

In the opinion of Best Best & Krieger LLP, Riverside California ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income taxes. See "Legal Matters — TAX MATTERS" herein.

\$20,000,000
CITY OF RIVERSIDE
Riverside County, California
Election of 2003 General Obligation Bonds, Series 2004

Dated: June 1, 2004

Due: August 1, as shown below

The City of Riverside Election of 2003 General Obligation Bonds, Series 2004 (the "Bonds"), in the aggregate principal amount of \$20,000,000, are being issued by the City of Riverside (the "City"). The Bonds were authorized at an election of the registered voters of the City held on November 4, 2003, at which two-thirds or more of the persons voting on the proposition voted to authorize the issuance and sale of not to exceed \$20,000,000 principal amount of general obligation bonds to finance the costs to replace outdated and substandard fire stations to improve emergency services and response times, upgrade training facilities and construct an emergency operations center to manage major disasters.

The Bonds are general obligations of the City, and the City has covenanted to direct the County of Riverside (the "County") and the County is obligated to levy *ad valorem* taxes for the payment of interest on, and principal of, the Bonds upon all property subject to taxation by the City (except certain personal property which is taxable at limited rates). The bond measure that was approved by the voters limited the rate of the *ad valorem* tax that may be levied to pay principal of and interest on the Bonds to \$12 per \$100,000 of assessed value of property.

The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (collectively referred to herein as "DTC"). Purchasers of the Bonds (the "Beneficial Owners") will not receive physical certificates representing their interest in the Bonds. Interest with respect to the Bonds accrues from June 1, 2004, and is payable semiannually by check or draft mailed on February 1 and August 1 of each year, commencing February 1, 2005. The Bonds are issuable as fully registered securities in denominations of \$5,000 or any integral multiple thereof. Payments of principal of and interest on the Bonds will be paid by U.S. Bank National Association, as Paying Agent, to DTC for subsequent disbursement to DTC Participants which will remit such payments to the Beneficial Owners of the Bonds. (See "THE BONDS — Book-Entry-Only System").

The payment of principal and interest represented by the Bonds when due will be guaranteed by a municipal bond insurance policy to be issued simultaneously with the delivery of the Bonds by XL Capital Assurance Inc..



The Bonds are subject to optional redemption prior to maturity as described herein.

This cover page contains certain information for general reference only. It is not a summary of all the provisions of the Bonds. Prospective investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

MATURITY SCHEDULE
BASE CUSIP¹: 768857

Maturity August 1	Principal Amount	Interest Rate	Yield	CUSIP¹	Maturity August 1	Principal Amount	Interest Rate	Yield	CUSIP¹
2005	\$410,000	3.000%	1.450%	FS8	2015	\$ 965,000	4.000%	4.100%	GC2
2006	515,000	3.000	1.950	FT6	2016	1,040,000	4.375	4.375	GD0
2007	545,000	3.000	2.350	FU3	2017	1,110,000	4.500	4.500	GE8
2008	590,000	3.000	2.750	FV1	2018	1,195,000	4.500	4.600	GF5
2009	625,000	3.750	3.150	FW9	2019	1,290,000	4.625	4.700	GG3
2010	675,000	4.000	3.350	FX7	2020	1,380,000	4.700	4.750	GH1
2011	725,000	4.000	3.550	FY5	2021	1,475,000	4.700	4.750	GJ7
2012	780,000	3.750	3.750	FZ2	2022	1,560,000	5.500	4.820	GK4
2013	840,000	3.900	3.900	GA6	2023	1,640,000	5.500	4.890	GL2
2014	900,000	4.000	4.000	GB4	2024	1,740,000	5.500	4.960	GM0

The Bonds were awarded on June 8, 2004, as set forth in the Official Notice of Sale dated May 18, 2004. The Bonds are delivered when, as and if issued, subject to the approval of legality by Best Best & Krieger LLP, Riverside, California, Bond Counsel to the City. Certain legal matters are being passed upon for the City by the City Attorney. It is anticipated that the Bonds will be available for delivery through DTC on or about June 24, 2004, in New York, New York.

The date of this Official Statement is June 8, 2004.

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**CITY OF RIVERSIDE
RIVERSIDE COUNTY, CALIFORNIA**

CITY COUNCIL

Ronald O. Loveridge, *Mayor*

Dom Betro, 1st Ward
Ameal Moore, 2nd Ward
Art Gage, 3rd Ward
Frank Schiavone, 4th Ward

Ed Adkison, 5th Ward
Nancy Hart, 6th Ward
Steve Adams, 7th Ward

CITY STAFF

George A. Carvalho, *City Manager*
Michael J. Beck, *Deputy City Manager*
Gregory P. Priamos, *City Attorney*
Colleen J. Nicol, *City Clerk*
Paul C. Sundeen, *Finance Director and Treasurer*
Brent A. Mason, *Assistant Finance Director*

PROFESSIONAL SERVICES

BOND COUNSEL

Best Best & Krieger LLP
Riverside, California

FINANCIAL ADVISOR

Stone & Youngberg LLC
San Francisco, California

BOND REGISTRAR, TRANSFER AGENT, AND PAYING AGENT

U.S. Bank National Association
Los Angeles, California

No dealer, broker, salesman, or other person has been authorized by the Underwriter, the City or the Paying Agent to give any information or to make representations, other than those contained herein, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction. This Official Statement is not to be construed as a contract with the purchasers or any of the owners of Bonds. Any statement made in this Official Statement involving estimates, forecasts or matters of opinion, whether or not expressly so stated, are intended solely as such and not as representations of fact.

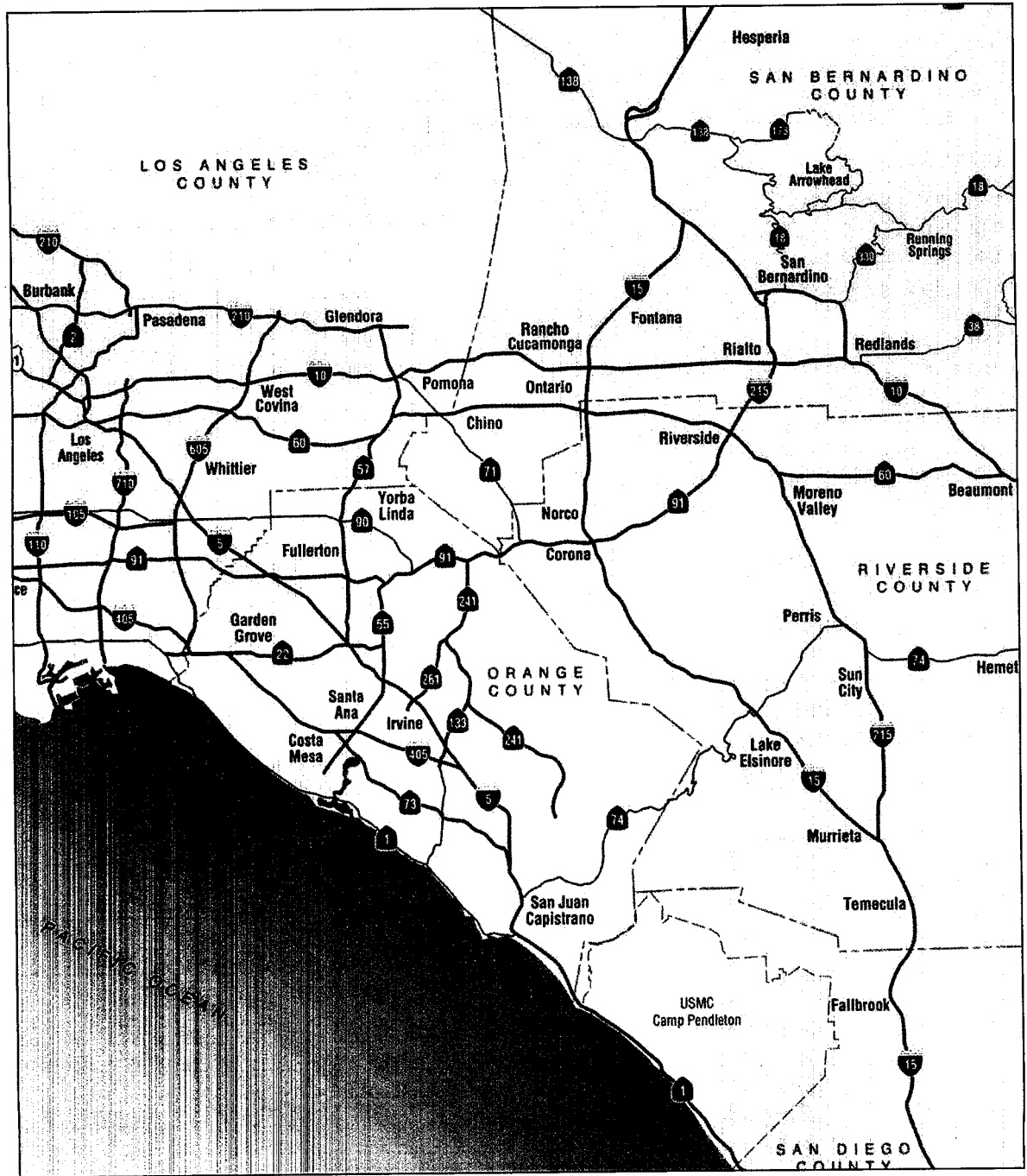
The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information set forth herein has been furnished by the City, The Depository Trust Company, the Insurer and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice; and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. The information set forth in this Official Statement is not guaranteed as to accuracy or completeness by the Underwriter, and this Official Statement is not to be construed as a representation by the Underwriter.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

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Regional Location Map



\$20,000,000
CITY OF RIVERSIDE
Riverside County, California
Election of 2003 General Obligation Bonds, Series 2004

INTRODUCTION

This Official Statement, which includes the cover page and appendices hereto, provides information in connection with the sale of City of Riverside, Riverside County, California, Election of 2003 General Obligation Bonds, Series 2004, in the aggregate principal amount of \$20,000,000 (the "Bonds").

This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.

The City

The City of Riverside (the "City") is located in Riverside County, California, about 60 miles east of downtown Los Angeles. The territory of the City encompasses approximately 85.6 square miles. The population of the City on January 1, 2003, was approximately 274,100 persons.

Sources of Payment for the Bonds

The Bonds represent general obligations of the City payable from *ad valorem* property taxes levied and collected by the County of Riverside (the "County"). The City has covenanted to direct the County and the County is obligated to annually levy *ad valorem* taxes for the payment of the Bonds and the interest thereon upon all property within the City subject to taxation by the City, at a rate or amount which will not exceed \$12 per \$100,000 of assessed value (except with respect to certain personal property which is taxable at limited rates). See "THE BONDS -- Security" herein. If and to the extent the amount of such *ad valorem* taxes so collected is insufficient to pay debt service on the Bonds, the City shall be obligated to use any other moneys lawfully available therefor to pay such debt service.

Measure G, which was submitted to the voters of the City in the November 4, 2003 general election, asked the voters whether the City should be authorized to incur bonded indebtedness in an amount not to exceed \$20,000,000 to be repaid from *ad valorem* taxes levied annually at a rate which shall not exceed \$12 per \$100,000 of the full cash value (i.e., assessed value) of property. The rate of the *ad valorem* tax that will be levied annually to pay debt service on the Bonds may not, therefore, exceed \$12 per \$100,000 of the assessed value of property.

Purpose of Issue

The net proceeds of the Bonds will be used to finance the costs to replace outdated and substandard fire stations to improve emergency services and response times, upgrade training facilities and construct an emergency operations center to manage major disasters.

Description of the Bonds

Registration. The Bonds will be issued in fully registered form only, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to actual purchasers of the Bonds (the "Beneficial Owners") in the denominations set forth on the inside cover page hereof, under the book-entry system maintained by DTC only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Bonds. See "THE BONDS -- Book-Entry-Only System." In the event that the book-entry system described below is no longer used with respect to the Bonds, the Bonds will be registered in accordance with the Resolution described herein. See "THE BONDS -- Registration, Transfer and Exchange of The Bonds."

Denominations. Individual purchases of interests in the Bonds will be available to purchasers of the Bonds in the denominations of \$5,000 each or any integral part thereof.

Optional Redemption. The Bonds maturing on or after August 1, 2015, may be redeemed prior to maturity at the option of the City, in whole or in part on any interest payment date beginning on August 1, 2014, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the date of redemption. See "THE BONDS -- Optional Redemption" herein.

Payments. Interest on the Bonds accrues from June 1, 2004, and is payable semiannually on each February 1 and August 1, commencing February 1, 2005. Principal of the Bonds is payable on August 1, commencing August 1, 2005, in the amounts and years set forth on the cover page hereof.

Tax Matters

In the opinion of Best Best & Krieger LLP, Riverside, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes, such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "LEGAL MATTERS – Tax Matters" herein.

Authority for Issuance of the Bonds

The Bonds are issued pursuant to certain provisions Government Code of the State of California and pursuant to a resolution adopted by the City Council on May 18, 2004 and a Paying Agent Agreement (as defined herein). See "THE BONDS - Authority for Issuance" herein.

Offering and Delivery of the Bonds

The Bonds are offered when, as and if issued, subject to approval as to the legality by Bond Counsel. It is anticipated that the Bonds will be available for delivery through DTC in New York, New York on or about June 24, 2004.

Continuing Disclosure

The City will covenant for the benefit of the Bond owners to make available certain financial information and operating data relating to the City and to provide notices of the occurrence of certain enumerated events, if material, in compliance with S.E.C. Rule 15c2-12(b)(5). The specific nature of the information to be made available and of the notices of material events is summarized below under the caption "LEGAL MATTERS – Continuing Disclosure" and "APPENDIX D - Form of Continuing Disclosure Certificate."

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of documents referred to herein and information concerning the Bonds are available from the City Clerk of the City of Riverside, 3900 Main Street, 7th Floor, Riverside, California 92522, (909) 826-5557. The City may impose a charge for copying, mailing and handling.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The summaries and references to documents, statutes and constitutional provisions referred to herein do not purport to be comprehensive or definitive, and are qualified in their entireties by reference to each of such documents, statutes and constitutional provisions.

The information set forth herein has been obtained from official sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the City. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

THE PROJECT PLAN

Purpose of Issue

The Fire Improvement Projects. The net proceeds of the Bonds will provide funding to replace three or four fire stations with new modern stations, replace an outdated training tower and burn building, construct new classroom facilities at the City's current training center and construct a citywide Emergency Operations Center (the "Projects"). These Projects will require the acquisition of two new properties. The City currently owns a site for one of the proposed stations.

The City anticipates that a new 14,000 square foot fire station will replace the downtown fire station and the remaining two or three of the new fire stations will be approximately 8,000 square feet in size. The training center will be incorporated into the City Emergency Operations Center and will be approximately 12,000 square feet. It will serve all City departments in the event of an emergency. All of these facilities will be built to "essential facilities" standards and meet the American with Disabilities Act requirements.

The Fire Department currently utilizes an outdated training facility located at the City Corporation Yard. The City intends to use a portion of Bond proceeds to modernize the training tower and replace a burn building that allows for live fire simulation.

Sources and Uses of Funds

The sources and uses of funds with respect to the Bonds are as follows:

Sources of Funds

Principal Amount of Bonds	\$20,000,000.00
Accrued Interest (1)	57,028.50
Original Issue Premium	285,021.85
Total Sources	<u>\$20,342,050.35</u>

Uses of Funds

Construction Fund	\$19,887,884.00
Bond Fund (2)	151,827.45
Costs of Issuance Fund (3)	112,116.00
Underwriter's Discount (4)	190,222.90
Total Uses	<u>\$20,342,050.35</u>

(1) *Accrued interest on the Bonds from June 1, 2004, to the date of delivery of the Bonds.*

(2) *Sum of accrued interest and net original issue premium to be deposited in the Bond Fund.*

(3) *Includes bond counsel fees, financial advisor fees, rating fees, printing expenses and other costs of issuance with respect to the Bonds.*

(4) *Underwriter's compensation comes entirely from original issue premium. It includes payment of \$49,750.00 XL Capital Assurance bond insurance premium.*

THE BONDS

Authority for Issuance

The Bonds are issued pursuant to the provisions of Chapter 4 (commencing with section 43600) of Division 4 of Title 4 of the California Government Code and Article 3.7 of Chapter 4 (commencing with section 53720) of Part 1 of Division 2 of Title 5 of the California Government Code (the "Act") and other applicable law, and pursuant to a resolution adopted by the City Council on May 18, 2004, and a paying agent agreement between U.S. Bank National Association, Los Angeles, California (the "Paying Agent"), and the City dated as of June 1, 2004 (the "Paying Agent Agreement").

The City received authorization at an election held on November 4, 2003, by an affirmative vote of 70.87% of the votes cast within the City to issue \$20,000,000 of general obligation bonds (the "Authorization").

Security

The Bonds are general obligations of the City. The City has the power, is obligated and has covenanted to direct the County to levy *ad valorem* taxes upon all property within the City subject to taxation at a rate or amount not to exceed \$12 per \$100,000 of assessed value (except certain personal property which is taxable at limited rates) for the payment of the Bonds and the interest thereon. The County will levy and collect such *ad valorem* taxes in such amounts (not to exceed \$12 per \$100,000 of assessed value) and at such times as is necessary to ensure the timely payment of debt service. Such taxes, when collected, will be deposited into the Bond Fund for the Bonds (the "Debt Service Fund"), which is maintained by the City and which is irrevocably pledged for the payment of principal of and interest on the Bonds when due. If and to the extent the amount of such *ad valorem* taxes so collected is insufficient to pay debt service on the Bonds, the City is obligated to use any other moneys lawfully available therefor to pay such debt service.

The amount of the annual *ad valorem* tax levied by the City to repay the Bonds will be determined by the relationship between the assessed valuation of taxable property in the City and the amount of debt service due on the Bonds in any year. Variations in the annual debt service on the Bonds and the assessed value of taxable property in the City may cause the annual tax rate to fluctuate. Economic and other factors beyond the City's control, such as general market decline in land values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by the state of California (the "State") and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by a natural or manmade disaster, such as earthquake, flood, or toxic contamination, could cause a reduction in the assessed value of taxable property within the City and necessitate a corresponding increase in the annual tax rate. For further information regarding the City's assessed valuation, tax rates, overlapping debt, and other matters concerning taxation, see "TAX BASE FOR THE REPAYMENT OF THE BONDS" herein.

Tax Rate Limitation

Measure G, which was submitted to the voters of the City in the November 4, 2003 general election, asked the voters whether the City should be authorized to incur bonded indebtedness in an amount not to exceed \$20,000,000 to be repaid from *ad valorem* taxes levied annually at a rate which shall not exceed \$12 per \$100,000 of the full cash value (i.e., assessed value) of property. The rate of the *ad valorem* tax that will be levied annually to pay debt service on the Bonds may not, therefore, exceed \$12 per \$100,000 of the assessed value of property.

Description of the Bonds

The Bonds will be issued in book-entry form only and will be initially issued and registered in the name of Cede & Co. Purchasers will not receive certificates representing their interest in the Bonds.

Interest with respect to the Bonds accrues from June 1, 2004, and is payable semiannually on February 1 and August 1 of each year (the "Interest Payment Dates"), commencing February 1, 2005. Each Bond shall bear interest from the Interest Payment Date next preceding the date of registration and authentication thereof unless (i) it is authenticated as of an Interest Payment Date, in which event it shall bear interest from such date, or (ii) it is authenticated prior to an Interest Payment Date and after the close of business on the fifteenth day of the month preceding such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (iii) it is authenticated on or prior to January 15, 2005, in which event it shall bear interest from the date of original issuance and authentication of the bonds; *provided*, however, that if at the time of registration and authentication of a Bond, interest is in default thereon, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

The Bonds shall be issued in the denomination of \$5,000 each or any integral multiple thereof. The Bonds mature on August 1, in the years and amounts set forth on the inside front cover page hereof. See the maturity schedule on the inside front cover page hereof and "DEBT SERVICE SCHEDULE."

Interest on the Bonds shall be calculated on the basis of a 360-day year comprised of twelve 30-day months.

Payment

Interest on the Bonds (including the final interest payment upon maturity or early redemption) is payable by check of the Paying Agent mailed on the applicable Interest Payment Date to the owner thereof at such owner's address as it appears on the Bond Register maintained by the Paying Agent at the close of business on the fifteenth day of the month preceding the Interest Payment Date, or at such other address as the owner may have filed with the Paying Agent for that purpose. An owner of \$1,000,000 or more aggregate principal amount of Bonds, or the owner of all of the Bonds at the time outstanding, shall, at his or her option, receive payment of interest by wire transfer to an account in the United States of America designated by such owner to the Paying Agent no later than the fifteenth day of the month immediately preceding the applicable Interest Payment Date. Principal of the Bonds is payable in lawful money of the United States of America at the principal office of the Paying Agent in Los Angeles, California.

Optional Redemption

The Bonds maturing on or before August 1, 2015, are not subject to redemption prior to their respective maturity dates. The Bonds maturing on or after August 1, 2014, are subject to redemption prior to their stated maturity dates in whole, or in part on any Interest Payment Date, commencing on August 1, 2014, by lot among maturities, in a manner determined by the City, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the date of redemption, without premium.

Redemption Procedure

The Paying Agent shall cause notice of any redemption to be mailed, first class mail, postage prepaid, at least 30 days but not more than 60 days prior to the date fixed for redemption, to the respective Owners of any Bonds designated for redemption, at their addresses appearing on the Bond registration books held by the Paying Agent; but such mailing shall not be a condition precedent to such redemption and failure to mail or to receive any such notice shall not affect the validity of the proceedings for the redemption of such Bonds.

Such notice of redemption shall (a) specify the numbers of the Bonds selected for redemption, except that where all the Bonds are subject to redemption, or all the Bonds of one maturity are to be redeemed, the numbers thereof need not be specified; (b) state the date fixed for redemption; (c) state the redemption price; (d) state the place or places where the Bonds are to be redeemed; (e) in the case of Bonds to be redeemed only in part, state the portion of the Bond which is to be redeemed; (f) state the CUSIP numbers of the Bonds to be redeemed; and (g) state the maturity date of the Bonds to be redeemed in whole or in part. Such notice shall further state that on the date fixed for redemption there shall become due and payable on each Bond, or portion thereof called for redemption, the principal thereof, together with any premium, and interest accrued to the redemption date, and that from and after such date, interest thereon shall cease to accrue and be payable.

Partial Redemption of Bonds

Upon surrender of Bonds redeemed in part only, the City shall execute and the Paying Agent shall authenticate and deliver to the Owner, at the expense of the City, a new Bond or Bonds, of the same maturity, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond or Bonds.

Effect of Redemption of Bonds

From and after the date fixed for redemption, if notice of such redemption shall have been duly given and funds available for the payment of the principal of and interest (and premium, if any) on the Bonds so called for redemption shall have been duly provided, such Bonds so called shall cease to be entitled to any benefit under the Resolution other than the right to receive payment of the redemption price, and no interest shall accrue thereon on or after the redemption date specified in such notice.

Defeasance

The City shall have the option to pay and discharge the entire indebtedness on all or any portion of the outstanding Bonds in any one or more of the following ways:

- (a) by paying or causing to be paid the principal of, and interest and any premium on, such outstanding Bonds, as and when the same become due and payable;
- (b) by depositing with the Paying Agent or an escrow agent, in trust, at or before maturity, money which, together with, in the event of a discharge of all of the Bonds, the amounts then on deposit in the funds and accounts provided for in the Paying Agent Agreement is fully sufficient to pay such outstanding Bonds, including all principal, interest and redemption premiums (if any); or
- (c) by irrevocably depositing with the Paying Agent or an escrow agent, in trust, cash and Federal Securities (as defined below) in such amount as the City shall determine as confirmed by an independent certified public accountant will, together with the interest to accrue thereon and, in the event of a discharge of all of the Bonds, moneys then on deposit in the fund and accounts provided for in the Resolution, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal and interest) at or before their respective maturity dates.

If the City shall have taken any of the actions specified in (a), (b) or (c) above, and if such Bonds are to be redeemed prior to the maturity, thereof notice of such redemption shall have been given as in the Resolution provided or provision satisfactory to the Paying Agent shall have been made for the giving of such notice, then, at the election of the City, and notwithstanding that any Bonds shall not have been surrendered for payment, the pledge of the funds and moneys provided for in the Resolution and all obligations of the City under the Resolution with respect to such outstanding Bonds shall cease and terminate. Notwithstanding the foregoing, the obligation of the City to pay or cause to be paid to the owners of the Bonds not so surrendered and paid all sums due thereon and all amounts owing to the Paying Agent shall continue in any event.

Upon compliance by the City with the foregoing with respect to all Bonds outstanding, any funds held by the Paying Agent after payment of all fees and expenses of the Paying Agent, which are not required for the purposes of the preceding paragraph, shall be paid over to the City.

"Federal Securities" means United States Treasury notes, bonds, bills or certificates of indebtedness or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

Registration, Transfer and Exchange of Bonds

The Paying Agent shall keep or cause to be kept sufficient books for the registration and transfer of the Bonds (the "Bond Register"), which shall at all times be open to inspection by the City upon reasonable notice; and, upon presentation for such purpose, the Paying Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, the Bonds.

In the event that the book-entry system as described above is no longer used with respect to the Bonds, the following provisions will govern the registration, transfer, and exchange of the Bonds.

Any Bond may, in accordance with its terms, be transferred, upon the books required to be kept by the Paying Agent, by the person in whose name it is registered, in person or by his duly

authorized attorney, upon surrender of such Bond for cancellation at the principal office of the Paying Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Paying Agent, duly executed. The Paying Agent shall require the payment by the owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

Whenever any Bond or Bonds shall be surrendered for transfer, the City shall execute and the Paying Agent shall authenticate and deliver a new Bond or Bonds, in the same aggregate principal amount.

No transfers of Bonds shall be required to be made (a) fifteen days prior to the date established by the Paying Agent for selection of Bonds for redemption or (b) with respect to a Bond after such Bond has been selected for redemption.

Bonds may be exchanged at the principal office of the Paying Agent in Los Angeles, California, for a like aggregate principal amount of Bonds of authorized denominations and of the same maturity. The Paying Agent shall require the payment by the owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

No exchanges of Bonds shall be required to be made (a) fifteen days prior to the date established by the Paying Agent for selection of Bonds for redemption or (b) with respect to a Bond after such Bond has been selected for redemption.

Application of Proceeds of Bonds

Construction Fund. The proceeds from the sale of the Bonds, to the extent of the principal amount thereof, shall be paid to the City to the credit of the "Construction Fund", which shall be established as a separate fund held by the Treasurer.

Money in the Construction Fund shall be held by the City and disbursed for the payment or reimbursement of the costs of the design, acquisition and construction of the Projects. If, upon completion of the Projects, amounts remain in the Construction Fund, the Treasurer shall transfer such amounts to the Bond Fund. At such time that no amounts remain on deposit in the Construction Fund, the Treasurer shall close the Construction Fund. Amounts on deposit in the Construction Fund may be invested in Authorized Investments (as defined below) and earnings on such investments shall be retained in the Construction Fund.

Bond Fund. The City shall establish the "Bond Fund", which shall be established as a separate fund to be held by the Treasurer. The Treasurer shall deposit into the Bond Fund all amounts received by the City from the County of Riverside resulting from the levy of taxes on property within the City, for the payment of Debt Service and other moneys which are necessary for the payment of Debt Service on each Interest Payment Date as provided in the Resolution. Additionally, the City shall deposit in the Bond Fund an amount representing accrued interest on the Bonds from June 1, 2004 to the Closing Date. Amounts on deposit in the Bond Fund may be invested in Authorized Investments and earnings on such investments shall be credited to such fund.

All moneys in the Bond Fund shall be used and withdrawn by the Treasurer solely for the purpose of paying the principal of and interest on the Bonds as the same shall become due and

payable. On or before each Interest Payment Date, the Treasurer shall transfer from the Bond Fund to the Paying Agent the amount necessary for the payment of interest and principal, if any, of the Bonds on the next succeeding Interest Payment Date.

Bond Service Fund. The Paying Agent shall establish as a separate fund the "Bond Service Fund". All moneys received by the Paying Agent from the City as a transfer from the Bond Fund shall be deposited into the Bond Service Fund. The moneys on deposit in the Bond Service Fund shall be used solely to pay principal and interest on the Bonds when due. The funds in the Bond Service Fund shall be invested in a money market fund (including any fund for which the Paying Agent or any of its affiliates maintains or acts as sponsor or advisor) assigned a rating of Aaa by Moody's and AAA by S&P and Fitch. Investment earnings on amounts on deposit in the Bond Service Fund shall be retained therein.

Investment of Bond Proceeds. Amounts on deposit in the Cost of Issuance Fund, the Construction Fund and the Bond Fund shall, whenever practicable, be invested in Permitted Investments. Pursuant to the Resolution, Permitted Investments means any investments permitted by law to be made with any moneys belonging to, or in custody of, the City. The City is authorized by State statutes and City Council policy to invest in the following:

- (1) Securities of the U.S. Government or its agencies;
- (2) Time certificates of deposit;
- (3) Bankers acceptances;
- (4) Commercial paper;
- (5) California Local Agency Investment Fund deposits;
- (6) Passbook savings account demand deposits;
- (7) Repurchase agreements;
- (8) Medium Term Notes (MTNs);

The City Treasurer manages the City of Riverside's Investment Portfolio. Cash not required for current operations is pooled and invested in accordance with City Council policy, which adheres to the "Prudent Man Rule" (California Civil Code 2261, ET SEQ.) The City may invest the proceeds of the Bonds in the Local Agency Investment Fund ("LAIF") which is managed by the California State Treasurer for local government agencies, however, the City is also considering the investment of Bond proceeds in a guaranteed investment contract held by a third party trustee.

Paying Agent

U.S. Bank National Association located in Los Angeles, California, will act as the registrar, transfer agent, and paying agent for the Bonds. As long as DTC's book-entry method is used for the Bonds, the Paying Agent will send any notice of redemption or other notices to owners only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the prepayment of the Bonds called for prepayment or of any other action premised on such notice.

The Paying Agent, the City, and the Underwriter of the Bonds have no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership,

or for maintaining, supervising or reviewing any records relating to beneficial ownership, of interests in the Bonds.

In the event that either (i) DTC determines not to continue to act as securities depository for the Bonds, or (ii) the City determines to terminate DTC as a securities depository for the Bonds, then the City will discontinue the book-entry system with DTC. If the City fails to identify another securities depository to replace DTC, then the Bonds shall no longer be required to be registered in the Bond Register (as defined herein) in the name of DTC, but shall be registered in whatever name or names the owners transferring or exchanging Bonds shall designate, in accordance with the provisions of the Paying Agent Agreement.

Debt Service Schedule

The following table shows the debt service schedule with respect to the Bonds (assuming no optional redemptions).

Year Ending August 1	Annual Principal Payment (1)	Annual Interest Payment	Total Annual Debt Service
2005	\$410,000.00	\$1,041,390.00	\$1,451,390.00
2006	515,000.00	880,320.00	1,395,320.00
2007	545,000.00	864,870.00	1,409,870.00
2008	590,000.00	848,520.00	1,438,520.00
2009	625,000.00	830,820.00	1,455,820.00
2010	675,000.00	807,382.00	1,482,382.50
2011	725,000.00	780,382.50	1,505,382.50
2012	780,000.00	751,382.50	1,531,382.50
2013	840,000.00	722,132.50	1,562,132.50
2014	900,000.00	689,372.50	1,589,372.50
2015	965,000.00	653,372.50	1,618,372.50
2016	1,040,000.00	614,772.50	1,654,772.50
2017	1,110,000.00	569,272.50	1,679,272.50
2018	1,195,000.00	519,322.50	1,714,322.50
2019	1,290,000.00	465,547.50	1,755,547.50
2020	1,380,000.00	405,885.00	1,785,885.00
2021	1,475,000.00	341,025.00	1,816,025.00
2022	1,560,000.00	271,700.00	1,831,700.00
2023	1,640,000.00	185,900.00	1,825,900.00
2024	1,740,000.00	95,700.00	1,835,700.00
TOTAL	\$20,000,000.00	\$12,339,070.00	\$32,339,070.00

(1) Interest payments on the Bonds will be made semiannually on February 1 and August 1 of each year, commencing February 1, 2005, through and including August 1, 2024.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS

Principal of and interest on the Bonds are payable from the proceeds of an ad valorem tax levied by the City. (See "THE BONDS - Security" herein.) Articles XIII A, XIII B, XIII C and XIII D of the Constitution, Propositions 62, 98, 111, and 218, and certain other provisions of law discussed below, are included in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the City to levy taxes and spend tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the City to levy taxes for payment of the Bonds. The tax levied by the City for payment of the Bonds was approved by the City's voters in compliance with Article XIII A and all applicable laws.

Article XIII A of the California Constitution

On June 6, 1978, California voters approved Proposition 13, which added Article XIII A to the California Constitution ("Article XIII A"). Article XIII A, as amended, limits the amount of any *ad valorem* taxes on real property to 1% of the "full cash value", and provides that such tax shall be collected by the counties and apportioned according to State law. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to *ad valorem* taxes levied to pay interest and redemption charges on (i) indebtedness approved by the voters prior to July 1, 1978, or (ii) bonded indebtedness for the acquisition of improvement of real property approved on or after July 1, 1978, by two-thirds or more of the votes cast on the proposition, or (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% or more of the voters of the district, but only if certain accountability measures are included in the proposition. The tax for payment of the Bonds falls within the exception for bonds approved by a two-thirds vote.

Article XIII A defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under 'full cash value,' or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." This full cash value may be increased at a rate not to exceed 2% per year until new construction or a change of ownership occurs. Article XIII A has subsequently been amended to permit reduction of "full cash value" in the event of declining property values caused by substantial damage, destruction or other factors, to provide that there would be no increase in "full cash value" in the event of reconstruction of property damaged or destroyed in a disaster, and in various other minor or technical ways.

County of Orange v. Orange County Assessment Appeals Board No. 3. In a Minute Order issued on November 2, 2001, in *County of Orange v. Orange County Assessment Appeals Board No. 3*, Case No. 00CC03385, the Orange County Superior Court held that the Orange County assessor violated the 2% annual inflation adjustment provision of Article XIII A when the assessor tried to "recapture" the taxable value of a single family residential property by increasing its assessed value by approximately 4% in a single year. The assessor had not increased the assessed value of the property during a year in which the market value of the property was determined by the assessor to have declined below its taxable value pursuant to Article XIII A. In the following

year, the assessor established the taxable value of the property by determining that its then-current market value was greater than if the 2% annual inflation adjustment had been applied in the previous year. The assessor enrolled the property at a taxable value that recaptured the foregone 2% inflation adjustment from the previous year, resulting in a one-year increase of approximately 4%. The assessors in most California counties use a similar methodology in raising the taxable values of certain property beyond 2% in a single year. Similar actions have been filed in other counties.

In a ruling issued on December 12, 2002, the Orange County Superior Court held that any Orange County taxpayer whose property's assessed value rose more than 2% since 1979 due to recapturing was part of the certified class action lawsuit filed against the County of Orange in 2000. If upheld on appeal, the class action suit may result in \$1 billion in improperly collected taxes being returned to Orange County taxpayers. On April 18, 2003, a final judgment was entered, ruling against the current statewide practice of restoration of a property assessment based on the market value after a prior assessment reduction due to an economic downturn. On June 12, 2003, an appeal was filed. On January 7, 2004, oral arguments on the appeal were conducted before the Court of Appeal of the State of California, Fourth District (the "Fourth District Court of Appeal"). On March 26, 2004, the Fourth District Court of Appeal reversed the Superior Court's judgement in a unanimous decision, concluding that the intent of the drafters of Proposition 13, as it was amended in 1978 within six months of its passage by Proposition 8, is that the inflation factor is calculated against the original purchase price of the property and not against the intervening previous years reassessed value. The Plaintiff has indicated a desire to appeal this Appellate Court decision; the time to file such an appeal has not expired.

Similar cases filed by the same attorneys in the Los Angeles Superior Court and in the San Diego Superior Court were both dismissed on demurrer, upholding the restored value provisions of Section 51 of the California Revenue and Taxation Code. The City is unable to predict whether an appeal of the decision of the Fourth District Court of Appeal will be filed and what effect, if any, such an appeal, if it were successful, might have on assessed values in the City. However, the obligation of the County to levy *ad valorem* taxes upon all taxable property within the City in an amount sufficient for the payment of principal of and interest on any general obligation bonds to be issued by the City would not be impaired in any event.

Legislation Implementing Article XIII A

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the County and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1979.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the annual adjustment not to exceed 2% are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

All taxable property is shown at 100% of assessed value on the tax rolls. Consequently, the tax rate is expressed as \$1 per \$100 of taxable value. All taxable property value included in this

Official Statement is shown at 100% of taxable value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

Article XIII B of the California Constitution

An initiative to amend the California Constitution entitled "Limitation of Government Appropriations," was approved on November 6, 1979, thereby adding Article XIII B to the California Constitution ("Article XIII B"). Under Article XIII B, state and local governmental entities have an annual "appropriations limit" and are not permitted to spend certain moneys which are called "appropriations subject to limitation" (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the appropriations limit. Article XIII B does not affect the appropriation of moneys which are excluded from the definition of "appropriations subject to limitation," including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the appropriations limit was originally to be based on certain fiscal year 1978-79 expenditures, and adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIII B, if these entities' revenues in any consecutive two-year period exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years. In the event the City receives any proceeds of taxes in excess of the allowable limit, the City may implement an existing procedure to concurrently increase the City's appropriations limit and decrease the State's allowable limit, thus nullifying the need for any return. Certain features of Article XIII B were modified by Proposition 111 in 1990 (see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS -- Proposition 111).

Proposition 62

On November 4, 1986, California voters approved Proposition 62, an initiative statute limiting the imposition of new or higher taxes by local agencies. The statute (a) requires new or higher general taxes to be approved by two-thirds of the local agency's governing body and a majority of its voters, and requires new or higher special taxes to be approved by two-thirds of both such local agency's governing body and such local agency's voters; (b) requires the inclusion of specific information in all local ordinances or resolutions proposing new or higher general or special taxes; (c) penalizes local agencies that fail to comply with the foregoing; and (d) requires local agencies to stop collecting any new or higher tax adopted on or after August 1, 1985, unless a majority of the voters approved the tax by November 4, 1988.

Appellate court decisions following the approval of Proposition 62 determined that certain provisions of Proposition 62 were unconstitutional. However, the California Supreme Court upheld Proposition 62 in its decision on September 28, 1995, in *Santa Clara County Transportation Authority v. Guardino*. This decision reaffirmed the constitutionality of Proposition 62. Certain matters regarding Proposition 62 were not addressed in the Supreme Court's decision, such as whether the decision applies retroactively, what remedies exist for taxpayers subject to a tax not in compliance with Proposition 62, and whether the decision applies to charter cities. The requirements of Proposition 62 have generally been superseded by the enactment of Article XIII C of the California Constitution (Proposition 218) in 1996.

Proposition 111

On June 5, 1990, the voters of California approved the "Traffic Congestion Relief and Spending Limitation Act of 1990 ("Proposition 111"), which modified the Constitution to alter the Article XIII B spending limit. Proposition 111 took effect on July 1, 1990.

The most significant provisions of Proposition 111 are summarized as follows:

- a. Annual Adjustments to Spending Limit. The annual adjustments to the Article XIII B spending limit were liberalized to be more closely linked to the rate of economic growth. Instead of being tied to the Consumer Price Index, the "change in the cost of living" is now measured by the change in California per capita personal income. The definition of "change in population" specifies that a portion of the State's spending limit is to be adjusted to reflect changes in school attendance.
- b. Treatment of Excess Tax Revenues. "Excess" tax revenues with respect to Article XIII B are now determined based on a two-year cycle, so that the State can avoid having to return to taxpayers excess tax revenues in one year if its appropriations in the next fiscal year are under its limit.
- c. Exclusions from Spending Limit. Two new exceptions have been added to the calculation of appropriations which are subject to the Article XIII B spending limit. First, there are excluded all appropriations for "qualified capital outlay projects" as defined by the Legislature. Second, there are excluded any increases in gasoline taxes above their current nine cents per gallon level, sales and use taxes on such increment in gasoline taxes, and increases in receipts from vehicle weight fees above the levels in effect on January 1, 1990.
- d. Recalculation of Appropriations Limit. The Article XIII B appropriations limit for each unit of government, including the State, is to be recalculated beginning in fiscal year 1990-91. It is based on the actual limit for fiscal year 1986-87, adjusted forward to 1990-91 as if Proposition 111 had been in effect.

Proposition 218

On November 5, 1996, the voters of the State approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIII C and XIII D to the State Constitution, which contain a number of provisions affecting the ability of local agencies to levy and collect both existing and future taxes, assessments, fees and charges. Among other things, Article XIII C establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes); prohibits special purpose government agencies from levying general taxes; and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote. Article XIII C also provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIII A of the California Constitution and special taxes approved by a two-thirds vote under Article XIII A, Section 4.

Although a portion of the City's general fund revenues are derived from general taxes purported to be governed by Proposition 218, all of such taxes (or increases on such taxes) were either adopted prior to the effective date of Proposition 218 or were approved (or ratified) by majority vote of the electorate. Consequently, the City believes that none of its current revenues are affected by Proposition 218.

Article XIIC also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. The State Constitution and the laws of the State impose a mandatory, statutory duty on the City to levy a property tax sufficient to pay debt service on the Bonds coming due in each year. The City believes that the initiative power cannot be used to reduce or repeal the authority and obligation to levy such taxes which are pledged as security for payment of the Bonds or to otherwise interfere with performance of the mandatory, statutory duty of the City and the County with respect to such taxes which are pledged as security for payment of the Bonds.

Article XIID deals with assessments and property-related fees and charges. Article XIID explicitly provides that nothing in Article XIIC or XIID shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development; however, it is not clear whether the initiative power is therefore unavailable to repeal or reduce developer and mitigation fees imposed by the City. No developer fees imposed by the City are pledged or expected to be used to pay the Bonds.

The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination.

Future Initiatives

Articles XIII A, XIII B, XIIC, XIID and Propositions 62, 111, and 218 were each adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time, other initiative measures could be adopted, further affecting City revenues or the City's ability to expend revenues.

TAX BASE FOR REPAYMENT OF BONDS

The information in this section describes ad valorem property taxation, assessed valuation, and other measures of the tax base of the City. The Bonds represent general obligations of the City payable from ad valorem property taxes levied and collected by the County. If and to the extent the amount of such ad valorem taxes so collected is insufficient to pay debt service on the Bonds, the City shall be obligated to use any other moneys lawfully available therefore to pay such debt service.

Ad valorem Property Taxation

In California, property which is subject to *ad valorem* taxes is classified as “secured” or “unsecured.” Secured and unsecured property are entered on separate parts of the assessment roll maintained by the county assessor. The secured classification includes property on which any property tax levied by the County becomes a lien on that property sufficient, in the opinion of the County assessor, to secure payment of the taxes. Every tax which becomes a lien on secured property has priority over other liens (except certain federal claims) on the secured property, regardless of the time of the creation of other liens. A tax levied on unsecured property does not become a lien against the taxes on unsecured property, but may become a lien on certain other property owned by the taxpayer.

Property taxes on the secured roll are due in two installments, on November 1 and March 1. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. If such taxes remain unpaid as of June 30 of the fiscal year in which the taxes are levied, the property securing the taxes may only be redeemed by a payment of the delinquent taxes and the delinquency penalty, plus costs and a redemption penalty of 1-1/2% per month from the original June 30th date to the time of redemption. If taxes are unpaid for a period of five years or more, the tax-defaulted properties are thereafter subject to sale by the county tax collector as provided by law.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent if unpaid by August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1-1/2% per month begins to accrue on November 1. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing of a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the county recorder’s office in order to obtain a lien on certain property of the taxpayer; and (4) secure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

Historic Secured Property Tax Revenues

The following tables illustrate the secured property tax revenues of the City for Fiscal Years 1993-94 through 2002-03:

Table 1
HISTORICAL SECURED PROPERTY TAX REVENUES ⁽¹⁾
City of Riverside
(As of June 30)
(000's omitted)

<u>Fiscal Year</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections</u>	<u>% of Current Taxes Collected</u>	<u>Delinquent Tax Collections⁽²⁾</u>	<u>Total Tax Collections</u>	<u>% of Total Tax Collections to Total Tax Levy</u>	<u>Ousting Delinquent Taxes⁽³⁾</u>
1994	22,255	20,473	92.0%	1,587	22,060	99.1%	6,763
1995	21,670	20,153	93.0%	1,633	21,786	100.5%	7,277
1996	23,086	21,787	94.4%	535	22,322	96.7%	8,135
1997	22,202	20,750	93.5%	569	21,319	96.0%	9,019
1998	22,429	21,055	93.9%	584	21,639	96.5%	9,810
1999	23,113	21,888	94.7%	537	22,425	97.0%	10,497
2000	24,241	23,431	96.7%	626	24,057	99.2%	9,994
2001	25,205	24,436	96.9%	370	24,806	98.4%	11,081
2002	25,237	23,098	91.5%	513	23,611	93.6%	12,707
2003	26,050	25,168	96.7%	603	25,771	99.0%	11,715

Source: Riverside County Auditor Controller's Office.

(1) Includes the City of Riverside Redevelopment Agency

(2) The City believes higher delinquency levels of the early 1990's are attributable to the recession of that period.

(3) May also include penalties and accrued interest on delinquent amounts.

Assessed Valuations

The assessed valuation of property in the City is established by the County Assessor, except for public utility property that is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the "full value" of the property, as defined in Article XIII A of the California Constitution. Prior to 1981-82, assessed valuations were reported at 25% of the full value of property. For a discussion of how properties currently are assessed, see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS."

Certain classes of property, such as churches, colleges, not-for-profit hospitals, and charitable institutions, are exempt from property taxation and do not appear on the tax rolls.

Property within the City had a net taxable assessed valuation for fiscal year 2003-04 of \$14,468,381,223. Shown in the following table are the assessed valuations for the City for the period from 1984-85 to 2002-03. The City's assessed valuation increased by 231% between fiscal year 1984-85 and fiscal year 2003-04, representing an annual compound growth rate of 11.5%. Assessed valuation growth rates declined, and in 1996-97 were negative, in mid 1990's due to the recession of that period.

Table 2
ASSESSED VALUE OF TAXABLE PROPERTY
City of Riverside
1979-80 to 2002-03

Fiscal Year	Net Taxable Assessed Valuation	Annual % Change
1984-85	4,370,234,715	7.87
1985-86	4,810,132,078	10.07
1986-87	5,509,797,720	14.55
1987-88	6,195,945,153	12.45
1988-89	6,662,497,356	7.53
1989-90	7,423,029,871	11.42
1990-91	8,427,204,464	13.53
1991-92	9,159,432,068	8.69
1992-93	9,822,574,855	7.24
1993-94	10,165,960,678	3.50
1994-95	10,267,288,859	1.00
1995-96	10,346,214,379	0.77
1996-97	10,140,849,902	-1.98
1997-98	10,186,436,253	0.45
1998-99	10,244,369,011	0.57
1999-00	10,713,298,401	4.58
2000-01	11,435,609,592	6.74
2001-02	12,433,009,590	8.72
2002-03	13,516,069,185	8.71
2003-04	14,468,381,223	7.05

Note: Assessed values represent net taxable assessed valuation of secured and unsecured property, including the homeowner's exemption. Assessed valuations of utility property assessed by the State Board of Equalization are not included, beginning in 1988-89.

Source: California Municipal Statistics, Inc.

The California Redevelopment Law authorizes the redevelopment agency of any city or county to receive an allocation of tax revenues resulting from increases in assessed values of properties within designated redevelopment project areas (the "incremental value") occurring after the year the project area is formed. In effect, local taxing authorities, such as the City, realize tax revenues only on the assessed value of such property at the time the redevelopment project is created for the duration of such redevelopment project. Six redevelopment project areas have been formed in the City. The following table sets forth total assessed valuations and redevelopment agency incremental values for the six most recent fiscal years.

Table 3
TOTAL AND NET PROPERTY TAX VALUATIONS
City of Riverside
(In Thousands)

Fiscal Year	Total Assessed Valuation	Redevelopment Agency Incremental Value	Net Value
1998	\$10,186,436	\$1,051,914	\$9,134,522
1999	10,244,369	1,113,258	9,131,111
2000	10,713,298	1,188,654	9,524,644
2001	11,435,609	1,263,684	10,171,925
2002	12,433,009	1,429,054	11,003,955
2003	13,516,069	1,638,530	11,877,539

Source: California Municipal Statistics and the City of Riverside.

Tax Rates

There are a total of 157 tax rate areas in the City. The table below summarizes the total *ad valorem* tax rates levied by all taxing entities in Tax Rate Area 9-002 during the five-year period from 1999-00 to 2003-04.

Table 4
SUMMARY OF AD VALOREM TAX RATES
\$1 PER \$100 OF ASSESSED VALUATION
City of Riverside
Tax Rate Area (TRA 9-002)

	1999-00	2000-01	2001-02	2002-03	2003-04
General	\$1.0000	\$1.0000	\$1.0000	\$1.0000	\$1.0000
Riverside Unified School District	-	-	-	.05000	.04993
Metropolitan Water District	.00890	.00880	.00770	.00670	.00610
Total	1.00890	1.00880	1.00770	1.05670	1.05603

Source: California Municipal Statistics, Inc

Largest Property Owners

The following table shows the 10 largest owners of taxable property in the City as of June 30, 2003.

Table 5
LARGEST 2003-04 LOCAL SECURED TAXPAYERS
City of Riverside
(In Thousands)

<u>Taxpayer</u>	<u>Primary Land Use</u>	<u>Assessed Valuations</u>	<u>% of Total</u>
Tyler Mall LP	Shopping Center/Mall	\$142,410,201	1.0%
State Street Bank & Trust Company of California	Warehouse	94,846,282	0.7%
Riverside Healthcare System	Hospital	94,669,360	0.7%
Charter Communications Entertainment II	Communications	60,178,663	0.4%
Rohr, Inc.	Industrial	56,706,464	0.4%
Lyon Corona Pointe	Apartments	55,799,880	0.4%
California State Teachers Retirement System	Apartments	54,359,183	0.4%
Pepsi Bottling Group LLC	Industrial	48,587,342	0.4%
Press Enterprise Co.	Industrial	45,263,011	0.3%
Mission Grove Park Apartments	Apartments	43,567,461	0.3%
Metal Container Corp.	Industrial	41,423,449	0.3%
Bryan H. Richter	Apartments	36,771,000	0.3%
Ralphs Grocery Co.	Industrial	35,406,339	0.3%
University Village	Commercial	32,904,086	0.2%
Nordstrom Inc.	Department Store	30,670,307	0.2%
Kilroy Realty Square Partnership	Office Building	28,777,390	0.2%
Windermere at Sycamore Highlands	Apartments	28,440,000	0.2%
Mission Grove Plaza LP	Shopping Center	27,990,091	0.2%
Historic Mission Inn Corp.	Hotel	26,426,884	0.2%
Dow Jones & Co. Inc.	Industrial	25,569,296	0.2%
		\$1,010,766,689	7.4%

Source: California Municipal Statistics, Inc.

(1) 2003-04 Local Secured Assessed Valuation: \$13,620,166,707.

Direct and Overlapping Bonded Debt

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. and effective May 1, 2004, for debt issued as of April 7, 2004. The Debt Report is included for general information purposes only. The City has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the City in whole or in part. Such long-term obligations generally are not payable from revenues of the City (except as indicated) nor are they necessarily obligations secured by land within the City. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The contents of the Debt Report are as follows: (1) the first column indicates the public agencies which have outstanding debt as of the date of the Debt Report and whose territory overlaps the City; (2) the second column shows the percentage of the assessed valuation of the overlapping public agency identified in column one which is represented by property located within the City; and (3) the third column is an apportionment of the dollar amount of each public agency's outstanding debt (which amount is not shown in the table) to property in the City, as determined by multiplying the total outstanding debt of each agency by the percentage of the City's assessed valuation represented in column two.

Table 6
STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT
City of Riverside

2003-04 Assessed Valuation: \$14,468,381,223
 Redevelopment Incremental Valuation: 1,729,088,095
 Adjusted Assessed Valuation: \$12,739,293,128

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 5/1/04</u>
Metropolitan Water District	1.041%	\$ 4,658,215
Alvord Unified School District	71.324	35,640,603
Riverside Unified School District	85.841	48,929,370
Corona-Norco Unified School District	0.003	1,454
Jurupa Unified School District	0.002	605
City of Riverside	100.	- (1)
Riverside Unified School District Community Facilities Districts	100.	24,605,000
City of Norco Community Facilities District No. 2001-1	10.880	3,551,232
City of Riverside Community Facilities Districts	100.	51,018,000
City of Riverside 1915 Act Bonds	100.	<u>28,865,000</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$197,269,479

<u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
Riverside County General Fund Obligations	14.159%	\$ 92,470,263
Riverside County Board of Education Certificates of Participation	14.159	1,863,324
Riverside City Community College District Certificates of Participation	33.975	4,144,950
Alvord Unified School District Certificates of Participation	71.324	17,756,110
Corona Norco Unified School District Certificates of Participation	0.003	1,055
Jurupa Unified School District Certificates of Participation	0.002	165
Moreno Valley Unified School District Certificates of Participation	3.902	1,204,547
Riverside Unified School District General Fund Obligations	85.841	24,756,544
City of Riverside General Fund Obligations	100.	<u>59,250,000</u>
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$201,446,958
Less: Riverside County self-supporting obligations		<u>3,090,421</u>
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$198,356,537

GROSS COMBINED TOTAL DEBT \$398,716,437 (2)
 NET COMBINED TOTAL DEBT \$395,626,016

- (1) Excludes general obligation bonds to be sold.
 (2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2003-04 Assessed Valuation:
Direct Debt - %
 Total Direct and Overlapping Tax and Assessment Debt 1.36%

Ratios to Adjusted Assessed Valuation:
Combined Direct Debt (\$59,250,000) 0.47%
 Gross Combined Total Debt 3.13%
 Net Combined Total Debt 3.11%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/03: \$0

Estimated City, Tax Levy, and Debt Service

The following table projects the annual ratios between the City's total debt service on the Bonds and its available funds from the limited *ad valorem* tax rate of \$12 per \$100,000 of assessed value of property. The fiscal year 2003/04 assessed valuation is \$14,468,381,223. The projected City assessed valuation assumes secured property valuation growth rates in fiscal year 2004/05 and thereafter at 2% and unsecured property valuation growth rates at 0% in fiscal year 2004/05 and thereafter.

Table 7
ESTIMATED CITY, TAX LEVY, AND DEBT SERVICE
City of Riverside

Fiscal Year Ending	Projected City Assessed Valuation	Debt Service for Bond Issue (1)	Estimated Annual Tax for Property with \$100,000 Assessed Value	Estimated Annual limited <i>ad valorem</i> tax rate (2)
2005	\$14,741,041,429	\$1,451,390	9.71	\$1,795,000
2006	15,019,154,839	1,395,320	8.61	1,933,215
2007	15,302,830,518	1,409,870	8.59	1,969,946
2008	15,592,179,709	1,438,520	8.60	2,006,390
2009	15,887,315,885	1,455,820	8.54	2,044,010
2010	16,188,354,784	1,482,383	8.54	2,082,846
2011	16,495,414,462	1,505,383	8.51	2,122,420
2012	16,808,615,332	1,531,383	8.49	2,162,746
2013	17,128,080,221	1,562,133	8.50	2,203,838
2014	17,453,934,407	1,589,373	8.49	2,246,813
2015	17,786,305,676	1,618,373	8.48	2,289,503
2016	18,125,324,371	1,654,773	8.51	2,333,003
2017	18,471,123,440	1,679,273	8.47	2,377,330
2018	18,823,838,491	1,714,323	8.49	2,422,500
2019	19,183,607,842	1,755,548	8.53	2,469,738
2020	19,550,572,581	1,785,885	8.51	2,516,663
2021	19,924,876,614	1,816,025	8.49	2,565,738
2022	20,306,666,728	1,831,700	8.40	2,614,487
2023	20,696,092,644	1,825,900	8.21	2,664,162
2024	21,093,307,078	1,835,700	8.11	2,716,114

(1) Assuming no optional redemptions.

(2) The bond measure that was approved by the voters limited the rate of the *ad valorem* tax that may be levied to pay principal of and interest on the Bonds to \$12 per \$100,000 of assessed value of property. The figures in this column represent the annual proceeds of the \$12 per \$100,000 tax levy.

Taxation of State-Assessed Utility Property

A portion of property tax revenue of the City is derived from utility property subject to assessment by the State Board of Equalization ("SBE"). State-assessed property, or "unitary property," is property of a utility system with components located in many taxing jurisdictions that are assessed as part of a "going concern" rather than as parcels of real or personal property. Unitary and certain other state-assessed property are allocated to the counties by the SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the City) according to statutory formulae generally based on the distribution of taxes in the prior year.

Recent changes in the California electric utility industry structure and in the way in which components of the industry are regulated and owned, including the sale of electric generation assets to largely unregulated, nonutility companies, may affect how utility assets are assessed in the future, and which local agencies are to receive the property taxes. The City is unable to predict the impact of these changes on its utility property tax revenues, or whether legislation or litigation may affect ownership of utility assets or the State's methods of assessing utility property and the allocation of assessed value to local taxing agencies, including the City.

Alternate Method of Tax Apportionment – “Teeter Plan”

Section 4701 through Section 4717 of the California Revenue and Taxation Code permit counties to use a method of apportioning taxes (commonly referred to as the “Teeter Plan”) whereby local agencies receive from the county 100% of their respective shares of the amount of secured *ad valorem* taxes levied, without regard to actual collections of taxes. Due to this allocation method, the cities in the county receive no adjustments for redemption payments on delinquent collections. The unsecured taxes are allocated based on actual unsecured tax collections.

The County of Riverside adopted this method of distributing taxes although the City has elected not to participate in the Teeter Plan.

State Legislative Shift of Property Tax Allocation

Beginning in 1992/93, the State has required that local agencies remit a portion of property taxes received to augment school funding. For Fiscal Year 1992/93, this amount was approximately \$1,404,000. The City's property tax reduction in each following Fiscal Year has increased to approximately \$3,300,000 in Fiscal Year 2002/03. This reduction is expected to continue in future Fiscal Years. This reduction has historically been partially offset by an increase in vehicle licensing fees and an increase in sales tax made permanent by voters in November 1993. However, see “RISK FACTORS – Impact of State Budget” herein for a discussion of circumstances which will adversely impact certain of the City's receipts.

CITY OF RIVERSIDE

General Information

The City is located in Riverside County approximately 60 miles east of downtown Los Angeles and approximately 90 miles north of San Diego. The City of Riverside was incorporated in 1883 and encompasses an area of approximately 85.6 square miles. The City is a charter city and has a council-manager form of government with a seven-member council being elected by ward for four-year overlapping terms. The mayor is elected at large for a four-year term and is the presiding officer of the council, but does not have a vote except in case of a tie. The position of City manager is filled by appointment of the council to serve as administrator of the staff and to carry out the policies of the council. Functions of the City government are carried out by approximately 2,642 full and part-time personnel.

Population

The County's population as of January 1, 2003, was 1,705,500 persons, making it the 4th most populous county in the State. The City's population as of January 1, 2003 was approximately 274,100, an increase of approximately 17% percent over the census population of the City in 1990. The following table presents population data for both the City and County.

Table 8
POPULATION
City and County of Riverside
1960 Through 2003

<u>Year</u>	<u>City of Riverside</u>	<u>Riverside County</u>
1960	84,332	306,191
1970	140,089	459,074
1980	165,087	663,923
1990	226,505	1,170,413
2000	255,165	1,545,387
2001	262,355	1,609,400
2002	265,700	1,699,112
2003	274,100	1,705,500

Source: 1960-2000 U.S. Census; 2001-2003 California Department of Finance (Demographic Research Unit)

Municipal Services and Facilities

Public Safety. The City provides law enforcement and fire protection services. The Police Department currently employs 356 sworn officers and the Fire Department employs 201 sworn fire fighters operating out of 13 fire stations. Other services provided by the City include emergency medical aid, traffic safety maintenance, and building safety regulation and inspection.

Public Services. The City provides electric, water and sewer service to the City residents through municipal enterprises. The City also owns and operates a general aviation airport.

Public Works. Additional services include parkway and median maintenance improvements, refuse management, sewer and storm drain maintenance, zoning and development administration, environmental review, code enforcement and street tree maintenance.

Educational Facilities. The City is included within the boundaries of the Riverside Unified School District and the Alvord Unified School District, which also serves the County area southwest of the City. These two districts include 57 elementary and middle schools and high schools. There are also about 46 private or parochial schools for kindergarten through twelfth grade. Higher education is available at four institutions: Riverside Community College, University of California at Riverside, California Baptist University and La Sierra University at Riverside. Also located in the City are the California School for the Deaf and the Sherman Institute, a federally-run school for Indians.

Leisure and Community Services. Among the City's cultural institutions and activities are a convention center, the Riverside Art Museum, a municipal museum, a number of libraries, an auditorium, the opera society and the symphony society. There are three major hospitals in the City: Parkview Community; Riverside Community; and Kaiser Permanente.

Employee Relations and Collective Bargaining

City employees are represented by five labor union associations, the principal one being the Service Employees International Union, which represents approximately 42% of City full-time employees. Currently 80% of all City employees are covered by negotiated agreements. Since 1979 the City has not had an employee work stoppage. Negotiations are currently underway and the City expects to renew contracts with all of the five labor union associations.

The five employee groups are shown below.

<u>Employee Group</u>	<u>Employees</u>	<u>Contract Expires</u>
Service Employees International Union	813	June 30, 2004
Riverside Police Officers Association	348	June 30, 2004
International Brotherhood of Electrical Workers	159	June 30, 2004
Riverside City Firefighters Association	201	June 30, 2004
Service Employees International Union-Refuse	37	June 30, 2004

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. Internal service funds have been established to account for and finance the uninsured risks of loss of public liability claims and workers compensation. Property insurance coverage has a limit of \$25 million, with a \$250,000 deductible. Earthquake and flood insurance currently have deductibles of 5% and 2%, respectively, with a \$15 million limit. Workers' Compensation insurance coverage has a limit of \$25 million with a deductible of \$3 million per occurrence. There were no claims settled during fiscal years 2000, 2001 and 2003 above the self-insured amount. There was a single claim settled in 2002 above the self-insured amount relating to a workers' compensation claim. The City is fully self-insured for general liability claims.

The following table summarizes the reserved balances in the Self-Insurance Fund for the last five years.

Table 9
SELF-INSURANCE FUND
City of Riverside
(In Thousands)

<u>Fund</u>	<u>1998/99</u>	<u>1999/00</u>	<u>2000/01</u>	<u>2001/02</u>	<u>2002/03</u>
Worker's Compensation	\$9,374	\$9,975	\$10,708	\$12,578	\$13,801
Public Library	6,201	6,248	7,351	7,388	6,899

Source: City of Riverside.

Retirement Systems

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

All permanent and temporary employees who work more than 1,000 hours are eligible to participate in the PERS. Benefits vest after 5 years of service. Benefits for employees vary based upon final yearly compensation, safety or non-safety status and age at retirement. PERS also provides death and disability benefits.

City employees' contribution rates are 8% (9% for public safety employees) of their monthly earnings. The City currently pays the employees contribution to PERS for both miscellaneous and safety employees. The employer PERS contribution rates are 3.3% for miscellaneous employees and 15.7% for safety employees. The City is required to contribute amounts necessary to fund the benefits for its members using the actuarial basis recommended by PERS. The contribution to PERS for Fiscal Year 2002/03 was approximately \$12,196,000. The City has budgeted a contribution of \$19,854,640 for Fiscal Year 2003/04.

The latest actuarial valuation, as of June 30, 2002, projected net assets available for benefits (at cost) to be \$9,552,710 greater than future benefits for current and retired miscellaneous City employees. For safety employees, the actuarial value of assets was \$52,915,944 less than the liability for benefits.

Deferred Compensation

City employees may defer a portion of their compensation under a City-sponsored deferred compensation plan created in accordance with Internal Revenue Code Section 457. Under this plan, participants are not taxed on the deferred portion of their compensation until it is distributed to them; distributions may be made only at termination, retirement, death, or in an emergency as defined by the plan. In accordance with Governmental Accounting Standards Board ("GASB"), the City revised the plan to no longer make the funds available to the City's general creditors, and accordingly, the City does not report these assets in the financial statements.

THE AREA ECONOMY

The City encompasses a portion of the County of Riverside. The following economic data for the City and the County are presented for information purposes only. The Bonds are not a debt or obligation of the County, and taxes to pay the Bonds are levied only on taxable property located within the City.

General

The City is the county seat of Riverside County (the "County") and is located in the western portion of the County about 60 miles east of downtown Los Angeles and approximately 90 miles north of San Diego. A number of cities are located within a ten-mile radius of the City including cities of San Bernardino, Loma Linda, Corona, Norco, Fontana, Ontario, Rialto, Colton, Moreno Valley and Redlands, among others. These cities and the City are located in the Counties of Riverside and San Bernardino and comprise the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (the "MSA"). The MSA represents an important economic region of the State and of Southern California. It lies to the west and south respectively of the strategic San Geronio and Cajon Passes, from which three transcontinental railroads and interstate highways converge to connect the Los Angeles area with the other areas of the nation. The City is situated in close proximity to the metropolitan centers of Los Angeles and Orange County.

Riverside and San Bernardino Counties cover 27,400 square miles, a land area larger than the State of Virginia. As of January 2003, Riverside County had a population of approximately 1,705,500 and San Bernardino County had a population of approximately 1,833,000. With a population over 3.5 million, the Primary Metropolitan Statistical Area ("PMSA") ranks as one of the largest Metropolitan Statistical Areas ("MSAs") in the United States. The geographical area of Riverside County alone is larger than the State of New Jersey. The PMSA though small geographically in relation to the bi-county area, contains most of the two counties' population.

Personal Income

The following table is based on effective buying income, as reported in the annual publication "Survey of Buying Power," published by Sales and Marketing Management. Effective buying income is defined as personal income less personal taxes and non-tax payments. Personal income includes wages and salaries, other labor-related income, proprietor's income, rental income, dividends, personal interest income and transfer payments. Deductions are then made for federal, state and local taxes, non-tax payments (such as fines and penalties) and personal contributions for social insurance. The following items are not included in the definition of effective buying income: (1) employer contributions to private pension funds, supplemental unemployment insurance funds and privately administered workers' compensation programs; (2) imputed personal income, which includes the imputed value of services provided by depository institutions and income earned by life insurance carriers and private noninsured pension funds on the principal amounts contributed by policy holder and pension beneficiaries; and (3) imputed rental income of owner-occupied nonfamily dwellings.

The following table summarizes the total effective buying income and the median household effective buying income for the City, the County, the State and the United States from 1998 through 2002.

Table 10
PERSONAL INCOME
For Calendar Years 1998 Through 2002

<u>Year and Area</u>	<u>Total Effective Buying Income (\$ in thousands)</u>	<u>Median Household Effective Buying Income</u>
1998 City of Riverside	\$3,583,867	\$34,835
Riverside County	20,543,675	33,089
California	551,999,317	37,091
United States	4,621,491,738	35,377
1999 City of Riverside	3,590,924	33,843
Riverside County	22,453,426	35,145
California	590,376,663	39,492
United States	4,877,786,658	37,233
2000 City of Riverside	3,735,911	37,395
Riverside County	25,144,120	39,293
California	652,190,282	44,464
United States	5,230,824,904	39,129
2001 City of Riverside	3,636,701	37,231
Riverside County	23,617,301	37,480
California	650,521,407	43,532
United States	5,303,481,498	38,365
2002 City of Riverside	3,874,905	37,406
Riverside County	25,180,040	38,691
California	647,879,427	42,861
United States	5,340,682,818	38,035

Source: Sales and Marketing Management, Survey of Buying Power.

A comparison of effective buying income groupings per household for 2002 is shown in the following table:

Table 11
INCOME GROUPINGS FOR 2002

<u>Percent of Households by EBI Group</u>	<u>City of Riverside</u>	<u>Riverside County</u>	<u>State of California</u>
\$ 20,000-34,999	24.3%	23.6%	21.1%
\$ 35,000-49,000	19.7	20.0	18.9
\$ 50,000 and over	33.5	34.8	40.5

Source: Sales and Marketing Management, Survey of Buying Power.

Education

The City is included within the boundaries of the Riverside Unified School District and the Alford Unified School District, which also serves the County area southwest of the City. These two districts include 59 elementary and middle schools and high schools. There are also about 46 private or parochial schools for kindergarten through twelfth grade. Average daily attendance for the two public school districts is given below.

Table 12
COUNTY OF RIVERSIDE PUBLIC SCHOOL ENROLLMENT
1998-99 through 2002-03
(Riverside and Alvord Unified School Districts)

<u>Grades</u>	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>
K-8	211,973	219,433	228,348	237,880	247,845
9-12	83,256	87,622	91,562	95,450	101,762
Total	<u>295,229</u>	<u>307,055</u>	<u>319,910</u>	<u>333,330</u>	<u>349,607</u>

Source: State Department of Education

Locally, higher education is available at four institutions: Riverside Community College District, which had an enrollment of approximately 26,191 in the Fall of 2003; University of California at Riverside, which had a graduate and undergraduate enrollment of approximately 15,934 in the Fall of 2003; California Baptist University, which had an enrollment of 2,359 in the Fall of 2003; and La Sierra University at Riverside, which had an enrollment of approximately 1,946 in the Fall of 2003. Also located in the City are the California School for the Deaf, which had an enrollment of 505 during the Fall of 2003, and the Sherman Institute, a federally-run school for Indians, which had an enrollment of 373 during the Fall of 2003.

Employment

The following table summarizes the yearly averages for the labor force employment and unemployment figures for the City of Riverside, County of Riverside, the State and the United States for calendar years 1999 through 2003.

Table 13
LABOR FORCE EMPLOYMENT AND UNEMPLOYMENT
Yearly Average for Calendar Years 1999 through 2003

<u>Year and Area</u>	<u>Civilian Labor Force</u>	<u>Employed</u>	<u>Unemployed</u>	<u>Unemployment Rate</u>
1999 City of Riverside	146,600	138,700	7,900	5.4%
Riverside County	689,400	652,000	37,400	5.2
California	16,596,500	15,731,700	864,800	5.2
United States	139,368,000	13,488,000	5,880,000	4.2
2000 City of Riverside	153,230	144,840	8,390	5.5
Riverside County	720,700	680,900	39,800	5.5
California	16,884,200	16,048,900	835,300	4.9
United States	140,863,000	135,208,000	5,655,000	4.0
2001 City of Riverside	159,490	151,190	8,300	5.2
Riverside County	750,000	710,700	39,300	5.2
California	17,182,900	16,260,100	922,800	5.4
United States	141,815,000	135,073,000	6,742,000	4.8
2002 City of Riverside	168,840	158,660	10,180	6.0
Riverside County	794,100	745,400	48,700	6.1
California	17,404,600	16,241,800	1,162,800	6.7
United States	143,669,000	134,992,000	8,677,000	6.0
2003 City of Riverside	173,750	163,310	10,440	6.0
Riverside County	817,200	767,000	49,500	6.1
California	17,437,000	16,360,000	1,077,000	6.2
United States	146,501,000	138,556,000	7,945,000	5.4

Source: California Employment Development Department.

The following table presents the annual average distribution of persons in various wage and salary employment categories for Riverside-San Bernardino Metropolitan Statistical Area for 1999, 2000, 2001, 2002 and 2003.

Table 14
RIVERSIDE-SAN BERNARDINO PRIMARY METROPOLITAN STATISTICAL AREA
Annual Average Employment Comparison
Calendar Years 1999 through 2003

<u>Industry</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Total, All Industries	960,300	1,010,100	1,050,700	1,078,700	1,122,800
Total Farm Production	21,300	21,700	20,900	20,900	19,800
Total Non-Farm	939,000	988,400	1,029,700	1,057,800	1,103,000
Total Private	755,800	796,300	829,500	845,400	891,900
Goods Producing	188,300	201,500	208,200	206,100	210,600
Natural Resources and Mining	1,300	1,300	1,200	1,100	1,300
Construction	71,700	80,100	88,400	90,300	97,100
Manufacturing	115,300	120,100	118,600	114,700	112,200
Service Producing	750,700	786,900	821,600	851,700	892,400
Trade, Transportation & Public Utilities	201,400	212,200	219,400	224,300	242,900
Trade (Wholesale)	34,900	38,300	41,600	41,000	43,800
Trade (Retail)	121,800	127,400	132,200	137,700	149,700
Transportation, Warehousing and Utilities	44,800	46,400	45,600	45,600	49,400
Information	12,800	12,900	14,600	14,000	13,800
Financial Activities	34,800	34,800	38,200	39,800	43,300
Professional and Business Services	89,400	97,000	101,700	105,600	115,100
Educational and Health Services	99,700	102,200	106,000	111,200	116,400
Leisure and Hospitality	95,800	100,800	104,400	106,100	111,800
Other Services	13,900	15,300	15,700	16,200	38,000
Government	183,100	192,100	200,200	212,400	211,100

Source: California Employment Development Department.

Major Employers

The ten employers in the County are as follows:

Table 15
LARGEST EMPLOYERS
County of Riverside
(As of October, 2003)

<u>Company</u>	<u>Employees in County</u>
County of Riverside	16,726
Univ. of California, Riverside	9,822
Riverside Unified School District	3,906
Riverside Community College	3,350
Kaiser Permanente Medical Center	2,886
City of Riverside	2,600
Jurupa Unified School District	1,792
Riverside County Office of Education	1,600
Alvord Unified School District	1,590
Fleetwood Enterprises	1,550

Source: Riverside Press-Enterprise

Construction Activity

The total valuation of building permits issued in the City equaled \$405,000,000 in fiscal year 2003, an increase of approximately 11.65% from fiscal year 2002. The following table provides a summary of building permit valuations and the number of new dwelling units authorized in the City.

Table 15
BUILDING PERMIT ACTIVITY
City of Riverside
For Calendar Year 1999 Through 2003

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Valuation (\$ in millions)					
Residential	\$209.8	\$272.3	\$283.1	\$250.0	\$273.0
Nonresidential	<u>59.7</u>	<u>38.0</u>	<u>95.4</u>	<u>107.8</u>	<u>132.0</u>
Total	<u>\$269.5</u>	<u>\$310.3</u>	<u>\$378.5</u>	<u>\$357.8</u>	<u>\$405.0</u>
Dwelling Unit Permits ⁽¹⁾					
Single Family	825	1,017	1,237	1,113	689
Multiple Family	<u>846</u>	<u>895</u>	<u>40</u>	<u>0</u>	<u>1,377</u>
Total	<u>1,671</u>	<u>1,912</u>	<u>1,277</u>	<u>1,113</u>	<u>2,066</u>

Source: City of Riverside Planning Department

(1) *Includes all permits pulled in the City.*

Retail Sales

The following table indicates growth of taxable transactions for the period 1998 through the third quarter of 2002 in the City by type of business:

Table 17
CITY OF RIVERSIDE TAXABLE TRANSACTIONS
For Calendar Years 1998 Through 2002
(\$ in thousands of dollars)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002*</u>
Apparel stores	\$68,851	\$78,605	\$92,241	\$98,859	\$71,475
General merchandise stores	411,743	438,137	465,490	485,571	342,769
Food stores	121,359	125,986	133,363	134,502	102,246
Eating and drinking places	196,734	209,049	223,253	239,811	192,808
Home furnishings and appliances	65,720	74,817	77,552	75,754	55,813
Building materials and farm implements	253,925	275,433	290,734	326,627	262,325
Automobile dealers and suppliers	505,421	580,804	698,147	780,641	647,434
Service stations	129,197	151,413	200,155	199,159	143,823
Other retail stores	285,618	313,917	341,252	351,055	277,236
Total retail outlets	<u>2,038,568</u>	<u>2,248,161</u>	<u>2,522,187</u>	<u>2,691,979</u>	<u>2,095,929</u>
All other outlets	563,407	661,371	697,707	715,273	572,682
Total all outlets	<u><u>2,601,975</u></u>	<u><u>2,909,532</u></u>	<u><u>3,219,894</u></u>	<u><u>3,407,252</u></u>	<u><u>2,668,611</u></u>

Source: California State Board of Equalization.

* Through 3rd Quarter.

Transportation

The City is served by a variety of land and air transportation facilities. Light rail commuter service is provided by Metrolink to Los Angeles and Orange Counties. Interstate bus service is available via Greyhound, and local bus service is provided by the Metropolitan Transportation Authority and Riverside Transit Agency. Most major trucking firms serve the City in addition to numerous local carriers. Overnight delivery can be scheduled to San Francisco, Los Angeles, San Diego and Sacramento.

Freight rail service to the City is provided by two major transcontinental railroads: the Santa Fe and Union Pacific. Amtrak-operated passenger train service is available at San Bernardino, approximately 15 miles north of the City.

Scheduled air transportation is available from the Ontario International Airport, approximately 18 miles to the west. The City-operated Riverside Municipal Airport is a general aviation facility.

The City is served by the Riverside Freeway (State Route 91), which provides access to Orange County; Interstate 215, which connects the City to San Diego, San Bernardino and points beyond; and the Pomona Freeway (U.S. Highway 60), an east-west route.

To support transportation improvements, in November 1988 Riverside County voters approved Measure A, a one-half cent sales tax increase. Measure A was to expire in 2009, but in 2002, Riverside County voters approved extending Measure A until 2009. Measure A is expected to generate \$4.6 billion between 2009 and 2039. In 1990, voters of the adjacent San Bernardino County approved a similar program.

Future development within Western Riverside County is expected to create traffic volume exceeding the capacity of the regional arterial highway system. The City, along with the County and thirteen other cities in the western portion of the County, have developed the Transportation Uniform Mitigation Fee ("TUMF") Program to provide funds to improve the system. The TUMF Program would place a uniform fee on new development to fund regional highway improvements necessitated by such development. The proposed fees are: new residential - \$6,650 per unit; multi-family housing - \$4,607 per unit; industrial development - \$1.45 per square foot; retail/commercial development - \$7.81 per square foot; and service/commercial projects - \$4.84 per square foot. Certain exemptions are provided in the ordinance.

BOND INSURANCE

The following information has been furnished by the Insurer for use in this Official Statement. No representation is made by the City as to the accuracy or completeness of such information, or the absence of material adverse changes therein at any time subsequent to the date hereof. Reference is made to APPENDIX F "MUNICIPAL BOND INSURANCE POLICY" for a specimen of the Insurer's policy.

The Insurer accepts no responsibility for the accuracy or completeness of this Official Statement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Insurer and its affiliates set forth under this heading. In addition, the Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds.

General

XL Capital Assurance Inc. (the "Insurer" or "XLCA") is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. The Insurer is currently licensed to do insurance business in, and is subject to the insurance regulation and supervision by, the State of New York, forty-eight other states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Singapore. The Insurer has a license application pending with the State of Wyoming, the only state in which it is not currently licensed.

The Insurer is an indirect wholly owned subsidiary of XL Capital Ltd, a Cayman Islands corporation ("XL Capital Ltd"). Through its subsidiaries, XL Capital Ltd is a leading provider of insurance and reinsurance coverages and financial products to industrial, commercial and professional service firms, insurance companies and other enterprises on a worldwide basis. The common stock of XL Capital Ltd is publicly traded in the United States and listed on the New York Stock Exchange (NYSE: XL). **XL Capital Ltd is not obligated to pay the debts of or claims against the Insurer.**

The Insurer was formerly known as The London Assurance of America Inc. ("London"), which was incorporated on July 25, 1991 under the laws of the State of New York. On February 22, 2001, XL Reinsurance America Inc. ("XL Re") acquired 100% of the stock of London. XL Re merged its former financial guaranty subsidiary, known as XL Capital Assurance Inc. (formed September 13, 1999) with and into London, with London as the surviving entity. London immediately changed its name to XL Capital Assurance Inc. All previous business of London was 100% reinsured to Royal Indemnity Company, the previous owner at the time of acquisition.

Reinsurance

The Insurer has entered into a facultative quota share reinsurance agreement with XL Financial Assurance Ltd ("XLFA"), an insurance company organized under the laws of Bermuda, and an affiliate of the Insurer. Pursuant to this reinsurance agreement, the Insurer expects to cede up to 90% of its business to XLFA. The Insurer may also cede reinsurance to third parties on a transaction-specific basis, which cessions may be any or a combination of quota share, first loss or excess of loss. Such reinsurance is used by the Insurer as a risk management device and to comply with statutory and rating agency requirements and does not alter or limit the Insurer's obligations under any financial guaranty insurance policy. With respect to any transaction

insured by XLCA, the percentage of risk ceded to XLFA may be less than 90% depending on certain factors including, without limitation, whether XLCA has obtained third party reinsurance covering the risk. As a result, there can be no assurance as to the percentage reinsured by XLFA of any given financial guaranty insurance policy issued by XLCA, including the Municipal Bond Insurance Policy.

Based on the audited financials of XLFA, as of December 31, 2003, XLFA had total assets, liabilities, redeemable preferred shares and shareholders' equity of \$831,762,000, \$401,123,000, \$39,000,000 and \$391,639,000, respectively, determined in accordance with generally accepted accounting principles in the United States. XLFA's insurance financial strength is rated "Aaa" by Moody's and "AAA" by S&P and Fitch Inc. In addition, XLFA has obtained a financial enhancement rating of "AAA" from S&P.

The obligations of XLFA to the Insurer under the reinsurance agreement described above are unconditionally guaranteed by XL Insurance (Bermuda) Ltd ("XLI"), a Bermuda company and one of the world's leading excess commercial insurers. XLI is a wholly owned indirect subsidiary of XL Capital Ltd. In addition to A.M. Best's rating of "A+" (Negative Outlook), XLI's insurance financial strength rating is "Aa2" by Moody's, "AA-" by Standard & Poor's and "AA" by Fitch. The ratings of XLFA and XLI are not recommendations to buy, sell or hold securities, including the Bonds and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch.

Notwithstanding the capital support provided to the Insurer described in this section, the beneficial owners of the Bonds will have direct recourse against the Insurer only, and neither XLFA nor XLI will be directly liable to the beneficial owners of the Bonds.

Financial Strength and Financial Enhancement Ratings of XLCA

The Insurer's insurance financial strength is rated "Aaa" by Moody's and "AAA" by Standard & Poor's and Fitch, Inc. ("Fitch"). In addition, XLCA has obtained a financial enhancement rating of "AAA" from Standard & Poor's. These ratings reflect Moody's, Standard & Poor's and Fitch's current assessment of the Insurer's creditworthiness and claims-paying ability as well as the reinsurance arrangement with XLFA described under "Reinsurance" above.

The above ratings are not recommendations to buy, sell or hold securities, including the Bonds and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch. Any downward revision or withdrawal of these ratings may have an adverse effect on the market price of the Bonds. The Insurer does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

Capitalization of the Insurer

Based on the audited statutory financial statements for XLCA as of December 31, 2002 filed with the State of New York Insurance Department, XLCA has total admitted assets of \$180,993,189, total liabilities of \$58,685,217 and total capital and surplus of \$122,307,972 determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities ("SAP"). Based on the audited statutory financial statements for XLCA as of December 31, 2003 filed with the State of New York Insurance Department, XLCA

has total admitted assets of \$329,701,823, total liabilities of \$121,635,535 and total capital and surplus of \$208,066,288 determined in accordance with SAP.

For further information concerning XLCA and XLFA, see the financial statements of XLCA and XLFA, and the notes thereto, incorporated by reference in this Official Statement. The financial statements of XLCA and XLFA are included as exhibits to the periodic reports filed with the Securities and Exchange Commission (the "Commission") by XL Capital Ltd and may be reviewed at the EDGAR website maintained by the Commission. All financial statements of XLCA and XLFA included in, or as exhibits to, documents filed by XL Capital Ltd pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 on or prior to the date of this Official Statement, or after the date of this Official Statement but prior to termination of the offering of the Bonds, shall be deemed incorporated by reference in this Official Statement. Except for the financial statements of XLCA and XLFA, no other information contained in XL Capital Ltd's reports filed with the Commission is incorporated by reference. Copies of the statutory quarterly and annual statements filed with the State of New York Insurance Department by XLCA are available upon request to the State of New York Insurance Department.

Regulation of the Insurer

The Insurer is regulated by the Superintendent of Insurance of the State of New York. In addition, the Insurer is subject to regulation by the insurance laws and regulations of the other jurisdictions in which it is licensed. As a financial guaranty insurance company licensed in the State of New York, the Insurer is subject to Article 69 of the New York Insurance Law, which, among other things, limits the business of each insurer to financial guaranty insurance and related lines, prescribes minimum standards of solvency, including minimum capital requirements, establishes contingency, loss and unearned premium reserve requirements, requires the maintenance of minimum surplus to policyholders and limits the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. The Insurer is also required to file detailed annual financial statements with the New York Insurance Department and similar supervisory agencies in each of the other jurisdictions in which it is licensed.

The extent of state insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing permitted investments and governing the payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

THE FINANCIAL GUARANTY INSURANCE POLICIES ISSUED BY THE INSURER, INCLUDING THE MUNICIPAL BOND INSURANCE POLICY, ARE NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

The principal executive offices of the Insurer are located at 1221 Avenue of the Americas, New York, New York 10020 and its telephone number at this address is (212) 478-3400.

LEGAL MATTERS

Tax Matters

The Internal Revenue Code of 1986 (the "Code") establishes certain requirements which must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in gross income for Federal income tax purposes retroactively to the date of issue of the Bonds. These requirements include, but are not limited to, provisions which prescribe yield and other limits within which the proceeds of the Bonds are to be invested and require, under certain circumstances, that certain investment earnings on the foregoing be rebated on a periodic basis to the Treasury Department of the United States of America. The City has covenanted to maintain the exclusion of the interest on the Bonds from gross income for Federal income tax purposes pursuant to Section 103(a) of the Code.

In the opinion of Best Best & Krieger LLP, Bond Counsel, under existing law, interest on the Bonds is exempt from personal income taxation of the State of California and, assuming compliance with the aforementioned covenant, interest on the Bonds is excluded from gross income for Federal income tax purposes. Bond Counsel are also of the opinion that the Bonds are not "specified private activity bonds" within the meaning of Section 57(a)(5) of the Code and, therefore, the interest on the Bonds will not be treated as a preference item for purposes of computing the alternative minimum tax imposed by Section 55 of the Code. Interest on the Bonds owned by corporations will, however, be taken into account in determining the alternative minimum tax imposed by Section 55 of the Code on 75 percent of adjusted current earnings over alternative minimum taxable income (determined without regard to this adjustment and the alternative tax net operating loss deduction).

If the stated redemption price at maturity of a Bond is greater than the issue price of such Bond (the first price at which a substantial amount of the Bonds of a maturity are to be sold to the public), the difference constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond Owner will increase the Bond Owner's basis in the applicable Bond. Original issue discount that accrues to the Bond Owner is excluded from the gross income of such owner for Federal income tax purposes, is not an item of tax preference for purposes of the Federal alternative minimum tax imposed on individuals and corporations (as described above), and is exempt from State of California personal income taxes.

If the issue price of a Bond is greater than the stated redemption price at maturity of such Bond, the difference constitutes original issue premium, which is not deductible from gross income for Federal income tax purposes. The amount of amortizable Bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each such Bond or, in the case of a callable Bond, on a more accelerated basis. For purposes of determining gain or loss on the sale or other disposition of such Bond, an initial purchaser who acquires such obligation in the initial offering to the public at the initial offering price is required to decrease such purchaser's adjusted basis in such Bond annually by the amount of amortizable premium for the taxable year.

Bond Counsel have not undertaken to advise in the future whether any events after the date of issuance of the Bonds may affect the tax status of interest on the Bonds. No assurance can be given that future legislation, or amendments to the Code, if enacted into law, will not contain provisions which could directly or indirectly reduce the benefit of the exclusion of the interest on the Bonds from gross income for Federal income tax purposes. Certain requirements and procedures contained or referred to in the Resolution and other relevant documents may be changed and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of nationally recognized bond counsel. Bond Counsel express no opinion as to any Bond, or the interest thereon, if any such change occurs or action is taken upon the advice or approval of bond counsel other than Best Best & Krieger LLP.

Although Bond Counsel have rendered an opinion that interest on the Bonds is excluded from gross income for Federal income tax purposes, the Federal tax liability of a Bond Owner may otherwise be affected by the ownership or disposition of the Bonds. The nature and extent of these other tax consequences will depend upon the Bond Owner's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the Bonds should be aware that (i) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds or, in the case of a financial institution, that portion of a holder's interest expense allocated to interest on the Bonds, (ii) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Bonds, (iii) interest on the Bonds earned by some corporations could be subject to the environmental tax imposed by Section 59A of the Code, (iv) interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (v) passive investment income, including interest on the Bonds, may be subject to Federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income and (vi) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the Bonds. Bond Counsel have expressed no opinion regarding any such other tax consequences. The opinion of Bond Counsel regarding exemption from personal income taxation in the State of California and the exclusion from gross income for Federal income tax purposes of interest on the Bonds, and approving the validity of the Bonds, will be substantially in the form set forth in Appendix D hereto.

Continuing Disclosure

The City has covenanted for the benefit of the Bond owners to make available certain financial information and operating data relating to the City by not later than nine months after the end of the City's fiscal year (which date would be the April 1 following the current end of the City's fiscal year on June 30), commencing April 1, 2005, with the report for the 2003-04 fiscal year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be provided to each Repository and to the appropriate State

information depository, if any. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized below under the caption "APPENDIX D - Form of Continuing Disclosure Certificate." These covenants have been made in order to assist the successful bidder in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule"). The City has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

Legality for Investment in California

Under provisions of the California Financial Code, the Bonds are legal investments for commercial banks in California to the extent that the Bonds, in the informed opinion of the bank, are prudent for the investment of funds of depositors, and under provisions of the California Government Code, are eligible for security for deposits of public moneys in California.

Absence of Material Litigation

No litigation is pending or threatened concerning the validity of the Bonds, and a certificate to that effect will be furnished to purchasers at the time of the original delivery of the Bonds. The City is not aware of any litigation pending or threatened questioning the political existence of the City or contesting the City's ability to receive *ad valorem* taxes or to collect other revenues or contesting the City's ability to issue and retire the Bonds.

RATING

Standard & Poor's Credit Market Services, a division of The McGraw Hill Companies, Inc. and Fitch Ratings have assigned their municipal bond ratings of "AA-" and "AA", respectively, to the Bonds, based in part upon information provided by the City, including certain information which does not appear in this Official Statement. The ratings issued reflect only the views of such rating agencies and are not a recommendation to buy, sell or hold the Bonds. Any explanation of the significance of these ratings should be obtained from the respective rating agencies. There is no assurance that such ratings will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by such rating agencies if, in the respective judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of any rating obtained may have an adverse effect on the marketability or the market price of the Bonds.

UNDERWRITING

The Bonds were purchased by competitive bid on June 8, 2004 by Citigroup Global Markets Inc. (the "Underwriter") at a purchase price of \$20,151,827.45 and a true interest cost of 4.662095% as defined in the Official Notice of Sale. The Underwriter has agreed to purchase the Bonds at a price equal to the principal amount thereof plus accrued interest plus a net original issue premium. The Official Notice of Sale provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in said agreement, the approval of certain legal matters by counsel and certain other conditions.

ADDITIONAL INFORMATION

Quotations from and summaries and explanations of the Bonds, the Resolution, and the constitutional provisions, statutes and other documents referenced herein, do not purport to be complete, and reference is made to said documents, constitutional provisions and statutes for full and complete statements of their provisions.

Some of the data contained herein has been taken or constructed from City records. Appropriate City officials, acting in their official capacities, have reviewed this Official Statement and have determined that, as of the date hereof, the information contained herein is, to the best of their knowledge and belief, true and correct in all material respects and does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made herein, in light of the circumstances under which they were made, not misleading. This Official Statement has been approved by the City Council.

CITY OF RIVERSIDE

By: /s/ Paul C. Sundeen
Finance Director and Treasurer

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APPENDIX A

City Financial Information

The information in this section concerning the operations of the City and the City's general fund finances is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from the general fund of the City. The Bonds are payable from the proceeds of an ad valorem tax required to be levied by the County in an amount sufficient for the payment thereof. See "THE BONDS - Security" herein.

Accounting Practices and Financial Reporting

The accounts of the City are organized on the basis of funds and account groups, to account for different activities. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which the spending activities are controlled. The City's general fund and other governmental fund types use the modified accrual basis of accounting. All of the City's other funds, including proprietary fund types and fiduciary fund types use the accrual basis of accounting. The basis of accounting for all funds is more fully explained in the "Notes to the Basic Financial Statements" contained in APPENDIX C hereto.

The City Council employs, at the beginning of each fiscal year, an independent certified public accountant who, at such time or times as specified by the City Council, at least annually, and at such other times as he or she shall determine, examines the combined financial statements of the City in accordance with generally accepted auditing standards, including such tests of the accounting records and such other auditing procedures as such accountant considers necessary. As soon as practicable after the end of the fiscal year, a final audit and report is submitted by such accountant to the City Council and a copy of the financial statements as of the close of the fiscal year is published.

The City, all its funds and the funds of certain other component entities of the City are audited annually by a certified public accounting firm. The firm of RSM McGladrey, Riverside, California, is the City's current auditor (the "Auditor"). The audited financial statements of the City for fiscal year 2002/03 are attached hereto as APPENDIX C. The City's financial statements are public documents and are included within this Official Statement without the prior approval of the Auditor. Accordingly, the Auditor has not performed any post-audit of the financial condition of the City.

The City General Fund finances the legally authorized activities of the City not provided for in other restricted funds. General fund revenues are derived from such sources as taxes; licenses and permits, fines, forfeits and penalties; use of money and property; aid from other governmental agencies; charges for current services; and other revenue. General Fund expenditures and encumbrances are classified by the functions of general government, public safety, highways and streets, culture and recreation and community development.

The following table shows the audited balance sheet statement for the City for the 1999 through 2003 fiscal years. The audited financial statements for the year ended June 30, 2003 are included in Appendix C hereto.

Table A-1
AUDITED FINANCIAL STATEMENTS - GENERAL FUND
BALANCE SHEET
City of Riverside
(As of June 30)
(In Thousands)

	<u>1999</u>	<u>2000</u>	<u>2001⁽¹⁾</u>	<u>2002</u>	<u>2003</u>
Assets					
Cash and investments	\$23,271	\$27,071	\$72,995	\$86,007	\$85,232
Receivable (net)					
Interest	712	641	1,312	1,015	975
Property taxes	6,882	6,868	7,637	7,907	8,139
Sales taxes	2,067	2,314	1,427	1,416	8,011
Utility	452	566	449	532	492
Accounts	2,088	4,144	4,579	2,985	3,304
Intergovernmental	2,344	2,238	2,776	3,350	2,416
Notes	25	125	92	64	33
Prepaid items	127	161	137	129	190
Due from other funds	5,995	6,117	5,414	4,832	8,860
Interfund receivable	100	5,463	4,110	3,762	3,715
Total Assets	<u>44,063</u>	<u>55,708</u>	<u>100,928</u>	<u>111,999</u>	<u>121,367</u>
Liabilities					
Accounts payable	3,075	1,557	4,282	4,131	2,726
Accrued payroll	1,105	1,727	3,739	4,415	5,652
Compensated absences	1,279	1,276	0	0	0
Retainage payable	32	7	82	60	169
Intergovernmental	25	48	105	117	128
Deferred revenue	6,153	6,401	7,794	7,844	9,991
Deposits	0	0	14,539	17,049	18,012
Due to other funds	0	0	250	250	50
Interfund receivable	0	0	0	3,357	2,901
Total Liabilities	<u>11,669</u>	<u>11,016</u>	<u>30,791</u>	<u>37,223</u>	<u>39,629</u>
Fund Balance					
Reserved for:					
Encumbrances	4,018	5,300	4,817	7,014	10,424
Interfund receivable	100	5,463	4,110	3,762	3,715
Prepaid items	127	161	137	107	190
Notes receivable	0	125	25	64	33
Unreserved, designated for economic contingencies	10,100	10,100	19,700	21,400	22,500
Unreserved, designated for future operations	12,204	15,000	35,487	36,559	25,434
Unreserved, designated for insurance	0	0	0	0	6,400
Unreserved:					
General Fund	5,845	8,543	5,861	5,870	13,042
Total fund balances	<u>32,394</u>	<u>44,692</u>	<u>70,137</u>	<u>74,776</u>	<u>81,738</u>
Total Liabilities and Fund Balances	<u>\$44,063</u>	<u>\$55,708</u>	<u>\$100,928</u>	<u>\$111,999</u>	<u>\$121,367</u>

Source: City of Riverside, Audited Financial Statements.

(1) A portion of Balance Sheet changes in 2002 are attributable to the implementation of the Governmental Accounting Standards Board, Statement no. 34 was implemented in 2001.

The following table shows the audited balance sheet statement for the City for the 1999 through 2003 fiscal years. The audited financial statements for the year ended June 30, 2003 are included in Appendix C hereto.

Table A-2
STATEMENT OF GENERAL FUND
REVENUES, EXPENDITURES AND BALANCES
City of Riverside
(As of June 30)
(In Thousands)

	1999	2000	2001	2002	2003
Revenues					
Taxes	\$63,664	\$69,294	\$72,503	\$76,455	\$82,062
Licenses and permits	4,796	5,707	6,871	6,094	7,243
Intergovernmental	15,381	17,661	19,799	22,782	19,897
Charges for services	6,744	7,152	7,872	7,854	8,872
Fines and forfeitures	1,701	2,075	2,153	2,164	1,903
Special assessments	3,573	3,656	3,646	3,633	3,906
Rental and investment income	4,072	2,925	10,618	4,489	3,478
Miscellaneous	1,455	3,087	2,455	2,024	1,926
Total Revenues	<u>101,386</u>	<u>111,557</u>	<u>125,917</u>	<u>125,495</u>	<u>129,287</u>
Expenditures					
Current:					
General government	13,953	13,290	20,449	16,087	15,555
Public safety	72,687	76,386	84,134	91,245	96,487
Highways and streets	9,292	9,388	9,979	10,551	12,034
Culture and recreation	12,799	13,536	15,912	18,111	21,087
Total Expenditures	<u>108,731</u>	<u>112,600</u>	<u>130,474</u>	<u>135,994</u>	<u>145,163</u>
Revenues over (under) expenditures	(7,345)	(1,043)	(4,557)	(10,499)	(15,876)
Other Financing Sources (Uses)					
Transfers in	19,054	19,109	31,866	18,304	20,215
Transfers out	(11,854)	(5,934)	(3,049)	(3,354)	(3,466)
Sales of capital assets	115	133	100	188	1,311
Advances from other funds	335	0	1,588	0	0
Total other financing sources (uses)	<u>7,650</u>	<u>13,308</u>	<u>30,505</u>	<u>15,138</u>	<u>18,060</u>
Net change in fund balances	305	12,265	25,948	4,639	2,184
Fund balances, July 1, as restated	37,350	37,675	49,973	79,921	79,554
Residual equity transfers	0	33	0	0	0
Fund balances, June 30	<u>\$37,655</u>	<u>\$49,973</u>	<u>\$75,921</u>	<u>\$84,560</u>	<u>\$81,738</u>

Source: City of Riverside, Audited Financial Statements.

Budgetary Process and Administration

The City uses the following procedures when establishing the budgetary data reflected in its financial statements.

During the period December through February of each fiscal year, department heads prepare estimates of required appropriations for the following fiscal year. These estimates are compiled

into a proposed operating budget which includes a summary of proposed expenditures and financial resources and historical data for the preceding fiscal year. The operating budget is presented by the City Manager to the City Council for review. Public hearings are conducted to obtain citizen comments. The City Council generally adopts the budget during one of its June meetings. The City Manager is legally authorized to transfer budgeted amounts between divisions and accounts within the same department. Transfer of appropriations between departments or funds and increased appropriations must be authorized by the City Council. Expenditures may not legally exceed budgeted appropriations at the departmental level within a fund. Budgets for the funds are adopted on a basis consistent with generally accepted accounting principles.

In connection with the City's ongoing policy of maintaining contingency revenues, the City has accumulated an available general fund balance of approximately \$50,000,000, representing 33% of fiscal year 2003/2004 budgeted expenditures. In the preparation of the budget for fiscal year 2004, the City Manager instructed Department heads and budget coordinators to build budgets from the "ground up," rather than building incrementally upon prior year amounts. The result in the General Fund was the elimination of 16.85 full-time equivalent employees, the reduction of various expenses, the delay in the purchase of certain equipment and the delay in additions to certain insurance reserve accounts. The following tables summarize the Fiscal Year 2002/03 City Budget and actual results for fiscal year 2002/03, and summarizes the final fiscal year 2003/04 General Fund Budget of the City.

Table A-3
GENERAL FUND BUDGET
City of Riverside
(Fiscal Year 2002/03)
(In Thousands)

	2002/03 <u>Final Budget</u>	2002/03 <u>Actual</u>	<u>Variance</u>
Revenues			
Taxes	\$ 75,490	\$ 82,062	\$ 6,572
Licenses	5,599	7,243	1,644
Intergovernmental	29,329	19,897	(9,432)
Chages for services	6,362	8,872	2,510
Fines and forfeitures	1,335	1,903	568
Special assessments	3,880	3,906	26
Rental and investment income	3,788	3,478	(310)
Miscellaneous	1,977	1,926	(51)
Total revenues	<u>127,760</u>	<u>129,287</u>	<u>1,527</u>
Expenditures			
General government	78,175	42,179	(35,996)
Allocated expenditures	(26,297)	(26,624)	(327)
Public safety			
Police	66,170	62,723	(3,447)
Fire	31,213	27,124	(4,089)
Animal regulation	2,219	1,259	(960)
Building and zoning inspection	1,858	1,810	(48)
Street lighting	3,584	3,571	(13)
Total public safety	<u>105,044</u>	<u>96,487</u>	<u>(8,557)</u>
Highways and streets	14,020	12,034	(1,986)
Culture and recreation	31,879	21,087	(10,792)
Total expenditures	<u>202,821</u>	<u>145,163</u>	<u>(57,658)</u>
Deficiency of revenue under expenditures	(75,061)	(15,876)	59,185
Other financing sources (uses):			
Transfers in	20,110	20,215	105
Transfers out	3,314	(3,466)	(6,780)
Sakes of capital assets	1,235	1,311	76
Total other financing sources (uses):	<u>24,659</u>	<u>18,060</u>	<u>(6,599)</u>
Net change in fund balances	(50,402)	2,184	52,586
Fund balance, as previously reported	74,776	74,776	-
Restatement	-	4,778	4,778
Fund balance, beginning, as restated	<u>74,776</u>	<u>79,554</u>	<u>4,778</u>
Fund balance, ending	<u>\$ 24,374</u>	<u>\$ 81,738</u>	<u>\$ 57,364</u>

Source: City of Riverside.

General Fund Reserves

The following chart illustrates the general fund reserves for the City for Fiscal Years 1992/93 through 2003/04.

Table A-4
GENERAL FUND RESERVES
City of Riverside
(As of June 30)
(In Thousands)

<u>Fiscal Year</u>	<u>Ending Fund Balance</u>	<u>Percent Change</u>
1993	\$11,522	--
1994	12,634	9.7%
1995	17,626	39.5
1996	14,768	(16.2)
1997	16,436	11.3
1998	20,769	26.4
1999	19,882	(4.2)
2000	24,130	21.4
2001	32,469	34.5
2002	45,170	39.2
2003	50,000	10.7
2004 ⁽¹⁾	46,000	(8.0)

Source: City of Riverside.

(1) Budgeted.

City Investment Policy and Portfolio

The City administers a pooled investment program, except for those funds which are managed separately by trustees appointed under bond indentures. This program enables the City to combine available cash from all funds and to invest cash that exceeds current needs. The most recently revised Investment Policy for the City was adopted in February, 2003 by the City Council.

In accordance with the Government Code, the City requires certain collateralization for public deposits in banks and savings and loans, and has long-established safekeeping and custody procedures. The City Treasurer submits a monthly report to the City Council that contains a statement that the City's portfolio is invested in conformance with state law and the Investment Policy, and that there is sufficient liquidity to meet estimated expenditures.

The City's pooled investment portfolio as of June 30, 2003, had a market value of \$383,611,348. The following table illustrates the investments as of June 30, 2003:

Table A-5
INVESTMENT PORTFOLIO
City of Riverside
(As of June 30, 2003)

Type	Market Value	Book Value	% of Portfolio
Money Market Accounts ⁽¹⁾	\$98,354,035	\$98,354,035	25.90
Medium Term Notes	70,561,385	68,284,978	17.98
Federal Agencies	210,312,420	209,039,047	55.04
Municipal Bonds	4,383,508	4,110,000	1.08

Source: City of Riverside.

(1) Includes \$61,000,000 in the State of California Local Agency Investment Fund

Other Local Taxes

In addition to *ad valorem* taxes on real property, the City receives the following local taxes:

Sales and Use Taxes. Sales tax is collected and distributed by the State Board of Equalization. Each local jurisdiction receives an amount equal to one percent of taxable sales within their jurisdiction. In addition, the City receives a portion of a 0.5% transportation sales tax increase approved by voters in 1988.

Franchise Taxes. The City levies a franchise tax on its cable television, trash collection, utility franchises, taxicabs, natural gas piping and ambulance service.

Business License Taxes. The City levies a business license tax based principally on gross receipts and on number of employees.

Transient Occupancy Taxes. The City levies an 11% transient occupancy tax on hotel and motel bills.

Utility Users Taxes. The City levies a tax equal to 6% of utility bills, which is collected by the companies providing the services and remitted monthly to the City.

Property Transfer Taxes. A documentary stamp tax is assessed for recordation of real property transfers.

The following table illustrates receipt of these other tax sources:

Table A-6
OTHER TAX REVENUES BY SOURCE
City of Riverside
(000's omitted)

Fiscal Year	Sales and Use Tax	Property Transfer Tax	Utility Users Tax	Street Light Excise Tax	Franchises	Transient Occupancy Tax	Special Assessments Levied	Total Taxes
1998	\$28,101	\$694	\$17,392	\$269	\$3,085	\$1,652	\$4,018	\$55,211
1999	30,481	936	17,552	312	3,787	1,920	4,060	59,048
2000	34,571	1,087	18,479	336	3,464	2,064	6,586	66,587
2001	35,850	1,213	19,613	382	3,746	2,344	5,258	68,406
2002	39,271	1,568	18,510	36	4,070	2,739	5,420	71,614
2003	41,915	2,024	19,928	99	3,811	2,868	6,323	76,968
2004 ⁽¹⁾	43,900	1,700	19,499	0	4,200	2,850	4,091	76,240

Source: *City of Riverside Annual Financial Report.*

(1) *Budgeted.*

In-Lieu Payments

A significant revenue source of the City is State of California payments and other payments in-lieu of taxes. The City receives a portion of Department of Motor Vehicles fees collected statewide. Payment of State assistance depends on the adoption by the State of its budget, including the appropriations therein providing for local assistance. These revenues are shown in the accompanying financial statements as "intergovernmental revenues."

Table A-7
IN-LIEU PAYMENTS
City of Riverside

<u>Fiscal Year</u>	<u>In-Lieu Payment</u>
1998	\$10,206,312
1999	12,113,997
2000	12,422,389
2001	13,772,065
2002	14,848,312
2003	15,533,453
2004 ⁽¹⁾	13,800,000

Source: *City of Riverside.*

(1) *Estimated.*

Short-Term Obligations

The City currently has no outstanding short-term obligations.

Long-Term Obligations

General Obligation Debt. As of June 30, 2003, the City had no long-term general obligation bonded indebtedness outstanding and has never defaulted on any of its bonded indebtedness previously issued.

Lease Obligations. The City has made use of various lease arrangements with the Riverside Parking Authority, the Riverside Civic Center Authority and the Riverside Municipal Improvements Corporation to finance capital projects through the issuance of certificates of participation and lease revenue bonds. Upon expiration of these underlying leases, title to the projects vest in the City. In addition, the City has issued Certificates of Participation aggregating \$57,305,000 in principal outstanding for such purposes. Total future minimum lease payments payable over the life of these issues are estimated to be \$104,068,919.

When required under these leases, the City carries commercial insurance for all risk coverage, including earthquake and rental interruption insurance.

Table A-8
SUMMARY OF LONG-TERM OBLIGATIONS
City of Riverside

	<u>Original Issue</u>	<u>Outstanding Principal</u>	<u>Total FY2004 Payments</u>
1999 Certificates of Participation	\$6,360,000	\$4,120,000	\$876,010
2003 Certificates of Participation	53,185,000	53,185,000	2,427,329

Source: City of Riverside.

The City also leases various equipment through capital leasing arrangements payable from the general fund or enterprise funds. The future minimum lease obligations as of June 30, 2003 were as follows:

<u>Years Ending June 30</u>	<u>Minimum Lease Payments</u>
2004	\$1,137
2005	1,067
2006	994
2007	953
2008 and thereafter	<u>2,260</u>
Total minimum lease payments	\$6,411

Source: City of Riverside.

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APPENDIX B

Book-Entry-Only System

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof. The City cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal, or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered initially in the name of Cede & Co. (DTC's partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate for each maturity will be issued for the Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others, such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive Bonds representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City on a payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or its nominee, the Paying Agent (as defined herein), the City, or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent, disbursement of

such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City, or the City may decide to discontinue use of the system of book-entry transfers through DTC. Under such circumstances, in the event that a successor securities depository is not obtained, fully registered physical certificates are required to be printed and delivered.

In the event that the book-entry-only system is discontinued, payments of principal of and interest on the Bonds shall be payable as described herein under the caption "THE BONDS - Payment", and transfers will be governed as described herein under the caption "Registration, Transfer and Exchange of Bonds."

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APPENDIX C

Excerpts From 2002-2003 Audited Financial Statements of the City

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**CITY OF RIVERSIDE, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR FISCAL YEAR ENDED JUNE 30, 2003**

**Prepared by the Finance Department
Paul C. Sundeen, Finance Director**

3900 Main Street, Riverside, California 92522 (909) 826-5660

This report was printed on recycled stock

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, 2003, which collectively comprise the City's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 in the 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 basic 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 as of June 30, 2003, 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.

As discussed in Note 14, the 2002 financial statements have been restated to correct the accounting for sales tax receivable, capital lease revenue and an overstatement of capital assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2003 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 and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 2 to 19 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Riverside's basic financial statements. The combining and individual fund statements and schedules on pages 57 to 81 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These combining and individual fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and Statistical Section as listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

McGladrey & Pullen, LLP
September 30, 2003
Riverside, California

City of Riverside
Statement of Net Assets
June 30, 2003
(amounts expressed in thousands)

Assets:	Governmental Activities	Business type Activities	Total
	\$	\$	\$
Cash and investments	205,357	135,099	340,456
Receivables (net of allowances for uncollectibles)	36,735	43,523	80,258
Inventories	2,415	0	2,415
Nuclear material inventory	0	1,150	1,150
Prepaid items	196	5,288	5,484
Deferred charges	0	34,688	34,688
Internal balances	(4,296)	4,296	0
Land and improvements held for resale	7,882	0	7,882
Restricted assets:			
Cash and cash equivalents	0	35,242	35,242
Cash and cash equivalents at fiscal agent	0	18,209	18,209
Investments at fiscal agent	20,994	47,391	68,385
Other	0	620	620
Capital leases receivable	27,925	0	27,925
Capital assets (net of accumulated depreciation)	481,547	651,665	1,133,212
Total assets	<u>778,755</u>	<u>977,171</u>	<u>1,755,926</u>
Liabilities			
Accounts payable and other current liabilities	14,314	20,054	34,368
Accrued interest payable	2,028	0	2,028
Deferred revenue	0	1,863	1,863
Deposits	18,200	3,262	21,462
Current liabilities payable from restricted assets	0	7,969	7,969
Claims and judgments payable	18,365	0	18,365
Noncurrent liabilities:			
Due within one year	13,701	18,380	32,081
Due in more than one year	144,132	379,695	523,827
Total liabilities	<u>210,740</u>	<u>431,223</u>	<u>641,963</u>
Net Assets			
Invested in capital assets, net of related debt	471,380	323,094	794,474
Restricted for:			
Capital projects	85,788	0	85,788
Debt service	6,567	37,678	44,245
Other purposes	14,507	3,191	17,698
Unrestricted	(10,227)	181,985	171,758
Total net assets	<u>\$ 568,015</u>	<u>\$ 545,948</u>	<u>\$ 1,113,963</u>

The notes to the financial statements are an integral part of this statement.

City of Riverside
Statement of Activities
For the fiscal year ended June 30, 2003
(amounts expressed in thousands)

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Indirect Expenses Allocation	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total
Governmental activities:						
General government	\$ 48,843	\$ 10,687	\$ 22,675	\$ 8,939	\$ 23	\$ (27,893)
Public safety	94,179	(5,210)	6,427	2,518	0	(80,024)
Highways and streets	18,433	(2,808)	20,867	139	1,578	6,959
Culture and recreation	31,905	(2,669)	8,304	1,120	543	(19,269)
Interest on long-term debt	7,696	0	0	0	0	(7,696)
Total governmental activities	201,056	0	58,273	12,716	2,144	(127,923)
Business type activities:						
Electric	186,917		204,293	0	0	17,376
Water	29,715		28,637	0	0	(1,078)
Sewer	20,053		21,172	1,088	4,976	7,183
Refuse	11,577		11,795	0	0	218
Airport	1,151		1,046	150	0	45
Transportation	2,110		170	2,425	0	485
Public parking	1,392		2,385	0	0	993
Total business type activities	252,915		269,498	3,663	4,976	25,222
Total	\$ 453,971		\$ 327,771	\$ 16,379	\$ 7,120	(102,701)

General revenues:

Taxes:	
Sales	41,691
Property	33,584
Utility users	19,928
Franchise	3,811
Other	2,967
Vehicle license fees	15,533
Grants and contributions not restricted to specific programs	0
Investment income	8,064
Miscellaneous	2,241
Transfers	18,218
Contributions	(2,800)
Total general revenues and transfers	143,237
Change in net assets	15,314
Net assets - beginning, as restated	552,701
Net assets - ending	\$ 568,015

Balance Sheet
 Governmental Funds
 June 30, 2003
 (amounts expressed in thousands)

Assets:	General	Redevelopment Debt Service	Other Governmental Funds	Total Governmental Funds
Cash and investments	\$ 85,232	\$ 2,572	\$ 97,596	\$ 185,400
Cash and investments at fiscal agent	0	5,947	15,047	20,994
Receivables (net)				
Interest	975	80	907	1,962
Property taxes	8,139	0	235	8,374
Sales taxes	8,011	0	0	8,011
Utility billed	492	0	0	492
Accounts	3,304	201	178	3,683
Intergovernmental	2,416	0	3,309	5,725
Notes	33	0	8,188	8,221
Capital lease receivable	0	27,925	0	27,925
Prepaid items	190	0	3	193
Due from other funds	8,860	0	930	9,790
Advances to other funds	3,715	229	102	4,046
Land and improvements held for resale	0	0	7,882	7,882
Total assets	\$ 121,367	\$ 36,954	\$ 134,377	\$ 292,698

Liabilities and fund balances	General	Redevelopment Debt Service	Other Governmental Funds	Total Governmental Funds
Liabilities:				
Accounts payable	\$ 2,726	\$ 530	\$ 3,401	\$ 6,657
Accrued payroll	5,652	0	213	5,865
Retainage payable	169	0	812	981
Intergovernmental	128	0	0	128
Deferred revenue	9,991	27,994	9,596	47,581
Deposits	18,012	0	169	18,181
Due to other funds	50	0	1,795	1,845
Advances from other funds	2,901	36	13,295	16,232
Total liabilities	\$ 39,629	\$ 28,560	\$ 29,281	\$ 97,470

Fund balances:				
Reserved for:				
Encumbrances	10,424	0	10,302	20,726
Interfund receivable	3,715	0	102	3,817
Debt service	0	8,394	767	9,161
Prepaid items	190	0	3	193
Notes receivable	33	0	673	706
Land and improvements held for resale	0	0	7,882	7,882
Unreserved, designated for economic contingencies	22,500	0	0	22,500
Unreserved, designated for future operations	25,434	0	68,162	93,596
Unreserved, designated for liability insurance	6,400	0	0	6,400
General fund	13,042	0	0	13,042
Special revenue funds	0	0	3,667	3,667
Capital projects funds	0	0	12,306	12,306
Permanent fund	0	0	1,232	1,232
Total fund balances	\$ 81,738	\$ 8,394	\$ 105,096	\$ 195,228
Total liabilities and fund balances	\$ 121,367	\$ 36,954	\$ 134,377	\$ 292,698

The notes to the financial statements are an integral part of this statement.

CITY OF RIVERSIDE
 RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 June 30, 2003
 (amounts expressed in thousands)

\$195,228

Total fund balances - governmental funds

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets net of accumulated depreciation used in governmental activities that are not current financial resources and, therefore, are not reported in the funds.

479,379

Other long-term assets that do not meet the "availability" criteria for revenue recognition and therefore, are deferred in the funds.

Deferred Revenue-Governmental Funds
 Deferred Revenue-Internal Service Funds

\$ 47,581
59

47,640

Long-term liabilities, as listed below, are not due and payable in the current period and therefore are not reported in the funds.

Bonds Payable
 Accrued Interest Payable
 Certificates of Participation Payable
 Notes Payable
 Capital Leases Payable
 Compensated Absences

\$ (109,615)
 (2,028)
 (4,650)
 (11,447)
 (5,517)
(26,083)

(159,340)

Internal service funds are used by management to charge the costs of insurance, centralized purchasing and fleet management to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets.

5,108

Net assets of governmental activities

\$568,015

The notes to the financial statements are an integral part of this statement.

City of Riverside
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

For the fiscal year ended June 30, 2003
(amounts expressed in thousands)

	General	Redevelopment Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 82,062	\$ 12,944	\$ 7,280	\$ 102,286
Licenses and permits	7,243	0	7,151	14,394
Intergovernmental	19,897	0	23,932	43,829
Charges for services	8,872	0	6	8,878
Fines and forfeitures	1,903	0	192	2,095
Special assessments	3,906	0	2,418	6,324
Rental and investment income	3,478	2,186	5,591	11,255
Miscellaneous	1,926	619	2,497	5,042
Total revenues	129,287	15,749	49,067	194,103
Expenditures:				
Current:				
General government	15,555	283	6,193	22,031
Public safety	96,487	0	0	96,487
Highways and streets	12,034	0	0	12,034
Culture and recreation	21,087	0	6,492	27,579
Capital outlay	0	0	39,098	39,098
Debt service:				
Principal	0	2,694	1,160	3,854
Interest	0	7,371	414	7,785
Repayment of advances	0	616	0	616
Total expenditures	145,163	10,964	53,357	209,484
Revenues over (under) expenditures	(15,876)	4,785	(4,290)	(15,381)
Other financing sources (uses):				
Transfers in	20,215	2,925	13,062	36,202
Transfers out	(3,466)	(9,659)	(4,859)	(17,984)
Proceeds from issuance of long-term debt	0	0	750	750
Sale of capital assets	1,311	0	3	1,314
Advances from other funds	0	388	(307)	81
Total other financing sources (uses)	18,060	(6,346)	8,649	20,363
Net change in fund balances	2,184	(1,561)	4,359	4,982
Fund balances, as previously reported	74,776	9,955	100,737	185,468
Restatement	4,778	0	0	4,778
Fund balances, beginning, as restated	79,554	9,955	100,737	190,246
Fund balances, ending	\$ 81,738	\$ 8,394	\$ 105,096	\$ 195,228

The notes to the financial statements are an integral part of this statement.

CITY OF RIVERSIDE
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2003
 (amounts expressed in thousands)

\$4,982

Net change in fund balances-total governmental funds

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period, as listed below:

Capital Outlay \$ 22,232
 Depreciation Expense (16,721) 5,511

Revenues in the statement of activities that do not meet the "availability" criteria for revenue recognition and therefore are not reported as revenue in the funds. 561

The issuance of long-term debt (e.g., bonds, leases, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of long-term debt and related items is listed below:

Principal repayments \$ 3,854
 Interest payments 89
 Issuance of notes payable (750)
 Capital lease financing 962 4,155

Internal service funds are used by management to charge the costs of insurance, centralized purchasing and fleet management to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.

105

Change in net assets of governmental activities

15,314

The notes to the financial statements are an integral part of this statement.

City of Riverside
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
General Fund
For the fiscal year ended June 30, 2003
(amounts expressed in thousands)

	Budgeted Amounts		Actual Amounts	Favorable (Unfavorable) Variance with Final Budget	Budgeted Amounts		Actual Amounts	Favorable (Unfavorable) Variance with Final Budget
	Original	Final			Original	Final		
Revenues:								
Taxes	\$ 75,490	\$ 75,490	\$ 82,062	\$ 6,572		62,566	66,170	3,447
Licenses and permits	5,599	5,599	7,243	1,644		30,047	31,213	4,089
Intergovernmental	23,988	29,329	19,897	(9,432)		2,219	2,219	960
Charges for services	6,193	6,362	8,872	2,510		1,808	1,858	48
Fines and forfeitures	1,335	1,335	1,903	568		3,584	3,584	13
Special assessments	3,530	3,880	3,906	26		100,224	105,044	8,557
Rental and investment income	3,678	3,788	3,478	(310)		13,577	14,020	1,986
Miscellaneous	1,217	1,977	1,926	(51)		28,817	31,879	10,792
Total revenues	121,030	127,760	129,287	1,527		174,225	202,921	57,658
Expenditures:								
General government:								
Mayor	315	327	295	32		(53,195)	(75,061)	59,185
Council	78	159	120	39				
Manager	1,487	1,536	1,132	404				
Attorney	332	328	(122)	450				
Clerk	487	487	120	367				
Planning	4,721	5,770	4,258	1,512		19,649	20,110	105
Human Resources	3,170	3,294	2,988	306		3,006	3,314	(6,780)
General Services	10,197	28,271	8,111	20,160		35	1,235	76
Finance	8,200	7,889	5,319	2,570		22,690	24,659	(6,599)
Information System	12,836	13,473	10,547	2,926		(30,505)	(50,402)	52,586
Non-departmental	16,080	16,641	9,411	7,230				
Sub-total	57,904	78,175	42,179	35,996		74,776	74,776	0
Allocated expenditures	(26,297)	(26,297)	(26,624)	327		0	0	4,778
Total general government	31,607	51,878	15,555	36,323		74,776	74,776	4,778
				continued				
						\$ 44,271	\$ 24,374	\$ 57,364

The notes to the financial statements are an integral part of this statement.

City of Riverside
Statement of Net Assets
Proprietary Funds
June 30, 2003
(amounts expressed in thousands)

Assets	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities-Internal Service Funds
Current assets:	\$ 47,244	\$ 20,320	\$ 63,742	\$ 3,793	\$ 135,099	\$ 19,957
Cash and investments						
Receivables (net of allowances for uncollectibles)						
Interest	613	231	653	70	1,567	192
Utility billed	10,886	1,391	625	357	13,259	0
Utility unbilled	9,282	1,638	777	548	12,245	0
Accounts	11,082	731	1,757	187	13,757	0
Intergovernmental	586	156	184	1,105	2,031	75
Notes	0	0	664	0	664	0
Nuclear materials inventory	1,150	0	0	0	1,150	0
Inventory	0	0	0	0	0	2,415
Prepaid items	5,278	3	0	7	5,288	3
Due from other funds	50	0	0	0	50	0
Restricted assets:						
Cash and cash equivalents	3,010	0	3,709	3,191	9,910	0
Cash and investments at fiscal agent	48,706	16,894	0	0	65,600	0
Revenue bond current debt service account	13,588	4,632	0	0	18,220	0
Revenue bond future debt service account	7,112	0	0	0	7,112	0
Other	620	0	0	0	620	0
Total current assets	159,207	45,996	72,111	9,258	286,572	22,642
Non-current assets:						
Deferred charges	27,704	1,405	227	5,352	34,688	0
Advances to other funds	21	62	12,199	0	12,282	3,605
Capital assets:						
Land	5,839	14,510	3,048	9,163	32,560	0
Buildings	12,205	12,439	163,039	4,510	192,193	0
Accumulated depreciation-buildings	(2,541)	(1,770)	(49,346)	(2,293)	(55,950)	0
Improvements other than buildings	424,682	257,051	32,239	6,899	720,871	0
Accumulated depreciation-improvements other than buildings	(188,232)	(81,387)	(6,671)	(2,706)	(278,996)	0
Machinery and equipment	13,073	6,506	5,445	9,999	35,023	8,803
Accumulated depreciation-machinery and equipment	(10,169)	(5,046)	(4,330)	(9,381)	(25,926)	(6,635)
Construction in progress	17,462	9,802	0	4,626	31,890	0
Total non-current assets	300,044	213,572	155,850	29,169	698,635	5,773
Total assets	459,251	259,568	227,961	38,427	985,207	28,415

continued

City of Riverside
Statement of Net Assets
Proprietary Funds
June 30, 2003
(amounts expressed in thousands)

Liabilities	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities- Internal Service Funds
Current liabilities:						
Accounts payable	8,587	865	485	794	10,731	596
Accrued payroll	4,608	1,992	1,338	886	8,824	587
Retainage payable	307	152	0	0	459	21
Intergovernmental	39	1	0	0	40	0
Claims and judgments	0	0	0	0	0	18,365
Deferred revenue	803	278	277	505	1,863	59
Deposits	2,870	392	0	0	3,262	19
Due to other funds	0	0	0	4,335	4,335	3,660
Capital leases-current	0	0	42	17	59	0
Water stock acquisitions-current	0	150	0	0	150	0
Total current liabilities	17,214	3,830	2,142	6,537	29,723	23,307
Current liabilities payable from restricted assets:						
Revenue bonds	10,780	4,010	2,800	0	17,590	0
Accrued interest	2,808	622	909	0	4,339	0
Deferred revenue	3,630	0	0	0	3,630	0
Total current liabilities payable from restricted assets	17,218	4,632	3,709	0	25,559	0
Noncurrent liabilities:						
Revenue bonds	221,921	68,428	34,619	0	324,968	0
Notes payable	0	0	11,524	0	11,524	0
Capital leases	0	0	201	238	439	0
Decommissioning liability	38,144	0	0	0	38,144	0
Water stock acquisitions	0	933	0	0	933	0
Advances from other funds	0	0	0	3,701	3,701	0
Landfill capping	0	0	0	4,268	4,268	0
Total noncurrent liabilities	260,065	69,361	46,344	8,207	383,977	0
Total liabilities	294,497	77,823	52,195	14,744	439,259	23,307
Net Assets						
Invested in capital assets, net of related debt	50,015	157,475	94,237	21,367	323,094	2,168
Restricted for:						
Debt service	25,786	8,417	3,475	0	37,678	0
Other purposes	0	0	0	3,191	3,191	0
Unrestricted	88,953	15,853	78,054	(875)	181,985	2,940
Total net assets	\$ 164,754	\$ 181,745	\$ 175,766	\$ 23,683	\$ 545,948	\$ 5,108

The notes to the financial statements are an integral part of this statement.

City of Riverside
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the fiscal year ended June 30, 2003
(amounts expressed in thousands)

	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities- Internal Service Funds
Operating revenues:						
Charges for services	\$ 204,293	\$ 28,637	\$ 21,172	\$ 15,396	\$ 269,498	\$ 14,930
Operating expenses:						
Personal services	11,118	5,457	5,664	4,025	26,264	2,445
Contractual services	2,095	1,100	1,045	3,490	7,730	106
Maintenance and operation	137,809	6,130	3,609	4,806	152,354	424
General	10,172	6,678	2,076	1,846	20,772	1,801
Materials and supplies	381	313	769	534	1,997	85
Insurance	389	250	270	297	1,206	10,690
Depreciation and amortization	13,516	5,554	4,405	1,056	24,531	719
Total operating expenses	175,480	25,482	17,838	16,054	234,854	16,270
Operating income (loss)	28,813	3,155	3,334	(658)	34,644	(1,340)
Nonoperating income (expenses):						
Operating grants	0	0	1,088	2,575	3,663	0
Interest income	4,286	1,763	2,838	228	9,115	900
Other	1,306	1,670	236	124	3,336	530
Gain on retirement of capital assets	387	65	3	58	513	15
Capital improvement fees	0	0	4,976	0	4,976	0
Interest expense and fiscal charges	(11,437)	(4,233)	(2,215)	(176)	(18,061)	0
Total nonoperating income (expenses)	(5,458)	(735)	6,926	2,809	3,542	1,445
Income before transfers and capital contributions	23,355	2,420	10,260	2,151	38,186	105
Capital contributions	4,360	8,405	0	3,207	15,972	0
Transfers in	0	0	51	246	297	0
Transfers out	(15,333)	(3,182)	0	0	(18,515)	0
Change in net assets	12,382	7,643	10,311	5,604	35,940	105
Total net assets - beginning	152,372	174,102	165,455	18,079	510,008	5,003
Total net assets - ending	\$ 164,754	\$ 181,745	\$ 175,766	\$ 23,683	\$ 545,948	\$ 5,108

The notes to the financial statements are an integral part of this statement.

City of Riverside
 Proprietary Funds
 Statement of Cash Flows
 For the fiscal year ended June 30, 2003
 (amounts expressed in thousands)

	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities- Internal Service Funds
Cash flows from operating activities:						
Cash received from customers and users	\$ 197,139	\$ 28,776	\$ 21,247	\$ 14,855	\$ 262,017	\$ 14,938
Cash paid to employees for services	(11,194)	(5,550)	(5,764)	(4,094)	(26,602)	(2,375)
Cash paid to other suppliers of goods or services	(143,065)	(14,819)	(7,426)	(9,510)	(174,820)	(11,746)
Other receipts	1,306	1,100	(493)	3,438	5,351	70
Net cash provided by operating activities	44,186	9,507	7,564	4,689	65,946	887
Cash flows from noncapital financing activities:						
Transfers in	0	0	51	246	297	0
Transfers out	(15,333)	(3,182)	0	0	(18,515)	0
Operating grants	0	0	1,088	1,973	3,061	0
Non-operating revenue	0	570	0	0	570	0
Net cash provided (used) by noncapital financing activities	(15,333)	(2,612)	1,139	2,219	(14,587)	0
Cash flows from capital and related financing activities:						
Purchase of fixed assets	(19,870)	(20,945)	(2,700)	(6,041)	(49,556)	(982)
Purchase of nuclear fuel	(903)	0	0	0	(903)	0
Proceeds from the sale of fixed assets	567	81	3	58	709	15
Proceeds from long-term loans	0	0	5,375	0	5,375	0
Principal paid on long-term obligations	(7,850)	(3,895)	(3,585)	(16)	(15,346)	0
Interest paid on long-term obligations	(11,206)	(2,889)	(2,229)	(176)	(16,500)	0
Capital improvement fees	0	0	4,976	0	4,976	0
Contributed capital	2,254	4,919	0	155	7,328	0
Net cash provided (used) for capital and related financing activities	(37,008)	(22,729)	1,840	(6,020)	(63,917)	(967)
Cash flows from investing activities:						
Purchase of investments	(3,235)	(33)	0	0	(3,268)	0
Income from investments	4,275	1,867	2,723	231	9,096	899
Advances to other funds	0	0	0	(1,236)	(1,236)	0
Payments received on interfund payables	0	22	2,052	0	2,074	486
Net cash provided (used) by investing activities	1,040	1,856	4,775	(1,005)	6,666	1,385
Net change in cash and cash equivalents	(7,115)	(13,978)	15,318	(117)	(5,892)	1,305
Cash and cash equivalents, beginning (including \$38,515 for Electric and \$22,784 for Water in restricted accounts)	83,545	51,663	52,133	7,101	194,442	18,652
Cash and cash equivalents, ending (including \$29,186 for Electric and \$17,365 for Water in restricted accounts)	\$ 76,430	\$ 37,685	\$ 67,451	\$ 6,984	\$ 188,550	\$ 19,957
Schedule of noncash financing and investing activities:						
Contribution in aid	\$ 2,106	\$ 3,486	\$ 0	\$ 3,052	\$ 8,644	\$ 0

continued

City of Riverside
 Proprietary Funds
 Statement of Cash Flows
 For the fiscal year ended June 30, 2003
 (amounts expressed in thousands)

	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities- Internal Service Funds
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating Income	\$ 28,813	\$ 3,155	\$ 3,334	\$ (658)	\$ 34,644	\$ (1,340)
Other receipts	1,306	1,100	236	124	2,766	530
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation and amortization	13,516	5,554	4,405	1,056	24,531	719
Amortization (burn) of nuclear fuel	4,514	0	0	0	4,514	0
(Increase) decrease in utility billed receivable	(276)	124	29	27	(96)	0
(Increase) in utility unbilled receivable	(1,133)	(59)	(25)	(101)	(1,318)	0
(Increase) decrease in accounts receivable	(5,013)	206	253	(98)	(4,652)	3
(Increase) decrease in intergovernmental receivable	(490)	(137)	(184)	(360)	(1,171)	12
Decrease in notes receivable	0	0	310	0	310	0
(Increase) decrease in prepaid items	(907)	(3)	7	(6)	(909)	(3)
(Increase) in nuclear materials inventory	(53)	0	0	0	(53)	0
(Increase) in inventory	0	0	0	0	0	(201)
Increase (decrease) in accounts payable	1,842	(321)	338	172	2,031	102
Increase (decrease) in accrued payroll	(76)	(93)	(100)	(69)	(338)	70
Increase (decrease) in retainage payable	(704)	(161)	0	0	(865)	21
(Decrease) in intergovernmental	(50)	(8)	0	0	(58)	0
Increase (decrease) in deferred revenue	(149)	77	(1,039)	363	(748)	(401)
Increase in deposits	(243)	73	0	0	(170)	14
Increase (decrease) in due to other funds	0	0	0	4,335	4,335	(252)
Increase in claims and judgments	0	0	0	0	0	1,613
Increase in decommissioning liability	3,289	0	0	0	3,289	0
(Decrease) in landfill capping	0	0	0	(96)	(96)	0
Net cash provided by operating activities	\$ 44,186	\$ 9,507	\$ 7,564	\$ 4,689	\$ 65,946	\$ 887

The notes to the financial statements are an integral part of this statement.

City of Riverside
 Statement of Fiduciary Net Assets
 Fiduciary Fund-Agency Fund
 June 30, 2003
 (amounts expressed in thousands)

	Assessment Districts
Assets:	
Cash and investments	\$ 7,703
Cash and investments at fiscal agent	8,283
Interest receivable	76
Property tax receivables	252
Total assets	<u>\$ 16,314</u>
Liabilities:	
Accounts payable	\$ 1
Deposits	10
Held for bond holders	16,303
Total liabilities	<u>\$ 16,314</u>

The notes to the financial statements are an integral part of this statement.

CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2003

(amounts expressed in thousands)

1. Summary of Significant Accounting Policies

The City of Riverside (City) was incorporated on October 11, 1883 as a Charter City and operates under a Council-Manager form of Government. The more significant accounting policies reflected in the financial statements are summarized as follows:

A. Reporting Entity

These financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units are legally separate entities. In substance, they are part of the City's operations and their data is combined with that of the City's. The City has no component units which meet the criteria for discrete presentation. All of the City's component units have a June 30 year end.

Blended Component Units

Riverside Redevelopment Agency (Redevelopment Agency) was established in 1971 by the City. The Redevelopment Agency's primary purpose is to eliminate blighted areas in the City by encouraging commercial development. City Council members serve as the Redevelopment Agency's directors and have full accountability for fiscal matters.

Riverside Public Financing Authority (Public Financing Authority) was organized in December 1987 by the City and the Redevelopment Agency. The purpose of the Public Financing Authority is to provide financing for public capital improvements to the City or the Redevelopment Agency. City Council members serve as the Public Financing Authority's directors and have full accountability for fiscal matters.

Parking Authority of the City of Riverside (Parking Authority) was established in 1972 to provide parking facilities throughout the City. The City Council is the governing body of the Parking Authority and ex-officio board members include the Mayor, Mayor Pro-Tempore, City Clerk, City Treasurer and the City Attorney.

Riverside Municipal Improvements Corporation (Municipal Improvements Corporation) was created in 1978 and operates under provisions of the Nonprofit Public Benefit Corporation Law of the State of California. The Municipal Improvements Corporation's primary purpose is to provide financing assistance by obtaining land, property and equipment on behalf of

the City. The Directors are appointed by the City Council and receive no compensation.

Riverside Civic Center Authority (Civic Center Authority) was created in 1971 by a Joint Exercise of Powers Agreement between the City and Riverside County for the purpose of providing financing for the construction of City Hall and the Riverside Convention Center. The Civic Center Authority is governed by a five-member commission, three appointed by the City and two by the County. The Civic Center Authority's property is leased to the City and, upon termination of the Agreement, all property will automatically vest with the City. At the present, all outstanding debt has been retired and dissolution is underway.

Complete financial statements for each of the individual component units except the Riverside Municipal Improvement Corporation (which does not generate a financial statement) may be obtained from the City's Finance Department, 3900 Main Street, Riverside, California, 92522.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. Interfund activity has been removed from these statements except for utility charges, as this would distort the presentation of function costs and program revenues. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Indirect expenses are allocated to the various functions based on a proportionate utilization of the services rendered. Such allocations consist of charges for accounting, human resources, information technology and other similar support services.

CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2003

(amounts expressed in thousands)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied and become an enforceable lien on the property. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. An allowance for doubtful accounts is maintained for the utility and other miscellaneous receivables.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, special assessments, sales taxes, franchise taxes, licenses, charges for services, amounts due from other governments and interest associated with the current fiscal period are all considered to be susceptible to accrual. Other revenue items such as fines and permits are considered to be measurable and available only when cash is received by the government, and are therefore not susceptible to accrual.

The government reports the following major governmental funds:

The General fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Redevelopment Agency's debt service fund accounts for the resources accumulated and payments made for principal and interest on long-term obligation debt of the Redevelopment Agency.

The government reports the following major proprietary funds:

The Electric fund accounts for the activities of the City's electric distribution operations.

The Water fund accounts for the activities of the City's water distribution operations.

The Sewer fund accounts for the activities of the City's sewer systems.

Additionally, the government reports the following fund types:

Internal service funds account for the central stores, central garage, and the three self-insured risks of workers compensation, unemployment and public liability on a cost reimbursement basis.

The agency fund is used to account for no-commitment debt issued to finance various improvements within the city.

Pronouncements regarding accounting and financial reporting issued by the Financial Accounting Standards Board prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Significant interfund activity has been eliminated from the government-wide financial statements with the exception of charges between the City's electric, water, sewer and refuse functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2003

(amounts expressed in thousands)

Amounts reported as program revenues include 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The sewer fund also recognizes as operating revenue the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Cash and Investments

The City values its cash and investments in accordance with the provisions of 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 sheet 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. All highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered cash equivalents. Cash and investments held on behalf of proprietary funds by the City Treasurer are considered highly liquid and are classified as cash equivalents for the purpose of presentation in the Statement of Cash Flows.

E. Restricted Cash and Investments

Certain proceeds of Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

Additionally, unspent proceeds received from the City's landfill capping surcharge are also recorded as restricted assets.

F. Land and Improvements Held for Resale

Land and improvements held for resale are generally acquired under Developer Disposition Agreements in the normal course of Redevelopment Agency activity. The Developer Disposition Agreements provide for transfer of property to developers after certain redevelopment obligations have been fulfilled. This property is carried at cost until an event occurs to indicate a lower net realizable value.

G. Inventory

Supplies are valued at cost using the first-in/first-out (FIFO) method. Costs are charged to user departments when consumed rather than when purchased.

H. Prepaid Items

Payments to vendors for services benefiting future periods are recorded as prepaid items and expenditures are recognized when items are consumed.

I. Capital Assets and Nuclear Fuel

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, right of way, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than five thousand dollars and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets other than land are depreciated using the straight line method.

Nuclear Fuel

The Electric Utility amortizes the cost of nuclear fuel to expense using the "as burned" method. In accordance with the Nuclear Waste Disposal Act of 1982, the Electric Utility is charged one mill per kilowatt-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 fuel. The Electric Utility pays this fee to its operating agent, Southern California Edison Company, on a quarterly basis.

J. Compensated Absences

City employees receive 10 to 25 vacation days a 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.

City employees generally 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.

The liability associated with these benefits is reported in the government-wide statements. Vacation and sick leave of proprietary funds is recorded as an expense and as a liability of those funds as the benefits accrue to employees.

K. Long-Term Obligations

Long-Term Debt

In the government-wide financial statements and proprietary fund-types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, government fund types recognize bond issuance costs as expenditures during the current period. The face amount

of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses.

Decommissioning

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 established a trust account to accumulate resources for the decommissioning of the nuclear power plant and restoration of the beachfront at San Onofre. Each year the Electric Utility recognizes an expense in the amount of the contribution to the trust account. The funding will occur over the useful life of the generating plant.

Amounts held in the trust account are classified as restricted assets in the accompanying balance sheet. To date, the Electric Utility has set aside \$38,144 in cash and investments with the trustee as Riverside's estimated share of the decommissioning cost of San Onofre. Based on a cost estimate completed by Southern California Edison and approved by the California Public Utilities Commission, the Electric Utility plans to set aside approximately \$1,600 per year to fund this obligation. Decommissioning is expected to commence around the year 2014.

L. Claims and Judgments Payable

Claims and judgments payable are recognized when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Such claims, including an estimate for claims incurred but not reported at year end, are recorded as liabilities in the appropriate internal service fund.

M. Fund Equity

In the fund financial statements, reserves represent those portions of fund equity not available for appropriation or legally segregated for a specific future use. Designated fund balances represent amounts identified by management or the governing board for the future use of financial resources.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted resources are used first to fund appropriation.

The City first applied restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

O. Interfund Transactions

Interfund transactions are accounted for as revenues and expenditures or expenses. Transactions which constitute reimbursements are eliminated in the reimbursed fund and accounted for as expenditures or expenses in the fund to which the transaction is applicable.

During the year, transactions occur between individual funds for goods provided or services rendered. Related receivables and payables are classified as "due from/to other funds" on the accompanying fund level statements. The noncurrent portion of long-term interfund loans receivable are reported as interfund receivables/payables and, for governmental fund types, are equally offset by a fund balance reserve to indicate that the receivable does not constitute available expendable financial resources. Interfund payables also include accrued interest which has been off-set by deferred revenue.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

P. Deferred Revenues

Governmental and proprietary funds report deferred revenue on their balance sheets. Deferred revenues arise in governmental funds when a potential revenue does not meet both the "measurable" and "available" criteria for

recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to meeting all eligibility requirements. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenue is recognized. The majority of the City's governmental fund deferred revenue for June 30, 2003 relates to unearned revenue on a capital lease. See Note 4.

Q. Property Tax Calendar

Under California law, general property taxes are assessed for up to 1% of the property's assessed value. General property taxes are collected by the counties along with other special district taxes and assessments and voter approved debt. General property tax revenues are collected and pooled by the county throughout the fiscal year and then allocated and paid to the county, cities and school districts based on complex formulas prescribed by State statutes.

Property taxes are calculated on assessed values as of January 1 for the ensuing fiscal year. On July 1 of the fiscal year the levy is placed and a lien is attached to the property. Property taxes are due in two installments. The first installment is due November 1 and is delinquent on December 10. The second installment is due February 1 and is delinquent on April 10. Property taxes receivable represent current and prior years' uncollected tax levies, adjusted for uncollectable amounts.

R. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures. Specifically, the City has made certain estimates and assumptions relating to the collectability of its receivables, the valuation of property held for resale, the useful lives of capital assets and the ultimate outcome of claims and judgments. Actual results may differ from those estimates and assumptions.

S. Implementation of new accounting principles

Government Accounting Standards Board (GASB) issued Statement No. 40, Deposit and Investment Risk Disclosures. The Statement amends GASB Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements, to address common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, the Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this Statement also should be disclosed. The City will be required to implement this Statement for the fiscal year ending June 30, 2005.

2. Legal Compliance - Budgets

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all departments within the general, special revenue and capital project funds. Formal budgets are not employed for debt service funds because payments are specified by debt indenture provisions. The permanent fund is not budgeted.

During the period December through February of each fiscal year, department heads prepare estimates of required appropriations for the following fiscal year. These estimates are compiled into a proposed operating budget which includes a summary of proposed expenditures and financial resources and historical data for the preceding fiscal year. The operating budget is presented by the City Manager to the City Council for review. Public hearings are conducted to obtain citizen comments. The City Council generally adopts the budget during one of its June meetings.

The City Manager is legally authorized to transfer budgeted amounts between divisions and accounts within the same department. Transfer of appropriations between departments or funds and increased appropriations must be authorized by the City Council. Expenditures may not legally exceed budgeted appropriations at the departmental level within a fund.

3. Deposits and Investments

Cash and investments at fiscal year end consist of the following:

Investments	\$346,894
Cash and investments at fiscal agent	<u>94,877</u>
	441,771
Cash	<u>36,507</u>
	<u>\$478,278</u>

The amounts are reflected in the government-wide statement of net assets:

Cash and investments	\$340,456
Restricted cash and cash equivalents	35,242
Restricted cash and cash equivalents at fiscal agent	18,209
Restricted investments at fiscal agent	<u>68,385</u>
Total per statement of net assets	462,292
Agency cash and investments	<u>15,986</u>
	<u>\$478,278</u>

The City follows the practice of pooling cash and investments of all funds except for funds required to be held by outside fiscal agents under the provisions of bond indentures, which are administered by outside agencies.

Interest income earned on pooled cash and investments is allocated monthly to funds based on the beginning and month-end cash balances. Interest income from cash and investments held at fiscal agents is credited directly to the related account. At year end, cash deposits in the City's bank accounts had a general ledger balance of \$17,623; actual cash in the account was \$1,662 due to a timing difference for deposits in transit and other outstanding items. The bank balance was covered by federal depository insurance for the first \$100 or by collateral held in the pledging bank's trust department in the name of the City. At June 30, 2003, the City maintained \$83 in operating cash in the City's vault.

CITY OF RIVERSIDE
 NOTES TO BASIC FINANCIAL STATEMENTS
 Fiscal Year Ended June 30, 2003

(amounts expressed in thousands)

Authorized Investments

Under provisions of the City's investment policy, and in accordance with California Government Code Section 53601, the City Treasurer may invest or deposit in the following types of investments:

- Securities of the U.S. Government, or its agencies
- Small Business Administration Loans
- Negotiable Certificates of Deposit
- Bankers Acceptances
- Commercial Paper of "prime" quality
- Local Agency Investment Fund (State Pool) Deposits
- Passbook Savings Account Demand Deposits
- Repurchase Agreements
- Mutual Funds
- Medium-Term Corporate Notes

Credit Risk, Carrying Amount and Market Value of Investments

Investments are classified in three categories of custodial credit risk as follows: Category 1 - insured or collateralized with securities held by the City or its agent in the City's name; Category 2 - collateralized with securities held by the pledging financial institution's trust department or agent in the City's name; Category 3 - uncollateralized.

All City investments subject to custodial credit risk are insured or registered, or securities held by the City or its agent in the City's name (category 1).

The City participates in a voluntary external investment pool, LAIF, which is managed by the State Treasurer. LAIF has oversight provided by the Local Agency Investment Advisory Board. The Board consists of five members as designated by state statute. The Chairman of the Board is the State Treasurer or his designated representative.

Investment in pools managed by other governments or in mutual funds are not required to be categorized by custodial credit risk.

Pooled investments by custodial credit risk at fair value consisted of the following at June 30, 2003:

Categorized:		
U.S. Federal Agency Obligations:		\$ 45,427
Federal National Mortgage Association		86,528
Federal Home Loan Bank		69,070
Federal Home Loan Mortgage Corporation		10,671
Federal Farm Credit Bank		69,320
Medium Term Notes		4,416
Taxable Municipal Notes		
Investments at Fiscal Agent:		1,255
Federal National Mortgage Association		41,248
Federal Home Loan Bank		<u>327,935</u>
Uncategorized:		61,462
State of California Local Agency Investment Fund (1)(2)		
Investments at Fiscal Agent (2):		
Money Market Funds		29,202
Investment Agreements		21,296
Cash		<u>1,876</u>
		<u>113,836</u>
Total Investments		<u>\$441,771</u>

(1) Not subject to categorization.

(2) Fair value of the City's position in the pool is not the same as the value of its pool shares.

The majority of the City's investment instruments are highly rated Federal agency or corporate securities with minimal credit risk. It is the City's intention to hold all securities to maturity because the portfolio is highly liquid and well diversified.

CITY OF RIVERSIDE
 NOTES TO BASIC FINANCIAL STATEMENTS
 Fiscal Year Ended June 30, 2003

(amounts expressed in thousands)

4. Capital Lease Receivable

The Redevelopment Agency has a direct financing lease arrangement with the State of California (the State) for a twelve story office building. The lease term is for thirty years and the State takes ownership of the facility at the conclusion of that term. The lease calls for semi-annual payments equivalent to the debt service owed by the Redevelopment Agency on the lease revenue bonds issued for the purchase and renovation of the building. The future minimum lease payments to be received are as follows:

2004	\$ 2,199
2005	2,221
2006	2,249
2007	2,273
2008	2,298
Thereafter	43,689
Total Due	54,909
Less: amount applicable to interest	(26,984)
Total capital lease receivable	<u>\$27,925</u>

5. Capital Assets

The following is a summary of changes in the capital assets during the fiscal year ended June 30, 2003.

Governmental activities:	Beginning Balance, as Restated	Additions	Deletions/Transfers	Ending Balance
Undepriciable Capital Assets:	\$112,067	\$ -	\$ (2,102)	\$109,965
Land	4,867	12,550	(1,003)	16,414
Construction in progress	79,892	2,772	(9,973)	72,691
Depreciable Capital Assets:	40,194	347	(325)	40,216
Buildings and Improvements other than Buildings	51,006	3,067	(2,245)	51,828
Machinery and Equipment	396,507	15,588	-	412,095
Infrastructure	684,533	34,324	(15,648)	703,209
Subtotal	(24,659)	(1,429)	2,154	(23,934)
Less accumulated depreciation for:	(21,530)	(1,642)	325	(22,847)
Buildings and Improvements other than Buildings	(34,995)	(4,910)	2,060	(37,845)
Machinery and Equipment	(127,576)	(9,460)	-	(137,036)
Infrastructure	(208,760)	(17,441)	4,539	(221,662)
Subtotal	\$ 475,773	\$ 16,882	\$ (11,109)	\$ 481,547
Governmental activities capital assets, net				

Business type activities:	Beginning Balance	Additions	Deletions/Transfers	Ending Balance
Undepriciable Capital Assets:	\$ 30,425	\$ 2,135	\$ -	\$ 32,560
Land	70,644	61,487	(100,241)	31,890
Construction in progress	188,410	3,783	-	192,193
Depreciable Capital Assets:	631,261	90,058	(448)	720,871
Buildings and Improvements other than Buildings	32,576	2,877	(430)	35,023
Machinery and Equipment	953,316	160,340	(101,119)	1,012,537
Subtotal	(49,971)	(4,403)	(1,576)	(55,950)
Less accumulated depreciation for:	(261,549)	(17,375)	(72)	(278,996)
Buildings and Improvements other than Buildings	(23,533)	(2,555)	162	(25,926)
Machinery and Equipment	(335,053)	(24,333)	(1,486)	(360,872)
Subtotal	\$ 618,263	\$ 136,007	\$ (102,605)	\$ 651,665
Business type activities capital assets, net				

Estimated useful lives used to compute depreciation are as follows:

Buildings and Improvements	30-50 years
Improvements other than Buildings	20-99 years
Machinery and Equipment	3-15 years
Infrastructure	20-100 years

Depreciation expense was charged to functions of the government as follows:

Governmental activities:	\$ 1,565
General government	3,467
Public Safety	9,987
Highways and streets, including depreciation of general infrastructure assets	2,422
Culture and recreation	<u>\$17,441</u>
Total depreciation expense -- governmental activities	

CITY OF RIVERSIDE
 NOTES TO BASIC FINANCIAL STATEMENTS
 Fiscal Year Ended June 30, 2003

(amounts expressed in thousands)

Business type activities:

Electric	\$13,516
Water	5,554
Sewer	4,405
Refuse	452
Special Transportation	245
Airport	238
Public Parking	121
Total depreciation and amortization expense - business type activities	<u>\$24,531</u>

6. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and, natural disasters. Internal service funds have been established to account for and finance the uninsured risks of loss. Property insurance coverage has a limit of \$25,000, with a deductible of \$250. Earthquake and flood coverage has a deductible of 5% for earthquake and 2% for flood and a \$15,000 limit. Workers' compensation insurance coverage has a limit of \$25,000 with a deductible of \$3,000 per occurrence. There were no claims settled during fiscal year 2003 above the self-insured amounts. There was a single claim settled in 2002 above the self-insured amount, related to a worker's compensation claim. At June 30, 2003, the City was self-insured for general liability up to \$750 and carried a commercial insurance policy for claims in excess of the self-insured amount up to \$15,000 per occurrence. As of July 1, 2003, due to current market conditions in obtaining commercial general liability insurance, the City has opted to become fully self-insured for general liability claims. To mitigate the risk associated with potential large claims, the City has designated \$6,400 of the unreserved general fund balance at June 30, 2003.

All funds of the City participate in the Risk Management program and make payments to the Internal Service Funds based on actuarial estimates of the amounts needed to fund prior and current year claims and incidents that have been incurred but not reported. Interfund premiums are accounted for as quasi - external transactions and are therefore recorded as revenues of the Internal Service Funds in the fund financial statements.

Changes in the funds' claims liability amounts in fiscal years 2003 and 2002 are:

	Workers' Compensation	Unemployment Compensation	Public Liability	Total
Balance, July 1, 2001	\$ 8,293	\$ 79	\$ 6,062	\$14,434
Add: Claims incurred	2,732	-	3,348	6,080
Less: Claim Payments	(1,538)	(3)	(2,221)	(3,762)
Balance, June 30, 2002	9,487	76	7,189	16,752
Add: Claims estimate	3,276	-	4,119	7,395
Less: Claim Payments	(2,410)	-	(3,372)	(5,782)
Balance, June 30, 2003	<u>\$10,353</u>	<u>\$ 76</u>	<u>\$ 7,936</u>	<u>\$18,365</u>

7. Long-Term Obligations

Changes in Long-Term Obligations: The following is a summary of changes in long-term obligations during the fiscal year:

Governmental Activities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Redevelopment Agency bonds	\$111,880	\$ -	\$ (2,265)	\$109,615	\$ 2,400
Lease Revenue Bonds:					
Parking Authority	525	-	(525)	-	-
Riverside Municipal Improvements Corporation					
Certificates of Deposit	5,150	-	(500)	4,650	530
Assessment bonds	135	-	(135)	-	-
Capital leases	6,430	-	(913)	5,517	1,004
Notes Payable	11,096	750	(399)	11,447	353
Compensated Absences	26,630	10,107	(10,133)	26,604	9,348
Total	<u>\$161,846</u>	<u>\$10,857</u>	<u>\$(14,870)</u>	<u>\$157,833</u>	<u>\$13,701</u>

CITY OF RIVERSIDE
 NOTES TO BASIC FINANCIAL STATEMENTS
 Fiscal Year Ended June 30, 2003

(amounts expressed in thousands)

Principal
Outstanding

Business type activities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$355,621	\$ -	\$(13,062)	\$342,559	\$17,590
Loans Payable	6,966	5,374	(816)	11,524	580
Capital Leases	571	-	(73)	498	60
Water Stock					
Acquisition Rights	1,121	-	(38)	1,083	150
Total	<u>\$364,279</u>	<u>\$5,374</u>	<u>\$(13,989)</u>	<u>\$355,664</u>	<u>\$18,380</u>

Advance Refundings:

In prior years the City and the Redevelopment Agency defeased certain Revenue and Tax Allocation 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 City's or the Redevelopment Agency's financial statements. At fiscal year end \$4,330 of bonds outstanding are considered defeased.

Long-Term Obligations at June 30, 2003:

Revenue Bonds:

<u>Electric</u>					
\$118,550 1993 Electric Revenue Refunding Bonds:					
\$92,245 serial bonds, 4.10% to 8.25%, due in annual installments from \$5,120 to \$8,005 through October 1, 2010; \$26,305 term bonds, 5.0%, due October 1, 2013					\$81,380
\$4,100 1994 Electric Revenue Bonds (FARECAL Pool):					
\$2,105 serial bonds, 4.75% to 6.0%, due in annual installments from \$115 to \$220 through June 1, 2010; \$1,995 term bonds, 6.0%, due June 1, 2017					3,310
<u>Water</u>					
\$69,840 1991 Water Revenue Bonds: \$25,050 serial bonds, 4.25% to 9.0%, due in annual installments from \$2,260 to \$3,100 through October 1, 2002; \$25,900 Capital Appreciation bonds 6.65% to 7.0%, due in annual installments from \$3,235 to \$3,240 from October 1, 2003 to October 1, 2010; (portion not refunded)					\$25,900
\$4,710 1994 Water Revenue Bonds (FARECAL Pool):					
\$2,420 serial bonds, 4.75% to 5.90%, due in annual installments from \$135 to \$255 through June 1, 2010; \$2,290 term bonds, 6.0% due June 1, 2017					3,795
\$30,965 1998 Water Revenue Bonds, (partial refunding issue): \$15,055 serial bonds, 4.0% to 5.0%, due in annual installments from \$205 to \$4,055 through October 1, 2013; \$15,910 term bonds, 5%, due October 1, 2027					29,720
\$20,000 2001 Water Revenue Bonds; 2.6% to 5.0%, due in annual installments from \$345 to \$1,230 through October 1, 2031					
Subtotal					<u>19,655</u>
Less: Unamortized bond discount					<u>79,070</u>
					<u>(6,632)</u>
					<u>\$72,438</u>

CITY OF RIVERSIDE
 NOTES TO BASIC FINANCIAL STATEMENTS
 Fiscal Year Ended June 30, 2003

(amounts expressed in thousands)

Principal
 Outstanding

Redevelopment Agency Bonds:
 \$24,810 1994 Downtown/Airport Project Area, Series A
 Tax Exempt bonds, \$4,085 serial bonds, 4.60% to
 6.00%, due in annual installments from \$90 to \$610
 through October 1, 2009; \$5,250 term bonds, 6.00%,
 due in annual installments from \$675 to \$1,090 through
 October 1, 2015; \$13,140 term bonds, 6.375%, due in
 annual installments from \$1,190 to \$2,155 through
 October 1, 2023; \$2,335 term bonds, 6.50%, due a
 single installment on October 1, 2024

\$23,815

Principal
 Outstanding

Sewer
 \$49,145 1993 Sewer Revenue Refunding Serial Bonds:
 4.0% to 7.0%, due in annual installments from \$335 to
 \$4,745 through August 1, 2012
 Add: Unamortized bond premium

Total Revenue Bonds

Remaining revenue bond debt service payments will be made from revenues
 of the Electric, Water, and Sewer Utility Enterprise Funds. Annual debt
 service requirements to maturity are as follows:

Fiscal Year	Electric Utility Fund		Water Utility Fund		Total
	Principal	Interest	Principal	Interest	
2004	\$ 10,780	\$ 11,123	\$ 4,010	\$ 2,628	\$ 6,638
2005	14,140	10,579	4,045	2,597	6,642
2006	14,775	9,940	4,075	2,565	6,640
2007	15,475	9,241	4,115	2,530	6,645
2008	16,225	8,495	4,155	2,492	6,647
2009-2013	89,715	29,379	21,775	11,415	33,190
2014-2018	52,475	9,187	17,940	6,461	24,401
2019-2023	17,050	2,216	6,300	3,981	10,281
2024-2028	-	-	8,080	2,194	10,274
2029-2032	-	-	4,575	472	5,047
Premium	2,066	-	(6,632)	-	(6,632)
(Discount)	\$232,701	\$90,162	\$72,438	\$37,335	\$109,773
Total					

595

29,575

Fiscal Year	Electric Utility Fund		Sewer Utility Fund		Total
	Principal	Interest	Principal	Interest	
2004	\$ 2,800	\$ 2,097	\$ 4,897	\$ 4,907	\$ 4,897
2005	2,970	1,937	4,900	1,780	4,900
2006	3,120	1,780	4,869	1,584	4,869
2007	3,285	1,584	4,861	1,346	4,861
2008	3,515	1,346	24,300	2,950	24,300
2009-2013	21,350	2,950	380	-	380
Premium	380	-	\$11,695	-	\$11,695
Total	\$37,420	\$37,420	\$49,115	\$49,115	\$49,115

4,110

\$31,600 1993 Tax Allocation Refunding Bonds,
 Downtown/Airport Project Area: \$6,975 serial bonds
 4.0% to 5.40%, due in annual installments from \$155 to
 \$1,015 through August 1, 2008; and \$24,190 term
 bonds, 5.625%, due in annual installments from \$1,070
 to \$2,300 through August 1, 2023

\$4,305 1994 Downtown/Airport Project Area, Series B.
 Taxable bonds: \$45 term bonds, 7.50%, due in annual
 installments from \$5 to \$25 through October 1, 1999;
 \$295 term bonds, 8.30%, due in annual installments
 from \$35 to \$75 through October 1, 2004; \$470 term
 bonds, 8.65%, due in annual installments from \$80 to
 \$110 through October 1, 2009; \$3,495 term bonds,
 8.80%, due in annual installments from \$120 to \$395
 through October 1, 2024

CITY OF RIVERSIDE
 NOTES TO BASIC FINANCIAL STATEMENTS
 Fiscal Year Ended June 30, 2003

(amounts expressed in thousands)

	<u>Principal Outstanding</u>	<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
\$12,090 1994 Public Financing Authority, Tax Allocation Refunding Bonds, Multiple Project Areas issued through the Association of Bay Area Government Bond Pool: 4.7% to 6.4%, due in annual installments from \$175 to \$840 through December 1, 2024	\$10,435	2004 2005 2006 2007 2008 2009-2013 2014-2018 2019-2023 2024-2028 Total	\$ 2,400 2,525 2,690 2,835 3,015 18,160 24,700 33,330 19,960 <u>\$109,615</u>	\$ 6,086 5,969 5,843 5,705 5,556 25,064 19,125 10,813 1,791 <u>\$85,952</u>	\$ 8,486 8,494 8,533 8,540 8,571 43,224 43,825 44,143 21,751 <u>\$195,567</u>

\$17,025 1999 University Corridor/Sycamore Canyon Merged Project Area, Tax Allocation Bonds, Series A: 3.4% to 4.7% due in annual installments from \$40 to \$570 through August 1, 2014; \$4,810 term bonds at 4.75% due August 1, 2021; and \$6,010 term bond sat 5.0% due August 1, 2027

\$6,055 1999 University Corridor/Sycamore Canyon Merged Project Area, Subordinate Tax Allocation Bonds, Series B: 4.5% to 5.5% due in annual installments from \$35 to \$190 through September 1, 2013; \$1,135 term bonds at 5.5% due September 1, 2018; and \$3,020 term bonds at 5.625% due September 1, 2027

\$20,395 1999 Casa Blanca Project Area, Tax Allocation Bonds, Series A: 3.4% to 4.7% due in annual installments from \$455 to \$780 through August 1, 2014; \$2,565 term bonds at 4.75% due August 1, 2017; \$4,035 term bonds at 4.75% due August 1, 2021; and \$4,870 term bonds at 5.0% due August 1, 2025.

	<u>Principal</u>	<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Total Redevelopment Agency Bonds	18,985	2004 2005 2006 2007 2008 2009-2010 Total	\$ 530 570 610 660 705 575 <u>\$4,650</u>	\$ 346 308 267 221 172 181 <u>\$1,495</u>	\$ 876 878 877 881 877 1,756 <u>\$6,145</u>

Remaining debt service will be paid by the Redevelopment Agency Debt Service Funds from future property tax revenues. Annual debt service requirements to maturity are as follows:

Riverside Municipal Improvements Corporation
 Certificates of Participation:

\$6,360 1999 Municipal Improvements Corporation
 Certificates of Participation: 6.0% to 7.6%, due
 in annual installments from \$310 to \$815
 through April 1, 2010

Remaining certificates of participation debt service payments will be made from unrestricted revenues of the Debt Service Funds. Annual debt service requirements to maturity are as follows:

\$4,650

5,810

Principal
Outstanding

CITY OF RIVERSIDE
 NOTES TO BASIC FINANCIAL STATEMENTS
 Fiscal Year Ended June 30, 2003

(amounts expressed in thousands)

Remaining notes payable debt service payments will be made from unrestricted revenues of the Redevelopment Agency. Annual debt service requirements to maturity are as follows:

Contracts:
Enterprise Funds:

Water stock acquisition rights payable on demand to various water companies, renewable through 2004

Notes Payable:
 These notes payable have been issued to promote development and expansion within the City's redevelopment areas.

Redevelopment Agency

Housing and Community Development fund, non-interest bearing note payable due in annual installments of \$20, through 2005

Pepsi Cola Bottling Company of Los Angeles, 10.5%, payable in net annual installments of \$341, including principal and interest through June 2020

HUD Section 108 loan for University Village, 5.36% to 7.66%, payable in semi-annual installments beginning August 1, 1996 of \$272 to \$425 through August 1, 2015

HUD Section 108 loan for Mission Village Project, 6.15% to 6.72%, payable in semi-annual installments beginning August 1, 1999 of \$110 to \$420 through August 1, 2018

Note payable to California Housing Finance Agency, interest at 3%, payable in annual installments of \$88 through 2013, for housing projects.

Total notes payable -- Redevelopment Agency

Principal
Outstanding

\$1,083

\$ 40

2,987

3,385

4,285

750

\$11,447

Redevelopment Agency

Fiscal Year	Principal	Interest	Total
2004	\$ 419	\$ 843	\$ 1,262
2005	443	819	1,262
2006	463	791	1,254
2007	496	762	1,258
2008	531	730	1,261
2009-2013	3,298	3,064	6,362
2014-2018	3,321	1,809	5,130
2019-2023	1,197	947	2,144
2024-2028	1,279	430	1,709
Total	<u>\$11,447</u>	<u>\$10,195</u>	<u>\$21,642</u>

Notes Payable:
Sewer Fund

Principal
Outstanding

Sewer Fund Loan from State of California for Cogeneration project, 2.336%, payable in net annual installments of \$339,474, beginning January 29, 2003 through January 29, 2022

\$ 5,153

Sewer Fund Loan from State of California for Headworks project, 1.803%, payable in net annual installments of \$477,387, beginning November 6, 1999 through November 6, 2018

6,371
\$11,524

Total loans payable

CITY OF RIVERSIDE
 NOTES TO BASIC FINANCIAL STATEMENTS
 Fiscal Year Ended June 30, 2003

(amounts expressed in thousands)

Remaining notes payable debt service payments will be made from unrestricted revenues of the Sewer Fund. Annual debt service requirements to maturity are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Sewer Fund Interest</u>	<u>Total</u>
2004	\$ 576	\$ 240	\$ 816
2005	589	227	816
2006	601	215	816
2007	613	203	816
2008	625	191	816
2009-2013	3,318	762	4,080
2014-2018	3,668	412	4,080
2019-2022	1,534	299	1,833
Total	<u>\$11,524</u>	<u>\$2,549</u>	<u>\$14,073</u>

Capital Leases:

The City leases various equipment through capital leasing arrangements in the governmental and proprietary fund types. These activities are recorded for both governmental and business-type activities in the government-wide financial statements. The assets and related obligations under leases in governmental funds are not recorded in the fund statements. For proprietary funds, the assets and their related liabilities are reported directly in the fund. Amortization applicable to proprietary assets acquired through capital lease arrangements is included with depreciation for financial statement presentation. The assets acquired through capital leases are as follows:

<u>Asset</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Buildings	\$ 8,660	\$868
Equipment	804	-
Subtotal	9,464	868
Less: Accumulated Depreciation	(1,174)	(51)
Total	<u>\$ 8,290</u>	<u>\$817</u>

The future minimum lease obligations as of June 30, 2003 were as follows:

<u>Years Ending June 30,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2004	\$1,064	\$ 73
2005	994	73
2006	921	73
2007	881	73
2008	721	92
2009-2011	1,629	177
Total Minimum lease payments	6,210	561
Less: Amount representing interest (rates ranging from 2.5% to 9%)	(693)	(63)
Total capital lease payable	<u>\$5,517</u>	<u>\$498</u>

The following are legally required debt service cash reserves. These amounts, at a minimum, are held by the City or fiscal agents at June 30, 2003:

<u>General Long-Term Obligations</u>	\$5,931
Redevelopment Agency	636
Riverside Municipal Improvements Corporation	<u>\$6,567</u>
Total legally required debt service reserves	
Enterprise Funds	
Electric	\$25,786
Water	8,417
Sewer	3,475
Total reserve for revenue bond retirement	<u>\$37,678</u>

Debt service reserves at June 30, 2003 are as follows:

<u>General Long-Term Obligations</u>	
Redevelopment Agency	\$8,394
Riverside Municipal Improvements Corporation	721
General Fund Debt Service	46
Total reserve for debt service	<u>\$9,161</u>

CITY OF RIVERSIDE
 NOTES TO BASIC FINANCIAL STATEMENTS
 Fiscal Year Ended June 30, 2003

(amounts expressed in thousands)

Following are required and actual debt service ratios for the year ended June 30, 2003. The ratio measures operating income in relation to debt service.

	Minimum Debt Service Ratio Required	Actual Debt Service Ratio
Electric Fund	1.25	2.9
Water Fund	1.25	2.6
Sewer Fund	1.25	2.2

There are also a number of limitations and restrictions contained in Assessment Bond indentures. The City believes they are in compliance with all significant limitations and restrictions.

8. Other Long-Term Obligations

Assessment Districts Bonds (Not obligations of the City)

The payment of these bonds is secured by valid assessment liens upon certain lands in each district and are not direct liabilities of the City. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the City has no duty to pay those delinquencies out of any other available funds. The City acts solely as an agent for those paying assessments and the bondholders. Collection of property assessments and payment of the Assessment District Bonds are reflected only in the Agency Funds. The Assessment District Bonds applicable to this category outstanding at fiscal year end were:

\$30,795 1989 Improvement Bonds, Canyon Springs
 Assessment District Refunding Bonds: 6.9% to 7.35%
 due in annual installments from \$1,040 to \$2,745
 through September 2, 2011

\$8,946 1991 Bonds of Community Facilities District No. 90-2, Tyler Mall: 5.75% to 6.9%, serial and capital appreciation bonds due in annual installments from \$670 to \$1,195 through September 2, 2011	\$ 3,774
\$4,417 1992 Series B Improvement Bonds, Sycamore Canyon Business Park Assessment District No. 1: 6.5% to 8.5% due in annual installments from \$112 to \$420 through September 2, 2012	2,985
\$6,342 1999 Auto Center Assessment District Improvement Bonds; 4.3% to 5.4% due in annual installments of \$137 to \$430 through September 2, 2024	5,905
\$14,325 2001 Highlander CFD 90-1 Refunding Bonds; 3.75% to 5.5% due in annual installments of \$725 to \$1,355 through September 2, 2015	13,600
\$10,198 2001 Riverwalk Assessment District Improvement Bonds; 4.0% to 6.375% due in annual installments of \$208 to \$770 through September 2, 2026	10,198
\$16,730 2001 Public Financing Authority Refunding Bonds, Series A (Orangecrest and Mission Grove); 3% to 4.75% due in annual installments from \$800 to \$1,425 through September 2, 2016	15,415
\$1,620 2001 Public Financing Authority Refunding Bonds, Series B (Orangecrest and Mission Grove); 4.0% to 5.75% due in annual installments from \$80 to \$145 through September 2, 2016	<u>1,510</u>
Total Assessment Districts Bonds	<u>\$64,667</u>

Principal
 Outstanding

\$ 11,280

CITY OF RIVERSIDE
 NOTES TO BASIC FINANCIAL STATEMENTS
 Fiscal Year Ended June 30, 2003

(amounts expressed in thousands)

Conduit Debt Obligations

Mortgage Revenue Bonds outstanding of \$27,410 and Industrial Development Revenue Bonds of \$7,000 are not included in the accompanying financial statements. These bonds are special obligations of third parties and payable solely from and secured by a pledge of the receipts received from the acquired mortgage loans and certain other reserve funds and related monies. The bonds are not payable from any other revenues or assets of the City or Redevelopment Agency. Neither the faith and credit nor the taxing power of the City, the Redevelopment Agency, the State of California or any political subdivision thereof is pledged to the payment of the principal and interest on the bonds.

9. Interfund Assets, Liabilities and Transfers

Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Housing and Community Development	\$ 557
	NPDES Storm Drain	244
	Special Capital Improvements	64
	Airport	3,314
	Transportation	364
	Central Stores	3,660
Electric	General	50
RDA -- Capital Projects	RDA -- Special Revenue	<u>930</u>
		<u>\$9,183</u>

Advances To/From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	RDA -- Capital Projects	\$ 3,679
	RDA -- Debt Service	36
Special Gas Tax	General	3
Storm Drain	General	15
Capital Outlay	General	84
Sewer	General	1,204
	RDA -- Capital Projects	7,331
	Airport	396
	Refuse	3,268
Workers' Compensation	General	1,283
	RDA -- Capital Projects	2,285
Public Liability	Airport	37
RDA -- Debt Service	General	229
Electric	General	21
Water	General	62
		<u>\$19,933</u>

CITY OF RIVERSIDE
 NOTES TO BASIC FINANCIAL STATEMENTS
 Fiscal Year Ended June 30, 2003

(amounts expressed in thousands)

Deficit fund balance/net assets exist in the NPDES Storm Drain (\$247), the Central Stores (\$1,923), and the Public Liability (\$1,116) funds at fiscal year end. The NPDES Storm Drain fund is fully funded by County receipts. Funds to recover the deficit will be received in the subsequent period. The continuing deficit in the Central Stores fund is being reduced based on a rate increase implemented in a prior year. Management's analysis shows that continuing cost control together with the rate increase will eliminate the deficit over the next few years. The Public Liability fund's claims expense in the current year, including the accrued liability based on the actuary's estimate of future payments on claims, exceeded the charges to other funds in the current year. Rates are adjusted as needed.

<u>Transfers In/Out:</u>	<u>Transfer Out Fund</u>	<u>Amount</u>
General	Electric	\$15,333
	Water	3,182
	Special Designation	1,700
Library	General	2,777
Citrus Grove Management	General	189
RDA -- Special Revenue	General	200
	RDA -- Capital Projects	109
Storm Drain	General	3
RDA -- Debt Service	Housing and Community Development	200
	RDA -- Special Revenue	2,697
	RDA -- Capital Projects	28
RDA -- Capital Projects	RDA -- Debt Service	9,659
	Riverside Municipal Improvements Corporation	125
Airport	General	96
Refuse	General	150
Sewer	General	51
		<u>\$36,499</u>

11. Litigation

The City is a defendant in various lawsuits arising in the normal course of operations. City management, based in part on the opinion of outside legal counsel, does not believe that the ultimate resolution of these matters will have a material effect on the financial position or results of operations of the City. Management also believes that adequate reserves exist in the internal service funds to cover outstanding lawsuits.

On January 1, 2003, the City became a Participating Transmission Owner with the California Independent System Operator (ISO), entitling the City to receive compensation for use of its transmission facilities committed to the ISO's operational control. The compensation is based upon the City's Transmission Revenue Requirement (TRR) as approved by the Federal Energy Regulatory Commission (FERC). The California Investor Owned Utilities (IOU's), the California Department of Water Resources (CDWR), and the CPUC, among others, objected to various aspects of the City's TRR at the FERC. The City and the objecting parties submitted a settlement agreement for filing. The settlement agreement disposes of all City TRR issues except for CDWR's and CPUC's contention that the City is not entitled to its TRR for the majority of the transmission facilities committed to the ISO's control. These TRR issues are not expected to be resolved until 2004. If the City does not prevail in this litigation, up to \$5,300 of transmission revenue may have to be refunded to the ISO for the fiscal year ended June 30, 2003.

10. Expenses/Expenditures in Excess of Appropriations and Deficit Fund Balances/Retained Earnings

The Special Designations and NPDES Storm Drain Funds incurred \$6 and \$75, respectively, in expenditures against no current year appropriation. These expenditures relate to the writeoff of uncollectible accounts receivable. Allowance for uncollectible accounts is an unbudgeted item.

12. City Employees Retirement Plan

(A) Plan Description. The City of Riverside contributes to the California Public Employees Retirement System (CalPERS), an agent multiple employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. Copies of CalPERS annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

(B) Funding Policy. Participants are required to contribute 8% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the fiscal year 2002-2003 rate was 0.000% for non-safety employees, and 4.99% for safety employees, of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

(C) Annual Pension Cost. For 2003, the City's annual pension cost of \$12,196 for CalPERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2001 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected salary increases of 3.75% per year compounded annually, attributable to inflation, and (c) 3.5% expected long term inflation. The actuarial value of CalPERS assets was determined using techniques that smooth the affects of short-term volatility in the market value of investments over a four-year period (smoothed market value). CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The amortization period of the unfunded actuarial liability ends by June 30, 2011.

Three-year trend information for CalPERS:

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2001	\$9,027	100%	\$0
2002	8,600	100%	\$0
2003	12,196	100%	\$0

Schedule of funding for CalPERS (unaudited):

Plan	Actuarial Valuation Date	Entry Age Normal Actuarial Liability (AAL)	Actuarial Value of Assets	Unfunded/Overfunded	% Funded	Annual Covered Payroll	UAAL as a % of Covered Payroll
Misc. Safety	6/30/00	384,489	517,907	(133,418)	134.7	61,785	(215.9)
	6/30/00	307,349	349,102	(41,753)	113.6	31,902	(130.9)
Misc. Safety	6/30/01	466,437	534,615	(68,178)	114.6	67,342	(101.2)
	6/30/01	346,247	355,583	(9,337)	102.7	36,805	(25.4)
Misc. Safety	6/30/02	498,057	507,610	(9,553)	101.9	72,257	(13.2)
	6/30/02	381,311	328,395	52,916	86.1	41,038	128.9

13. Commitments and Contingencies

A. Long-Term Electric Utility Commitments

Intermountain Power Agency

The City's Electric Utility has entered into a Power Purchases Contract with the Intermountain Power Agency (IPA) for delivery of electric power. The City's share of IPA power is equal to 7.6%, or approximately 133.7 megawatts, of the generation output of IPA's 1,755 megawatt 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 and requires payment of certain minimum charges, which are based on debt service requirements. Such payments are considered a cost of production and are quantified below.

Southern California Public Power Authority

The Electric Utility is a member of the Southern California Public Power Authority (SCPPA), a joint powers agency. 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

CITY OF RIVERSIDE
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 Fiscal Year Ended June 30, 2003

(amounts expressed in thousands)

participates in projects developed by SCPPA, the Electric Utility is obligated for its proportionate share of the project cost. The projects and the Electric Utility's proportionate share of SCPPA's obligations are as follows:

Project	Percent Share	Entitlement
Palo Verde Nuclear Generating Station	5.40%	11.7MW
Southern Transmission System	10.20%	195.0MW
Hoover Dam Upgrading	31.91%	30.0MW
Mead - Phoenix Transmission	4.00%	12.0MW
Mead - Adelanto Transmission	13.50%	118.0MW

Terms of Take or Pay Commitments

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. Payment for these obligations will be made 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. Interest rates on the outstanding debt associated with the take or pay obligations range from 4.1% to 5.7%. The following schedule details the amount of principal and interest which is due and payable by the Electric Utility for each project in the fiscal year indicated.

Fiscal Year	SCPPA						Total
	IPA Inter-mountain Power Project	Palo Verde Nuclear Generating Project	Transmission System Project	Hoover Dam Upgrading	Mead-Phoenix Transmission	Mead-Adelanto Transmission	
2004	\$ 6,093	\$ 4,320	\$ 6,907	\$ 708	\$ 156	\$ 1,651	\$ 19,835
2005	25,443	4,332	6,724	708	156	1,651	39,014
2006	25,941	1,535	6,968	708	156	1,651	36,959
2007	25,931	1,535	7,192	704	272	2,956	38,590
2008	25,594	1,535	6,693	704	271	2,951	37,748
Thereafter	345,878	9,101	113,491	6,976	3,533	38,001	556,980
Total	\$454,880	\$62,358	\$147,975	\$10,508	\$4,544	\$48,861	\$729,126

Take-or-pay commitments expire upon final maturity of outstanding bonds for each project. Final fiscal year maturities are as follows:

Project	Final Maturity Date
Intermountain Power Project	2024
Palo Verde Nuclear Generating System	2017
Southern Transmission System	2023
Hoover Dam Upgrading	2018
Mead-Phoenix Transmission	2020
Mead-Adelanto Transmission	2020

In addition to debt service, Riverside's entitlement requires the payment for 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 2002 and 2003 fiscal years are as follows:

Fiscal Year	IPA	PV	SIS	MAP	MPP	Hoover	Total
2002	\$17,832	\$2,040	\$1,607	\$209	\$45	\$99	\$21,832
2003	18,819	2,355	1,320	157	44	87	22,782

B. Other Commitments

Power Purchase Agreements:

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

Minimum Obligations 2003-2004

Supplier	Capacity	Energy	Total
Deseret	\$3,463	\$1,811	\$5,274
CDWR II	505	-	505
CDWR IV	658	-	658
BPA	1,865	-	1,865
	\$6,491	\$1,811	\$8,302

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

(amounts expressed in thousands)

Long-term renewable power purchase agreements:

Supplier	Type	Maximum Contract	Contract Expiration	Estimated Annual Cost for 2004
Milliken Genco	Landfill Gas	2.5MW	12/31/2007	\$ 1,044
Mid Valley Genco	Landfill Gas	2.5MW	12/31/2007	1,089
Riverside County (Badlands Landfill)	Landfill Gas	1.2MW	10/10/2003	386
Wintec	Wind	1.3MW	4/30/2018	77
Saltion Sea	Geothermal	20.0MW	5/31/2013	10,153
Total		<u>27.5MW</u>		<u>\$12,749</u>

Construction Commitments:

As of June 30, 2003, the Electric Utility had major construction commitments of approximately \$3,680 with respect to unfinished capital projects, of which \$1,500 is expected to be funded by others, \$1,100 by bonds and \$1,100 by rates.

As of June 30, 2003, the Water Utility had major construction commitments of approximately \$4,626 with respect to unfinished capital projects, of which \$1,877 is expected to be funded by others and \$2,749 is expected to be funded by bond proceeds.

C. Jointly Governed Organizations

On November 1, 1980, The City of Riverside joined with the cities of Los Angeles, Anaheim, Vernon, Azusa, Banning, Colton, Burbank, Glendale, Pasadena, and Imperial Irrigation District 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 the Authority is to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. The Authority is governed by a Board of Directors which consists of one representative for each of the members. During the 2003 fiscal year, the Electric Utility paid approximately \$20,324 to SCPPA under various take-or-pay contracts, which are described in greater detail in Note 13A. These payments are reflected as a component of purchased power in the financial statements.

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, the Electric Utility paid Deseret \$25 million from reserves, which is reflected on the Balance Sheet as Unamortized purchase power. On July 1, 2002, the Electric Utility began to amortize the related price reductions, and will continue to amortize over the remaining term of the agreement using the straight-line method. As of June 30, 2003, unamortized purchased power was \$25,056 and the Electric Utility had recorded amortization of \$3,341.

There are two separate agreements with CDWR. The two agreements, CDWR III and IV are for the purchase of 23 and 30 megawatts of capacity and associated energy from May through October. CDWR III and CDWR IV are for a period of 15 years beginning June 1, 1996, subject to termination.

An agreement with Bonneville Power Administration (BPA) is for a purchase of firm capacity and associated energy of 23 megawatts in the summer and 16 megawatts in the winter for a period of twenty years ending February 1, 2011. A second agreement with BPA was executed in 1996 and is for the purchase of firm capacity (50 megawatts during the summer months and 13 megawatts during the winter months) and associated energy beginning April 30, 1996 for twenty years. Effective May 1, 1998, these summer and winter capacity amounts increased to 60 and 15 megawatts, respectively, for the remainder of the second agreement.

On July 8, 2003, and June 6, 2003, the City Council and Public Utilities Board, respectively, adopted the Renewable Portfolio Standard to increase procurement of renewable resources to reach a target of 20 percent of the Utility's energy from renewable sources by 2015. The contracts in the following table were executed as part of compliance with this standard. The Electric Utility has agreements with the Automated Power Exchange and Bonneville Power Administration for the purchase of energy credits that add to the total renewable portfolio. In the current year, renewable resources provided 13 percent of the retail energy requirements, approximately 10% of the total power supply.

CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2003

(amounts expressed in thousands)

On July 1, 1990, the City of Riverside joined with the cities of Azusa, Banning and Colton to create the Power Agency of California (Agency) by a Joint Powers Agreement under the laws of the State of California. The city of Anaheim joined the Agency on July, 1 1996. The primary purpose of the Agency is to take advantage of economies of scale resulting from the five cities acting in concert. The Agency 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. The Agency is governed by a Board of Directors (the Board), which consists of one representative for each of the members. The term of the Joint Powers Agreement is fifty years. On April 5, 2001 the Board placed the Agency in an inactive status, effective June 30, 2001. It can only be reactivated with authorization from the Agency Board.

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

D. Jointly-Owned Utility Project

Pursuant to the Settlement Agreement with Southern California Edison (SCE) dated August 4, 1972, the City was granted the right to acquire a 1.79% ownership interest in San Onofre Nuclear Generating Station (SONGS) Units 2 and 3. Pursuant to 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 which 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 and Electric Company, 20.00 percent; and the City

of Anaheim, 3.16 percent. Maintenance and operation of SONGS remains the responsibility of SCE, as operating agent for the City.

There are no separate financial statements for the jointly-owned utility plant since each participant's interest in the utility plant and operating expenses is included in their respective financial statements. The Electric Utility's share of the capitalized construction cost and operating expenses is included in the Electric Utility's financial statements. As of June 30, 2003, Riverside's 1.79% share of the capitalized construction costs for SONGS totaled \$128,483 with accumulated depreciation of \$87,309. The Electric Utility made provisions during fiscal year 2003 for nuclear fuel burn of \$1,173 and for future decommissioning cost of \$1,581 (See Note 1). The Electric Utility's portion of current and long-term debt associated with SONGS is included in the accompanying financial statements.

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

E. Contingencies

To comply with certain State and local regulations, the City is funding the costs of closure and "final capping" of the Tequesquite landfill located in the City. This area, comprised of approximately 120 acres, operated as a "Class II Sanitary Landfill" until its closure in 1985. During its operation, the landfill did not accept hazardous waste and no clean up and abatement or cease and desist orders have been issued to the City.

The estimated costs as determined by an independent consultant and updated by the City's Engineering Department are associated with flood control upgrades, remediation of possible ground water contamination and control of methane gas. There is the potential for these estimates to change due to inflation, deflation, technology, or change in application laws or regulations. To fund the cost, the City imposed a landfill capping surcharge on customers effective August 1, 1988. The minimum unamortized estimated cost of \$5,551 is recorded as a deferred charge in the accompanying financial statements of the Refuse Fund and is being amortized on a straight line basis over the remaining post closure period, currently 28 years. The estimated cost of meeting the State's requirements was increased by 2.2 million during 2002 based on the engineer's annual review of closure and post-closure maintenance costs. Additionally, payments made during the year of \$96 reduced that liability to its

CITY OF RIVERSIDE
 NOTES TO BASIC FINANCIAL STATEMENTS
 Fiscal Year Ended June 30, 2003

(amounts expressed in thousands)

June 30, 2003 balance of \$4,268 as reflected in the balance sheet of the Refuse Fund.

Note 14. Restatement of Net Assets/Fund Balance:

The City's Net Assets for Governmental Activities and Fund Balance at June 30, 2002 have been restated to record additional sales tax revenue due from the State, elimination of deferred revenue associated with a capital lease receivable and reversal of a duplicate entry for land recorded in capital assets.

The restatements had the following effect on the Net Assets for Governmental Activities:

Beginning, as previously reported	\$521,262
Accrued sales tax receivable	5,784
Elimination of deferred revenue associated with a capital lease receivable	27,925
Duplicate entry for land	<u>(2,270)</u>
Beginning, as restated	<u>\$552,701</u>

The restatements had the following effect on Beginning Fund Balance:

General Fund:	
Beginning, as previously reported	\$74,776
Accrued Sales Tax Receivable	<u>4,778</u>
Beginning, as restated	<u>\$79,554</u>

The restatements had an immaterial effect on the Statement of Activities and Statement of Revenues, Expenses and Changes in Fund Balance for the year ended June 30, 2002.

Note 15. Subsequent Events

Subsequent to June 30, 2003, four bond issues were completed to take advantage of improved interest rates and/or realize debt service savings. The bond issues were as follows:

On July 8, 2003, the Redevelopment Agency issued the Lease Revenue Refunding Bonds 2003 Series A for \$26,255 and 2003 Series B for \$4,810 to

advance refund \$27,925 of the 1994 Downtown/Airport Project Area, Series A and B Bonds;

On July 29, 2003, the Redevelopment Agency issued the Series 2003 Merged Project Area Tax Allocation and Refunding Bonds totaling \$40,435 to advance refund \$29,575 of the 1993 Tax Allocation Refunding Bonds, Merged Project Area and provide \$10,805 for new projects;

On July 30, 2003, \$1,200, of Special Tax Bonds (no City obligation) were sold for the Sycamore Canyon Community Facilities District 92-1 to acquire or construct certain environmental improvements;

On July 31, 2003, the Electric Utility issued the 2003 Electric Refunding Revenue Bonds totaling \$75,405 to advance refund \$75,410 of the 1993 Electric Refunding Revenue Bonds and \$3,310 of the 1994 FARECal Bonds.

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APPENDIX D
FORM OF LEGAL OPINION

(Date of Delivery)

Mayor and City Council
City of Riverside
3900 9th Street
Riverside, California 92522

Re: \$20,000,000 City of Riverside Election of 2003 General Obligation
Bonds, Series 2004

Ladies and Gentlemen:

We have examined a certified copy of the record of the proceedings relative to the issuance and sale of \$20,000,000 City of Riverside Election of 2003 General Obligation Bonds, Series 2004 (the "Bonds"). As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Based on our examination, as bond counsel, of existing law, certified copies of such legal proceedings and such other proof as we deem necessary to render this opinion, we are of the opinion, as of the date hereof and under existing law, that:

1. Such proceedings and certifications demonstrate lawful authority for the issuance and sale of the Bonds pursuant to Article 1 (commencing with Section 43600) of Chapter 4 of Division 4, Title 4 of the Government Code of the State of California, a two-thirds vote of the qualified electors of the City of Riverside (the "City") voting at an election held on November 4, 2003, and a resolution of the City Council of the City (the "Resolution").

2. The Bonds constitute valid and binding general obligations of the City, payable as to both principal and interest from the proceeds of the levy of *ad valorem* taxes on all property subject to such taxes in the City at a rate which may not exceed \$12 per \$100,000 of assessed value of property.

3. Under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, such

interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

4. Interest on the Bonds is exempt from State of California personal income tax.

5. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bonds constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bondowner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bondowner will increase the Bondowner's basis in the applicable Bond. Original issue discount that accrues to the Bondowner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

6. The difference between the issue price of a Bond and the stated redemption price at maturity of such Bond constitutes original issue premium, which is not deductible from gross income for Federal income tax purposes. The amount of amortizable Bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each such Bond or, in the case of a callable Bond, on a more accelerated basis. For purposes of determining gain or loss on the sale or other disposition of such a Bond, an initial purchaser who acquires the Bond in the initial offering to the public at the initial offering price is required to decrease his or her adjusted basis in the Bond annually by the amount of amortizable premium for the taxable year.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Resolution and the Tax Certificate of the City relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the exclusion from gross income of interest (and original issue discount) for federal income tax purposes with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than ourselves. Other than expressly stated herein, we express no opinion regarding tax consequences with respect to the Bonds.

The opinions expressed herein as to the exclusion from gross income of interest (and original issue discount) on the Bonds are based upon certain representations of fact and certifications made by the City and others and are subject to the condition that the City complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The City has covenanted in the Resolution and the previously mentioned Tax Certificate to comply with all such requirements.

The rights of the owners of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted, to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,

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APPENDIX E

Form of Continuing Disclosure Certificate

THIS CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate") is executed and delivered by the CITY OF RIVERSIDE (the "City" and the "Issuer") in connection with the issuance of the \$20,000,000 City of Riverside Election of 2003 General Obligation Bonds, Series 2004 (the "Bonds"). The Bonds are being authenticated and delivered pursuant to a resolution of the City Council of the City of Riverside (the "Resolution"). The City covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriters (as defined herein) in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate, unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Business Day" shall mean any day other than (i) a Saturday or a Sunday or (ii) a day on which banking institutions in the State of California are authorized or obligated by law or executive order to be closed.

"Disclosure Representative" shall mean the Finance Director of the City or his or her designee, or such other officer or employee as the Issuer shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean U. S. Bank National Association, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Dissemination Agent and the Issuer a written acceptance of such designation.

"Fiscal Year" shall mean the fiscal year of the City.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

"Official Statement" shall mean the final Official Statement for the Bonds.

"Participating Underwriters" shall mean the original purchaser(s) of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“Repository” shall mean each National Repository and each State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State Repository” shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The Issuer shall cause the Dissemination Agent to not later than March 1 following each Fiscal Year, commencing April 1, 2005, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Issuer may be submitted separately from and later than the rest of the Annual Report if they are not available by the date required above for the filing of the Annual Report. Not later than fifteen (15) Business Days prior to said date, the Issuer shall provide the Annual Report to the Dissemination Agent (if the Issuer is not the Dissemination Agent). In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate. The Issuer shall provide a written certification with each Annual Report furnished to the Dissemination Agent (if the Issuer is not the Dissemination Agent) to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Issuer and shall have no duty or obligation to review such Annual Report.

(b) If by fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repositories, the Dissemination Agent (if the Issuer is not the Dissemination Agent) has not received a copy of the Annual Report, the Dissemination Agent shall contact the Issuer, to determine if the Issuer is in compliance with subsection (a).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to the Municipal Securities Rulemaking Board and the State Repository, if any, in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and

(ii) file a report with the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) Audited Financial Statements of the Issuer prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Issuer's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Other financial information and operating data relating to the City contained in the Official Statement for the Bonds in Table 1 "Historical and Secured Property Tax Revenues," Table 2 "Assessed Value of Taxable Property" and an update of current year's information for Table 7, "Estimated City Tax Levy, and Debt Service."

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Issuer shall clearly identify each such other document so incorporated by reference.

Section 5. Reporting of Significant Events.

(a) This Section 5 shall govern the giving of notices of the occurrence of any of the following events:

1. Delinquency in payment when due of any principal of or interest on the Bonds.
2. Occurrence of any event of default under the Resolution (other than as described in clause (1) above).
3. Amendment to the Resolution or this Disclosure Certificate modifying the rights of the owners of the Bonds.
4. Giving of a notice of optional or unscheduled redemption or any Bonds.
5. Defeasance of the Bonds or any portion thereof.
6. Any change in the rating, if any, on the Bonds.
7. Adverse tax opinions or events affecting the tax-exempt status of the Bonds.
8. Any unscheduled draws on any credit enhancement reflecting financial difficulties.
9. Any change or substitution in the provider of any credit enhancement, or any failure by the credit enhancer to perform on the credit enhancement.

(b) The Dissemination Agent shall, promptly after obtaining actual knowledge of the occurrence of any of the Listed Events (except events listed in clauses (a)(1), (4) or (5)), contact the Disclosure Representative, inform such person of the event, and request that the Issuer promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f) and promptly direct the Dissemination Agent whether or not to report such event to the owners of the Bonds unless it is otherwise required to be reported by the Dissemination Agent to the Bond owners under the Resolution. For purposes of this Disclosure Certificate, "actual knowledge" of the occurrence of such Listed Events shall mean actual knowledge by the officer at the office of the Dissemination Agent with responsibility for matters regarding the Resolution.

(c) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Dissemination Agent pursuant to subsection (b) or otherwise, the Issuer shall as soon as possible determine if such event would constitute material information for owners of the Bonds under applicable Federal securities law, provided that any event under subsection (a)(6) will always be deemed to be material.

(d) If the Issuer has determined that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the Issuer shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the Issuer determines that the Listed Event would not be material under applicable Federal securities law, the Issuer shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the Issuer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository. Notwithstanding the foregoing:

(i) notice of the occurrence of a Listed Event described in clauses (1), (4) or (5) of subsection (a) shall be given by the Dissemination Agent unless the Issuer gives the Dissemination Agent affirmative instructions not to disclose such occurrence; and

(ii) notice of the occurrence of a Listed Event described in clauses (4) and (5) of subsection (a) shall not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Bonds pursuant to the Resolution.

Section 6. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5.

Section 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination

Agent. If at any time there is not any other designated Dissemination Agent, the Issuer shall be the Dissemination Agent. The Dissemination Agent may resign by providing thirty (30) days' written notice to the Issuer. Upon receiving notice of such resignation, the Issuer shall promptly appoint a successor Dissemination Agent by an instrument in writing or assume the responsibilities of the Dissemination Agent. Any resignation or removal of the Dissemination Agent shall become effective upon acceptance of appointment by the successor Dissemination Agent or when, and if, the Issuer assumes the obligations of the Dissemination Agent.

If no appointment of a successor Dissemination Agent shall be made pursuant to the foregoing provisions of this Section and the Issuer does not assume the responsibilities of the Dissemination Agent, within forty-five (45) days after the Dissemination Agent shall have given to the Issuer written notice or after a vacancy in the office of the Dissemination Agent shall have occurred by reason of its inability to act, the Dissemination Agent or any beneficial owner of the Bonds may apply to any court of competent jurisdiction to appoint a successor Dissemination Agent. Said court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Dissemination Agent.

If, by reason of the judgment of any court, or regulatory agency, the Dissemination Agent is rendered unable to perform its duties hereunder, all such duties and all of the rights and powers of the Dissemination Agent hereunder shall be assumed by and vest in the Issuer in trust for the benefit of the beneficial owners of the Bonds. The Issuer covenants for the direct benefit of the beneficial owners that its Director of Fiscal Services shall be vested with all of the rights and powers of the Dissemination Agent hereunder, and shall assume all of the responsibilities and perform all of the duties of the Dissemination Agent hereunder, in trust for the benefit of the beneficial owners of the Bonds. In such event, the Director of Fiscal Services may designate a successor Dissemination Agent qualified to act as Dissemination Agent hereunder.

Section 8. Amendment. (a) This Disclosure Certificate may be amended, without the consent of the owners of the Bonds, if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Issuer or the type of business conducted by the Issuer, (2) this Disclosure Certificate, as so amended, would have complied with the requirements of the Rule as of the date of this Disclosure Certificate, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the Issuer shall have delivered to the Dissemination Agent an opinion of nationally recognized bond counsel or counsel expert in Federal securities law, addressed to the Issuer, to the same effect as set forth in clause (2) above, (4) the Issuer shall have delivered to the Dissemination Agent an opinion of nationally recognized bond counsel or counsel expert in Federal securities law, addressed to the Issuer, to the effect that the amendment does not materially impair the interests of the owners of the Bonds, and (5) the Issuer shall have delivered copies of such opinion and amendment to each Repository.

(b) This Disclosure Certificate may be amended upon obtaining consent of owners of at least 25% in aggregate principal amount of the outstanding Bonds.

(c) To the extent any amendment to this Disclosure Certificate results in a change in the type of financial information or operating data provided pursuant to this Disclosure Certificate, the first Annual Report provided thereafter shall include a narrative explanation of the reasons for the amendment and the effect of the change.

(d) If an amendment is made to the basis on which financial statements are prepared, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a quantitative and, to the extent feasible, qualitative discussion of the differences in the accounting principles and the effect of the change in the accounting principles on the presentation of the financial information.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Issuer shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate, any beneficial owner of the Bonds may take such action as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed a default under the Resolution and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities of the Dissemination Agent. The Dissemination Agent (if other than the Issuer) shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Issuer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Issuer for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the Issuer and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the owners of the Bonds, or any other party. The obligations of the Issuer under this Section 11 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Date: June __, 2004

CITY OF RIVERSIDE

By: _____
Finance Director

EXHIBIT A

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: City of Riverside

Name of Bond Issue: Dity of Riverside Election of 2003, General Obligation Bonds, Series
2004

Date of Issuance: June __, 2004

NOTICE IS HEREBY GIVEN that the Issuer, the City of Riverside, has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of its Continuing Disclosure Certificate dated as of July __, 2004. The Issuer anticipates that the Annual Report will be filed by _____.

Dated: _____

U. S. Bank National Association,
as Dissemination Agent

By: _____
Authorized Signatory

cc: Issuer

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APPENDIX F

Form of Municipal Bond Insurance Policy

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XL CAPITAL ASSURANCE

1221 Avenue of the Americas
New York, New York 10020
Telephone: (212) 478-3400

MUNICIPAL BOND INSURANCE POLICY

ISSUER: []

Policy No: []

BONDS: []

Effective Date: []

XL Capital Assurance Inc. (XLCA), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy (which includes each endorsement attached hereto), hereby agrees unconditionally and irrevocably to pay to the trustee (the "Trustee") or the paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the benefit of the Owners of the Bonds or, at the election of XLCA, to each Owner, that portion of the principal and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment.

XLCA will pay such amounts to or for the benefit of the Owners on the later of the day on which such principal and interest becomes Due for Payment or one (1) Business Day following the Business Day on which XLCA shall have received Notice of Nonpayment (provided that Notice will be deemed received on a given Business Day if it is received prior to 10:00 a.m. Pacific time on such Business Day; otherwise it will be deemed received on the next Business Day), but only upon receipt by XLCA, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in XLCA. Upon such disbursement, XLCA shall become the owner of the Bond, any appurtenant coupon to the Bond or the right to receipt of payment of principal and interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by XLCA hereunder. Payment by XLCA to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of XLCA under this Policy.

In the event the Trustee or Paying Agent has notice that any payment of principal or interest on a Bond which has become Due for Payment and which is made to an Owner by or on behalf of the Issuer of the Bonds has been recovered from the Owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law, such Owner will be entitled to payment from XLCA to the extent of such recovery if sufficient funds are not otherwise available.

The following terms shall have the meanings specified for all purposes of this Policy, except to the extent such terms are expressly modified by an endorsement to this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of California, the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity, unless XLCA shall elect, in its sole discretion, to pay such principal due upon such acceleration; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the Trustee or Paying Agent for payment in full of all principal and interest on the Bonds which are Due for Payment. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to XLCA which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

XLCAP-005 (Muni Spec - California 12-2001)

XLCA may, by giving written notice to the Trustee and the Paying Agent, appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy. From and after the date of receipt by the Trustee and the Paying Agent of such notice, which shall specify the name and notice address of the Insurer's Fiscal Agent, (a) copies of all notices required to be delivered to XLCA pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to XCLA and shall not be deemed received until received by both and (b) all payments required to be made by XLCA under this Policy may be made directly by XLCA or by the Insurer's Fiscal Agent on behalf of XLCA. The Insurer's Fiscal Agent is the agent of XLCA only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of XLCA to deposit or cause to be deposited sufficient funds to make payments due hereunder.

Except to the extent expressly modified by an endorsement hereto, (a) this Policy is non-cancelable by XLCA, and (b) the Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of XLCA, nor against any risk other than Nonpayment. This Policy sets forth the full undertaking of XLCA and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto.

IN THE EVENT THAT XLCA WERE TO BECOME INSOLVENT, ANY CLAIMS ARISING UNDER THIS POLICY ARE NOT COVERED BY THE CALIFORNIA GUARANTY INSURANCE FUND SPECIFIED IN ARTICLE 12119(b) OF THE CALIFORNIA INSURANCE CODE.

In witness whereof, XLCA has caused this Policy to be executed on its behalf by its duly authorized officers.

SPECIMEN

Name:
Title:

SPECIMEN

Name:
Title:

