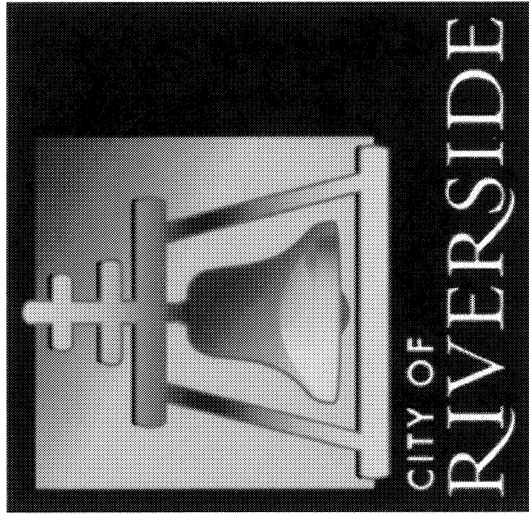


**CITY OF RIVERSIDE, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR FISCAL YEAR ENDED JUNE 30, 2005**

**Prepared by the Finance Department
Paul C. Sundeen, Chief Financial Officer**

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**CITY OF RIVERSIDE
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 YEAR ENDED JUNE 30, 2005**

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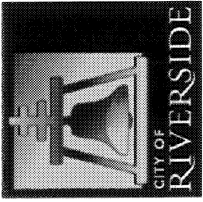
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September 30, 2005

To the Honorable Mayor, Members of the City Council and Citizens of the City of Riverside:

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) of the City of Riverside (the City) for the fiscal year ended June 30, 2005.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with accounting principles generally accepted in the United States of America. Because the cost of internal controls should not outweigh their benefits, internal controls have been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by McGladrey & Pullen, LLP, a firm of certified public accountants. The independent auditor concluded, based on the audit, that there was a reasonable basis for rendering an unqualified opinion on the City's financial statements for the fiscal year ended June 30, 2005. The independent auditor's report is presented as the first component of the financial section of this CAFR.

The independent audit of the financial statements of the City was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on internal controls and compliance with legal requirements, with emphasis on those involving the administration of federal awards. These reports are available in the City's separately issued Single Audit Report.

Management has provided an overall analysis of the financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Profile of the City of Riverside

The City of Riverside, incorporated on October 11, 1883, is located in the western portion of Riverside County about 60 miles east of Los Angeles. The City currently occupies a land area of 85.6 square miles.

The City operates under the council-manager form of government, with a seven-member council 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 the case of a tie. The City Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring the City Manager, City Attorney and City Clerk. The City Manager is responsible for carrying out the policies and ordinances of the Council, for overseeing the day-to-day operations of the City, and for appointing the heads of various departments. The Council is elected on a non-partisan basis.

The City provides a full range of services which include general government, public safety (police, fire, disaster preparedness and building inspection), construction and maintenance of highways and streets, economic development, culture and recreation, electric, water, airport, refuse, sewer, and senior citizen/handicap transportation. In addition to general City activities, the Council is financially accountable for the Riverside Redevelopment Agency, Riverside Public Financing Authority and the Riverside Municipal Improvements Corporation; therefore, these entities are included as an integral part of the City's financial statements. Additional information on these legally separate entities can be found in Note 1.A in the notes to the financial statements.

The annual budget serves as the foundation for the City's financial planning and control. The City Manager presents the proposed budget to the City Council for review at least thirty-five calendar days prior to the beginning of each fiscal year. The Council is required to hold public hearings on the proposed budget and to adopt a final budget no later than June 30, which is the close of the City's fiscal year. The appropriated budget is prepared by fund and department. Department heads may make transfers of appropriations within a department. Transfers of appropriations between departments, however, require the approval of the Council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on page 25 as part of the basic financial statements for the governmental funds. For governmental funds other than the general fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which begins on page 63.

Local economy. The City is located in the Inland Empire, which consists of Riverside and San Bernardino Counties. The population of the Inland Empire at 3.66 million people is larger than 21 states. The City leads the Inland Empire in most measures of economic power, including population, income, employment, bank deposits, assessed valuations, office space and college enrollment. The population of the City is 285,537, which places the City as the seventh largest in Southern California behind the City of Bakersfield.

The Inland Empire has a very strong economic environment, as does the City. This area is expected to add about 30,000 jobs during calendar year 2005. The City owned electric utility gives it a competitive advantage at this time when energy costs and reliability are issues. Riverside's challenges include a lack of available space for manufacturing and industrial development within its current boundaries.

America's Most Livable Communities Award was conferred upon the City of Riverside in 2004. This award is conferred once each decade to those communities whose innovations have brought vitality and growth to their regions, a marked improvement in the quality of life, and are taking major strides to prepare for the new global economy.

Grubb and Ellis, a national real estate broker, ranked the Riverside metro area as one of the top five in all four national markets (retail, office, industrial and apartment) in their 2003 Global Forecast: U.S. Market Strength Forecast 2002-2007.

Priorities for the future: A Citywide Strategic Planning document has been developed through a series of meetings, workshops, and surveys with the community, elected officials, and City employees. The plan, as updated, sets forth four goals as follows:

- **Economic Development**
- **Growth and Annexation**
- **Transportation**
- **Livable Communities and Neighborhoods**

Long-term financial planning. Annually, the City updates a six (6) year capital improvement program; planned capital expenditures during fiscal years 2004/2005 through 2009/2010 (except for the Park and Recreation Department which only plans projects as funds become available) total \$402 million, a 6% decrease over the prior 6 year plan. Electric, Water and Sewer fund projects make up 63% of the \$402 million, while transportation-related projects (traffic signal and streets) comprise 19 percent. Major inputs to the CIP include a new power generation plant (the second for the City), the major and minor street rehabilitation and construction program, recurring and system improvements to the electric program, water and main replacements, sewer plant primary system upgrade, and Agricultural Park cleanup.

Cash management policies and practices. Cash temporarily idle during the year was invested principally in federal agency securities and the State of California Local Agency Investment Fund. The maturities of the investments do not exceed five (5) years, with the average maturity not exceeding three (3) years. All securities are held in third party safekeeping by Union Bank of California as agent for the City. The money market sweep account is held by Bank of America. All transactions originated and authorized by the City are transacted on a delivery versus payment (DVP) basis in order to perfect delivery. The average yield on the investments was 2.77% for the fiscal year.

Risk management. Risk exposures to the assets of the City are managed through a combination of self-insured retention and insurance coverage. The City believes they have current assets adequate to cover the actuarially determined liability for general liability and workers' compensation claims, including estimated claims incurred but not reported. The City maintains excess liability insurance to provide coverage beyond a self-insured retention of \$3,000,000 per occurrence for general liability and \$4,000,000 for workers' compensation.

Pension benefits. The City provides pension benefits for all employees through a statewide plan managed by the California Public Employees Retirement System (CalPERS). The City has no obligation in connection with employee benefits offered through this plan beyond its annual contractual payment to CalPERS. Additional information on the plan can be found in Note 13 in the notes to the financial statements.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Riverside for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2004. This was the eighteenth consecutive year that the City has received this prestigious award. The City received this award for publishing an easily readable and efficiently organized CAFR that satisfied both GAAP and applicable legal requirements.

This award is valid for a period of one year only. We believe that our current CAFR continues to meet the Program's requirements and we are submitting it to the GFOA again this year.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department, particularly the leadership of Brent Mason, Assistant Finance Director and Laura Nomura, Controller. We would like to express our appreciation to all members of the Department who assisted and contributed to its preparation. Credit also must be given to the Mayor and the City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City's finances.

Respectfully submitted,



Bradley J. Hudson
City Manager



Paul C. Sundeen
Assistant City Manager/CFO/Treasurer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Riverside,
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Ziehl

President

Jeffrey R. Egan

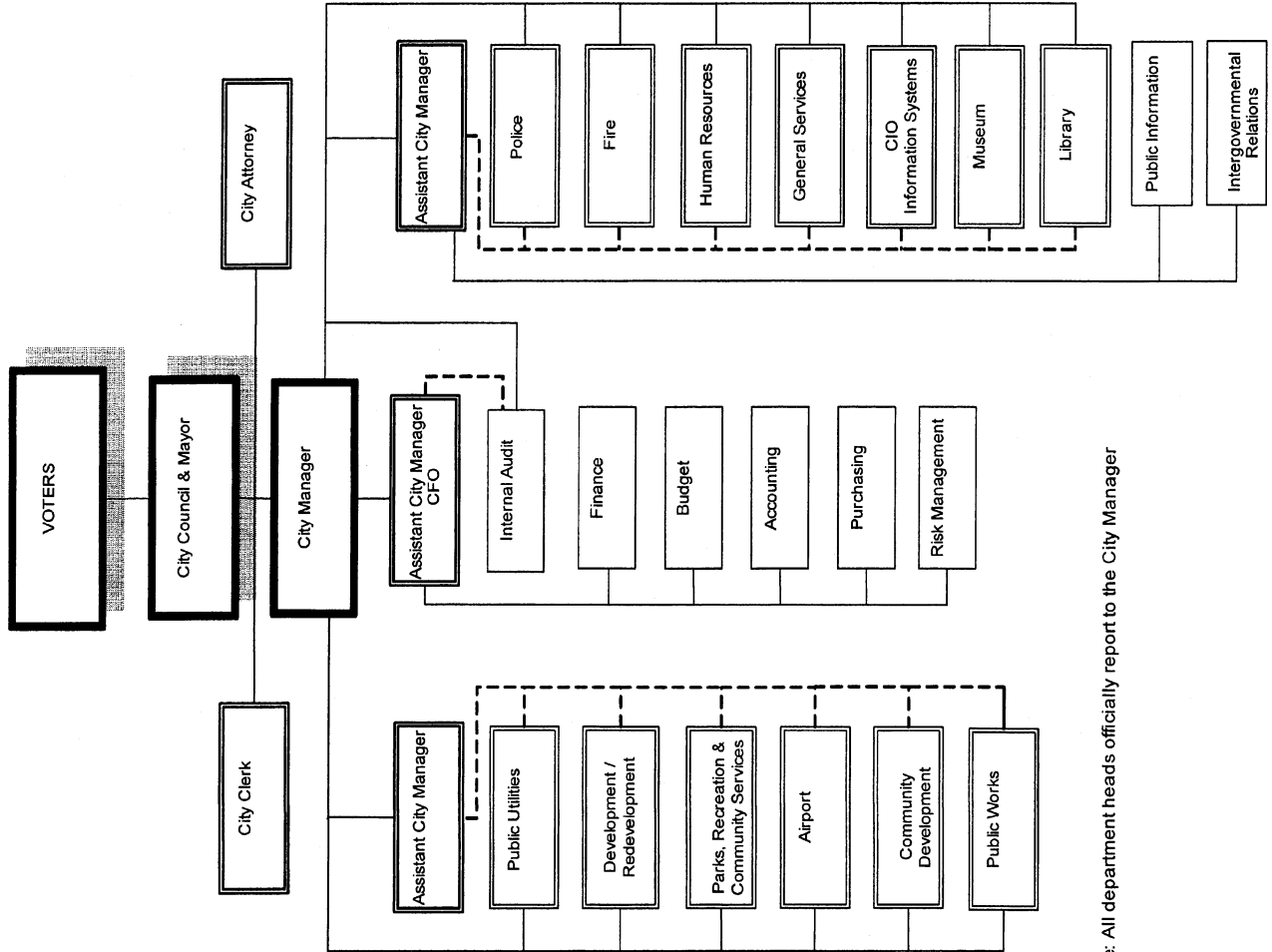
Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Riverside for our Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

ORGANIZATION CHART



Note: All department heads officially report to the City Manager

LEGISLATIVE OFFICIALS

- Ronald O. Loveridge.....Mayor
- Dom Betro.....Councilmember – Ward 1
- Ameal Moore.....Councilmember – Ward 2
- Art Gage.....Councilmember – Ward 3
- Frank Schiavone.....Councilmember – Ward 4
- Ed Adkison.....Councilmember – Ward 5
- Nancy Hart.....Councilmember – Ward 6
- Steve Adams.....Councilmember – Ward 7

CITY OFFICIALS

- Bradley J. Hudson..... City Manager*
- Michael Beck.....Assistant City Manager
- Tom DeSantis.....Assistant City Manager
- Paul C. Sundeen.....Assistant City Manager/CFO
- Colleen J. Nicol.....City Clerk*
- Gregory P. Priamos.....City Attorney*
- Tom Boyd.....City Engineer
- Russ Leach.....Chief of Police
- Steve Reneker.....Chief Information Officer
- Scott Barber.....Community Development Director
- Belinda Graham.....Development Director
- Tedd Laycock.....Fire Chief
- Kris Martinez.....Interim General Services Director
- Rhonda Strout.....Interim Human Resources Director
- Judith Auth.....Library Director
- Vince Moses.....Museum Director
- Ralph Nuñez.....Park and Recreation Director
- David Wright.....Public Utilities Director
- Siobhan Foster.....Interim Public Works Director

*Appointed by City Council