of long-term obligations (Note 4)	150	150
Customer deposits	678	615
Total current liabilities	5,854	4,295
Total liabilities	233,926	243,764
COMMITMENTS AND CONTINGENCIES (NOTES 6 AND 7)	-	-
Total equity and liabilities	$ 535,659	$ 521,758

See accompanying notes to the financial statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN EQUITY

	For the Fiscal Years Ended June 30, 2011	2010
	(in thousands)	
OPERATING REVENUES:		
Residential sales	$ 35,721	$ 33,439
Commercial sales	17,863	16,331
Other sales	1,725	1,720
Wholesale sales	2,745	1,765
Conservation and Reclamation Programs	898	837
Other operating revenue	3,132	3,442
Total operating revenues before (reserve)/recovery	62,084	57,534
Reserve for uncollectible, net of bad debt recovery	(123)	(343)
Total operating revenues, net of (reserve)/recovery	61,961	57,191
OPERATING EXPENSES:		
Operations	24,791	25,972
Maintenance	5,872	5,620
Purchased energy	4,558	4,362
Conservation and Reclamation Programs	748	559
Depreciation	11,386	10,660
Total operating expenses	47,355	47,173
Operating income	14,606	10,018
NON-OPERATING REVENUES (EXPENSES):		
Investment income	2,635	1,815
Interest expense and fiscal charges	(8,912)	(7,886)
Gain on sale of capital assets	1,251	7
Gain on sale of land	-	1,835
Other	910	667
Total non-operating revenues (expenses)	(4,116)	(3,562)
Income before contributions and transfers	10,490	6,456
Capital contributions	1,982	2,052
Transfers out - contributions to the City's general fund	(5,847)	(5,657)
Total capital contributions and transfers out	(3,865)	(3,605)
Income before special item	6,625	2,851
SPECIAL ITEM:		
Intra-entity property sale	17,114	-
Increase in equity	23,739	2,851
EQUITY, BEGINNING OF YEAR	277,994	275,143
EQUITY, END OF YEAR	$ 301,733	$ 277,994

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

	For the Fiscal Years Ended June 30, 2011 (in thousands)	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	$ 60,023	$ 58,459
Cash paid to suppliers and employees	(34,101)	(40,102)
Other receipts	910	667
Net cash provided by operating activities	26,832	19,024
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(5,847)	(5,657)
Principal paid on pension obligation bonds	(139)	(118)
Net cash used by non-capital financing activities	(5,986)	(5,775)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(29,754)	(26,021)
Proceeds from the sale of utility plant	18,379	1,901
Principal paid on long-term obligations	(4,660)	(4,415)
Interest paid on long-term obligations	(9,268)	(7,348)
Proceeds from revenue bonds, including premium	-	102,658
Deposit to escrow account for advance bond refunding	-	(21,765)
Bond issuance costs	(402)	(695)
Capital contributions	3,706	1,127
Net cash (used) provided by capital and related financing activities	(21,999)	45,442
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investment securities	6,998	82
Income from investments	2,385	1,776
Net cash provided by investing activities	9,383	1,858
Net increase in cash and cash equivalents	8,230	60,549
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR **(including $87,736 and $26,878 at June 30, 2010 and June 30, 2009, respectively, reported in restricted accounts)**	117,106	56,557
CASH AND CASH EQUIVALENTS, END OF YEAR **(including $68,532 and $87,736 at June 30, 2011 and June 30, 2010, respectively, reported in restricted accounts)**	$ 125,336	$ 117,106
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 14,606	$ 10,018
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	11,386	10,660
Amortization of deferred charges-pension costs	125	100
(Increase) decrease in allowance for uncollectible accounts	(57)	104
(Increase) decrease in accounts receivable	(2,067)	767
Decrease in prepaid expenses	3	2
Increase (decrease) in accounts payable and other accruals	1,496	(3,700)
Increase in postemployment benefits payable	341	355
Increase (decrease) in Conservation & Reclamation Programs	26	(3)
Increase in customer deposits	63	54
Other receipts	910	667
Net cash provided by operating activities	$ 26,832	$ 19,024
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions - capital assets	626	744
Principal balance of revenue bonds refunded	59,000	-

See accompanying notes to the financial statements

Notes to the Financial Statements: Water

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Water Utility exists under, and by virtue of, the City of Riverside (the City) Charter enacted in 1883. The Water Utility is responsible for the production, transmission and distribution of water for sale in the City, except for certain areas served by another water utility. The accompanying financial statements present only the financial position and the results of operations of the Water Utility (the Utility), which is an enterprise fund of the City, and are not intended to present fairly the financial position and results of operations of the City in conformity with generally accepted accounting principles. However, certain disclosures are for the City as a whole, since such information is generally not available for the Fund on a separate fund basis. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

BASIS OF ACCOUNTING

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

USE OF ESTIMATES

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

REVENUE RECOGNITION

The Water Utility customers are billed monthly. Unbilled water service charges including the Conservation and Reclamation Programs, are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled $3,355 at June 30, 2011, and $3,120 at June 30, 2010.

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

UTILITY PLANT AND DEPRECIATION

The Water Utility defines capital assets as assets with an initial, individual cost of more than five thousand dollars and an estimated useful life in excess of one year. Utility plant assets are valued at historical costs or estimated historical cost, if actual historical cost is not available. Costs include labor; materials; interest during construction; allocated indirect charges such as engineering, supervision, construction and transportation equipment; retirement plan contributions and other fringe benefits. Contributed plant assets are valued at estimated fair value on the date contributed. The cost of relatively minor replacements is included in maintenance expense. Intangible assets that cost more than one hundred thousand dollars with useful lives of at least three years are capitalized and are recorded at cost.

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RESTRICTED ASSETS

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

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

CASH AND INVESTMENTS

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

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

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

City-wide information concerning cash and investments for the year ended June 30, 2011, including authorized investments, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and investments may be found in the notes to the City's "Comprehensive Annual Financial Report."

CASH AND INVESTMENTS AT FISCAL AGENTS

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

DERIVATIVES

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

The Utility has determined that its interest rate swaps associated with variable rate obligations are derivative instruments under GASB 53. The swaps are comprised of an "At-the-Market Swap" derivative instrument and an "Off-Market Swap" deferral balance as described below.

The Utility's evaluation of the "At-the-Market Swap" has concluded that it is an effective hedge under the synthetic instrument method. As a result, upon implementation of GASB 53 beginning July 1, 2009, the negative fair value of the "At-the-Market Swap"

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

has been recorded and deferred on the Balance Sheets. The Balance Sheets for June 30, 2009 have been restated to reflect the retroactive application of GASB 53. Disclosure requirements are presented in Note 4 under Interest Rate Swaps on Revenue Bonds.

The “Off-Market Swap” deferral balance was a result of the refunding of variable rate obligations that occurred in 2008 and 2011. Under GASB 53, hedge accounting ceased to be applied on the interest rate swaps associated with the obligations upon the occurrence of the refunding. Since new variable rate bonds were issued in the refunding, the deferral balance has been treated as a deferred loss and is included in the net carrying amount of the new bonds as reported on the Balance Sheets under long-term obligations.

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

Bond premium/discounts, issuance costs and gains and losses on refunding (including gains and losses related to interest rate swap transactions) are deferred and amortized over the term of the bonds using the effective interest method. Bond premium/discounts, and gains and losses on refunding are presented as a reduction of the face amount of bonds payable, whereas issuance costs are recorded as other assets.

CUSTOMER DEPOSITS

The City holds customer deposits as security for the payment of utility bills. The Water Utility’s portion of these deposits as of June 30, 2011 and 2010 was $678 and $615, respectively (including $115 and $112, respectively, held on behalf of La Sierra Water Company pending dissolution and distribution of remaining cash asset to shareholders, of which the Utility is the largest owner).

COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due to employees at June 30, 2011 and 2010. The Water Utility including the Conservation and Reclamation Programs, treats compensated absences due to employees as an expense and a current liability. The amount accrued for compensated absences was $1,429 at June 30, 2011, and $1,460 at June 30, 2010, and is included in accounts payable and other accruals in the accompanying Balance Sheets.

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

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

INSURANCE PROGRAMS

The Water Utility participates in a self-insurance program for workers’ compensation and general liability coverage that is administered by the City. The Utility pays an amount to the City based on actuarial estimates of the amounts needed to fund prior and current year claims and incidents that have been incurred but not reported. The City maintains property insurance on most City property holdings, including Utility plant with a limit of $1 billion.

City-wide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risks for the year ended June 30, 2011, may be found in the notes to the City’s “Comprehensive Annual Financial Report.”

Although the ultimate amount of losses incurred through June 30, 2011 is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. Premiums paid to the City by the Water Utility including the Conservation and Reclamation Programs, were $620 and $528 for the years ended June 30, 2011 and 2010, respectively. Any losses above the City’s reserves would be covered through increased rates charged to the Utility in future years.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

EMPLOYEE RETIREMENT PLAN

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

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

Employee contributions are 8.0 percent of their annual covered salary. The Water Utility is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The employer portion of PERS funding as of June 30, 2011 and 2010 was 14.51 percent and 14.22 percent, respectively, of annual covered payroll. The Utility pays both the employee and employer contributions. The total Water Utility's contribution to PERS including the Conservation and Reclamation Programs as of June 30, 2011 and 2010 was $2,603 and $2,633, respectively.

City-wide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the fiscal year ended June 30, 2011, 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, 2011.

PENSION OBLIGATION BONDS

In 2005, the City issued Pension Obligation Bonds in the amount of $60,000, of which the Water Utility's share is $5,890. The deferred charge relating to the net pension asset will be amortized over 19 years in accordance with the method used by PERS for calculating actuarial gains and losses. The Bond proceeds were deposited with PERS to fund the unfunded actuarial accrued liability for non-safety employees. The balance in deferred pension costs as of June 30, 2011 and 2010 was $5,480 and $5,605, respectively. For more discussion relating to the City's issue, see the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2011.

OTHER POSTEMPLOYMENT BENEFITS

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Utility's annual OPEB cost (expense) for each plan is calculated based on annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB 45)*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) (UAAL) over a period not to exceed thirty years. The Water Utility's OPEB liability including the Conservation and Reclamation Programs as of June 30, 2011 and 2010 was $1,228 and $883, respectively.

City-wide information concerning the description of the plans, funding policy and annual OPEB cost, funding status and funding progress, and actuarial methods and assumptions for the year ended June 30, 2011 can be found in the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2011.

EQUITY

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

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

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

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

CONTRIBUTIONS TO THE CITY'S GENERAL FUND

Pursuant to the City of Riverside Charter, the Water Utility may transfer up to 11.5 percent of its prior year's gross operating revenues to the City's general fund. In fiscal years ended June 30, 2011 and 2010, the Water Utility transferred 11.5 percent of gross operating revenues less wholesale sales and Conservation and Reclamation Programs revenues, or $5,847 and $5,657, 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 Utility's budget in June each year via resolution.

RECLASSIFICATIONS

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

PRIOR YEAR DATA

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

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2011 and 2010, consist of the following (in thousands):

	June 30, 2011	June 30, 2010
	Fair Value	
Equity interest in City Treasurer's investment pool	$ 64,733	$ 37,882
Cash and investments at fiscal agent	60,764	83,950
	125,497	121,832
Certificate of Deposit with financial institutions at fiscal agent[3]	523	2,957
Total cash and investments	$ 126,020	$ 124,789

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

	June 30, 2011	June 30, 2010
Unrestricted cash and cash equivalents	$ 56,804	$ 29,370
Restricted cash and cash equivalents	7,929	8,512
Restricted cash and investments at fiscal agent	61,287	86,907
Total cash and investments	$ 126,020	$ 124,789

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

		Remaining Maturity (In Months)		
Investment Type	Total	12 Months or less	13 to 24 Months	25 to 60 Months
Held by fiscal agent				
Money market funds	$ 3,909	$ 3,909	$ -	$ -
Investment contracts [1]	56,855	56,855	-	-
City Treasurer's investment pool [2]				
Money market funds	4,833	4,833	-	-
Federal agency securities	30,935	2,679	11,473	16,783
Corp medium term notes	8,366	1,630	2,523	4,213
State investment pool	19,861	19,861	-	-
Negotiable Certificate of Deposit	738	-	40	698
Total [3]	$ 125,497	$ 89,767	$ 14,036	$ 21,694

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

		Rating as of Year End		
Investment Type	Total	AAA	AA	Unrated
Held by fiscal agent				
Money market funds	$ 3,909	$ 3,909	$ -	$ -
Investment contracts	56,855	-	-	56,855
Corp medium term notes	-	-	-	-
City Treasurer's investment pool [2]				
Money market funds	4,833	3,140	1,693	-
Federal agency securities	30,935	30,935	-	-
Corp medium term notes	8,366	8,366	-	-
State investment pool	19,861		-	19,861
Negotiable Certificate of Deposit	738			738
Total [3]	$ 125,497	$ 46,350	$ 1,693	$ 77,454

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

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

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

NOTE 3. UTILITY PLANT

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2011 and 2010 (in thousands):

	Balance, As of 6/30/2009	Additions	Retirements/ Transfers	Balance, As of 6/30/2010	Additions	Retirements/ Transfers	Balance, As of 6/30/2011
Source of supply	$ 61,392	$ 1,428	$ -	$ 62,820	$ 993	$ -	$ 63,813
Pumping	20,782	3,891	-	24,673	891	-	25,564
Treatment	23,772	175	-	23,947	29	-	23,976
Transmission and distribution	327,189	29,428	(416)	356,201	18,678	(906)	373,973
General	13,275	1,494	(689)	14,080	783	(507)	14,356
Depreciable utility plant	446,410	36,416	(1,105)	481,721	21,374	(1,413)	501,682
Less accumulated depreciation:							
Source of supply	(11,907)	(1,205)	-	(13,112)	(1,247)	-	(14,359)
Pumping	(7,248)	(540)	-	(7,788)	(601)	-	(8,389)
Treatment	(3,929)	(772)	-	(4,701)	(776)	-	(5,477)
Transmission and distribution	(100,735)	(6,939)	467	(107,207)	(7,531)	906	(113,832)
General	(7,733)	(1,256)	630	(8,359)	(1,230)	492	(9,097)
Accumulated depreciation	(131,552)	(10,712)	1,097	(141,167)	(11,385)	1,398	(151,154)
Net depreciable utility plant	314,858	25,704	(8)	340,554	9,989	(15)	350,528
Land	10,809	-	-	10,809	95	(43)	10,861
Intangible	6,015	303	(11)	6,307	-	-	6,307
Construction in progress	24,407	27,435	(36,720)	15,122	30,068	(20,622)	24,568
Nondepreciable utility plant	41,231	27,738	(36,731)	32,238	30,163	(20,665)	41,736
Total utility plant	$ 356,089	$ 53,442	$ (36,739)	$ 372,792	$ 40,152	$ (20,680)	$ 392,264

NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2011 and 2010 (in thousands):

	Balance As of 6/30/2009	Additions	Reductions	Balance As of 6/30/2010	Additions	Reductions	Balance As of 6/30/2011	Due Within One Year
Revenue bonds	$ 146,588	$ 102,041	$ (25,354)	$ 223,275	$ 50,010	$ (60,425)	$ 212,860	$ 4,545
Pension obligation	5,584	-	(118)	5,466	-	(139)	5,327	163
Postemployment benefits payable	526	355	-	881	341	-	1,222	-
Water stock acquisition rights	949	-	-	949	-	(2)	947	150
Total long-term obligations	$ 153,647	$ 102,396	$ (25,472)	$ 230,571	$ 50,351	$ (60,566)	$ 220,356	$ 4,858

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

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

Contracts Payable	June 30, 2011	June 30, 2010
Water Stock Acquisitions: Payable on demand to various water companies	$ 947	$ 949
Total contracts payable	947	949
Revenue Bonds Payable		
$69,840 1991 Water Revenue Bonds: All bonds outstanding were fully matured on October 1, 2010	-	3,235
$20,000 2001 Water Revenue Bonds: serial bonds due in annual installments from $470 to $510 through October 1, 2013, interest from 4.0 percent to 4.4 percent (partially advance refunded in 2005 and 2009 with final maturity in 2013)	1,470	1,920
$60,300 2008 Water Refunding/Revenue Series A Bonds: All outstanding bonds were refinanced with the 2011 series A Revenue/Refunding Bonds on May 26, 2011	-	59,450
$58,235 2008 Water Revenue Series B Bonds: fixed rate bonds due in annual installments from $1,210 to $7,505 from October 1, 2016 through October 1, 2038, interest from 4.0 percent to 5.0 percent	58,235	58,235
$31,895 2009 Water Refunding/Revenue Series A Bonds: fixed rate bonds due in annual installments from $500 to $3,835 through October 1, 2020, interest from 0.65 percent to 5.0 percent	31,370	31,895
$67,790 2009 Water Revenue Series B Bonds: fixed rate, federally taxable, Build America Bonds due in annual installments from $2,475 to $4,985 through October 1, 2039, interest from 3.3 percent to 4.1 percent	67,790	67,790
$59,000 2011 Water Revenue/Refunding Series A Bonds: variable rate bonds due in annual installments from $800 to $3,950 through October 1, 2035. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 29, 2011 was 3.2 percent)	59,000	-
Total water revenue bonds payable	217,865	222,525
Total water revenue bonds and contracts payable	218,812	223,474
Unamortized deferred bond refunding costs	(9,802)	(4,127)
Unamortized capital appreciation	-	(110)
Unamortized bond premium	4,797	4,987
Total water revenue bonds and contracts payable, net of deferred bond refunding costs, capital appreciation, and bond premium	213,807	224,224
Less current portion	(4,695)	(4,810)
Total long-term water revenue bonds and contracts payable	$ 209,112	$ 219,414

Annual debt service requirements to maturity, as of June 30, 2011, are as follows (in thousands):

	2012	2013	2014	2015	2016	2017-2021	2022-2026	2027-2031	2032-2036	2037-2041	Total
Principal	$ 4,695	$ 4,845	$ 5,020	$ 5,165	$ 5,410	$ 28,372	$ 33,990	$ 41,110	$ 49,955	$ 40,250	$ 218,812
Interest	8,840	8,678	8,487	8,276	8,046	36,753	30,773	23,417	14,296	3,234	150,800
Total	$ 13,535	$ 13,523	$ 13,507	$ 13,441	$ 13,456	$ 65,125	$ 64,763	$ 64,527	$ 64,251	$ 43,484	$ 369,612

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

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

PRIOR YEAR DEFEASANCE OF DEBT

In prior years, the Water Utility defeased certain Revenue Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Utility's financial statements. At fiscal year ended June 30, 2011, $14,995 of bonds outstanding is considered defeased.

2011 WATER REFUNDING/REVENUE BONDS

In May 2008, the Water Utility refinanced $60,300 of Auction Rate Securities (ARS) with Variable Rate Demand Notes (VRDNs). Due to the 2008 financial market meltdown, the ARS experienced failed auctions. VRDNs in conjunction with the Utility's interest rate hedges (discussed in the Interest Rate Swaps on Revenue Bonds section below) have proven to be very effective in lowering the overall debt costs. VRDNs require additional credit enhancements (e.g. insurance or a bank letter of credit) to ensure timely payment to the bondholders. In 2008, the Utility used Letters of Credit (LOC) provided by Bank of America/Merrill Lynch (BAML), at very attractive rates, which required BAML to make debt service payments to bondholders should the Utility fail to make payment. The LOC with BAML expired in May 2011 and due to the number of entities seeking to renew their expiring LOCs combined with the shrinking number of highly-rated banks offering this service, renewing the existing LOC with BAML resulted in higher rates. Therefore, the Utility decided to restructure the 2008 VRDNs in order to mitigate various risk exposures and to provide an overall lower cost of financing by refunding the 2008 VRDNs with the 2011 VRDNs (as described below).

Because one variable rate debt product was exchanged for another, the typical refunding disclosure measuring the difference in aggregate debt service and calculating an economic gain or loss is less relevant, as the future cash flows of each leg of the calculation are uncertain. For this reason, only the terms of the transaction are described.

On May 26, 2011, $59,000 of Water Refunding/Revenue Series A Bonds were sold with an all-in true interest cost of 3.33% to refund $59,000 of previously outstanding 2008 Water Refunding/Revenue Bonds. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $434. The difference is being charged to operations using the proportional method. Principal payments are due on October 1, 2011 until the maturity date of October 1, 2035 ranging from $800 to $3,950.

INTEREST RATE SWAPS ON REVENUE BONDS

The Water Utility has one cash flow hedging derivative instrument, which is a pay-fixed swap. The swap was determined to be hedge-effective under the synthetic instrument method. The change in fair value for fiscal year 2011 was recorded in the deferred charges on derivative instrument on the Balance Sheets.

A summary of the derivative activity for the year ended June 30, 2011 is as follows:

	Notional Amount	Fair Value as of 6/30/2011	Change in Fair Value for Fiscal Year
2011 Water Refunding/Revenue Bonds Series A	$ 59,000	$ (5,448)	$ 1,682

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

Terms: Per the existing swap agreement, the Utility pays the counterparty a fixed payment as noted above and receives a variable payment computed as 62.68% of the London Interbank Offering Rate ("LIBOR") one month index plus 12 basis points. The swap has a notional amount equal to the principal amount stated above. The notional value of the swap and principal amount of the associated debt decline by $800 to $3,950 until the debt is completely retired in fiscal year 2036.

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

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

Interest rate swap:	Terms	Rates
Fixed payment to counterparty	Fixed	3.20000%
Variable payment from counterparty	62.68 LIBOR + 12bps	(0.24207%)
Net interest rate swap payments		2.95793%
Variable-rate bond coupon payments		0.22550%
Synthetic interest on bonds		3.18343%

Fair value: As of June 30, 2011, in connection with the swap agreement, the transactions had a total negative fair value of ($5,448). Because the coupons on the Utility's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was developed by a pricing service using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Credit risk: As of June 30, 2011, the Utility was not exposed to credit risk because the swap had a negative fair value. The swap counterparty, J.P. Morgan Chase & Co. was rated A+ by Standard & Poor's. To mitigate the potential for credit risk, the swap agreement requires the fair value of the swap to be collateralized by the counterparty with U.S. Government securities if the counterparty's rating decreases to negotiated trigger points. Collateral would be posted with a third-party custodian. At June 30, 2011, there is no requirement for collateral posting for the outstanding swap.

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

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

Swap payments and associated debt: As of June 30, 2011, the debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are summarized as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

	Variable-Rate Bonds			
Fiscal Year Ending June 30,	**Principal**	**Interest**	**Interest Rate Swaps, Net**	**Total**
2012	$ 800	$ 131	$ 1,721	$ 2,652
2013	825	129	1,697	2,651
2014	850	127	1,672	2,649
2015	875	126	1,646	2,647
2016	925	123	1,619	2,667
2017-2021	8,625	569	7,459	16,653
2022-2026	13,550	430	5,644	19,624
2027-2031	15,175	267	3,496	18,938
2031-2035	17,375	84	1,096	18,555
Total	$ 59,000	$ 1,986	$ 26,050	$ 87,036

NOTE 5. RESTRICTED EQUITY

Pursuant to applicable bond indentures, a reserve for debt service has been established by restricting assets and reserving a portion of equity. Bond indentures for the Utility's water revenue and refunding bonds require debt service reserves that equate to the maximum annual debt service required in future years and bond service reserves of three months interest and nine months principal due in the next fiscal year. Variable rate revenue and refunding bonds require 110% of the monthly accrued interest to be included in the reserve. Certain bond issues are covered by a Surety Bond (2008 Revenue Series B) and certain issues have no debt service reserve requirements (2009 Revenue/Refunding Series A, 2009 Revenue Series B and 2011 Refunding Series A bonds).

NOTE 6. LITIGATION

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

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

NOTE 7. CONSTRUCTION COMMITMENTS

As of June 30, 2011, the Water Utility had major commitments (encumbrances) of approximately $9,033 with respect to unfinished capital projects which is expected to be funded by bonds.

NOTE 8. SPECIAL ITEM

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


INLINE

Key Historical Operating Data: Water

KEY HISTORICAL OPERATING DATA

WATER SUPPLY (ACRE FEET)

	2010/11	2009/10	2008/09	2007/08	2006/07
Pumping	66,492	69,676	76,830	80,974	85,299
Purchases	0	0	0	1,643	2,092
Total:	66,492	69,676	76,830	82,617	87,391
Percentage pumped	100.00%	100.00%	100.00%	98.0%	97.6%
System peak day (gallons)	90,556,000	98,017,000	105,780,000	111,300,000	109,200,000

WATER USE

	2010/11	2009/10	2008/09	2007/08	2006/07
Number of meters as of year end					
Residential	58,460	58,372	58,152	57,694	57,666
Commercial/Industrial	5,482	5,451	5,519	5,446	5,279
Other	407	408	391	354	486
Total:	64,349	64,231	64,062	63,494	63,431
*CCF sales					
Residential	15,698,321	16,321,425	17,898,798	18,483,522	19,848,653
Commercial/Industrial	9,219,913	9,344,085	10,342,284	10,510,953	10,817,783
Other	826,165	871,396	983,553	970,239	1,243,927
Subtotal:	25,744,399	26,536,906	29,224,635	29,964,714	31,910,363
Wholesale	158,040	150,365	496,601	618,552	199,845
Total:	25,902,439	26,687,271	29,721,236	30,583,266	32,110,208

*(CCF equals 100 cubic feet)

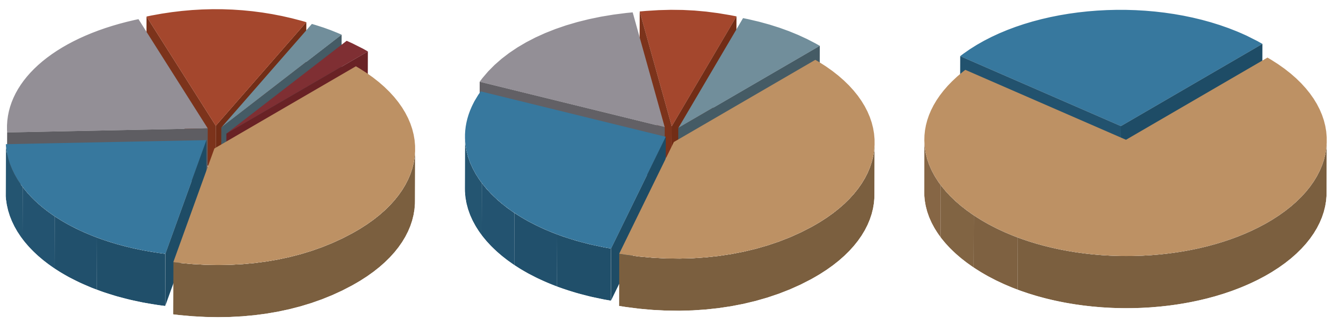
WATER FACTS

	2010/11	2009/10	2008/09	2007/08	2006/07
Average annual CCF per residential customer	269	280	308	320	345
Average price ($/CCF) per residential customer	$2.28	$2.05	$1.81	$1.63	$1.43
Debt service coverage ratio (DSC)[2]	3.49	2.08	2.25	3.88	3.38
Employees[1]	180	178	167	167	165

[1]Approved positions

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

2010/2011 WATER REVENUE AND RESOURCES



Source of Revenue

- Residential Sales 41¢
- Commercial Sales 21¢
- Special Item 20¢
- Other Revenues 13¢
- Investment Income 3¢
- Other Sales 2¢

Distribution of Revenue

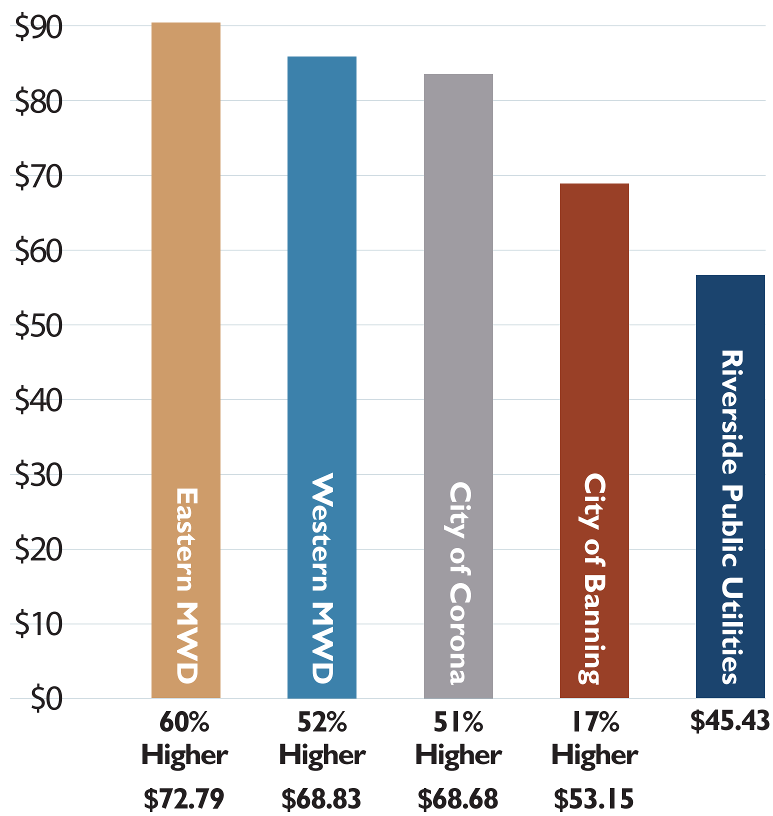
- Operations and Maintenance 42¢
- Additional Reserves 27¢
- Debt Services 16¢
- Additions and Replacements to the System 8¢
- Transfers to the City's General Fund* 7¢

** Based on transfer of 11.5% of fiscal year 2009/2010 operating revenues (excludes wholesale sales and Conservation and Reclamation revenue).*

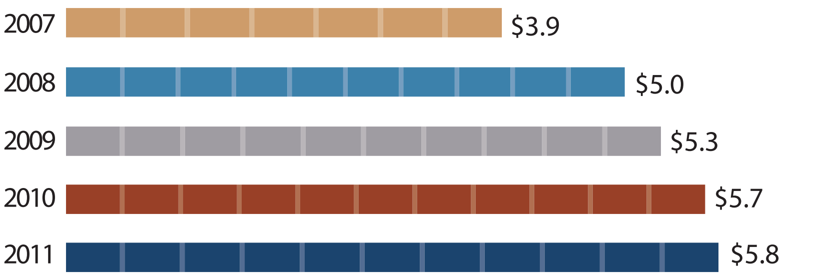
Water Resources

- San Bernardino Basin Wells 73%
- Riverside Basin Wells 27%
- Purchased Water 0%

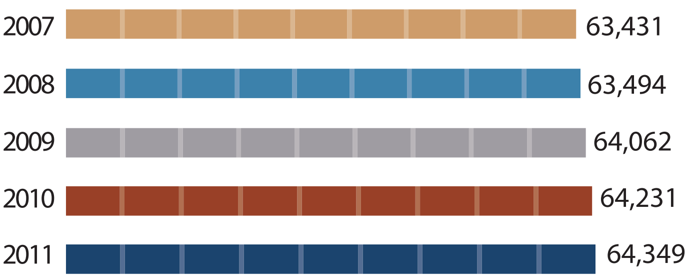
RESIDENTIAL WATER RATE COMPARISON – 23 CCF PER MONTH (AS OF JUNE 30, 2011)



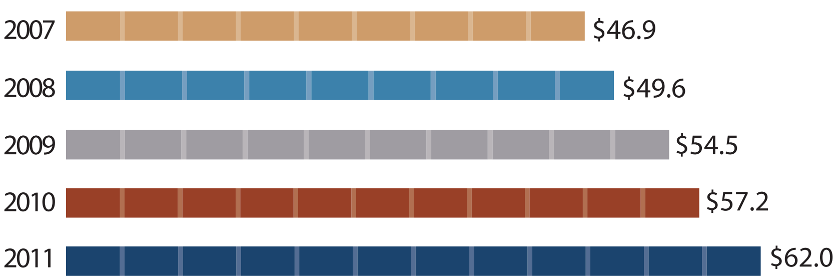
GENERAL FUND TRANSFER (IN MILLIONS)



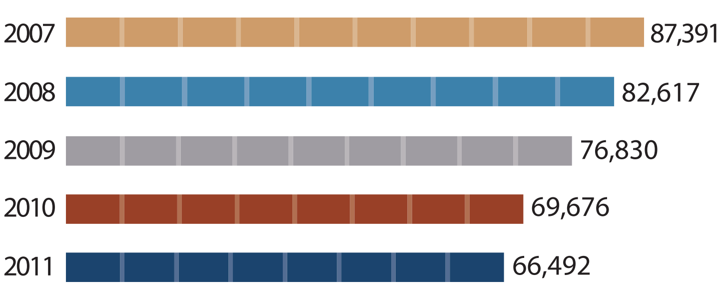
NUMBER OF METERS AT YEAR END



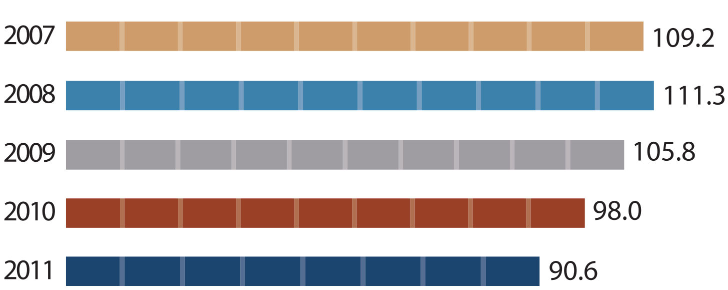
TOTAL OPERATING REVENUE (IN MILLIONS)



PRODUCTION (IN ACRE FEET)



PEAK DAY DEMAND (IN MILLION GALLONS)



WATER FACTS AND SYSTEM DATA

Established	1913
Service Area Population	306,779
Service Area Size (square miles)	74.4
System Data:	
Smallest pipeline	2.0”
Largest pipeline	72.0”
Miles of pipeline	1,002
Number of domestic wells	52
Number of active reservoirs	15
Total reservoir capacity (gallons)	92,500,000
Number of treatment plants	6
Number of treatment vessels	95
Miles of canal	14
Number of fire hydrants	7,632
Daily average production (gallons)	57,947,719
2010-2011 Peak day (gallons)	90,556,000
07/19/10, 105 degrees	
Historical peak (gallons)	118,782,000
08/09/05, 99 degrees	

Bond Ratings

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

Riverside Public Utilities
Administration
3901 Orange Street
Riverside, CA 92501
951.826.5506
RiversidePublicUtilities.com

WATER | ENERGY | LIFE

CITY OF RIVERSIDE

PUBLIC UTILITIES