WATER | ENERGY | LIFE

CITY OF RIVERSIDE

PUBLIC UTILITIES

FINANCIAL REPORT 2007-2008

CONTENTS

Mission

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

Vision

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

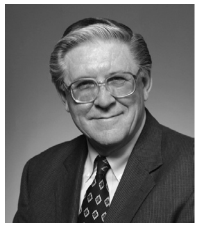
Core Values

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




BOARD OF PUBLIC UTILITIES

The Board of Public Utilities is composed of nine citizen-volunteers appointed by the City Council to four-year terms without compensation. Board members oversee the utility's policies, operations, revenues, expenditures, planning, and regulatory compliance. In addition to bi-weekly Board meetings, members also serve on subcommittees to provide input on the development of new facilities and equipment; performance measures; programs to conserve energy and water resources; and appropriate technology to protect our water supply and secure our energy resources. The citizen-volunteers who serve on the Board of Public Utilities provide an ongoing, year-round review of all actions by Riverside Public Utilities before any measure is sent to the elected City Council representatives for final determination. The Board of Public Utilities meets at 8:30 a.m. on the first and third Fridays of each month in the Public Utilities Board Room at 3901 Orange Street, Riverside. Board meetings are open to the public.

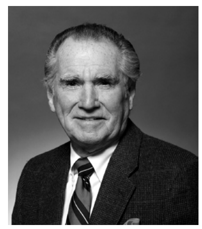


David E. Barnhart
Chairman
Occupation: Retired Civil Engineer
Years of Service: 5

Robert A. Stockton
Vice Chairman
Occupation: Vice President, Civil Engineering Consulting
Years of Service: 5

Mary Curtin
Occupation: Teacher of English, RCC and Executive Director Riverside & San Bernardino Central Labor
Years of Service: 2

Ian J. Davidson
Occupation: Owner/President IDLA, Inc.
Years of Service: 1



Robert Elliot
Occupation: Retired San Bernardino County Employee Association General Manager
Years of Service: 2

Manny Sanchez
Occupation: President, Terra Solutions Inc.
Years of Service: New Member

Ken L. Sutter
Occupation: Retired Architect
Years of Service: 4

Joe Tavaglione
Occupation: President of Construction & Development Co.
Years of Service: 8

Bernie Titus
Occupation: President/CEO of Service Plus Credit Union
Years of Service: 2

PUBLIC UTILITIES ADMINISTRATION

David H. Wright
General Manager

Stephen H. Badgett
Deputy General Manager
Energy Delivery

Kevin S. Milligan
Assistant General Manager
Water

Gary L. Nolff
Assistant General Manager
Resources

Jerry D. Rogers
Assistant General Manager
Finance and Customer Relations

STRONG. STABLE. RELIABLE.

Despite a surrounding climate of economic change and duress, persisting drought conditions, and a variety of regulatory challenges, Riverside Public Utilities enhanced its fiscal strength (receiving ratings upgrades by Standard & Poor's for both the Electric and Water Utilities to AA- and AA+, respectively), while making strong investments that allow us to continue to provide the **highest quality, reliable utility services** for our customer-owners at the lowest rates possible.

893
kW

Investments in our Water Utility included projects such as the John W. North Water Treatment Plant and San Bernardino Transmission Main that further our commitments to the City's "Safe Water Plan," while maintaining our high water quality standards and long-term supply needs.

$129
million

This year we also introduced three new water-saving rebate programs and our www.BlueRiverside.com web site, which informs customers about water conservation reducing costs. With the approval of the Riverside Recycled Water Program, we will be able to **preserve millions of gallons** of potable water resources through utilization of recycled water to irrigate parks, medians, and commercial and industrial properties.

Our Electric Utility **overcame obstacles** that challenged its ability to provide reliable services into the future. The Utility received approval to construct internal generation units that will provide the City with an additional 96 megawatts (MW) to meet peak energy and emergency power needs over the coming years. Other elements to our Electric Reliability Plan included the Power Line Tree Trimming Program, designed to improve safety around power lines and decrease tree-related outages.

Meeting our renewable energy goals and promoting a sustainable community have also been a priority for the Utility. Green Power milestones included: signing a new long-term 64 MW geothermal power agreement; doubling rebates for our residential solar program; the creation of a commercial solar rebate program; and recognition of being a leading solar utility in the nation. To date, Riverside has **65 solar energy projects** totaling over 893 kilowatts.

Conservation remains fundamental in meeting Riverside's growing utility needs. For 10 years, our Public Benefit Programs have provided millions of dollars in rebate incentives for homes and businesses. Through these conservation programs, **our customers have saved** more than 150 million kilowatt hours of electricity, **saving over $129 million.**

In addition to funding these programs, our fiscal performance has allowed us to contribute more than $32 million in Utilities revenue/income this year toward the City of Riverside's General Fund to help maintain public safety, parks and recreation, and library services.

With multi-year rate plans in place for each utility, the **future strength and stability** of Riverside Public Utilities is enhanced, and reliable services will remain in place to meet our customers' needs as Riverside continues to remain a premier Southern California city to live and work in.

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

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

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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the City of Riverside, California, Electric Utility, an enterprise fund of the City, as of and for the year ended June 30, 2008 as listed in the table of contents. These financial statements are the responsibility of the City of Riverside Electric Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year partial comparative information has been derived from the financial statements of the Electric Utility for the year ended June 30, 2007 and, in our report dated October 19, 2007, we expressed an unqualified opinion on those financial statements.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Riverside, California, Electric Utility, as of June 30, 2008, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described further in Note 1 to the financial statements, the Electric Utility changed its method of accounting for post employment benefits for the fiscal years ending on or after June 30, 2008.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information. 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.

MHM

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

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

In accordance with *Government Auditing Standards,* we have also issued our report dated October 3, 2008 on our consideration of the City of Riverside's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Hoffman McCann P.C.

Irvine, California
October 3, 2008

As management of Riverside Public Utilities (a department of the City of Riverside), we offer the readers of Riverside's Electric Utility financial statements, an enterprise fund of the City, this narrative overview and analysis of the financial activities of the Electric Utility (Utility) for the fiscal years ended June 30, 2008 and 2007. We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, which begin on page 18 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

Fiscal years 2008 and 2007 reflected strong operating results for the Electric Utility, with each year's retail revenues exceeding the previous all-time record, primarily from an expanded customer base, increased overall consumption, and the effects of rate increases.

- Retail sales, net of reserve/recovery were $257,120 and $238,658 for years ended June 30, 2008 and 2007, respectively.

- In April 2008, Standard & Poor's raised the City of Riverside's Electric Utility's revenue bonds to AA- from its previous rating of A+.

- The assets of the Electric Utility exceeded its liabilities (equity) at the close of fiscal years 2008 and 2007 by $356,297 and $325,487, respectively. Of this amount, $146,440 and $137,708, respectively, may be used to meet the Utility's ongoing obligations to creditors and customers.

- The Utility's overall equity increased by $30,810 and $41,884 for fiscal years ended June 30, 2008 and 2007 due to positive operating results from the historic levels of retail sales and other items discussed in this report.

- As of June 30, 2008 and 2007, unrestricted equity represented over 58% and 63% of annual operating expenses, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

The ***Notes to the Financial Statements*** provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 22 to 38 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 $356,297 and $325,487 at the close of the fiscal years 2008 and 2007, respectively.

The following table summarizes the Utility's financial condition as of June 30, 2008, 2007 and 2006:

CONDENSED STATEMENTS OF EQUITY (NET ASSETS)

	2008	2007	2006
Current and other assets	$ 498,822	$ 318,076	$ 319,730
Capital assets	505,444	452,712	426,853
Total assets	1,004,266	770,788	746,583
Long-term debt outstanding	528,030	334,751	354,699
Other liabilities	119,939	110,550	108,281
Total liabilities	647,969	445,301	462,980
Invested in capital assets, net of related debt	181,966	162,384	137,748
Restricted	27,891	25,395	22,001
Unrestricted	146,440	137,708	123,854
Total equity (net assets)	$ 356,297	$ 325,487	$ 283,603

ASSETS

Fiscal Year 2008 The Utility's total assets of $1,004,266 reflect an increase of $233,478 (30.3%), mainly due to the following:

- Current and other assets, which are comprised of restricted and unrestricted assets, reflect a net increase of $180,746 due to positive operating results and the receipt of new bond proceeds. Restricted assets increased by $165,578 primarily due to the receipt of bond proceeds from the issuance of the 2008 Electric Revenue Series D Bonds in the amount of $209,740 and the use of $51,763 in bond proceeds for capital projects. Unrestricted assets increased by $15,168 mostly due to a $12,153 increase in operating cash from positive operating results, a $2,435 increase in deferred bond issuance costs, offset by a $3,341 decrease in deferred purchased power. Also within unrestricted assets, unrestricted cash and cash equivalents decreased by $26,701 primarily as a result of an increase in advances to the City of $39,504, offset by the increase in operating cash of $12,153.

- The increase in net capital assets (Utility plant) of $52,732 was primarily due to an increase in completed distribution system assets of $52,083 resulting from continued improvements to the Electric Utility's distribution system and increases in construction in progress of $15,083 primarily due to the Riverside Energy Resource Center Units 3 and 4 project. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section of this financial analysis.

Fiscal Year 2007 Total assets were $770,788, an increase of $24,205 (3.2%), primarily due to a $25,859 increase in net capital assets (Utility plant), resulting from continued improvements to the Electric Utility's distribution system and a $1,654 decrease in current and other assets. This $1,654 decrease was due to $11,214 decrease in restricted assets mainly resulting from the use of bond proceeds for capital projects and a $9,560 increase in unrestricted assets due to positive operating results.

LIABILITIES

Fiscal Year 2008 The Utility's total liabilities were $647,969, an increase of $202,668 (45.5%), due to the following:

- Long-term debt outstanding increased by $193,279, primarily due to the issuance of new bonds in the amount of $209,740 offset by $19,460 in principal repayments, and the amortization of bond premiums and deferred bond refunding costs.

- Other liabilities increased by $9,389, primarily due to increases of $3,917 in nuclear decommissioning, $3,291 in accounts payable, $885 in the current portion of long-term obligations, $950 accrued interest payable, and $605 in postemployment benefits payable, offset by a $927 decrease in arbitrage.

Fiscal Year 2007 Total liabilities were $445,301, a decrease of $17,679 (3.8%), predominantly due to a decrease in long-term debt outstanding of $19,948, largely due to an $18,815 in principal repayments and the amortization of bond premiums and deferred bond refunding costs. Other liabilities increased by $2,269, due to increases of $3,527 in nuclear decommissioning, $927 in arbitrage, and $645 in the current portion of long-term obligations, offset by a $2,898 decrease in accounts payable.

EQUITY (NET ASSETS)

Fiscal Year 2008 The Utility's equity, which represents the difference between the Utility's resources and its obligations, totaled $356,297, an increase of $30,810 (9.5%), primarily the result of retail revenues reaching a historic high and contributions from developers, and is comprised of the following:

- A portion of the Utility's equity (51.1%) reflects its investment in capital assets, such as production, transmission, and distribution facilities, less any related outstanding debt used to acquire those assets. This portion totaled $181,966, an increase of $19,582 (12.1%) primarily due to the amount of capital assets constructed or purchased that were not bond financed. The Electric Utility uses these capital assets to provide services to customers; consequently these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since capital assets themselves cannot be used to liquidate these long-term obligations. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.

- The restricted portion totaled $27,891 (7.8% 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. This portion increased by $2,496 primarily due to an increase in the required debt service reserve as a result of the $209,740 bond issue and the $119,115 refunding bond issue.

- The unrestricted portion equals $146,440 (41.1% of total equity), an increase of $8,732, and is primarily attributable to positive operating results. This portion may be used to meet the Utility's ongoing obligations to creditors and customers.

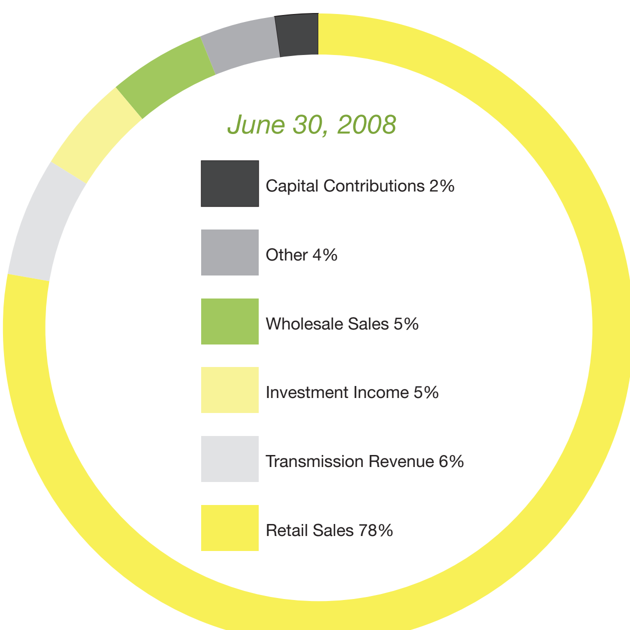
Fiscal Year 2007 Electric fund equity increased by $41,884 (14.8%) to a total of $325,487. The portion of equity invested in capital assets, net of related debt, increased by $24,636. The restricted portion increased by $3,394 primarily due to an increase in Public Benefit Programs' assets. The unrestricted portion increased by $13,854 and was primarily attributable to positive operating results.

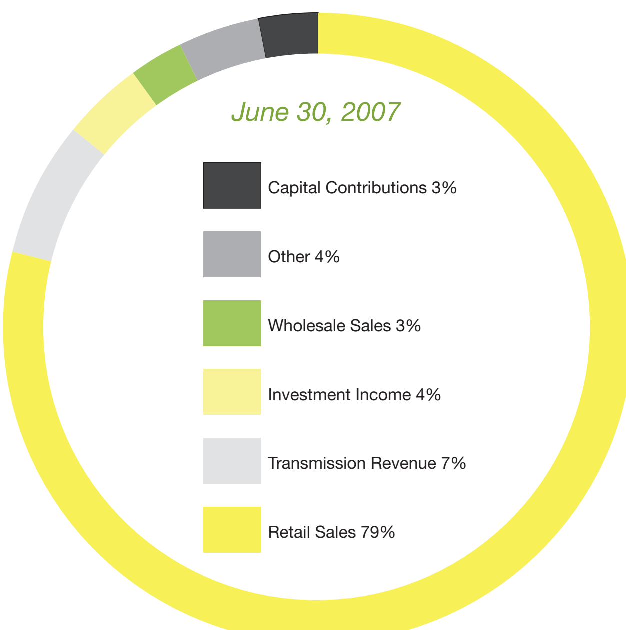
Positive operating results in the Electric Utility increased equity by $30,810 and $41,884 during fiscal years 2008 and 2007, respectively, as reflected in the following Condensed Statements of Changes in Equity:

CONDENSED STATEMENTS OF CHANGES IN EQUITY (NET ASSETS)

	2008	2007	2006
Revenues:			
Retail sales, net	$ 257,120	$ 238,658	$ 216,868
Wholesale sales	14,805	9,913	11,952
Transmission revenues	19,211	20,097	20,043
Investment income	16,380	11,118	7,269
Other operating revenues	14,242	11,372	10,735
Capital contributions	6,076	9,781	8,231
Total revenues	327,834	300,939	275,098
Expenses:			
Production and purchased power	151,451	129,981	129,298
Transmission	31,288	29,902	29,519
Distribution	48,749	36,341	35,727
Depreciation	22,193	20,836	16,501
Interest expense and fiscal charges	15,972	14,602	13,615
Total expenses	269,653	231,662	224,660
Transfers to the City's general fund	(27,371)	(27,393)	(22,037)
Changes in equity	30,810	41,884	28,401
Equity, July 1	325,487	283,603	255,202
Equity, June 30	$ 356,297	$ 325,487	$ 283,603

REVENUES BY SOURCES





Fiscal Year 2008 Total revenues for the years ended June 30, 2008 and 2007 were $327,834 and $300,939, respectively, an increase of $26,895 (8.9%), with significant changes in the following:

- Retail sales (residential, commercial, industrial, and other sales), net of reserve/recovery, totaled $257,120, a $18,462 (7.7%) increase. Retail sales continue to be the primary revenue source for the Electric Utility, accounting for 78.4% of total revenues. The $18,462 increase was primarily due to rate increases on January 1, 2007 and January 1, 2008. The rate increase on January 1, 2008 reflects the first year of the three year Electric Utility Rate Plan.

- Wholesale sales of $14,805 increased by $4,892 (49.3%), due to higher than expected volume of "excess" power available for sale, as well as higher prices received for market sales.

- Investment income of $16,380 reflects an increase of $5,262 (47.3%), predominantly due to an overall net increase in fair value of investments of $2,516, as well as positive operating results and an increase in the size of the investment portfolio from the new bond issue.

- Other operating revenues were $14,242, an increase of $2,870 (25.2%), primarily reflecting increases in Public Benefit Programs revenues of $788 and settlement reimbursements of $1,343.

- Capital contributions of $6,076 reflect a decrease of $3,705 (37.9%), reflecting a lower level of construction projects funded by others.

Fiscal Year 2007 Total revenues were $300,939, an increase of $25,841 (9.4%), with significant changes from the prior year in the following areas:

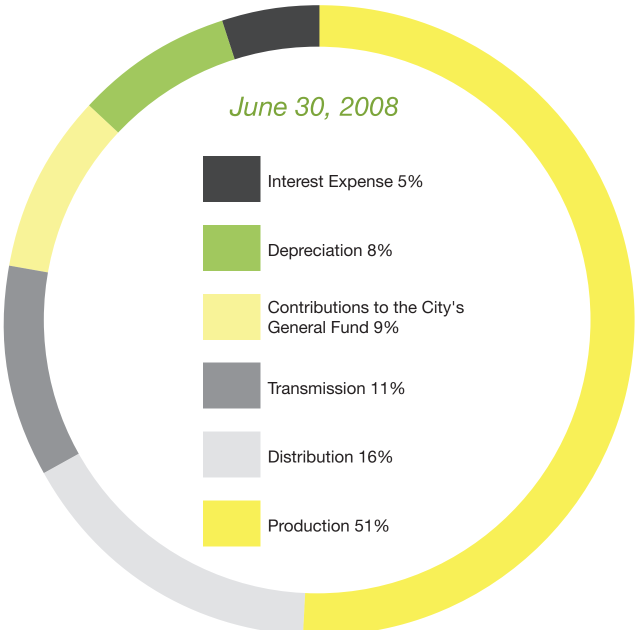
- Net retail sales of $238,658 (79.3% of total revenues) increased by $21,790 (10.0%) due to 6.3% higher consumption and a rate increase on January 1, 2007. The number of electric meters increased by 932 (0.9%), with the average annual consumption per residential meter increasing by 444 kilowatt hours (5.9%).

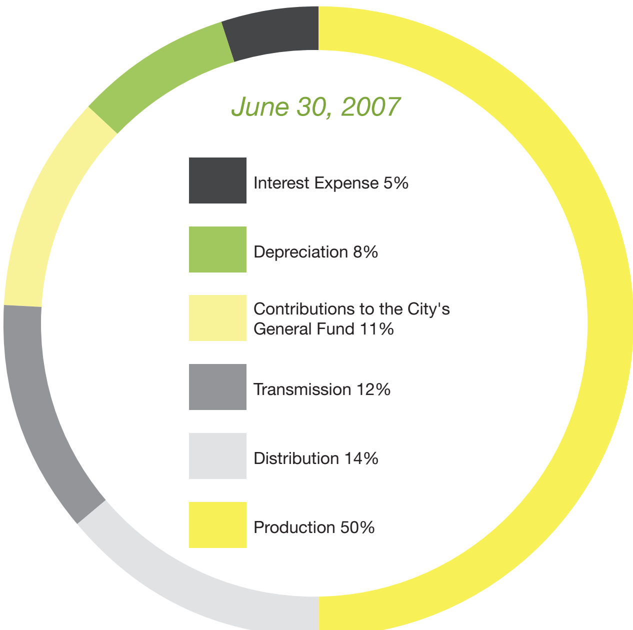
- Wholesale sales were $9,913, a decrease of $2,039 (17.1%), due to higher than expected retail customer consumption due to a prolonged summer heat wave, resulting in a lower volume of "excess" power available for sale, as well as lower prices received for market sales.

- Investment income was $11,118, an increase of $3,849 (53.0%), mainly due to an overall net increase in fair value of investments of $3,446, as well as positive operating results and continued stabilization of market conditions.

- Capital contributions were $9,781, an increase of $1,550 (18.8%), primarily due to a $3,019 loan from the Electric Utility to the City to construct and build out the City's fiber network.

EXPENSES BY SOURCES





Fiscal Year 2008 Total expenses for the years ended June 30, 2008 and 2007 were $269,653 and $231,662, respectively, an increase of $37,991 (16.4%). The increase was primarily due to a combination of increases in staffing levels and personnel costs, as well as items discussed below:

- Production and purchased power costs of $151,451 increased by $21,470 (16.5%) primarily due to the increase in spot and term market costs and the increase in natural gas prices for internal generation.

- Distribution expense of $48,749 increased by $12,408 (34.1%), predominantly from increases in personnel-related expenses, professional services, and increased rebate and incentive activity of the Public Benefit Programs.

Fiscal Year 2007 Total expenses were $231,662, an increase of $7,002 (3.1%), due to items discussed below:

- Depreciation expense of $20,836 increased by $4,335 (26.3%), primarily from completion of the $81,600 Riverside Energy Resource Center in June 2006 along with ongoing capital projects for the distribution system.

- Interest expense and fiscal charges of $14,602 reflect an increase of $987 (7.2%), due to a full year of interest expense for the September 2005 bond issue, and a reduction of capitalized interest during construction in the current year due to a lower level of construction projects.

TRANSFERS

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

Fiscal Year 2008 The Electric Utility transferred $27,371 or $22 less than the prior year. This amount is comprised of approximately 9.0% of prior year's operating revenues, an additional $5,000 to help fund the Riverside Renaissance, and $591 as the City's portion of the Electric Utility's Transmission Revenue Requirement as a result of becoming a Participating Transmission Owner (see Note 9 to the Financial Statements for more discussion).

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

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, 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:

	2008	2007	2006
Production	$ 135,200	$ 140,402	$ 147,460
Transmission	16,046	16,206	16,383
Distribution	259,902	217,684	212,374
General	13,806	14,063	13,677
Land	7,149	7,049	7,040
Construction in progress	69,746	54,663	26,790
Nuclear fuel, at amortized costs	3,595	2,645	3,129
Total	$ 505,444	$ 452,712	$ 426,853

Fiscal Year 2008 The Electric Utility's investment in capital assets, net of accumulated depreciation, was $505,444, an increase of $57,732 (11.6%). The increase resulted primarily from the following significant capital projects:

- $3,409 for the City's portion of capital additions at the San Onofre Nuclear Generating Station ("SONGS").
- $32,293 of expenses related to the Riverside Energy Resource Center Units 3 and 4 which will provide the Electric Utility with 98 MW of additional internal generation.
- $3,144 for the initial stages of the Riverside Transmission Reliability Project, which will provide the Electric Utility with a second point of interconnection with the state's transmission grid.
- $28,425 in additions and improvements to Electric facilities to serve existing and connect new customers.

Fiscal Year 2007 Capital assets, net of accumulated depreciation for the Electric Utility increased $25,859 (6.1%) for a total of $452,712. Major capital projects constructed during the year include the following:

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

Additional information regarding capital assets can be found in Note 3 on Page 29 of this report.

DEBT ADMINISTRATION

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

	2008	2007	2006
Revenue bonds	$ 545,125	$ 352,830	$ 371,645
Unamortized premium	10,931	7,469	8,559
Less:			
Current portion	(20,345)	(19,460)	(18,815)
Unamortized bond refunding costs	(7,681)	(6,088)	(6,690)
Total	$ 528,030	$ 334,751	$ 354,699

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 2.62, 3.09, and 2.67 at June 30, 2008, 2007 and 2006, respectively. This debt is backed by the revenues of the Utility (revenue bonds).

Fiscal Year 2008 Total long-term debt increased $193,279 (57.7%) to $528,030, due to the May 8, 2008 issuance of new 2008 Electric Revenue Series D Bonds in the amount of $209,740 offset by $19,460 in principal repayments, and amortization of bond premiums and deferred refunding costs. On April 25, 2008, the Utility also issued the 2008 Electric Refunding/Revenue Series A, B, and C Bonds to advance refund the 2004 Electric Revenue Series B Bonds and the 2005 Electric Refunding/Revenue Series A and B Bonds.

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

Additional information on the Electric Utility's long-term debt can be found in Note 4 on pages 29 through 33 of this report.

CREDIT RATINGS

In November 2007, Fitch Ratings affirmed the Electric Utility's AA- rating, stating that "the AA- rating reflects Riverside Public Utility's (RPU) fundamental credit strengths, which include; competitive power resource mix relative to the California market and early investment in renewable energy contracts, planned investment in additional local peaking generation and a second transmission interconnection, strong financial margins that have allowed the utility to build reserves and reinvest capital in the system, and steady load growth and a diverse customer mix."

In April 2008, Standard & Poor's raised the rating of the Electric Utility's bonds to "AA-" from "A+", reflecting "RPU's very strong and improving financial performance, continued willingness to adjust rates, and prudent investment in renewable energy resources that position RPU's resource portfolio well for the future given increasingly stringent regulatory and environmental pressures facing California electric utilities."

OTHER DEVELOPMENTS

ENVIRONMENTAL MATTERS

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

CLIMATE CHANGE

Cities have a compelling interest in reducing greenhouse gas emissions at the local level, especially as stakeholders and state agencies are working towards implementation of the California Global Warming Solutions Act (AB32, 2006).

Riverside Public Utilities (RPU) is committed to meeting or exceeding the Renewable Portfolio Standard established by the State of California, as required of investor-owned utilities by the Public Utilities Code (SB 1078, 2002) and in keeping with the letter and spirit of the Public Utilities Code and the Health and Safety Code relating to air pollution (AB 32, 2006). RPU has increased its current supply of electricity from renewable sources, and RPU anticipates reaching its 2020 target of 33 percent of the City's electricity originating from renewable resources by 2011.

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

Riverside continues to invest significant resources in providing energy supplies through clean natural resources and to explore new ideas and technologies that support the City's Clean and Green goal to become one of California's leading municipal power agencies in the use of renewable energy and reduction of greenhouse gas emissions. The City of Riverside is committed to working with regional, state and federal regulators to achieve this goal.

ECONOMIC FACTORS AND RATES

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

The Federal Energy Regulatory Commission (FERC) imposed price cap on purchased power (June 2001) is still in effect, which continues to help stabilize power prices. Forward price curves have stabilized. However, regulatory actions and other factors, including the volatility in natural gas and coal prices, and the California Independent System Operator's Market Redesign and Technology Upgrade scheduled to take effect in early 2009, could impact future power rates.

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

On August 14, 2007, the City Council repealed the previously approved increases in the tiered portion of the residential rates contained in the Electric Reliability Rate Plan, and directed staff to return with another rate proposal that would lessen the impacts to this customer class. On December 4, 2007 the City Council approved a revised Electric Utility Rate Plan that incorporates a reliability charge to all customer classes, a restructuring of the tiered residential rates, and established rate increases for three consecutive years effective January 1, 2008, 2009, and 2010. The Electric Utility Rate Plan will provide equitable rates, system reliability, additional generation and transmission resources, emergency preparedness, and sound financial planning.

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

REQUESTS FOR INFORMATION

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

ASSETS		June 30, 2008		June 30, 2007
		(in thousands)		
UTILITY PLANT:				
Production	$	262,563	$	257,980
Transmission		26,972		26,522
Distribution		393,919		341,836
General		28,623		28,154
		712,077		654,492
Less accumulated depreciation		(287,123)		(266,137)
		424,954		388,355
Land		7,149		7,049
Construction in progress		69,746		54,663
Nuclear fuel, at amortized cost		3,595		2,645
Total utility plant (Note 3)		505,444		452,712
RESTRICTED ASSETS:				
Cash and cash equivalents (Note 2)		18,981		17,051
Cash and investments at fiscal agent (Note 2)		273,488		110,459
Total restricted non-current assets		292,469		127,510
OTHER NON-CURRENT ASSETS:				
Advances to City		37,724		-
Deferred pension costs		13,439		13,570
Deferred purchased power (Note 8)		5,011		8,352
Deferred bond issuance costs		8,183		5,748
Total other non-current assets		64,357		27,670
Total non-current assets		862,270		607,892
CURRENT ASSETS:				
Unrestricted assets:				
Cash and cash equivalents (Note 2)		78,687		105,388
Accounts receivable, less allowance for doubtful accounts 2008 $548; 2007 $291		30,354		27,730
Accounts receivable other utilities and governments, less allowance for doubtful accounts 2008 $1,668; 2007 $1,079		10,307		11,978
Advances to City		1,780		-
Accrued interest receivable		2,794		1,311
Prepaid expenses		7,010		6,430
Nuclear materials inventory		1,921		1,535
Total unrestricted current assets		132,853		154,372
Restricted assets:				
Cash and cash equivalents (Note 2)		8,321		7,758
Public Benefit Programs receivable		822		766
Total restricted current assets		9,143		8,524
Total current assets		141,996		162,896
Total assets	$	1,004,266	$	770,788

** See accompanying notes to the financial statements*

EQUITY AND LIABILITIES		June 30, 2008		June 30, 2007
		(in thousands)		
EQUITY:				
Invested in capital assets, net of related debt	$	181,966	$	162,384
Restricted for:				
Debt service (Note 5)		18,981		17,051
Public Benefit Programs		8,910		8,344
Unrestricted		146,440		137,708
Total equity		356,297		325,487
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4)		528,030		334,751
OTHER NON-CURRENT LIABILITIES:				
Pension obligation (Note 4)		13,206		13,390
Nuclear decommissioning liability (Note 4)		54,523		50,606
Postemployment benefits payable (Note 4)		312		-
Arbitrage liability		-		927
Total non-current liabilities		68,041		64,923
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:				
Accrued interest payable		2,801		1,851
Public Benefit Programs payable		233		180
Current portion of long-term obligations (Note 4)		20,345		19,460
Total current liabilities payable from restricted assets		23,379		21,491
CURRENT LIABILITIES:				
Accounts payable		18,905		15,614
Accrued liabilities		6,227		5,942
Current portion postemployment benefits payable (Note 4)		293		-
Customer deposits		3,094		2,580
Total current liabilities		28,519		24,136
Total liabilities		647,969		445,301
COMMITMENTS AND CONTINGENCIES (NOTES 8 AND 9)		-		-
Total equity and liabilities	$	1,004,266	$	770,788

** See accompanying notes to the financial statements*

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN EQUITY: ELECTRIC

	For the Fiscal Years Ended June 30, 2008 (in thousands)	2007
OPERATING REVENUES:		
Residential sales	$ 99,981	$ 94,426
Commercial sales	60,768	55,421
Industrial sales	92,697	83,698
Other sales	5,425	5,713
Wholesale sales	14,805	9,913
Transmission sales	19,211	20,097
Other operating sales	12,405	9,536
Total operating revenues before (reserve)/recovery	305,292	278,804
Reserve for uncollectible, net of bad debt recovery	(1,751)	(600)
Total operating revenues, net of (reserve)/recovery	303,541	278,204
OPERATING EXPENSES:		
Production and purchased power	151,451	129,981
Transmission	31,288	29,902
Distribution	48,749	36,341
Depreciation	22,193	20,836
Total operating expenses	253,681	217,060
Operating income	49,860	61,144
NON-OPERATING REVENUES (EXPENSES):		
Investment income	16,380	11,118
Interest expense and fiscal charges	(15,972)	(14,602)
Gain on retirement of utility plant	171	485
Other	1,666	1,351
Total non-operating revenues (expenses)	2,245	(1,648)
Income before capital contributions and transfers	52,105	59,496
Capital contributions	6,076	9,781
Transfers out - contributions to the City's general fund	(27,371)	(27,393)
Total capital contributions and transfers out	(21,295)	(17,612)
Increase in equity	30,810	41,884
EQUITY, BEGINNING OF YEAR	325,487	283,603
EQUITY, END OF YEAR	$ 356,297	$ 325,487

** See accompanying notes to the financial statements*

STATEMENTS OF CASH FLOWS: ELECTRIC

	For the Fiscal Years Ended June 30, 2008	2007
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	$ 300,101	$ 273,410
Cash paid to suppliers and employees	(219,735)	(190,555)
Other receipts	1,666	1,351
Net cash provided by operating activities	82,032	84,206
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(27,371)	(27,393)
Principal paid on pension obligation fund	(184)	(144)
Advances to City	(39,503)	-
Net cash used by non-capital financing activities	(67,058)	(27,537)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(68,573)	(43,733)
Purchase of nuclear fuel	(2,046)	(632)
Proceeds from the sale of utility plant	916	555
Deposit to escrow account for advanced bond refunding	(197,100)	-
Proceeds from revenue bonds, including premium	413,404	-
Principal paid on long-term obligations	(19,460)	(18,815)
Interest paid on long-term obligations	(16,194)	(14,656)
Capital contributions	4,030	3,317
Bond issuance costs	(5,100)	-
Net cash provided (used) by capital and related financing activities	109,877	(73,964)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(5,955)	(5,371)
Income from investments	13,970	12,051
Net cash provided by investing activities	8,015	6,680
Net increase (decrease) in cash and cash equivalents	132,866	(10,615)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (**including $53,166 and $69,801 at June 30, 2007 and June 30, 2006, respectively, reported in restricted accounts)**	158,554	169,169
CASH AND CASH EQUIVALENTS, END OF YEAR (**including $212,733 and $53,166 at June 30, 2008 and June 30, 2007, respectively, reported in restricted accounts)**	$ 291,420	$ 158,554
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 49,860	$ 61,144
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	22,193	20,836
Amortization of deferred charges-pension costs	131	87
Amortization of nuclear fuel/purchased power	4,437	4,456
Increase in allowance for uncollectible accounts	846	59
(Increase) in accounts receivable	(4,800)	(4,702)
Decrease (increase) in prepaid expenses	(580)	121
(Increase) in nuclear materials inventory	(386)	(160)
Increase (decrease) in accounts payable	3,292	(2,898)
Increase in postemployement benefits payable	604	-
Increase in accrued liabilities	285	596
Increase (decrease) in Public Benefit Programs	53	(60)
Increase (decrease) in customer deposits	514	(151)
Increase in decommissioning liability	3,917	3,527
Other receipts	1,666	1,351
Net cash provided by operating activities	$ 82,032	$ 84,206
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions - capital assets	4,992	3,518
Interfund receivable - Citywide fiber optic network	-	3,019
Increase in fair value of investments	1,014	848

** See accompanying notes to the financial statements*

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

BASIS OF ACCOUNTING

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

USE OF ESTIMATES

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

REVENUE RECOGNITION

Electric Utility customers are billed monthly. Unbilled electric service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled $13,876 at June 30, 2008, and $14,238 at June 30, 2007.

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

UTILITY PLANT AND DEPRECIATION

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

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

Production plant	14-30 years
Transmission and distribution plant	20-50 years
General plant and equipment	3-50 years

NUCLEAR FUEL

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

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

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

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

City-wide information concerning cash and investments for the year ended June 30, 2008, including authorized investments, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and investments may be found in the notes to the City's "Comprehensive Annual Financial Report."

CASH AND INVESTMENTS AT FISCAL AGENTS

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

ADVANCES

Advances have been recorded as a result of agreements between the Electric Utility and the City. The terms of the advances range from two to twenty years with interest payable annually at a rate equal to the rate of interest earned on the investment pool managed by the Treasurer of the City. The balance of Advances to the City as of June 30, 2008 was $39,504.

BOND PREMIUMS, ISSUANCE COSTS, GAINS AND LOSSES ON REFUNDING

Bond premiums, inssurance costs, and gains and losses on refunding are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums and gain or loss on refunding, whereas issurance 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 Electric Utility has established a trust account to accumulate resources for the decommissioning of the nuclear power plant and restoration of the beachfront at San Onofre. Based on the most recent site specific cost estimate as of July 2005 prepared by ABZ Incorporated, the Electric Utility plans to set aside approximately $1,600 per year to fund this obligation. The funding will occur over the useful life of the generating plant or until the account is fully funded.

Increases to the trusts are from amounts set aside and investment earnings. The investment earnings are included in investment income in the Utility's financial statements. These amounts, as well as amounts set aside, are contributed to the trusts and reflected as decommissioning expense, which are considered part of power supply costs. The total amounts held in the trust accounts are classified as restricted assets and other non-current liability in the accompanying Balance Sheets. To date, the Electric Utility has set aside $54,523 in cash investments with the trustee as Riverside's estimated share of the decommissioning cost of San Onofre. The plant site easement at San Onofre terminates May 2050. The plant must be decommissioned and the site restored by the time the easement terminates.

INTERNALLY RESTRICTED CASH RESERVES

Effective July 1, 2003, the City Council approved a Regulatory Risk Reserve Account of $4,000, an Energy Risk Management Reserve Account of $11,000, and an Operating Reserve Account of $14,000, all of which are considered internally restricted assets. The balance as of June 30, 2008 and 2007 respectively are as follows: Regulatory Risk Reserve $4,000 and $4,000, Energy Risk Management Reserve $11,000 and $11,000 and Operating Reserve $37,946 and $76,800, for a combined total of $52,946 and $91,800 and are reflected in cash and cash equivalents in the accompanying Balance Sheets. (See Note 9 for additional discussion on cash reserves)

CUSTOMER DEPOSITS

The City holds customer deposits as security for the payment of utility bills. The Electric Utility's portion of these deposits as of June 30, 2008 and 2007 was $3,094 and $2,580, respectively.

COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due employees at June 30, 2008 and 2007. The Electric Utility treats compensated absences due employees as an expense and a current liability. The amount accrued for compensated absences was $5,828 at June 30, 2008, and $5,783 at June 30, 2007, and is included in accrued liabilities in the accompanying Balance Sheets.

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

INSURANCE PROGRAMS

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

City-wide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risk for the year ended June 30, 2008, may be found in the notes to the City's "Comprehensive Annual Financial Report."

Although the ultimate amount of losses incurred through June 30, 2008 is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. Premiums paid to the City by the Electric Utility were $709 and $358 for the years ended June 30, 2008 and 2007, respectively. Any losses above the City's reserves would be covered through increased rates charged to the Electric Utility in future years.

EMPLOYEE RETIREMENT PLAN

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

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

Employee contributions are 8.0 percent of their annual covered salary. The Electric Utility is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The employer portion of the PERS funding as of June 30, 2008 and 2007 was 13.29 percent and 13.18 percent, respectively, of annual covered payroll. The Electric Utility pays both the employee and employer contributions. The total Electric Utility's contribution to PERS as of June 30, 2008 and 2007 was $5,018 and $4,192, respectively.

City-wide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the year ended June 30, 2008 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, 2008.

PENSION OBLIGATION BONDS

In 2005, the City issued Pension Obligations Bonds in the amount of $60,000, of which the Electric Utility's share is $13,690 as reflected in the accompanying Balance Sheets as deferred pension costs and a corresponding long-term obligation. The deferred charge relating to the net pension asset will be amortized over 19 years in accordance with the method used by PERS for calculating actuarial gains and losses. The Bonds will be used to fund the unfunded actuarial accrued liability for non-safety employees and the proceeds were deposited with PERS. The balance in deferred pension costs as of June 30, 2008 and 2007, was $13,439 and $13,570, 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, 2008.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

OTHER POST-EMPLOYMENT 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 Electric 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 Electric Utility for the Stipend Plan are established and may be amended through the memoranda of understanding (MOU) between the City and the unions. The Electric Utility's contribution is financed on a "pay-as-you-go-basis" and the current contribution is unfunded. The contribution requirements of the Electric Utility's Implied Subsidy Plan are established by the City Council. The Electric 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 Electric 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. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs 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 as of June 30, 2008 was $605.

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, 2008 can be found in the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2008.

ARBITRAGE LIABILITY

The Tax Reform Act of 1986 (the Act) requires the Electric Utility to calculate and remit rebatable arbitrage earnings to the Internal Revenue Service. Certain debt and interest earnings on the proceeds of the Electric Utility are subject to the requirements of the Act which contain yield restrictions on investment of proceeds from tax-exempt financing in higher yielding taxable securities. As of June 30, 2008, no arbitrage liability was due as a result of the advance refunding of the bonds related to the liability. The balance in the arbitrage liability as of June 30, 2007 was $927.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 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 2007-08 and 2006-07, the Electric Utility transferred approximately 9 percent of gross operating revenues, or $27,371 and $27,393 respectively.

CASH AND CASH EQUIVALENTS

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

BUDGETS AND BUDGETARY ACCOUNTING

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

RECLASSIFICATION

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

PRIOR YEAR DATA

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

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2008 and 2007, consist of the following (in thousands):

	June 30, 2008	Jun 30, 2007
	Fair Value	
Equity interest in City Treasurer's investment pool	$ 105,989	$ 130,197
Investments at fiscal agent	273,488	110,459
Total cash and investments	$ 379,477	$ 240,656

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

	June 30, 2008	June 30, 2007
Unrestricted cash and cash equivalents	$ 78,687	$ 105,388
Restricted assets cash and cash equivalents	27,302	24,809
Restricted assets cash and investments at fiscal agent	273,488	110,459
Total cash and investments	$ 379,477	$ 240,656

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	$ 1,739	$ 1,739	$ -	$ -	$ -
Federal agency securities	33,237	2,576	1,080	8,439	21,142
Investment contracts [1]	216,500	-	-	185,431	31,069
Corp medium term notes	22,012	-	-	4,144	17,868
City Treasurer's investment pool [2]					
Money market funds	2,494	2,494	-	-	-
Federal agency securities	70,058	10,401	26,966	32,691	-
Corp medium term notes	7,411	4,420	2,991	-	-
State investment pool	26,026	26,026	-	-	-
Total	$ 379,477	$ 47,656	$ 31,037	$ 230,705	$ 70,079

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

		Rating as of Year End			
Investment Type	Total	AAA	AA+	AA	Unrated
Held by fiscal agent					
Money market funds	$ 1,739	$ 1,739	$ -	$ -	$ -
Federal agency securities	33,237	33,237	-	-	-
Investment contracts	216,500	-	-	-	216,500
Corp medium term notes	22,012	3,273	-	18,739	-
City Treasurer's investment pool [2]					
Money market funds	2,494	2,058	-	-	436
Federal agency securities	70,058	70,058	-	-	-
Corp medium term notes	7,411	2,991	1,475	2,945	-
State investment pool	26,026	-		-	26,026
Total	$ 379,477	$ 113,356	$ 1,475	$ 21,684	$ 242,962

[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, 2008 and 2007 (in thousands):

	Balance, As of 6/30/06	Additions	Retirements/ Transfers	Balance, As of 6/30/07	Additions	Retirements/ Transfers	Balance, As of 6/30/08
Production	$ 255,431	$ 2,550	$ (1)	$ 257,980	$ 4,583	$ -	$ 262,563
Transmission	26,082	439	1	26,522	450	-	26,972
Distribution	327,685	14,519	(368)	341,836	53,314	(1,231)	393,919
General	27,210	1,859	(915)	28,154	1,190	(721)	28,623
Depreciable utility plant	636,408	19,367	(1,283)	654,492	59,537	(1,952)	712,077
Less accumulated depreciation:							
Production	(107,971)	(9,607)	-	(117,578)	(9,785)	-	(127,363)
Transmission	(9,699)	(617)	-	(10,316)	(610)	-	(10,926)
Distribution	(115,311)	(9,383)	542	(124,152)	(10,378)	513	(134,017)
General	(13,533)	(1,229)	671	(14,091)	(1,420)	694	(14,817)
Accumulated depreciation	(246,514)	(20,836)	1,213	(266,137)	(22,193)	1,207	(287,123)
Net depreciable utility plant	389,894	(1,469)	(70)	388,355	37,344	(745)	424,954
Land	7,040	9	-	7,049	100	-	7,149
Construction in progress	26,790	47,249	(19,376)	54,663	74,720	(59,637)	69,746
Nuclear fuel	3,129	632	(1,116)	2,645	2,046	(1,096)	3,595
Nondepreciable utility plant	36,959	47,890	(20,492)	64,357	76,866	(60,733)	80,490
Total utility plant	$ 426,853	$ 46,421	$ (20,562)	$ 452,712	$ 114,210	$ (61,478)	$ 505,444

NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2008 and 2007 (in thousands):

	Balance, As of 6/30/06	Additions	Reductions	Balance, As of 6/30/07	Additions	Reductions	Balance, As of 6/30/08	Due Within One Year
Revenue bonds	$ 373,514	$ -	$ (19,303)	$ 354,211	$ 407,969	$ (213,805)	$ 548,375	$ 20,345
Pension obligation	13,534	-	(144)	13,390	-	(184)	13,206	227
Postemployment benefits payable	-	-	-	-	605	-	605	293
Nuclear decommissioning liability	47,079	3,527	-	50,606	3,917	-	54,523	-
Arbitrage liability	-	927	-	927	-	(927)	-	-
Total long-term obligations	$ 434,127	$ 4,454	$ (19,447)	$ 419,134	$ 412,491	$ (214,916)	$ 616,709	$ 20,865

NOTE 4. LONG-TERM OBLIGATIONS *(continued)*

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

Revenue Bonds Payable

	June 30, 2008	June 30, 2007
$98,730 1998 Electric Refunding/Revenue Bonds: $63,165 serial bonds due in annual installments from $3,200 to $7,085 through October 1, 2013, interest 5.38 percent; $21,595 term bonds due October 1, 2018, interest at 5.0 percent; $13,970 term bonds due October 1, 2022; (partially advance refunded in 2005)	$ 41,410	$ 47,315
$47,215 2001 Electric Revenue Bonds: $47,215 serial bonds due in annual installments from $3,250 to $4,280 through October 1, 2014, interest from 3.63 percent to 5.25 percent; (partially advance refunded in 2005)	25,990	29,125
$75,405 2003 Electric Refunding/Revenue Bonds: $75,405 serial bonds due in annual installments from $6,880 to $8,535 through October 1, 2013, interest from 4.0 percent to 5.0 percent	46,710	53,880
$110,000 2004 Electric Revenue Bonds:		
A - $27,500 2004 Series A Bonds - Serial bonds due in annual installments from $2,645 to $3,695 through October 1, 2014, interest from 5.0 percent to 5.5 percent	22,160	24,885
B - $82,500 2004 Series B Bonds - All outstanding Auction Rates Securities were advance refunded on April 25, 2008 with 2008 Electric Refunding/Revenue Series A Bonds	-	82,500
**$115,725 2005 Electric Refunding/Revenue Series A and B Bonds - **All outstanding Series A and B Auction Rate Securities were advance refunded on April 25, 2008 with 2008 Electric Refunding/Revenue Series B and C Bonds	-	115,125
$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 (rate at June 25, 2008 was 3.3 percent)	84,515	-
B - $57,275 2008 Series B Bonds - Variable rate bonds due in annual installments from $275 to $5,175 from October 1, 2008 through October 1, 2035. Interest rate is subject to weekly repricing (rate at June 25, 2008 was 3.4 percent)	57,275	-
C- $57,325 2008 Series C Bonds - Variable rate bonds due in annual installments from $275 to $5,200 from October 1, 2008 through October 1, 2035. Interest rate is subject to weekly repricing (rate at June 25, 2008 was 3.4 percent)	57,325	-
$209,740 2008 Electric Revenue Series D Bonds: $66,740 serial bonds due in annual installments from $125 to $7,735 from October 1, 2017 through October 1, 2038, interest from 3.63 percent to 5.0 percent; $48,015 term bonds due October 1, 2033, interest at 5.0 percent; $94,985 term bonds due October 1, 2038, interest at 5.0 percent	209,740	-
Total electric revenue bonds payable	545,125	352,830
Unamortized deferred bond refunding costs	(7,681)	(6,088)
Unamortized bond premium	10,931	7,469
Total electric revenue bonds payable, net of deferred bond refunding costs and bond premium	548,375	354,211
Less current portion	(20,345)	(19,460)
Total long-term electric revenue bonds payable	$ 528,030	$ 334,751

NOTE 4. LONG-TERM OBLIGATIONS *(continued)*

Annual debt service requirements to maturity, excluding amounts for nuclear decommissioning liability, as of June 30, 2008, are as follows (in thousands):

	2009	2010	2011	2012	2013	2014-2018	2019-2023	2024-2028	2029-2033	2034-2038	2039-2043	Total
Principal	$ 20,345	$ 21,300	$ 22,295	$ 21,050	$ 22,040	$ 75,780	$ 61,825	$ 74,090	$ 90,305	$ 110,750	$ 25,345	$ 545,125
Interest	21,295	21,735	20,709	19,693	18,692	81,337	69,802	57,153	40,555	19,581	633	371,185
Total	$ 41,640	$ 43,035	$ 43,004	$ 40,743	$ 40,732	$ 157,117	$ 131,627	$ 131,243	$ 130,860	$ 130,331	$ 25,978	$ 916,310

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 Electric Utility's financials statements. At fiscal year ended June 30, 2008, $40,175 of bonds outstanding are considered defeased.

2008 ELECTRIC REFUNDING/REVENUE BONDS

The City entered into a refunding transaction during the fiscal year in response to unusual market conditions brought about by the downgrade of several of the leading municipal bond insurers. These companies provided insurance for the City's Auction Rate Securities ("ARS"). The market that routinely absorbed these instruments through a weekly auction process discontinued their interest in the product and the result was excessively high interest rates, often to the default rate (defined in the bond documents) as the auction "failed," having insufficient bids to clear the auction.

The City's ARS debt was layered with "synthetic fixed rate" swaps designed to maintain the overall cost of funds at a level considered to be in the City's best interest. The unusual market conditions resulted in the swaps not performing as intended and thus the ARS debt was refunded with Variable Rate Demand Notes ("VRDNs"). The transactions were completed (as described below), and the variable rates received on the VRDNs as of June 30, 2008 have resulted in the swaps again functioning as intended, to control the cost of funds on the outstanding variable rate debt.

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 25, 2008, $84,515 of Electric Refunding/Revenue Series A Bonds were sold with a true interest cost of 3.14% to refund $82,500 of previously outstanding 2004 Electric Revenue Bonds. Also on April 25, 2008, $114,600 of Electric Refunding/Revenue Series B and C Bonds were sold with a true interest cost of 3.22% to refund $114,600 of previously outstanding 2005 Electric Refunding/Revenue Series A and B Bonds. The refunding resulted in a combined difference between the reacquisition prices and the net carrying amounts of the old debt of $5,435. The difference is being charged to operations using the proportional method. The City completed the refunding to eliminate its investment in auction rate securities.

On May 8, 2008, the Electric Utility also issued $209,740 of Electric Revenue Series D Bonds to finance additional capital projects of the City's Capital Improvement Program of the Electric System. Series D is comprised of: $66,740 serial bonds, with principal payments from October 1, 2017 through October 1, 2038 ranging from $125 to $7,735 at interest rates between 3.63 percent and 5.0 percent; $48,015 term bonds, maturing on October 1, 2033 with interest rate at 5.0 percent; $94,985 term bonds, maturing on October 1, 2038 with interest rate at 5.0 percent.

NOTE 4. LONG-TERM OBLIGATIONS *(continued)*

INTEREST RATE SWAPS ON REVENUE BONDS

Objective: As a means to lower borrowing costs, when compared against fixed-rate bonds at the time of issuance in May 2008, the City entered into interest rate swap agreements in connection with its $199,115 2008 Electric Refunding/Revenue Series A, B and C Bonds. The intention of the swap was to effectively change the City's variable interest rate on the bonds to a synthetic fixed rate of 3.11% for Series A and 3.20% for Series B and C.

Terms: Under the swaps, the City pays the counterparty a fixed payment as noted above and receives a variable payment computed as 62.68% of the London Interbank Offering Rate ("LIBOR") one month index plus 12 basis points. The swaps have notional amounts equal to the principal amounts stated above. Starting in fiscal year 2015 and 2009, respectively, the notional value of the 2008 Series A, B and C swaps and the principal amount of the associated debt decline by $1,250 to $7,000 (Series A), $275 to $5,175 (Series B) and $275 to $5,200 (Series C), respectively, until the debt is completely retired in fiscal years 2030 (Series A) and 2036 (Series B and C) respectively.

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

		2008 Electric Refunding/ Revenue Series A Bonds	2008 Electric Refunding/ Revenue Series B Bonds	2008 Electric Refunding/ Revenue Series C Bonds
Interest rate swap:	Terms	Rates	Rates	Rates
Fixed payment to counterparty	Fixed	3.11100%	3.20100%	3.20400%
Variable payment from counterparty	62.68 LIBOR + 12bps	(3.03682%)	(3.08345%)	(3.09446%)
Net interest rate swap payments		0.07418%	0.11755%	0.10954%
Variable-rate bond coupon payments		3.35081%	3.46701%	3.49539%
Synthetic interest on bonds		3.42499%	3.58456%	3.60493%

Fair value: As of June 30, 2008, in connection with all swap agreements, the transactions had a total negative fair value of ($1,121). Because the coupons on the City's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was developed by a pricing service using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Credit risk: As of June 30, 2008, the City was not exposed to credit risk because the swap had a negative fair value. The swap counterparties, Bear Stearns/J.P. Morgan and Merrill Lynch, were rated AA- 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, 2008, there is no requirement for collateral posting for any of the outstanding swaps.

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

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

NOTE 4. LONG-TERM OBLIGATIONS *(continued)*

Swap payments and associated debt: As of June 30, 2008, 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
2009	$ 550	$ 6,735	$ 191	$ 7,476
2010	575	6,715	190	7,480
2011	575	6,695	189	7,459
2012	2,650	6,602	186	9,438
2013	2,750	6,507	183	9,440
2014-2018	37,575	29,111	815	67,501
2019-2023	41,425	22,072	625	64,122
2024-2028	29,375	12,785	376	42,536
2029-2033	51,600	10,906	349	62,855
2034-2038	30,025	1,070	35	31,130
Total	$ 197,100	$ 109,198	$ 3,139	$ 309,437

NOTE 5. RESTRICTED EQUITY

Pursuant to applicable bond indentures, a reserve for debt service has been established by restricting assets and reserving a portion of equity. Bond indentures for Riverside's electric revenue and refunding bonds require reserves that equate to the maximum annual debt service required in future years plus three months interest and nine months principal due in the next fiscal year. The 2008 Refunding/Revenue Series A, B and C Bonds require 110% of the monthly accrued interest be included in the reserve. Additional reserves for the 2008 Revenue Series D Bonds and the 1998 Revenue Bonds are not required due to the purchase of surety bonds to cover the reserve requirements.

NOTE 6. JOINTLY-GOVERNED ORGANIZATIONS

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

On November 1, 1980, the City of Riverside joined with the Imperial Irrigation District and the cities of Los Angeles, Anaheim, Vernon, Azusa, Banning, Colton, Burbank, Glendale and Pasadena to create the Southern California Public Power Authority (SCPPA) by a Joint Powers Agreement under the laws of the State of California. As of July 2001, the cities of Cerritos and San Marcos were admitted as members of SCPPA. In August 2003, the Authority rescinded the membership of the City of San Marcos, as the City no longer met the criteria for membership. The primary purpose of SCPPA is to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. SCPPA is governed by a Board of Directors, which consists of one representative for each of the members. During the 2007-08 and 2006-07 fiscal years, the Electric Utility paid approximately $17,074 and $16,854, respectively, to SCPPA under various take-or-pay contracts that are described in greater detail in Note 8. These payments are reflected as a component of production and purchased power or transmission expense in the financial statements.

POWER AGENCY OF CALIFORNIA

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

NOTE 7. JOINTLY-OWNED UTILITY PROJECT

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

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

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

There are no separate financial statements for the jointly-owned utility plant since each participant’s interests in the utility plant and operating expenses are included in their respective financial statements. The Electric Utility’s 1.79 percent share of the capitalized construction costs for SONGS totaled $142,120 and $138,575 for fiscal years ended June 30, 2008 and 2007, respectively. During fiscal year ended June 30, 2006, the City Council approved participation in SONGS through the extended operations date. As a result, all acquisitions are now depreciated through 2022, to include the construction recapture extension period. The accumulated depreciation amounted to $114,511 and $108,709 for the fiscal years ended June 30, 2008 and 2007, 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 $2,336 and $1,946 for fiscal years June 30, 2008 and June 30, 2007, respectively (see Note 1). The Electric Utility’s portion of current and long-term debt associated with SONGS is included in the accompanying financial statements.

NOTE 8. COMMITMENTS

TAKE-OR-PAY CONTRACTS

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

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

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

NOTE 8. COMMITMENTS *(continued)*

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

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

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

Interest rates on the outstanding debt associated with the take-or-pay obligations range from 3.00 percent to 6.38 percent. The schedule below details the amount of principal and interest that is due and payable by the Electric Utility as part of the take-or-pay contract for each project in the fiscal year indicated.

	IPA	SCPPA					TOTAL
Debt Service 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
2009	$ 19,379	$ 964	$ 5,108	$ 586	$ 200	$ 2,196	$ 28,433
2010	21,546	810	7,074	717	262	2,858	33,267
2011	26,576	796	7,125	717	301	2,928	38,443
2012	24,120	782	7,203	717	300	2,918	36,040
2013	20,974	768	8,881	718	300	2,915	34,556
2014-2018	105,289	2,919	39,969	3,587	1,318	14,501	167,583
2019-2023	84,885	-	40,923	-	771	8,717	135,296
2024-2028	1,114	-	7,442	-	-	-	8,556
Total	$ 303,883	$ 7,039	$ 123,725	$ 7,042	$ 3,452	$ 37,033	$ 482,174

In addition to debt service, Riverside's entitlements require the payment of fuel costs, operating and maintenance, administrative and general and other miscellaneous costs associated with the generation and transmission facilities discussed above. These costs do not have a similar structured payment schedule as debt service and vary each year. The costs incurred for the year ended June 30, 2008 and 2007, are as follows (in thousands):

FISCAL YEAR	Intermountain Power Project	Palo Verde Nuclear Generating Station	Southern Transmission System	Mead-Adelanto Transmission	Mead-Phoenix Transmission	Hoover Dam Uprating	TOTAL
2008	$ 27,759	$ 2,758	$ 2,181	$ 248	$ 97	$ 88	$ 33,131
2007	$ 24,227	$ 2,122	$ 1,948	$ 249	$ 49	$ 96	$ 28,691

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

NOTE 8. COMMITMENTS *(continued)*

POWER PURCHASE AGREEMENTS

The Electric Utility has executed three firm power purchase agreements. The agreements are with Deseret Generation and Transmission Cooperative (Deseret) of Murray, Utah and Bonneville Power Administration (BPA). The minimum annual obligations under each of these contracts are shown in the following table.

MINIMUM OBLIGATIONS 2008-2009 *(in thousands):*

Supplier	Capacity	Energy	Total
Deseret	$ 3,463	$ 1,966	$ 5,429
BPA (two agreements)	868	-	868
Total	$ 4,331	$ 1,966	$ 6,297

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

As of June 30, 2008 and 2007, Deferred purchased power was $5,011 and $8,352, respectively, and the Utility had recorded amortization of $3,340 in both fiscal years.

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

NUCLEAR INSURANCE

The Price-Anderson Act (“the Act”) requires that all utilities with nuclear generating facilities purchase the maximum private primary nuclear liability insurance available ($300 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 $10.8 billion per incident. Under the industry wide retrospective assessment program provided for under the Act, assessments are limited to $101 million per reactor for each nuclear incident occurring at any nuclear reactor in the United States, with payments under the program limited to $15 million per reactor, per year, per event to be indexed for inflation every five years. The next inflation adjustment will occur no later than August 20, 2008. Based on the Electric Utility’s interest in Palo Verde and ownership in SONGS, the Utility would be responsible for a maximum assessment of $4,583, limited to payments of $681 per incident, per year. 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.

NOTE 8. COMMITMENTS *(continued)*

RENEWABLE PORTFOLIO STANDARD ("RPS")

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

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

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

Supplier	Type	Maximum Contract	Contract Expiration	Estimated Annual Cost For 2009
Riverside County (Badlands Landfill)	Landfill Gas	1.2 MW	12/31/2008	$ 255
Salton Sea Power LLC	Geothermal	20.0 MW	5/31/2020	10,701
Wintec	Wind	8.0 MW	11/10/2021	182
Total		29.2 MW		$ 11,138

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

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

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

On June 24, 2008, the City of Riverside entered into a Renewable Power Purchase Agreement with Shoshone Renaissance, LLC for geothermal power. The contract term is for 30 years with an estimated start date of May 2010. The plant's capacity will be 64 MW upon completion of two geothermal units at 32 MW each.

CONSTRUCTION COMMITMENTS

As of June 30, 2008, the Electric Utility had major commitments of approximately $37,873, with respect to unfinished capital projects, of which $37,184 is expected to be funded by bonds and $689 funded by rates.

FORWARD PURCHASE AGREEMENTS

In order to meet summer peaking requirements, the Utility may contract on a monthly or quarterly basis, for energy and/or capacity products on a short term basis. As of June 30, 2008, the Electric Utility has summer peaking commitments for fiscal year 2009, of approximately $13,308, with a market value of $13,118.

NOTE 9. LITIGATION

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

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

During the California Energy Crisis of 2001-2002, the City 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 City was not paid for many of these transactions. The unpaid amounts were fully reserved with an allowance for potentially uncollectible receivables in fiscal year 2001, PG&E was the largest purchaser of electricity from the ISO and the PX, and therefore was the largest creditor of the ISO and PX. PG&E's various creditors' classes and the Bankruptcy Court approved a Settlement Plan under which PG&E paid the PX and ISO 100% of its debts to creditors in the same class as the City.   On June 4, 2008, the FERC approved a settlement agreement between the City and numerous California entities, including all of the Investor-Owned Utilities and the California Attorney General, under which the City will be paid all of its unpaid receivables, plus interest, minus $1.2 million in refunds. The net payout to the City will be approximately $4 million, minus approximately $250,000 to be paid to the City of Banning for transactions made on its behalf by the City.

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

POWER SUPPLY *(MWH)*

	2007/08	2006/07	2005/06	2004/05	2003/04
Nuclear					
San Onofre	286,500	310,400	275,100	282,700	316,600
Palo Verde	85,200	90,000	72,600	87,500	86,400
Coal					
Intermountain Power	1,094,100	1,130,000	1,091,000	1,081,600	1,091,700
Deseret	427,600	400,000	396,000	432,200	404,300
Hoover (Hydro)	33,700	34,500	35,100	28,100	35,600
Gas					
Springs	2,300	1,600	1,600	1,700	1,900
RERC	46,800	62,000	9,300	0	0
Renewable Resources	247,800	245,000	264,000	270,200	237,600
Other purchases	594,100	462,000	517,300	440,000	437,200
Exchanges In	115,700	107,400	89,900	83,300	95,100
Exchanges Out	(202,600)	(191,900)	(174,600)	(79,100)	(171,700)
Total:	2,731,200	2,651,000	2,577,300	2,628,200	2,534,700
System peak (MW)	604.4	586.3	550.6	519.1	517.2

ELECTRIC USE

Number of meters as of year end	2007/08	2006/07	2005/06	2004/05	2003/04
Residential	94,691	94,232	93,607	92,914	90,583
Commercial	10,258	10,063	10,038	10,060	9,683
Industrial	978	837	496	344	351
Other	88	94	153	145	149
Total:	106,015	105,226	104,294	103,463	100,766
Millions of kilowatt-hours sales					
Residential	734	748	697	675	707
Commercial	441	456	474	530	522
Industrial	960	924	810	707	687
Wholesale sales	357	295	321	470	354
Other	34	39	57	50	52
Total:	2,526	2,462	2,359	2,432	2,322

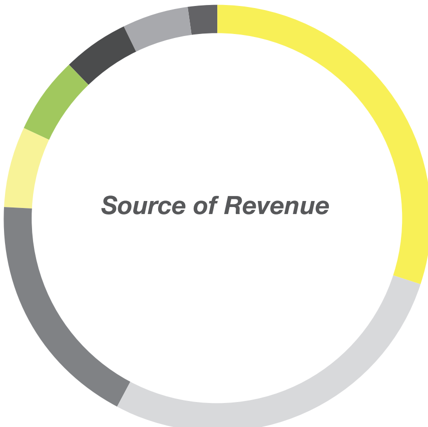
ELECTRIC FACTS

	2007/08	2006/07	2005/06	2004/05	2003/04
Average annual kWh per residential customer	7,779	7,959	7,515	7,424	7,884
Average price (cents/kWh) per residential customer	13.61	12.62	12.22	11.81	11.44
Debt service coverage ratio	2.62	3.09	2.67	3.68	3.38
Operating income as a percent of operating revenues	16.4%	22.0%	18.2%	25.4%	20.3%
Employees[1]	405	367	338	307	306

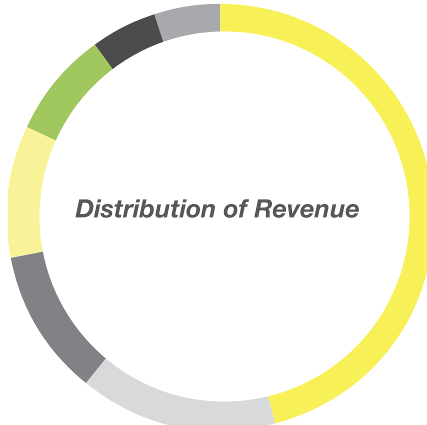
[1] Approved Positions

KEY HISTORICAL OPERATING DATA: ELECTRIC

2007/2008 ELECTRIC REVENUE AND RESOURCES



- Other Sales 2¢
- Wholesale Sales 5¢
- Investment Income 5¢
- Other Revenue 6¢
- Transmission Revenue 6¢
- Commercial Sales 18¢
- Industrial Sales 28¢
- Residential Sales 30¢

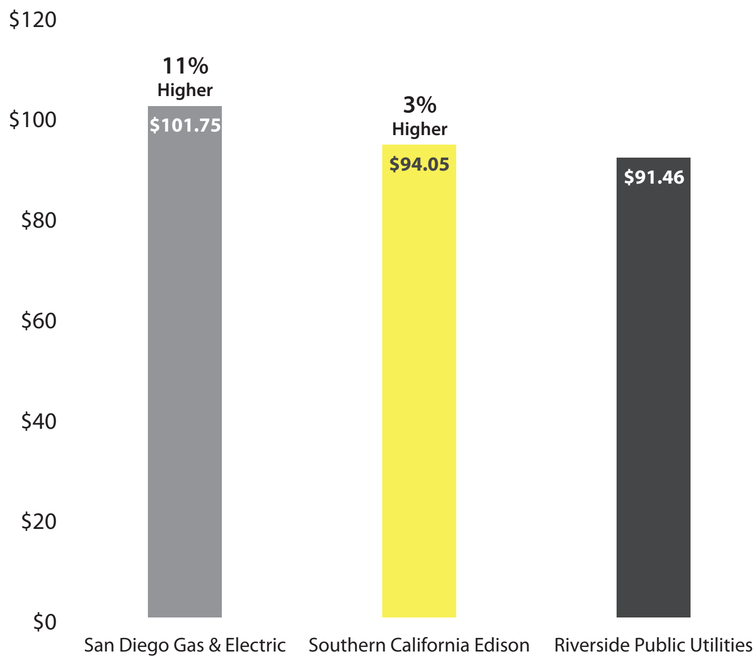


- Additional Reserves 5¢
- Additions & Replacements to the System 5¢
- Transfers to the City's General Fund* 8¢
- Transmission 10¢
- Debt Service 11¢
- Distribution 15¢
- Production 46¢

* *Based on transfer of 9.0% of fiscal year 2006/2007 revenues (excludes wholesale sales, interest and other non-operating income).*

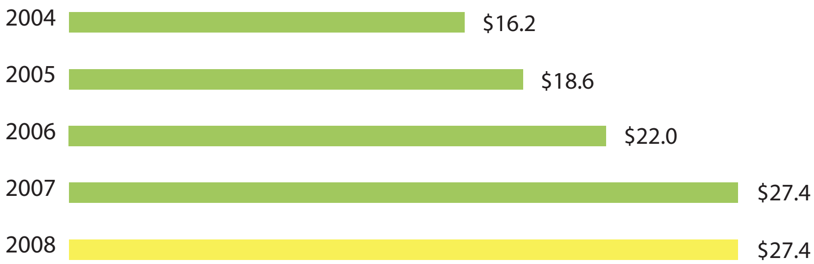
- Hydropower 1%
- Gas 2%
- Renewables 9%
- Nuclear 13%
- Other Purchases 19%
- Coal 56%

RESIDENTIAL ELECTRIC RATE COMPARISON – 650 KWH PER MONTH (AS OF JULY 1, 2008)

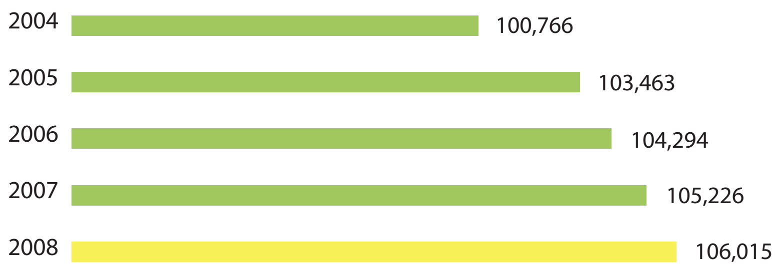


KEY HISTORICAL OPERATING DATA: ELECTRIC

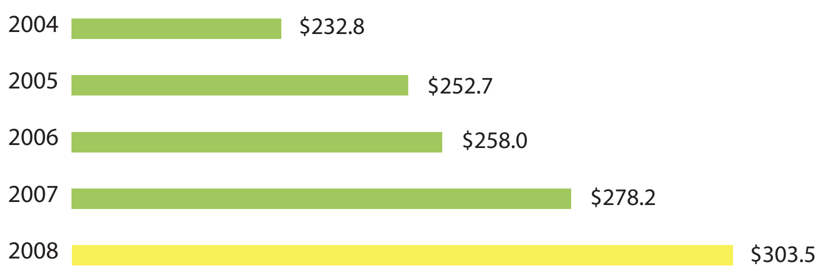
GENERAL FUND TRANSFER *(in millions)*



NUMBER OF METERS AT YEAR END



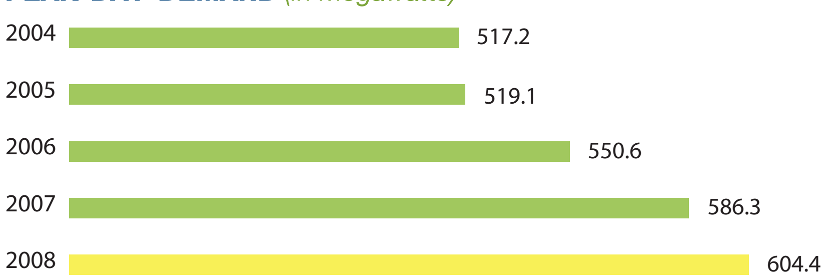
TOTAL OPERATING REVENUE *(in millions)*



PRODUCTION *(in million kilowatt-hours)*[1]

* Energy shown before losses net of exchanges

PEAK DAY DEMAND *(in megawatts)*



ELECTRIC FACTS AND SYSTEM DATA

Established	1895
Service Area Population	296,842
Service Area Size (square miles)	81.5
System Data:	
Transmission lines (circuit miles)	91.1
Distribution lines (circuit miles)	1,266
Number of substations	14
2007-2008 Peak day (megawatts): Highest single hourly use: 8/31/2007, 4pm, 106 degrees	604
Historical peak (megawatts): 8/31/07, 4pm, 106 degrees	604

BOND RATINGS

FITCH RATINGS	AA-
STANDARD & POOR'S	AA-
Debt Derivative Profile Score	2

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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the City of Riverside, California, Water Utility, an enterprise fund of the City, as of and for the year ended June 30, 2008 as listed in the table of contents. These financial statements are the responsibility of the City of Riverside Water Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year partial comparative information has been derived from the financial statements of the Water Utility for the year ended June 30, 2007 and, in our report dated October 19, 2007, we expressed an unqualified opinion on those financial statements.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Riverside, California, Water Utility, as of June 30, 2008 and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described further in Note 1 to the financial statements, the Water Utility changed its method of accounting for post employment benefits for the fiscal years ending on or after June 30, 2008.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information. 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.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2008 on our consideration of the City of Riverside's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Hoffman McCann P.C.

Irvine, California
October 3, 2008

As management of Riverside Public Utilities (a department of the City of Riverside), we offer the readers of Riverside's Water Utility financial statements, an enterprise fund of the City, this narrative overview and analysis of the financial activities of the Water Utility (Utility) for the fiscal years ended June 30, 2008 and 2007. We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, which begin on page 52 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

Fiscal years 2008 and 2007 reflected strong operating results for the Water Utility, with retail sales exceeding the previous year's results, primarily from an expanded customer base and the effects of rate increases offset by a decrease in consumption.

- Retail sales, net of reserve/recovery were $46,164 and $43,403 for the years ended June 30, 2008 and 2007, respectively. The increase in sales was primarily due to recent rate increases to support the Water Utility's Water Master, Water Supply and Asset Management Plans.
- In May 2008, Standard & Poor's raised the City of Riverside's Water Utility's revenue bonds to AA+ from its previous rating of AA.
- The assets of the Water Utility exceeded its liabilities (equity) at the close of fiscal years 2008 and 2007 by $274,487 and $253,917, respectively. Of this amount, $37,884 and $39,707, respectively, may be used to meet the Utility's ongoing obligations to creditors and customers.
- The Utility's total equity as of June 30, 2008 and 2007 increased by $20,570 and $25,037 from fiscal years ended June 30, 2007 and 2006, respectively.
- As of June 30, 2008 and 2007, unrestricted equity represented over 88% and 106% of annual operating expenses, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

The ***Notes to the Financial Statements*** provide additional information that is essential to a full understanding of the data provided in the Water Utility's financial statements. The notes to the financial statements can be found on pages 56 to 67of 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 $274,487 and $253,917 at the close of the fiscal years 2008 and 2007, respectively.

The following table summarizes the Water Utility's financial condition as of June 30, 2008, 2007 and 2006:

CONDENSED STATEMENTS OF EQUITY (NET ASSETS)

	2008	2007	2006
Current and other assets	$ 117,858	$ 77,827	$ 86,812
Capital assets	324,636	286,396	254,425
Total assets	442,494	364,223	341,237
Long-term debt outstanding	147,349	91,568	94,961
Other liabilities	20,658	18,738	17,396
Total liabilities	168,007	110,306	112,357
Invested in capital assets, net of related debt	230,347	208,882	188,774
Restricted	6,256	5,328	4,762
Unrestricted	37,884	39,707	35,344
Total equity (net assets)	$ 274,487	$ 253,917	$ 228,880

ASSETS

Fiscal Year 2008 Total assets of $442,494 reflect an increase of $78,271 (21.5%), mainly due to the following:

- Current and other assets, which are comprised of restricted and unrestricted assets, reflect a net increase of $40,031 due to the issuance of the 2008 Water Revenue Series B Bonds which resulted in an increase in bond proceeds of $60,000 to fund construction projects offset by the use of $20,536 of bond proceeds for capital projects. Operating cash decreased by $10,550 primarily due to $10,300 of capital construction projects eligible for reimbursement from the State.

- The increase in net capital assets (Utility plant) of $38,240 was a result of significant expenses in the pipeline replacement program, system expansion and improvements, and the contribution of treatment facilities as discussed in the "Capital Assets and Debt Administration" section on page 50 of this report.

Fiscal Year 2007 Total assets of $364,223 reflect an increase of $22,986 (6.7%), due to a $31,971 increase in net capital assets (Utility plant) primarily relating to improvements to the Water Utility's distribution system and treatment facilities, and an $8,985 net decrease in current and other assets. The $8,985 was comprised of a $14,124 decrease in restricted assets mainly due to the use of bond proceeds for capital projects, offset by a $5,139 increase in unrestricted assets largely resulting from positive operating results.

LIABILITIES

Fiscal Year 2008 The Utility's total liabilities were $168,007, an increase of $57,701 (52.3%), due to the following:

- Long-term debt outstanding increased by $55,781 primarily due to the issuance of the 2008 Water Revenue Series B Bonds in the amount of $58,235, offset by $4,364 of principal repayments, and the amortization of deferred bond refunding costs, capital appreciation, and bond discounts and premiums.

- Other liabilities increased by $1,920, primarily from a $2,609 increase in accounts payable and accrued liabilities, offset by a decrease in customer deposits of $717 due to the distribution of deposits to shareholders held on behalf of the La Sierra Water Company.

Fiscal Year 2007 The Utility's total liabilities decreased by $2,051 (1.8%) to $110,306. Long-term debt outstanding decreased by $3,393 largely due to principal repayments, and other liabilities increased by $1,342 due to an increase in accounts payable.

EQUITY (NET ASSETS)

Fiscal Year 2008 The Water Utility's equity, which represents the difference between the Utility's resources and its obligations, totaled $274,487, an increase of $20,570 (8.1%), comprised of the following:

- The largest portion of the Utility's equity is $230,347 (83.9%), 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 $21,465 (10.3%) over prior fiscal year due to the amount of capital assets constructed or purchased that were not bond financed. The Water Utility uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the Balance Sheets must come from other sources such as operations, since the capital assets themselves cannot be used to liquidate these long-term obligations. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.

- The restricted portion totaled $6,256 (2.3% of total equity), and represents resources that are subject to internal and external restrictions on how they may be used. These are reserved for items such as debt repayment and funds collected for the Water Conservation and Reclamation programs. This portion increased by $928 from prior fiscal year primarily due to increases in Water Conservation and Reclamation program assets.

- The unrestricted portion totaled $37,884 (13.8% of total equity), a decrease of $1,823, primarily attributable to results of positive operations offset by the use of unrestricted equity to fund capital projects and additional debt service reserves in the current fiscal year. This portion may be used to meet the Utility's ongoing obligations to creditors and customers.

Fiscal Year 2007 Total Water fund equity increased $25,037 (10.9%) to $253,917. The largest portion of the equity, $208,882 (82.3%), is represented by investment in capital assets, which increased by $20,108 (10.7%) due to the amount of capital assets constructed or purchased that were not bond funded. The restricted portion increased by $566 primarily due to increases in Water Conservation and Reclamation program assets. The unrestricted portion increased by $4,363 due to positive operating results for fiscal year 2007.

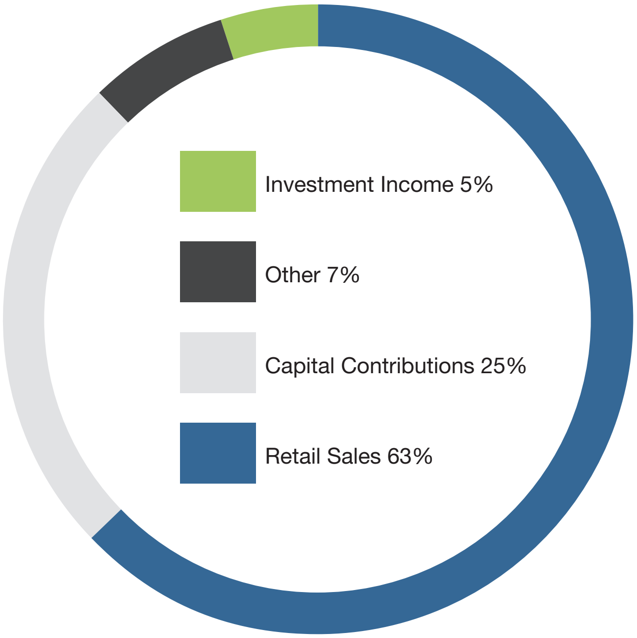
The Water Utility's overall increase in equity of $20,570 and $25,037 during fiscal years 2008 and 2007, respectively, was due to positive operating results and is reflected in the following Condensed Statements of Changes in Equity:

CONDENSED STATEMENTS OF CHANGES IN EQUITY (NET ASSETS)

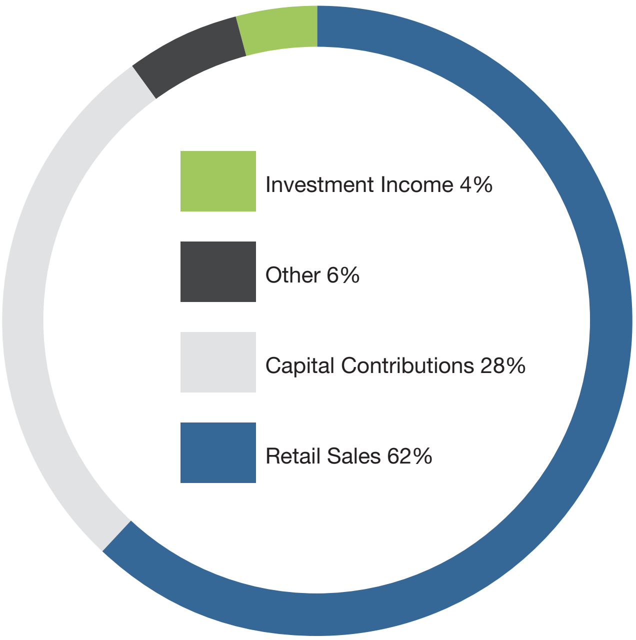
	2008	2007	2006
Revenues:			
Retail sales, net	$ 46,164	$ 43,403	$ 34,301
Other revenues	5,206	4,491	19,708
Investment income	3,357	2,931	1,773
Capital contributions	18,116	20,074	16,511
Total revenues	72,843	70,899	72,293
Expenses:			
Operations and maintenance	27,795	23,449	21,514
Purchased energy and water	6,316	6,233	5,742
Depreciation	8,806	7,783	7,142
Interest expense and fiscal charges	4,401	4,469	4,959
Total expenses	47,318	41,934	39,357
Transfers to the City's general fund	(4,955)	(3,928)	(3,539)
Changes in equity	20,570	25,037	29,397
Equity, July 1	253,917	228,880	199,483
Equity, June 30	$ 274,487	$ 253,917	$ 228,880

REVENUES BY SOURCES

June 30, 2008



June 30, 2007



Fiscal Year 2008 Total revenues of $72,843 increased by $1,944 (2.7%) from prior fiscal year, due to the following major changes:

- Retail sales (residential, commercial, industrial, and other sales), net of reserve/recovery, totaled $46,164, an increase of $2,761 (6.4%) over the prior fiscal year. Retail sales continue to be the primary revenue source for the Water Utility, making up 63.4% of total revenues. The increase in retail sales was primarily due to a 10.0% rate increase that became effective November 1, 2007 as part of the SAFE W.A.T.E.R. (Water Available to Everyone in Riverside) Plan, offset by a 6.1% decrease in retail consumption.

- Other revenues of $5,206 increased by $715 (15.9%) predominantly due to increases in wholesale sales, land and building rental, and gain on the sale of assets.

- Investment income of $3,357 reflects an increase of $426 (14.5%), due to an overall net increase in the fair market value of investments.

- Capital contributions were $18,116 and reflect a decrease of $1,958 (9.8%), primarily due to an increase of $10,047 in contributions from State grants for reimbursable capital project costs, offset by a decrease of $6,168 in non-cash contributions for treatment facilities from settlement agreements with parties responsible for contaminating the Water Utility's ground water resources and a decrease of $5,837 in construction projects funded by developers.

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

- Net retail sales were $43,403, making up 61.2% of total revenues. Net retail sales increased $9,102 (26.5%) due to an 8.5% rate increase that became effective June 1, 2006, a 12% rate increase that became effective November 1, 2006 as part of the SAFE W.A.T.E.R. Plan, and an 11.3% increase in retail consumption.

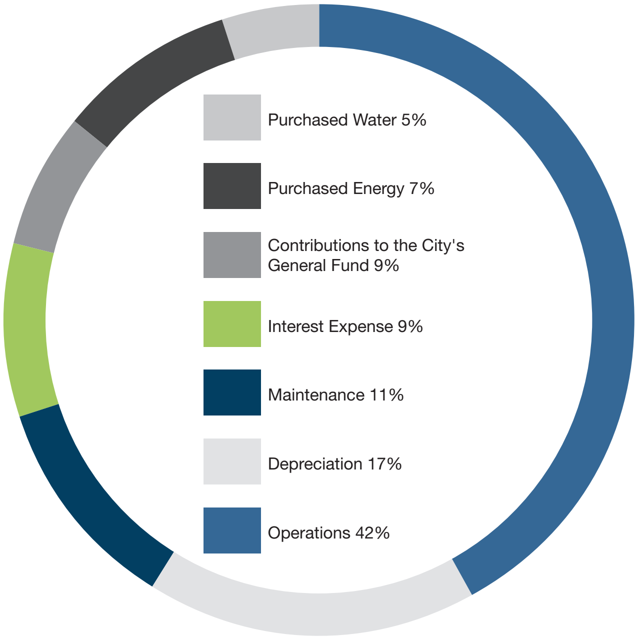
- Other revenues of $4,491 decreased by $15,217 (77.2%) predominantly due to $15,384 received from the sale of surplus property in the previous fiscal year.

- Capital contributions of $20,074 reflect an increase of $3,563 (21.6%), primarily due to a non-cash contribution of $7,243 for treatment facilities from settlement agreements, offset by a decrease of $5,598 in construction projects funded by developers.

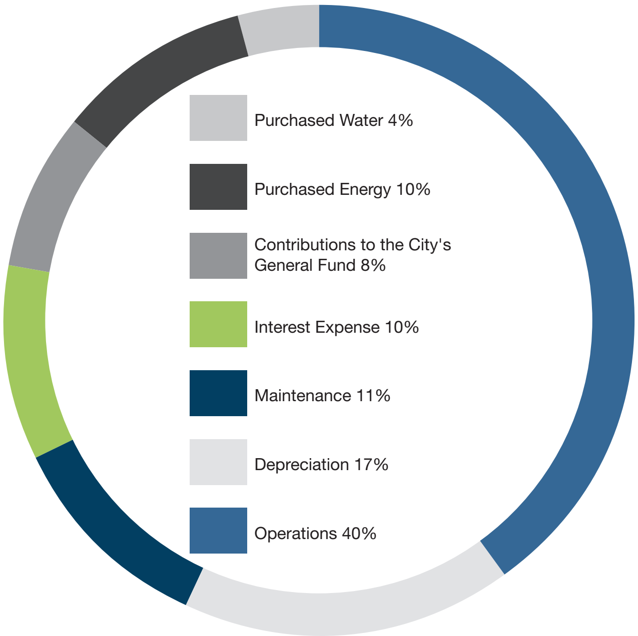
- Investment income of $2,931 reflects an increase of $1,158 (65.3%), due to an increase in operating cash and an overall net increase in the fair market value of investments.

EXPENSES BY SOURCES

June 30, 2008



June 30, 2007



Fiscal Year 2008 Total expenses were $47,318, an increase of $5,384 (12.8%), due to the items discussed below:

- Operations and maintenance costs were $27,795, and reflect an increase of $4,346 (18.5%), largely due to an increase in personnel-related expenses, professional service costs and general operating expenses.

- Depreciation expense of $8,806 increased $1,023 (13.1%) due to the purchase of equipment of $2,407 and the completion of capital projects of $36,200 that were included as depreciable capital assets.

Fiscal Year 2007 Total expenses were $41,934, reflecting an increase of $2,577 (6.5%), due to an increase in labor costs, professional service costs, maintenance expenses and the cost of electricity and gas necessary for operations, offset by a reduction in purchased water costs.

TRANSFERS

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

Fiscal Year 2008 The Water Utility transferred the maximum allowable by the City Charter to the City's general fund, or $4,955, an increase of $1,027, primarily the result of a $9,102 increase in retail sales for fiscal year 2007.

Fiscal Year 2007 Transfers to the City's general fund of $ $3,928 increased by $389, primarily the result of increased retail sales of $3,547 for fiscal year 2006.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

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

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

	2008	2007	2006
Source of supply	$ 24,719	$ 22,266	$ 22,727
Pumping	11,451	7,641	7,918
Treatment	20,613	20,293	13,483
Transmission and distribution	217,071	195,557	190,708
General	5,253	3,680	3,066
Land	7,682	3,923	3,891
Intangible	5,969	5,969	5,969
Construction in progress	31,878	27,067	6,663
Total	$ 324,636	$ 286,396	$ 254,425

Fiscal Year 2008 The Water Utility's investment in capital assets, net of accumulated depreciation, was $324,636 an increase of $38,240 (13.4%). The increase resulted primarily from the following significant capital projects:

- $6,156 for continued pipeline replacement programs.
- $10,768 for system expansion and improvements including pump station replacements and facilities rehabilitation.
- $20,463 for John W. North Treatment facility which will greatly increase the water supply and part of the recommended improvements in the SAFE W.A.T.E.R. Plan.
- $1,075 from non-cash contributions for treatment facilities from settlement agreements with parties responsible for contaminating the Water Utility's ground water resources.
- $2,541 for property acquisitions for future reservoirs, booster stations and other system expansion or improvements projects.

Fiscal Year 2007 Investment in capital assets, net of accumulated depreciation, for the Water Utility increased $31,971 (12.6%), for a total of $286,396. Major capital projects included $11,279 for continued pipeline replacement programs, $10,045 for system expansion and improvements to water facilities and $7,243 from non-cash contributions for treatment facilities.

DEBT ADMINISTRATION

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

	2008	2007	2006
Revenue bonds	$ 153,395	$ 99,515	$ 103,815
Contracts payable	964	974	979
Less:			
Current portion	(4,525)	(4,505)	(4,450)
Unamortized deferred bond refunding costs	(3,198)	(2,510)	(2,587)
Unamortized capital appreciation	(938)	(1,629)	(2,487)
Unamortized bond premium (discount)	1,651	(277)	(309)
Total	$ 147,349	$ 91,568	$ 94,961

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 3.88, 3.38, and 5.11 at June 30, 2008, 2007, and 2006, respectively. The debt is backed by the revenues of the Utility (revenue bonds).

Fiscal Year 2008 Total long-term debt increased by $55,781 (60.9%) to a total of $147,349, due to the May 15, 2008 issuance of the 2008 Water Revenue Series B Bonds in the amount of $58,235, offset by $4,364 of principal repayments, and the amortization of deferred bond refunding costs, capital appreciation, and bond discounts and premiums. In May 2008, the Utility also issued the 2008 Water Refunding/Revenue Series A Bonds to advance refund the 2005 Water Refunding/Revenue Bonds.

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

Additional information on the Water Utility's long-term debt can be found in Note 4 on pages 62 to 66 of this report.

CREDIT RATINGS

In May 2008, Standard & Poor's raised the rating of the Water Utility's water bonds to "AA+" from "AA" and cited the Utility's "continued strong financial management, minimal capital needs, and a growing service area economy," as rational.

The Water Utility maintains an "AA" credit rating from Fitch Ratings for its revenue bonds.

ECONOMIC FACTORS AND RATES

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

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

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

REQUESTS FOR INFORMATION

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

BALANCE SHEETS: WATER

ASSETS	June 30, 2008	June 30, 2007
	(in thousands)	
UTILITY PLANT:		
Source of supply	$ 35,880	$ 32,822
Pumping	18,219	14,053
Treatment	23,772	22,697
Transmission and distribution	311,288	284,010
General	12,288	10,045
	401,447	363,627
Less accumulated depreciation	(122,340)	(114,190)
	279,107	249,437
Land	7,682	3,923
Intangible	5,969	5,969
Construction in progress	31,878	27,067
Total utility plant (Note 3)	324,636	286,396
RESTRICTED ASSETS:		
Cash and cash equivalents (Note 2)	4,862	4,475
Cash and investments at fiscal agent (Note 2)	56,694	17,982
Total restricted non-current assets	61,556	22,457
OTHER NON-CURRENT ASSETS:		
Deferred pension costs	5,782	5,838
Deferred bond issuance costs	1,702	1,003
Advances to the City's general fund	-	20
Total other non-current assets	7,484	6,861
Total non-current assets	393,676	315,714
CURRENT ASSETS:		
Unrestricted assets:		
Cash and cash equivalents (Note 2)	29,577	40,127
Accounts receivable, less allowance for doubtful accounts 2008 $121; 2007 $58	5,860	5,290
Accounts receivable, other utilities and governments, less allowance for doubtful accounts 2008 $179; 2007 $155	11,718	1,838
Accrued interest receivable	260	399
Prepaid expenses	6	2
Total unrestricted current assets	47,421	47,656
Restricted assets:		
Cash and cash equivalents (Note 2)	1,249	741
Conservation and Reclamation Programs receivable	148	112
Total restricted current assets	1,397	853
Total current assets	48,818	48,509
Total assets	$ 442,494	$ 364,223

* *See accompanying notes to the financial statements*

EQUITY AND LIABILITIES	June 30, 2008	June 30, 2007
	(in thousands)	
EQUITY:		
Invested in capital assets, net of related debt	$ 230,347	$ 208,882
Restricted for:		
Debt service (Note 5)	4,862	4,475
Conservation and Reclamation Programs	1,394	853
Unrestricted	37,884	39,707
Total equity	274,487	253,917
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4)	147,349	91,568
OTHER NON-CURRENT LIABILITIES:		
Pension obligation (Note 4)	5,682	5,761
Postemployment benefits payable	129	-
Arbitrage liability	-	416
Total other non-current liabilities	5,811	6,177
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	568	318
Conservation and Reclamation Programs payable	3	-
Current portion of long-term debt (Note 4)	4,375	4,355
Total current liabilities payable from restricted assets	4,946	4,673
CURRENT LIABILITIES:		
Accounts payable	6,862	4,436
Accrued liabilities	2,142	1,959
Current portion of long-term debt (Note 4)	150	150
Current portion postemployment benefits payable (Note 4)	121	-
Customer deposits	626	1,343
Total current liabilities	9,901	7,888
Total liabilities	168,007	110,306
COMMITMENTS AND CONTINGENCIES (NOTES 6 AND 7)	-	-
Total equity and liabilities	$ 442,494	$ 364,223

** See accompanying notes to the financial statements*

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN EQUITY: WATER

	For the Fiscal Years Ended June 30, 2008	2007
	(in thousands)	
OPERATING REVENUES:		
Residential sales	$ 30,046	$ 28,396
Commercial sales	14,615	13,255
Other sales	1,755	1,916
Wholesale sales	206	164
Conservation and Reclamation Programs	825	737
Other operating revenue	2,408	2,602
Total operating revenues before (reserve)/recovery	49,855	47,070
Reserve for uncollectible, net of bad debt recovery	(252)	(164)
Total operating revenues, net of (reserve)/recovery	49,603	46,906
OPERATING EXPENSES:		
Operations	21,971	18,382
Maintenance	5,540	4,846
Purchased energy	3,650	4,534
Purchased water	2,666	1,699
Conservation and Reclamation Programs	284	221
Depreciation	8,806	7,783
Total operating expenses	42,917	37,465
Operating income	6,686	9,441
NON-OPERATING REVENUES (EXPENSES):		
Investment income	3,357	2,931
Interest expense and fiscal charges	(4,401)	(4,469)
Gain (loss) on sale of capital assets	164	(144)
Gain on sale of land	12	70
Other	1,591	1,062
Total non-operating revenues (expenses)	723	(550)
Income before contributions and transfers	7,409	8,891
Capital contributions	18,116	20,074
Transfers out - contributions to the City's general fund	(4,955)	(3,928)
Total capital contributions and transfers out	13,161	16,146
Increase in equity	20,570	25,037
EQUITY, BEGINNING OF YEAR	253,917	228,880
EQUITY, END OF YEAR	$ 274,487	$ 253,917

** See accompanying notes to the financial statements*

STATEMENTS OF CASH FLOWS: WATER

	For the Fiscal Years Ended June 30, 2008	2007
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	$ 48,533	$ 47,781
Cash paid to suppliers and employees	(31,450)	(28,445)
Other receipts	1,591	1,062
Net cash provided by operating activities	18,674	20,398
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(4,955)	(3,928)
Principal paid on pension obligation bonds	(79)	(62)
Net cash used by non-capital financing activities	(5,034)	(3,990)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(42,031)	(25,469)
Proceeds from the sale of utility plant	306	103
Principal paid on long-term obligations	(4,364)	(4,305)
Interest paid on long-term obligations	(3,820)	(3,445)
Proceeds from revenue bonds, including premium	120,430	-
Deposit to escrow account for advance bond refunding	(60,300)	-
Bond issuance costs	(1,435)	-
Capital contributions	3,531	5,611
Net cash provided (used) by capital and related financing activities	12,317	(27,505)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Reduction in advances to the City's general fund	20	8
Purchases of investment securities	27	(430)
Income from investments	3,080	3,276
Net cash provided by investing activities	3,127	2,854
Net increase (decrease) in cash and cash equivalents	29,084	(8,243)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (including $14,722 and $29,327 at June 30, 2007 and June 30, 2006, respectively, reported in restricted accounts)	54,849	63,092
CASH AND CASH EQUIVALENTS, END OF YEAR (including $54,356 and $14,722 at June 30, 2008 and June 30, 2007, respectively, reported in restricted accounts)	$ 83,933	$ 54,849
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 6,686	$ 9,441
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	8,806	7,783
Amortization of deferred charges-pension costs	56	38
Increase (decrease) in allowance for uncollectible accounts	87	(38)
Decrease (increase) in accounts receivable	(693)	806
Decrease (increase) in prepaid expenses	(4)	366
Increase in accounts payable	2,427	1,188
Increase (decrease) in accrued liabilities	183	(191)
Increase in postemployment benefits payable	250	-
(Decrease) in customer deposits	(715)	(57)
Other receipts	1,591	1,062
Net cash provided by operating activities	$ 18,674	$ 20,398
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions - capital assets	4,706	14,463
Increase (decrease) in fair value of investments	(1)	23

* *See accompanying notes to the financial statements*

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

BASIS OF ACCOUNTING

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

USE OF ESTIMATES

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

REVENUE RECOGNITION

Water Utility customers are billed monthly. Unbilled water service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled $2,961 at June 30, 2008, and $2,732 at June 30, 2007.

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

UTILITY PLANT AND DEPRECIATION

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

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

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

RESTRICTED ASSETS

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

CASH AND INVESTMENTS

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

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

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

City-wide information concerning cash and investments for the year ended June 30, 2008, including authorized investments, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and investments may be found in the notes to the City's "Comprehensive Annual Financial Report."

CASH AND INVESTMENTS AT FISCAL AGENTS

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

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

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

CUSTOMER DEPOSITS

The City holds customer deposits as security for the payment of utility bills. The Water Utility's portion of these deposits as of June 30, 2008 and 2007, respectively, was $626 and $1343 (including $104 and $969, respectively, held on behalf of La Sierra Water Company pending dissolution and distribution of remaining cash asset to shareholders, of which the City is the largest owner).

COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due employees at June 30, 2008 and 2007. The Water Utility treats compensated absences due employees as an expense and a current liability. The amount accrued for compensated absences was $1,993 at June 30, 2008, and $1,899 at June 30, 2007, and is included in accrued liabilities in the accompanying Balance Sheets.

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

INSURANCE PROGRAMS

The Water Utility participates in a self-insurance program for workers' compensation and general liability coverage that is administered by the City. The Water Utility pays an amount to the City based on actuarial estimates of the amounts needed to fund prior and current year claims and incidents that have been incurred but not reported. The City maintains property insurance on most City property holdings, including Utility plant with a limit of $100,000.

City-wide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risks for the year ended June 30, 2008, may be found in the notes to the City's "Comprehensive Annual Financial Report."

Although the ultimate amount of losses incurred through June 30, 2008 is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. Premiums paid to the City by the Water Utility were $490 and $219 for the years ended June 30, 2008 and 2007, respectively. Any losses above the City's reserves would be covered through increased rates charged to the Water Utility in future years.

EMPLOYEE RETIREMENT PLAN

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

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

Employee contributions are 8.0 percent of their annual covered salary. The Water Utility is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The employer portion of PERS funding as of June, 30 2008 and 2007, was 13.29 percent and 13.18 percent, respectively, of annual covered payroll. The Water Utility pays both the employee and employer contributions. The total Water Utility's contribution to PERS as of June 30, 2008 and 2007, was $1,842 and $1,579, respectively.

City-wide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the fiscal year ended June 30, 2008, 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, 2008.

PENSION OBLIGATION BONDS

In 2005, the City issued Pension Obligation Bonds in the amount of $60,000, of which the Water Utility's share is $5,890 as reflected in the accompanying Balance Sheet as deferred pension costs and a corresponding long-term obligation. The deferred charge relating to the net pension asset will be amortized over 19 years in accordance with the method used by PERS for calculating actuarial gains and losses. The Bonds will be used to fund the unfunded actuarial accrued liability for non-safety employees and the proceeds were deposited with PERS. The balance in deferred pension costs as of June 30, 2008 and 2007 was $5,782 and $5,838, 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, 2008.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

OTHER POST-EMPLOYMENT 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 Water 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 Water Utility for the Stipend Plan are established and may be amended through the memoranda of understanding (MOU) between the City and the unions. The Water Utility's contribution is financed on a "pay-as-you-go-basis" and the current contribution is unfunded. The contribution requirements of the Water Utility's Implied Subsidy Plan are established by the City Council. The Water 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 Water 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. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs 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 as of June 30, 2008 was $250.

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, 2008 can be found in the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2008.

ARBITRAGE LIABILITY

The Tax Reform Act of 1986 (the Act) requires the Water Utility to calculate and remit rebatable arbitrage earnings to the Internal Revenue Service. Certain debt and interest earnings on the proceeds of the Water Utility are subject to the requirements of the Act which contain yield restrictions on investment of proceeds from tax-exempt financing in higher yielding taxable securities. As of June 30, 2008, no arbitrage liability was due as a result of the advance refunding of the bonds related to the liability. The balance in the arbitrage liability as of June 30, 2007 was $416.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

EQUITY

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

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

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

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

CONTRIBUTIONS TO THE CITY'S GENERAL FUND

Pursuant to the City Charter, the Water Utility may transfer up to 11.5 percent of its prior year's gross operating revenues to the City's general fund. In fiscal years 2007-08 and 2006-07, the Water Utility transferred 11.5 percent of gross operating revenues, or $4,955 and $3,928, respectively.

CASH AND CASH EQUIVALENTS

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

BUDGETS AND BUDGETARY ACCOUNTING

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

RECLASSIFICATIONS

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

PRIOR YEAR DATA

Selected information regarding the prior year 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 government's prior year financial statements, from which this selected financial data was derived.

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2008 and 2007, consist of the following (in thousands):

	June 30, 2008	June 30, 2007
	(Fair Value)	
Equity interest in City Treasurer's investment pool	$ 35,688	$ 45,343
Investments at fiscal agent	54,260	15,548
	89,948	60,891
Deposits with financial institutions	2,434	2,434
Total cash and investments	$ 92,382	$ 63,325

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

	June 30, 2008	June 30, 2007
Unrestricted cash and cash equivalents	$ 29,577	$ 40,127
Restricted cash and cash equivalents	6,111	5,216
Restricted cash and investments at fiscal agent	56,694	17,982
Total cash and investments	$ 92,382	$ 63,325

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	$ 997	$ 997	$ -	$ -	$ -
Investment contracts [1]	53,263	-	48,245	-	5,018
City Treasurer's investment pool [2]					
Money market funds	840	840	-	-	-
Federal agency securities	23,590	3,502	9,080	11,008	-
Corp medium term notes	2,495	1,488	1,007	-	-
State investment pool	8,763	8,763	-	-	-
Total	$ 89,948	$ 15,590	$ 58,332	$ 11,008	$ 5,018

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

		Rating as of Year End			
Investment Type	Total	AAA	AA+	AA	Unrated
Held by fiscal agent					
Money market funds	$ 997	$ 997	$ -	$ -	$ -
Investment contracts	53,263	-	-	-	53,263
City Treasurer's investment pool [2]					
Money market funds	840	693	-	-	147
Federal agency securities	23,590	23,590	-	-	-
Corp medium term notes	2,495	1,007	497	991	-
State investment pool	8,763	-	-	-	8,763
Total	$ 89,948	$ 26,287	$ 497	$ 991	$ 62,173

[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, 2008 and 2007 (in thousands):

	Balance, As of 6/30/06	Additions	Retirements/ Transfers	Balance, As of 6/30/07	Additions	Retirements/ Transfers	Balance, As of 6/30/08
Source of supply	$ 32,684	$ 138	$ -	$ 32,822	$ 3,058	$ -	$ 35,880
Pumping	13,986	67	-	14,053	4,166	-	18,219
Treatment	15,449	7,248	-	22,697	1,075	-	23,772
Transmission and distribution	273,785	10,873	(648)	284,010	27,901	(623)	311,288
General	8,969	1,210	(134)	10,045	2,407	(164)	12,288
Depreciable utility plant	344,873	19,536	(782)	363,627	38,607	(787)	401,447
Less accumulated depreciation:							
Source of supply	(9,957)	(595)	(4)	(10,556)	(610)	5	(11,161)
Pumping	(6,068)	(344)	-	(6,412)	(356)	-	(6,768)
Treatment	(1,966)	(438)	-	(2,404)	(755)	-	(3,159)
Transmission and distribution	(83,077)	(5,819)	443	(88,453)	(6,251)	487	(94,217)
General	(5,903)	(586)	124	(6,365)	(833)	163	(7,035)
Accumulated depreciation	(106,971)	(7,782)	563	(114,190)	(8,805)	655	(122,340)
Net depreciable utility plant	237,902	11,754	(219)	249,437	29,802	(132)	279,107
Land	3,891	35	(3)	3,923	3,759	-	7,682
Intangible	5,969	-	-	5,969	-	-	5,969
Construction in progress	6,663	24,294	(3,890)	27,067	44,888	(40,077)	31,878
Nondepreciable utility plant	16,523	24,329	(3,893)	36,959	48,647	(40,077)	45,529
Total utility plant	$ 254,425	$ 36,083	$ (4,112)	$ 286,396	$ 78,449	$ (40,209)	$ 324,636

NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2008 and 2007 (in thousands):

	Balance, As of 6/30/06	Additions	Reductions	Balance, As of 6/30/07	Additions	Reductions	Balance, As of 6/30/08	Due Within One Year
Revenue bonds	$ 98,432	$ -	$ (3,333)	$ 95,099	$ 117,527	$ (61,716)	$ 150,910	$ 4,375
Pension obligation	5,823	-	(62)	5,761	-	(79)	5,682	98
Postemployment benefits payable	-	-	-	-	250	-	250	121
Water stock acquisition rights	979	-	(5)	974	-	(10)	964	150
Arbitrage liability	-	416	-	416	9	(425)	-	-
Total long-term obligations	$ 105,234	$ 416	$ (3,400)	$ 102,250	$ 117,786	$ (62,230)	$ 157,806	$ 4,744

NOTE 4. LONG-TERM OBLIGATIONS *(continued)*

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

Contracts Payable

	June 30, 2008	June 30, 2007
Water Stock Acquisitions: Payable on demand to various water companies	$ 964	$ 974
Total contracts payable	964	974

Revenue Bonds Payable

	June 30, 2008	June 30, 2007
$69,840 1991 Water Revenue Bonds: $25,900 serial capital appreciation bonds due in annual installments from $3,235 to $3,240 through October 1, 2010 (partially advance refunded in 1998)	9,710	12,950
$30,965 1998 Water Refunding/Revenue Bonds: $15,055 serial bonds due in annual installments from $300 to $3,690 through October 1, 2013, interest from 4.63 percent to 5.38 percent; $10,155 term bonds due October 1, 2018, interest at 5.0 percent; $5,755 term bonds due October 1, 2027 (partially advance refunded in 2005)	20,705	20,990
$20,000 2001 Water Revenue Bonds: $10,070 serial bonds due in annual installments from $415 to $585 through October 1, 2016, interest from 3.63 percent to 4.75 percent; $4,345 term bonds due October 1, 2026 and $5,585 term bonds due October 1, 2031 were advance refunded in 2005	4,445	4,850
$61,125 2005 Water Refunding/Revenue Bonds: All outstanding Auction Rate Securities were advance refunded on May 7, 2008 with 2008 Water Refunding/Revenue bonds	-	60,725
$60,300 2008 Water Refunding/Revenue Series A Bonds: $60,300 variable rate bonds due in annual installments from $425 to $3,950 from October 1, 2008 through October 1, 2035. Interest rate is subject to weekly repricing (rate at June 26, 2008 was 3.4 percent)	60,300	-
$58,235 2008 Water Revenue Series B Bonds: $19,890 serial bonds due in annual installments from $1,210 to $2,585 from October 1, 2016 through October 1, 2028, interest from 4.0 percent to 5.0 percent; $11,810 term bonds due October 1, 2033, interest at 5.0 percent; $26,535 term bonds due October 1, 2038, interest at 5.0 percent	58,235	-
Total water revenue bonds payable	153,395	99,515
Total water revenue bonds and contracts payable	154,359	100,489
Unamortized deferred bond refunding costs	(3,198)	(2,510)
Unamortized capital appreciation	(938)	(1,629)
Unamortized bond premium (discount)	1,651	(277)
Total water revenue bonds and contracts payable, net of deferred bond refunding costs, capital appreciation, and bond premium/discount	151,874	96,073
Less current portion	(4,525)	(4,505)
Total long-term water revenue bonds and contracts payable	$ 147,349	$ 91,568

Annual debt service requirements to maturity, as of June 30, 2008, are as follows (in thousands):

	2009	2010	2011	2012	2013	2014-2018	2019-2023	2024-2028	2029-2033	2034-2038	2039-2043	Total
Principal	$ 4,525	$ 4,565	$ 4,615	$ 4,740	$ 4,970	$ 22,654	$ 18,600	$ 22,310	$ 27,000	$ 32,875	$ 7,505	$ 154,359
Interest	5,534	5,939	5,892	5,939	5,709	24,203	20,371	16,550	11,744	5,712	188	107,781
Total	$ 10,059	$ 10,504	$ 10,507	$ 10,679	$ 10,679	$ 46,857	$ 38,971	$ 38,860	$ 38,744	$ 38,587	$ 7,693	$ 262,140

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 Water Utility's financial statements. At fiscal year ended June 30, 2008, $21,025 of bonds outstanding are considered defeased.

2008 WATER REFUNDING/REVENUE BONDS

The City entered into a refunding transaction during the fiscal year in response to unusual market conditions brought about by the downgrade of several of the leading municipal bond insurers. These companies provided insurance for the City's Auction Rate Securities ("ARS"). The market that routinely absorbed these instruments through a weekly auction process discontinued their interest in the product and the result was excessively high interest rates, often to the default rate (defined in the bond documents) as the auction "failed," having insufficient bids to clear the auction.

The City's ARS debt was layered with "synthetic fixed rate" swaps designed to maintain the overall cost of funds at a level considered to be in the City's best interest. The unusual market conditions resulted in the swaps not performing as intended and thus the ARS debt was refunded with Variable Rate Demand Notes ("VRDNs"). The transaction was completed (as described below), and the variable rates received on the VRDNs as of June 30, 2008 have resulted in the swaps again functioning as intended, to control the cost of funds on the outstanding variable rate debt.

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 7, 2008, $60,300 of Water Refunding/Revenue Series A Bonds were sold with a true interest cost of 3.22% to refund $60,300 of previously outstanding 2005 Water Refunding/Revenue Bonds. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $2,905. The difference is being charged to operations using the proportional method. The City completed the refunding to eliminate its investment in auction rate securities.

On May 15, 2008, the Water Utility also issued $58,235 of Water Revenue Series B Bonds to finance additional capital projects of the City's Capital Improvement Program of the Water System. Series B is comprised of: $19,890 serial bonds, with principal payments from October 1, 2016 through October 1, 2028 ranging from $1,210 to $2,585 at interest rates between 4.0 percent and 5.0 percent; $11,810 term bonds, maturing on October 1, 2033 with interest rate at 5.0 percent; $26,535 term bonds, maturing on October 1, 2038 with interest rate at 5.0 percent.

INTEREST RATE SWAPS ON REVENUE BONDS

Objective: As a means to lower borrowing costs, when compared against fixed-rate bonds at the time of issuance in May 2008, the City entered into interest rate swap agreements in connection with its $60,300 2008 Water Refunding/Revenue Series A Bonds. The intention of the swap was to effectively change the City's variable interest rate on the bonds to a synthetic fixed rate of 3.20%.

Terms: Under the swaps, the City pays the counterparty a fixed payment as noted above and receives a variable payment computed as 62.68% of the London Interbank Offering Rate ("LIBOR") one month index plus 12 basis points. The swaps have notional amounts equal to the principal amounts stated above. Starting in fiscal year 2009, the notional value of the swaps and the principal amounts of the associated debt decline by $425 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 agreements for the 2008 Water Refunding/Revenue Series A Bonds mature on October 1, 2035. As of June 30, 2008, rates were as follows:

Interest rate swap:	Terms	Rates
Fixed payment to counterparty	Fixed	3.20000%
Variable payment from counterparty	62.68 LIBOR + 12bps	(3.05273%)
Net interest rate swap payments		0.14727%
Variable-rate bond coupon payments		3.32190%
Synthetic interest on bonds		3.46917%

Fair value: As of June 30, 2008, in connection with all swap agreements, the transactions had a total negative fair value of $(468). Because the coupons on the City's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was developed by a pricing service using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Credit risk: As of June 30, 2008, the City was not exposed to credit risk because the swap had a negative fair value. The swap counterparty, Bear Stearns/J.P. Morgan was rated AA- by Standard & Poor's. To mitigate the potential for credit risk, the swap agreements require the fair value of the swap will 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, 2008, there is no requirement for collateral posting for any of the outstanding swaps.

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

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

NOTE 4. LONG-TERM OBLIGATIONS *(continued)*

Swap payments and associated debt: As of June 30, 2008, 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
2009	$ 425	$ 1,989	$ 88	$ 2,502
2010	425	1,975	88	2,488
2011	450	1,960	87	2,497
2012	800	1,933	86	2,819
2013	825	1,906	85	2,816
2014-2018	4,950	9,084	403	14,437
2019-2023	11,450	7,646	339	19,435
2024-2028	14,525	5,390	239	20,154
2029-2033	14,975	2,907	129	18,011
2034-2038	11,475	389	17	11,881
Total	$ 60,300	$ 35,179	$ 1,561	$ 97,040

NOTE 5. RESTRICTED EQUITY

Pursuant to applicable bond indentures, a reserve for debt service has been established by restricting assets and reserving a portion of equity. Bond indentures for Riverside's water revenue bonds require reserves that equate to the maximum annual debt service required in future years plus three months interest and nine months principal due in the next fiscal year. The 2008 Refunding/Revenue Series A Bonds require 110% of the monthly accrued interest be included in the reserve. Additional reserves for the 2008 Revenue Series B Bonds and the 1998 Revenue Bonds are not required due to the purchase of surety bonds to cover the reserve requirements.

NOTE 6. LITIGATION

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

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

The defendants removed this lawsuit to federal court and then transferred the case to the Judicial Panel on Multidistrict Litigation, New York, where it was consolidated with all other pending MTBE water contamination litigation cases in the country. Although the City has tentatively settled with a number of the defendants, the settlement has not been approved by the court and there is no trial date for the remainder of the case.

NOTE 6. LITIGATION *(continued)*

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

NOTE 7. CONSTRUCTION COMMITMENTS

As of June 30, 2008, the Water Utility had major commitments of approximately $5,520 with respect to unfinished capital projects, of which $2,943 is expected to be funded by bonds, $1,740 funded by other sources and $837 funded by rates.

KEY HISTORICAL OPERATING DATA: WATER

WATER SUPPLY *(acre feet)*

	2007/08	2006/07	2005/06	2004/05	2003/04
Pumping	80,974	85,299	76,605	73,732	81,797
Purchases	1,643	2,092	2,670	4,137	1,693
Total:	82,617	87,391	79,275	77,869	83,490
Percentage pumped	98.0%	97.6%	96.6%	94.7%	98.0%
System peak day (gallons)	111,300,000	109,200,000	118,782,000	112,094,000	105,029,000

WATER USE

	2007/08	2006/07	2005/06	2004/05	2003/04
Number of meters as of year end					
Residential	57,694	57,666	57,308	56,916	56,254
Commercial/Industrial	5,446	5,279	5,204	5,114	4,932
Other	354	486	473	462	482
Total:	63,494	63,431	62,985	62,492	61,668
*CCF sales					
Residential	18,483,522	19,848,653	17,702,717	17,245,315	19,056,556
Commercial/Industrial	10,510,953	10,817,783	9,822,196	9,252,639	9,988,578
Other	970,239	1,243,927	1,157,130	1,199,448	1,361,809
Wholesale	618,552	199,845	182,987	177,851	189,377
Total:	30,583,266	32,110,208	28,865,030	27,875,253	30,596,320

*(CCF equals 100 cubic feet)

WATER FACTS

	2007/08	2006/07	2005/06	2004/05	2003/04
Average annual CCF per residential customer	320	345	312	308	342
Average price ($/CCF) per residential customer	$1.63	$1.43	$1.26	$1.16	$1.05
Debt service coverage ratio	3.88	3.38	5.11	2.85	3.52
Employees[1]	167	165	137	130	130

[1]Approved positions

2007/2008 WATER REVENUE AND RESOURCES

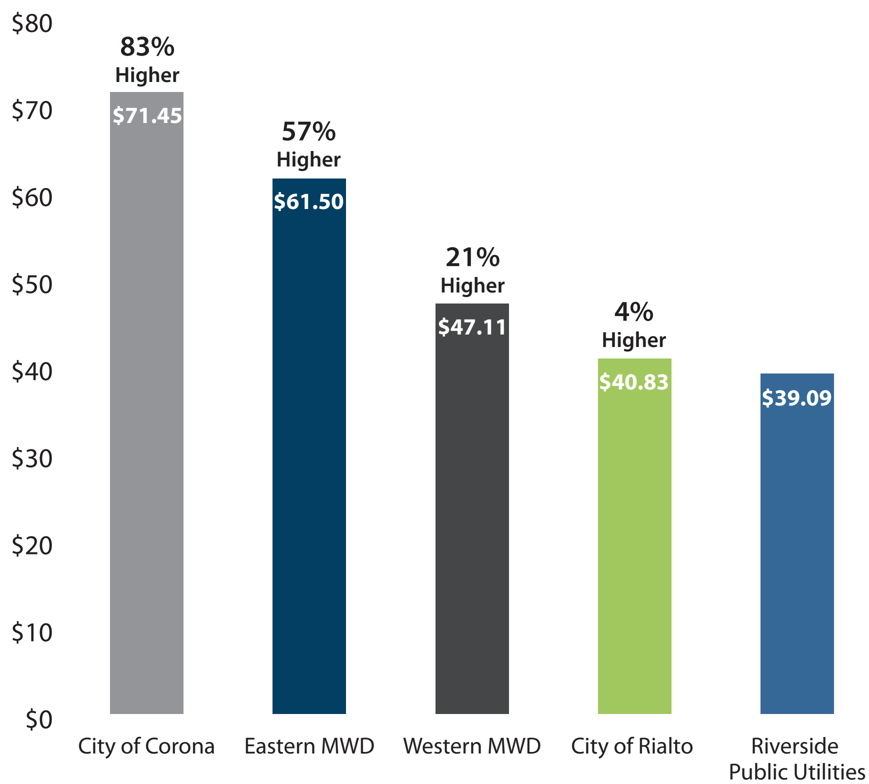
- Other Sales 2¢
- Investment Income 5¢
- Commercial Sales 20¢
- Other Revenues 32¢
- Residential Sales 41¢

- Water Supply 4¢
- Additional Reserves 5¢
- Transfers to the City's General Fund* 7¢
- Debt Services 11¢
- Additions & Replacements to the System 30¢
- Operations & Maintenance 43¢

- Purchased Water 2%
- Riverside Basin Wells 29%
- San Bernardino Basin Wells 69%

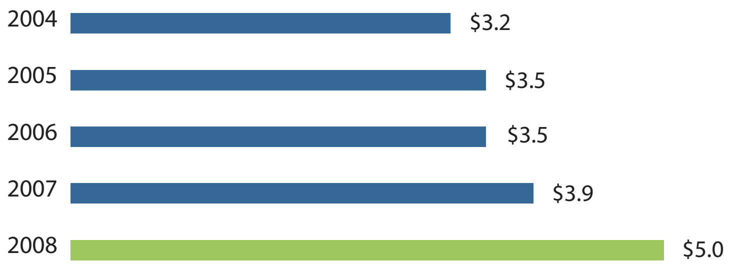
Based on transfer of 11.5% of fiscal year 2006/2007 revenues.

RESIDENTIAL WATER RATE COMPARISON – 27 CCF PER MONTH (AS OF JULY 1, 2008)

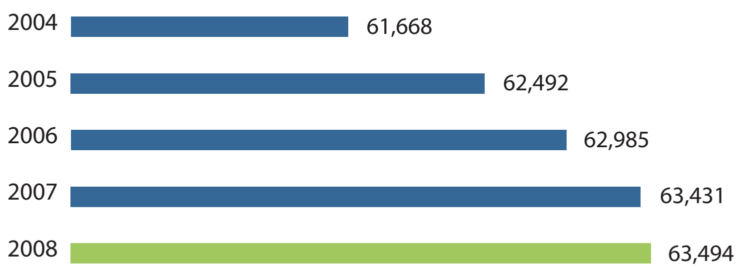


KEY HISTORICAL OPERATING DATA: WATER

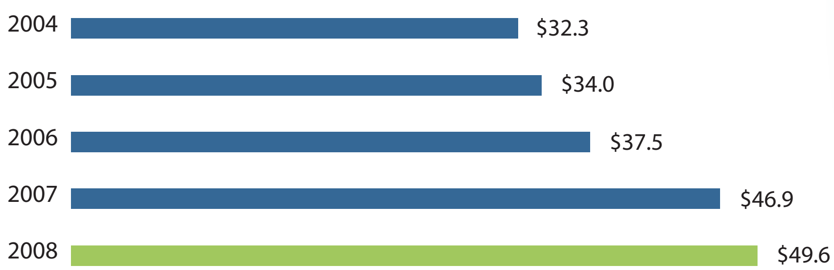
GENERAL FUND TRANSFER *(in millions)*



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	296,842
Service Area Size (square miles)	75.2
System Data:	
Smallest pipeline	2.0”
Largest pipeline	72.0”
Miles of pipeline	988
Number of domestic wells	51
Number of active reservoirs	15
Total reservoir capacity (gallons)	99,990,000
Number of treatment plants	7
Number of treatment vessels	104
Miles of canal	14
Number of fire hydrants	7,381
Daily average production (gallons)	73,849,248
2007-2008 Peak day (gallons):	111,300,000
7/2/07, 103 degrees	
Historical peak (gallons):	118,782,000
8/9/05, 99 degrees	

BOND RATINGS

FITCH RATINGS	AA
STANDARD & POOR’S	AA+