

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

The Honorable Mayor and Members
of the City Council
City of Riverside
Riverside, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Riverside, California, (the City) as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Riverside, California, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

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

McGladrey & Pullen, LLP is a member firm of RSM International,
an affiliation of separate and independent legal entities.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements and other schedules, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory and statistical sections, as listed in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.



Riverside, California
September 30, 2005

Management's Discussion and Analysis

As management of the City of Riverside (the City), we offer this narrative overview and analysis of financial activities for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information furnished in our letter of transmittal, which can be found on page v. of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements, comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains certain supplementary information.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the excess of assets over liabilities reported as net assets. Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business type activities*). The governmental activities of the City include general government, public safety, highways and streets, and culture and recreation. The business type activities of the City include Electric, Water, Sewer, Refuse, Public Parking, Airport and Transportation services.

The government-wide financial statements include the City and its component units. The City's component units are the Riverside Redevelopment Agency, Riverside Public Financing Authority, and the Riverside Municipal Improvements Corporation. Although legally separate, these entities function for all practical purposes as departments of the City and therefore have been blended as part of the primary government.

Both the Governmental Activities and the Business Type Activities are presented on the accrual basis of accounting, a basis of accounting that differs from the modified accrual basis of accounting used in presenting governmental fund financial statements. Note 1.C. of the Notes to the Basic Financial Statements fully describe these bases of accounting. Proprietary funds, discussed below, also follow the accrual basis of accounting.

The government-wide financial statements can be found on pages 19-20 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental, proprietary, and fiduciary.

Governmental funds. *Governmental funds* are used to account for the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources* as well as on balances of spendable resources available at the end of the fiscal year.

It is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. Reconciliations to facilitate this comparison are provided for both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances. The major reconciling items relate to capital assets and debt. In the Governmental Funds, acquisitions of capital assets are treated as "expenditures" because upon purchase of a capital asset, cash used for the acquisition is no longer available for other purposes. The issuance of debt provides cash, which is now available for specified purposes. Accordingly, at the end of the fiscal year, the unreserved fund balances of the Governmental Funds reflect spendable resources available for appropriation by the City Council. Spendable balances are not presented on the face of the government-wide financial statements.

The City maintains seventeen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Redevelopment Agency Debt Service Fund, both of which are major funds. Data from the other fifteen governmental funds are

combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* and can be found on pages 57-66 in this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

The basic financial statements can be found on pages 19-55 of this report.

Proprietary funds. The City maintains two different types of proprietary funds, enterprise and internal service funds. Enterprise funds are used to report the same functions presented as *business type activities* in the government-wide financial statements. The City uses enterprise funds to account for Electric, Water, Sewer, Refuse, Parking, Airport and Transportation services. *Internal service* funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for self-insured insurance programs, central stores and its fleet of vehicles. Because these services predominantly benefit governmental rather than business type functions, they have been included within *governmental activities* in the government-wide financial statements. Internal service funds are presented as proprietary funds because both enterprise and internal service funds follow the accrual basis of accounting.

Proprietary funds provide the same type of information as the government-wide financial statements (*business type activities*), only in more detail. The proprietary fund financial statements provide separate information for the Electric, Water and Sewer operations, all of which are considered to be major funds of the City. The four remaining proprietary funds noted above are combined into a single, aggregated presentation. All internal service funds are also combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the non-major proprietary funds and the internal service funds is provided in the form of *combining statements* and can be found on pages 67-71 in this report.

The basic proprietary fund financial statements can be found on pages 26-30 of this report.

Agency funds. Agency funds are used to account for situations where the City's role is purely custodial. Agency funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. All assets reported in Agency funds are offset by a liability; the accrual basis of accounting is used to recognize receivables and payables.

The Agency fund financial statement can be found on page 31 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 32 of this report.

Government-wide Financial Analysis

The following table presents a summarization of the City's assets, liabilities and net assets for its governmental and business type activities. As noted earlier, a government's net asset position may serve over time as a useful indicator of its financial position.

	Governmental Activities		Business type Activities		Total
	2005	2004	2005	2004	
Current and other assets	\$ 571,535	\$483,015	\$ 396,346	\$ 453,186	\$ 967,881
Capital assets, net	543,970	507,243	809,277	693,448	1,353,247
Total assets	<u>1,115,505</u>	<u>990,258</u>	<u>1,205,623</u>	<u>1,146,634</u>	<u>2,321,128</u>
Current liabilities	72,940	60,284	87,797	85,075	160,737
Long-term liabilities	418,673	349,417	431,447	453,514	850,120
Total liabilities	<u>491,613</u>	<u>409,701</u>	<u>519,244</u>	<u>538,589</u>	<u>1,010,857</u>
Net assets:					
Invested in capital assets, net of related debt	515,354	484,784	402,377	341,041	917,731
Restricted	154,957	137,126	54,540	49,242	209,497
Unrestricted	(46,419)	(41,353)	229,462	217,762	183,043
Total net assets	<u>\$623,892</u>	<u>\$580,557</u>	<u>\$686,379</u>	<u>\$608,045</u>	<u>\$1,310,271</u>

The City's assets exceeded liabilities by \$1,310,271 at June 30, 2005, an increase of \$121,669 from June 30, 2004.

By far the largest portion of the City's net assets (70 percent) reflects its investment in capital assets (i.e., land, buildings, machinery, equipment and infrastructure), net of any related debt that is still outstanding used to acquire those assets and net of unspent bond proceeds and cash held in bond reserve accounts. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending.

An additional portion of the City's net assets (16 percent) represents resources that are subject to external restrictions on how they may be used. The remaining unrestricted net assets (14 percent) may be used to meet the government's ongoing obligations to citizens and creditors. Of this amount, \$229,462 is held by the business type activities; the governmental activities reflect a negative \$46,419. The Riverside Redevelopment Agency (the Agency), a blended component unit of the City, represents \$116,932 of negative

unrestricted net assets for 2005 and was a negative \$108,865 in the prior year. The remaining governmental activities of the City have positive unrestricted net assets of \$70,513 in 2005 and \$67,512 in 2004, mostly attributable to the City's General Fund.

The Agency exists to finance improvements that serve to remediate blight within the City. Often these activities do not result in a residual asset, but rather underwrite the cost of a development activity deemed beneficial in meeting the Agency's objectives. The resulting statement of net assets reflects the debt obligation to be repaid through future tax revenues, without an offsetting asset. While this is the routine functioning of such an entity, when blended with the City, its negative unrestricted net assets causes the governmental activities to report a negative position.

The government's total net assets increased by \$121,669 during the current fiscal year, which reflects the growth in both the governmental (\$43,335) and business type (\$78,334) activities. This is primarily due to continued investment by the City in its infrastructure, which is largely funded by grants and dedicated revenue sources. Lastly, business type unrestricted assets grew based on municipal service charges for service exceeding the current years operating expenditures.

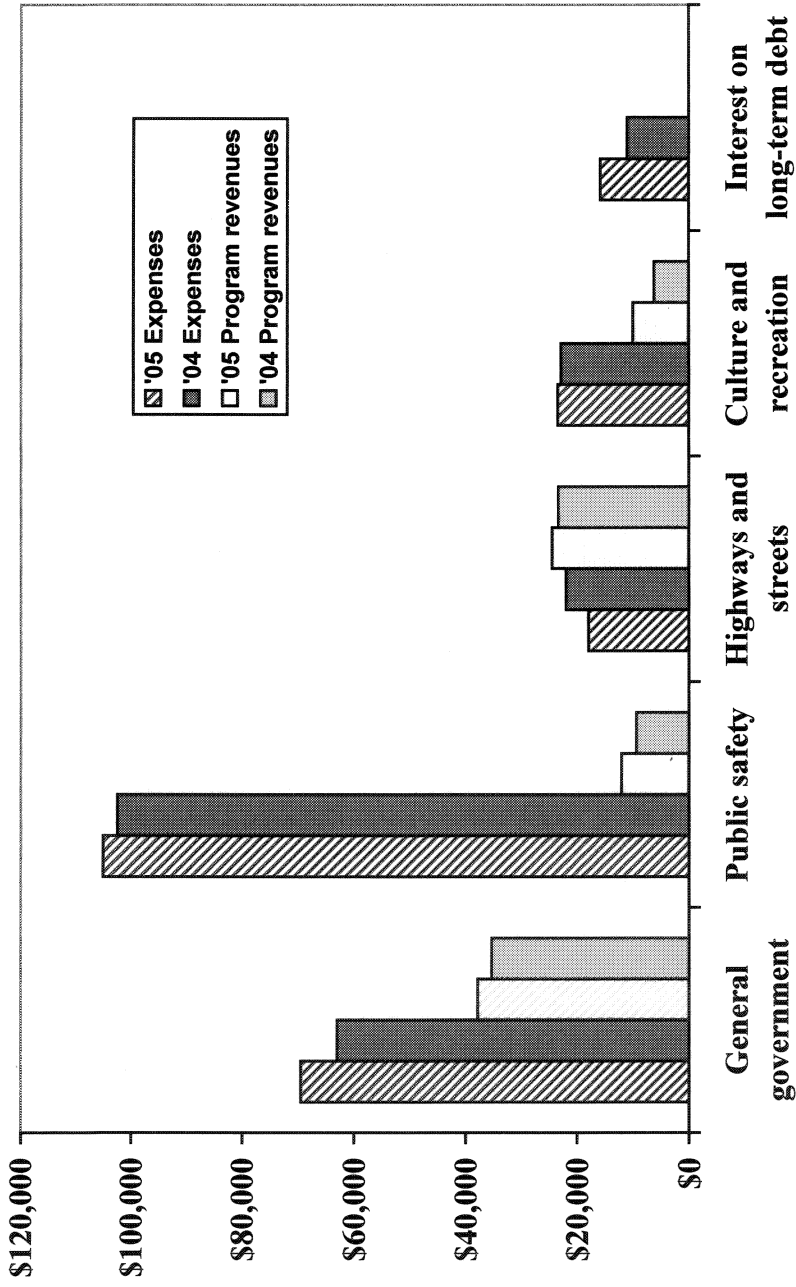
The following condensed summary of activities of the City's governmental and business type operations for the period ended June 30, 2005 shows total net assets increasing by \$121,669. The prior fiscal year is also presented for comparative purposes. Also included in the following analysis are revenue and expense graphs to aid the reader in their understanding of the results of the current year's activities.

	Governmental Activities		Business Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program Revenues:						
Charges for services	\$ 63,087	\$ 57,001	\$327,032	\$304,911	\$ 390,119	\$ 361,912
Operating Grants and Contributions	16,140	12,935	2,261	1,723	18,401	14,658
Capital Grants and Contributions	5,292	1,136	32,317	26,390	37,609	27,526
General Revenues:						
Sales taxes	53,348	46,624	-	-	53,348	46,624
Property taxes	61,553	39,211	-	-	61,553	39,211
Other taxes and fees	32,237	41,364	-	-	32,237	41,364
Grants and contributions not restricted to specific programs	15,220	18,710	-	-	15,220	18,710
Other	13,571	6,760	14,910	9,569	28,481	16,329
Total revenues	<u>260,448</u>	<u>223,741</u>	<u>376,520</u>	<u>342,593</u>	<u>636,968</u>	<u>566,334</u>
Expenses:						
General government	69,520	63,000	-	-	69,520	63,000
Public safety	105,131	102,500	-	-	105,131	102,500
Highways and streets	17,983	22,017	-	-	17,983	22,017
Culture and recreation	23,512	22,988	-	-	23,512	22,988
Interest on long-term debt	15,885	10,996	-	-	15,885	10,996
Electric	-	-	200,030	196,727	200,030	196,727
Water	-	-	36,709	33,921	36,709	33,921
Sewer	-	-	26,108	23,273	26,108	23,273
Refuse	-	-	12,841	11,510	12,841	11,510
Airport	-	-	1,185	1,088	1,185	1,088
Transportation	-	-	2,557	2,286	2,557	2,286
Public Parking	-	-	824	1,389	824	1,389
Total expenses	<u>232,031</u>	<u>221,501</u>	<u>280,254</u>	<u>270,194</u>	<u>512,285</u>	<u>491,695</u>
Increase in net assets before Special item and Transfers	28,417	2,240	96,266	72,399	124,683	74,639
Special item – canal abandonment	-	-	(3,014)	-	(3,014)	-
Transfers	14,918	10,302	(14,918)	(10,302)	-	-
Increase in net assets	43,335	12,542	78,334	62,097	121,669	74,639
Net assets – beginning	580,557	568,015	608,045	545,948	1,188,602	1,113,963
Net assets – ending	<u>\$623,892</u>	<u>\$580,557</u>	<u>\$686,379</u>	<u>\$608,045</u>	<u>\$1,310,271</u>	<u>\$1,188,602</u>

Governmental activities. Governmental activities increased the City's net assets by \$43,335, accounting for 36 percent of the total growth in net assets. The net assets in the prior fiscal year increased by \$12,542. Key elements of this year's activity in relation to the prior year are as follows:

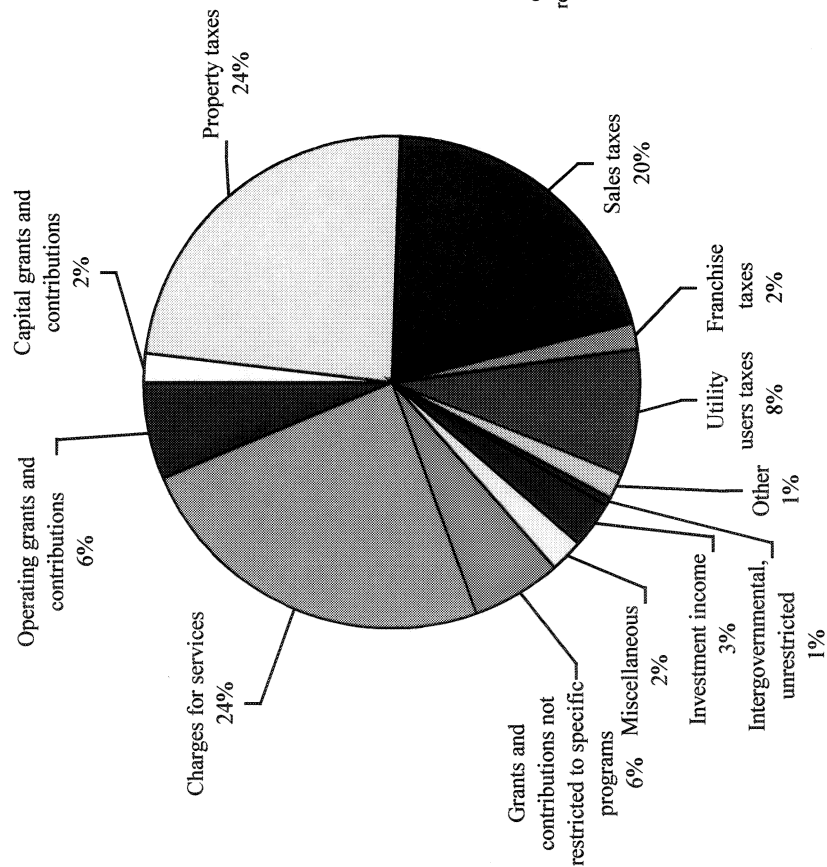
- Charges for services increased by approximately \$6,000 primarily as a result of increased revenues from building and related fees from new development within the City.
- Operating and capital grants and contributions increased approximately \$7,400 in 2005 primarily due to increased grant funding for capital projects, public safety items, and housing projects.
- Sales and property taxes increased approximately \$29,000 in 2005, principally because of the strong local economy and the expansion of redevelopment project areas and activities, plus the reclassification of vehicle licenses fees, as described below.
- Other taxes and fees decreased about \$9,000 because the majority of vehicle license fee revenue is now received in the form of property taxes.
- Other revenues increased approximately \$6,800 mainly due to an increase in investment income resulting from an unrealized market value adjustment required for financial statement reporting purposes.
- While significant variances between years exist for the various expense functions, the total net increase was approximately \$11 million. The more significant items are: (1) increased salaries and benefits, coupled with costs associated with substantial technological improvements and increased training for police officers; (2) increased interest expense arising from the issuance of \$75,400 of new debt (net of debt refinancing and bond premiums) during 2005; and (3) increased costs associated with capital projects and development activities. These increases are partially offset by a decrease in depreciation expense in the current year in the highways and streets category due to an adjustment in fiscal year 2004 associated with a new accounting pronouncement.
- Transfers to governmental funds increased \$4,616 primarily due to increased operating revenue realized by the Electric and Water funds (transfers are a percentage of gross revenues, as defined).

Expenses and Programs Revenues – Governmental Activities – Fiscal Year Comparison 2005 vs. 2004

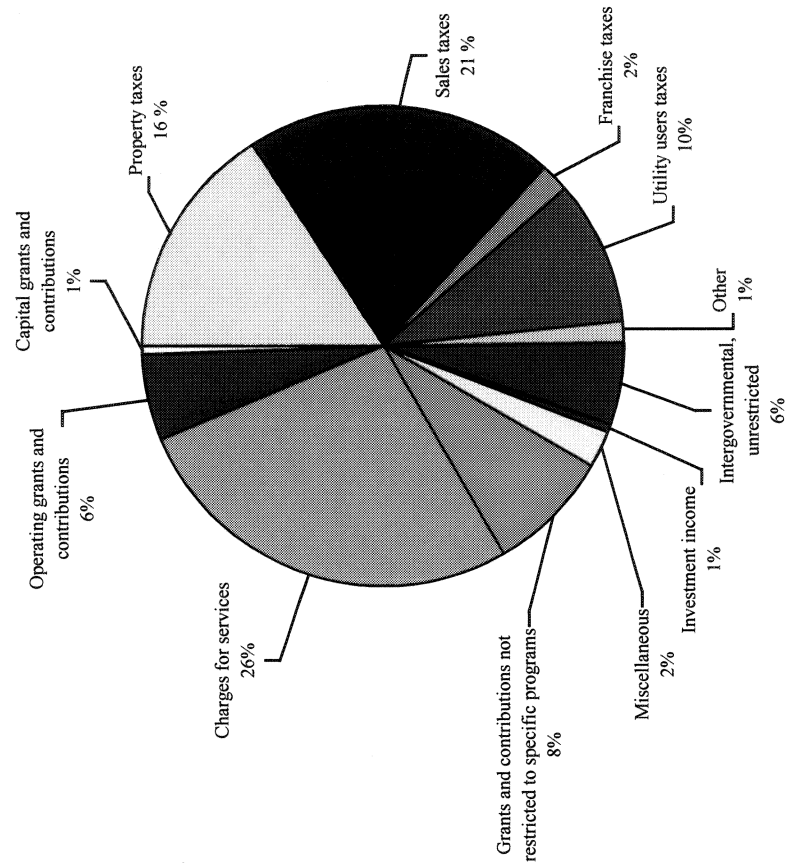


Revenues by Source – Governmental Activities – Fiscal Year Comparison

2005



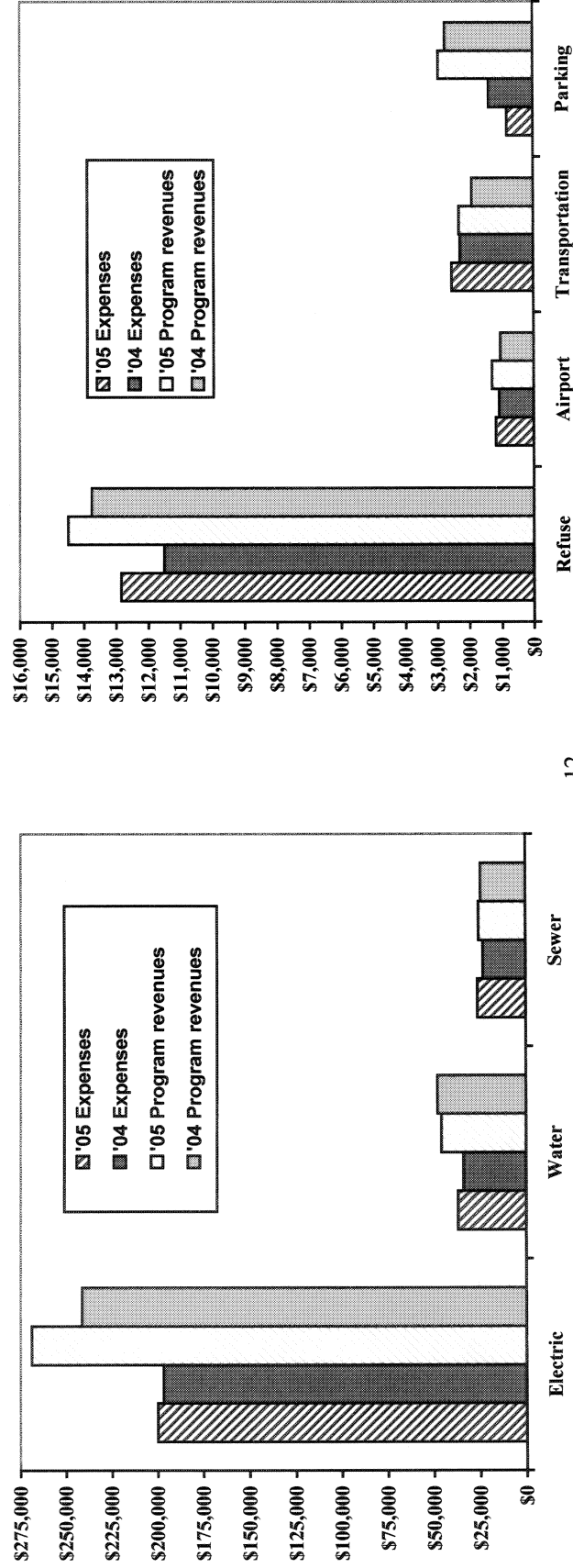
2004



Business type activities. Business type activities increased the City's net assets by \$78,334, accounting for 65 percent of the total growth in net assets. The change in net assets of business type activities increased from the prior fiscal period by \$16,237. Key elements of this year's increase in relation to the prior year are as follows:

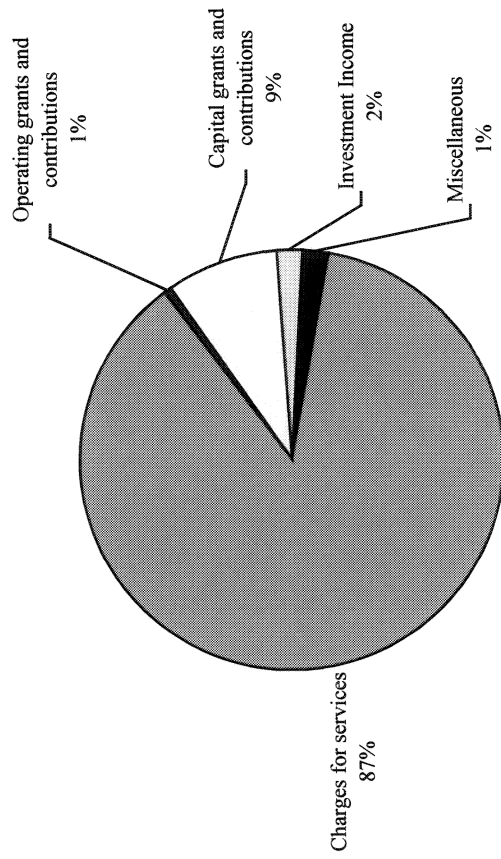
- In 2005, charges for services increased \$22,121 to \$327,032 from \$304,911 in 2004 primarily due to an increase in the volume of electric and water sales, in conjunction with a 2.2% electric rate increase and an 8.5% water rate increase.
- Capital grants and contributions increased \$5,927 in the current year to \$32,317 from \$26,390 in the prior year. The increase is mainly due to contributions in aid related to a CALTRANS project.
- Other general revenues increased due to an increase in investment income due to an unrealized market value adjustment required for financial statement reporting purposes and the sale of surplus land.
- Although operating revenues in the Water fund increased, capital grants and contributions decreased, leading to an overall decrease in program revenues in this fund.
- The total net increase in expenses in Business type activities was approximately \$10 million. Significant items include: increases in personnel and public benefits expenses in the Electric fund; increased maintenance and repair of the City's water mains, and; increased personnel and operational costs associated with the Sewer and Refuse funds.

Expenses and Program Revenues – Business Type Activities – Fiscal Year Comparison 2005 vs. 2004

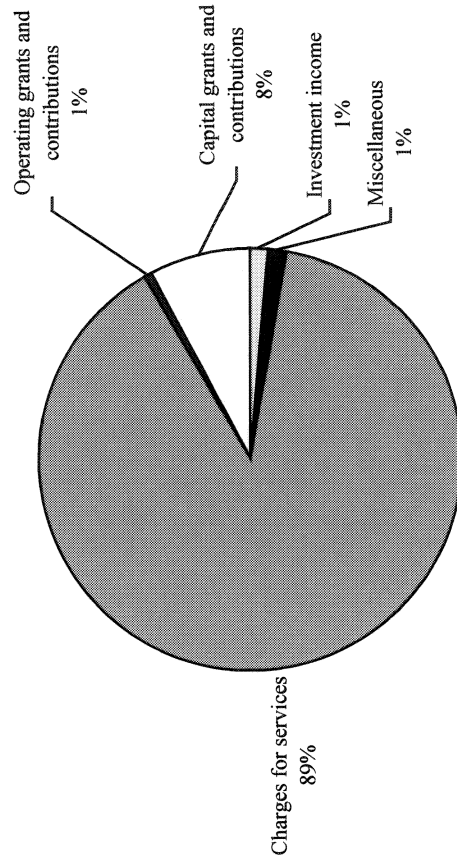


Revenues by Source – Business Type Activities – Fiscal Year Comparison

2005



2004



Financial Analysis of the City's Funds

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The following table summarizes the balance sheet of the City's General Fund, Redevelopment Debt Service Fund, and Total Governmental Funds. As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

	General Fund		Redevelopment Debt Service		Total Governmental Funds	
	2005	2004	2005	2004	2005	2004
Total assets	<u>\$209,602</u>	<u>\$192,678</u>	<u>\$41,110</u>	<u>\$39,656</u>	<u>\$442,408</u>	<u>\$397,438</u>
Total liabilities	<u>\$ 55,849</u>	<u>\$ 58,151</u>	<u>\$27,611</u>	<u>\$28,139</u>	<u>\$126,757</u>	<u>\$117,833</u>
Fund balances						
Reserved	44,487	17,268	13,499	11,517	92,164	52,445
Unreserved	<u>109,266</u>	<u>117,259</u>	-	-	<u>223,487</u>	<u>227,160</u>
Total	<u>153,753</u>	<u>134,527</u>	<u>13,499</u>	<u>11,517</u>	<u>315,651</u>	<u>279,605</u>
Total liabilities and fund balances	<u>\$209,602</u>	<u>\$192,678</u>	<u>\$41,110</u>	<u>\$39,656</u>	<u>\$442,408</u>	<u>\$397,438</u>

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$315,651, an increase of \$36,046 in comparison with the prior year. About 29% of this amount (\$92,164) is reserved to indicate funds are not available for new spending because it has already been committed for a variety of restricted purposes. The remainder of the fund balance is unreserved, meaning it is available for spending at the City's discretion. Of that amount, \$184,348 has been designated for specific capital projects and economic contingencies, leaving \$39,139 without a commitment; at June 30, 2004 the comparable amount was \$40,728. The decrease in uncommitted, unreserved fund balance is due principally to an increase in the amount designated for specific capital projects.

The General Fund is the principal operating fund of the City. At the end of the current fiscal year, the unreserved fund balance was \$109,266, of which \$92,993 was designated for future operations, economic contingencies and liability insurance, leaving \$16,273 unreserved and undesignated; at June 30, 2004 the comparable number was \$15,693. The General Fund realized higher than

anticipated taxes and permit fees due to continued significant development within the City, which resulted in the General Fund not having an operating deficit, exclusive of capital expenditures, as originally anticipated. The total fund balance reached \$153,753, an increase of \$19,226 over the prior year.

The Redevelopment debt service fund has a total fund balance of \$13,499, all of which is reserved for the payment of debt service. A net increase in the fund balance occurred during the current year (\$1,982) mainly due to the issuance of new bonds.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Electric, Water and Sewer operations at the end of the year amounted to \$118,880, \$15,870, and \$69,795, respectively. The total growth in net assets for these funds was \$57,454, \$5,141 and \$3,478, respectively, demonstrating the adequacy of the current rate structure for these funds.

General Fund Budgetary Highlights

Final budgeted revenues increased from the amount originally budgeted to the final as a result of grant related programs.

Total budgeted expenditures increased from \$238,648 to \$270,370 or \$31,722. The increases can be generally summarized as follows:

- The General Services department added appropriations of \$4,900 for construction of the Magnolia Street Police Precinct and other City-wide capital improvement projects.
- The Police department added appropriations of \$13,000 primarily for grant funded operational charges as well as negotiated salary and benefit increases.
- The Fire department added appropriations of \$5,400 primarily for grant funded operational charges as well as negotiated salary and benefit increases.
- The Park and Recreation department added appropriations of \$3,900 primarily for grant funded improvement projects.
- Other miscellaneous appropriations were added in other departments throughout the year of approximately \$4,500.

Actual amounts differed from those budgeted as follows:

- Actual total revenues were more than the amount budgeted principally as a result of greater than anticipated development activity and sales and property taxes associated therewith.
- Budgeted expenditures exceeded actual amounts by \$78,000. As in prior years, the principal reason is associated with capital projects not completed at year-end. Such projects and related amounts are continued to the next fiscal year.
- Other financing sources (uses) exceeded the final amount budgeted by \$54,232. The major event causing this variance is the issuance of \$60 million of pension obligation bonds to fund the unfunded actuarial accrued liability (UAAL) associated with the City's miscellaneous employees.
- The net effect of all of the above was a favorable variance from the amounts budgeted of 107,219.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business type activities as of June 30, 2005 amounted to \$1,353,247 (net of accumulated depreciation). This investment includes land, buildings and improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City's net investment in capital assets for the current fiscal year was \$152,556 (\$36,727 for governmental activities including internal service funds and \$115,829 for business type activities).

Major capital improvements during the current fiscal year included: new infrastructure, consisting primarily of street improvements (\$27,462); Riverside Canal (\$8,415); replacement of the water transmission main at the 60/215 interchange (\$4,160); Sewer department upgrades (\$12,456), Electric Utility upgrades (\$32,464); and Water Utility system upgrades (\$20,446).

Construction in progress totaled \$172,136 at June 30, 2005. Some of the major projects in process are the Riverside Energy Resource Center, the downtown power upgrade project, the water system expansion, an upgrade to the electric distribution system, the Magnolia Street Police Precinct, the Janet Goeske Center and the Airport Fire Station. Depreciation expense during the fiscal year was \$18,039 for governmental activities and \$27,420 for business type activities.

City of Riverside's Capital Assets
(net of depreciation)

	Governmental Activities		Business Type Activities		Total
	2005	2004	2005	2004	
Land	\$124,475	\$116,925	\$ 31,262	\$ 32,725	\$ 149,650
Buildings	42,933	52,826	140,513	135,062	187,888
Improvements other than Buildings	20,303	20,675	492,804	449,683	470,358
Machinery and equipment	12,176	12,883	11,833	9,074	21,957
Infrastructure	304,812	286,789	-	-	286,789
Construction in progress	39,271	17,145	132,865	66,904	84,049
Total	<u>\$543,970</u>	<u>\$507,243</u>	<u>\$809,277</u>	<u>\$693,448</u>	<u>\$1,200,691</u>

Additional information on the City's capital assets can be found in note 5 on page 40 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$850,120, which includes bonded debt of \$789,501.

City of Riverside's Long-Term Debt

	Governmental Activities		Business Type Activities		Total
	2005	2004	2005	2004	
Lease/Revenue Bonds	\$144,024	\$131,590	\$419,581	\$440,970	\$572,560
General Obligation Bonds	20,280	20,285	-	-	20,285
Pension Obligation Bonds	148,280	89,540	-	-	89,540
Certificates of Participation	57,336	58,706	-	-	58,706
Notes Payable	10,645	11,057	10,459	11,066	22,123
Capital Leases	7,431	8,938	392	439	9,377
Compensated Absences	30,677	29,301	-	-	29,301
Water Acquisition Rights	-	-	1,015	1,039	1,039
Total	<u>\$418,673</u>	<u>\$349,417</u>	<u>\$431,447</u>	<u>\$453,514</u>	<u>\$850,120</u>

The City's total debt increased by \$47,189 (6 percent) during the current fiscal year due to the issuance of \$60,000 in Pension Obligation bonds and \$25,693 in Redevelopment Agency debt; these were offset by scheduled debt service payments.

The City's Electric and Water Utilities maintain an "A+" and "AA-", respectively, from Standard & Poors and Fitch for their revenue bonds. The City's general obligation bond ratings are "AA-" and "AA".

State statutes limit the amount of general obligation debt a governmental entity may issue to 15 percent of its total assessed valuation. The legal debt margin for the City is \$1,880,200, after deducting the general obligation debt of \$220,710.

Additional information on the City's long-term debt can be found in note 7 beginning on page 41 of this report.

Economic Factors and Next Year's Budget and Rates

- The assessment roll for the City increased 9.8% between fiscal year 2004 and fiscal year 2005.
- Property taxes increased between fiscal year 2004 and 2005 by 58.4% primarily as a result of the State's swapping of Property Tax revenue for Vehicle License fees as well as new development and the expansion of redevelopment activity.
- Employment in Riverside County is 3.4% over the prior year and unemployment is down to 5.9% as compared to 6.2% for 2004.
- The required contribution rates as a percentage of payroll for the City's retirement program, including the employee portion which is paid by the City, will be changing effective July 1, 2006 as follows:
 - Miscellaneous Plan – 22.80% to 22.89%
 - Safety Plan – 27.41% to 30.54%

At the time of budget preparation for fiscal year 2006, the economic outlook for the City was considered to be very good. The General Fund Budget for fiscal year 2006 of \$192 million contemplates the use of approximately \$7 million of the beginning fund balance.

Request for information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Manager's Office, Finance Division, 3900 Main Street City of Riverside, CA 92522.