

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, 2004, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Riverside, California, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2004 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

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

McGladrey & Pullen, LLP

Riverside, California
September 30, 2004

Management's Discussion and Analysis

As management of the City of Riverside (the City), we offer this narrative overview and analysis of financial activities for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information furnished in our letter of transmittal, which can be found on page v. of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Overview of the Financial Statements

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

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

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

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

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

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

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

The government-wide financial statements can be found on pages 21-22 of this report.

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

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

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

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

combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* and can be found on pages 59-64 in this report.

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

The basic governmental fund financial statements can be found on pages 23-26 of this report.

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

Proprietary funds provide the same type of information as the government-wide financial statements (*business type activities*), only in more detail. The proprietary fund financial statements provide separate information for the Electric, Water and Sewer operations, all of which are considered to be major funds of the City. The four remaining proprietary funds noted above are combined into a single, aggregated presentation. All internal service funds are also combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the non-major proprietary funds and the internal service funds is provided in the form of *combining statements* and can be found on pages 69-73 in this report.

The basic proprietary fund financial statements can be found on pages 28-32 of this report.

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

The Agency fund financial statement can be found on page 33 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 34 of this report.

Government-wide Financial Analysis

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

	Governmental Activities		Business type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$483,015	\$297,208	\$ 453,186	\$325,506	\$ 936,201	\$ 622,714
Capital assets, net	<u>507,243</u>	<u>481,547</u>	<u>693,448</u>	<u>651,665</u>	<u>1,200,691</u>	<u>1,133,212</u>
Total assets	<u>990,258</u>	<u>778,755</u>	<u>1,146,634</u>	<u>977,171</u>	<u>2,136,892</u>	<u>1,755,926</u>
Current liabilities	60,284	52,907	85,075	33,148	145,359	86,055
Long-term liabilities	<u>349,417</u>	<u>157,833</u>	<u>453,514</u>	<u>398,075</u>	<u>802,931</u>	<u>555,908</u>
Total liabilities	<u>409,701</u>	<u>210,740</u>	<u>538,589</u>	<u>431,223</u>	<u>948,290</u>	<u>641,963</u>
Net assets:						
Invested in capital assets, net of related debt	484,784	471,380	341,041	323,094	825,825	794,474
Restricted	137,126	106,862	49,242	40,869	186,368	147,731
Unrestricted	<u>(41,353)</u>	<u>(10,227)</u>	<u>217,762</u>	<u>181,985</u>	<u>176,409</u>	<u>171,758</u>
Total net assets	<u>\$580,557</u>	<u>\$568,015</u>	<u>\$608,045</u>	<u>\$545,948</u>	<u>\$1,188,602</u>	<u>\$1,113,963</u>

The City's assets exceeded liabilities by \$1,188,602 at June 30, 2004, an increase of \$74,639 from June 30, 2003.

By far the largest portion of the City's net assets (69 percent) reflects its investment in capital assets (i.e., land, buildings, machinery, equipment and infrastructure), net of any related debt that is still outstanding used to acquire those assets and net of unspent bond proceeds and cash held in bond reserve accounts. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending.

An additional portion of the City's net assets (16 percent) represents resources that are subject to external restrictions on how they may be used. The remaining unrestricted net assets (15 percent) may be used to meet the government's ongoing obligations to citizens and creditors. Of this amount, \$217,762 is held by the business type activities; the governmental activities reflect a negative \$41,353. The Riverside Redevelopment Agency (the Agency), a blended component unit of the City, represents \$73,361 of negative

unrestricted net assets for 2004 and was a negative \$72,111 in the prior year. The remaining governmental activities of the City have positive unrestricted net assets of \$32,008 in 2004 and \$61,884 in 2003, mostly attributable to the City's General Fund.

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

The government's total net assets increased by \$74,639 during the current fiscal year, which reflects the growth in both the governmental (\$12,542) and business type (\$62,097) activities. This is primarily due to continued investment by the City in its infrastructure, which is largely funded by grants and dedicated revenue sources. Lastly, business type unrestricted assets grew based on municipal service charges for service exceeding the current years operating expenditures.

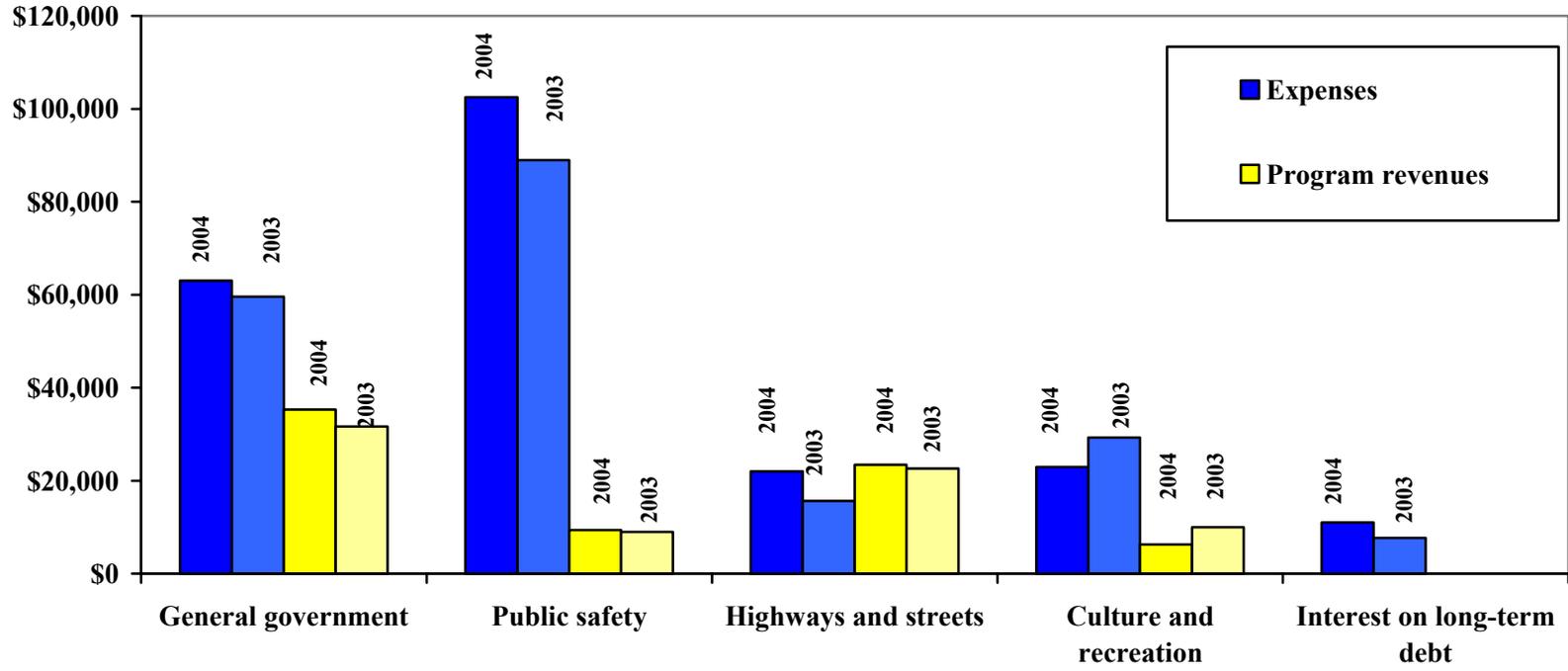
The following condensed summary of activities of the City's governmental and business type operations for the period ended June 30, 2004 shows total net assets increasing by \$74,639. The prior fiscal year is also presented for comparative purposes. Also included in the following analysis are revenue and expense graphs to aid the reader in their understanding of the results of the current year's activities.

	Governmental Activities		Business Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program Revenues:						
Charges for services	\$ 60,301	\$ 58,273	\$304,911	\$269,498	\$ 365,212	\$ 327,771
Operating Grants and Contributions	12,935	12,716	1,723	3,663	14,658	16,379
Capital Grants and Contributions	1,136	2,144	26,390	20,948	27,526	23,092
General Revenues:						
Sales taxes	46,624	41,691	-	-	46,624	41,691
Property taxes	35,911	33,584	-	-	35,911	33,584
Other taxes and fees	41,364	42,239	-	-	41,364	42,239
Grants and contributions not restricted to specific programs	18,710	(2,800)	-	-	18,710	(2,800)
Other	<u>6,760</u>	<u>10,305</u>	<u>9,569</u>	<u>12,964</u>	<u>16,329</u>	<u>23,269</u>
Total revenues	<u>223,741</u>	<u>198,152</u>	<u>342,593</u>	<u>307,073</u>	<u>566,334</u>	<u>505,225</u>
Expenses:						
General government	63,000	59,530	-	-	63,000	59,530
Public safety	102,500	88,969	-	-	102,500	88,969
Highways and streets	22,017	15,625	-	-	22,017	15,625
Culture and recreation	22,988	29,236	-	-	22,988	29,236
Interest on long-term debt	10,996	7,696	-	-	10,996	7,696
Electric	-	-	196,727	186,917	196,727	186,917
Water	-	-	33,921	29,715	33,921	29,715
Sewer	-	-	23,273	20,053	23,273	20,053
Refuse	-	-	11,510	11,577	11,510	11,577
Airport	-	-	1,088	1,151	1,088	1,151
Transportation	-	-	2,286	2,110	2,286	2,110
Public Parking	-	-	1,389	1,392	1,389	1,392
Total expenses	<u>221,501</u>	<u>201,056</u>	<u>270,194</u>	<u>252,915</u>	<u>491,695</u>	<u>453,971</u>
Increase in net assets before Transfers and Contributions	2,240	(2,904)	72,399	54,158	74,639	51,254
Transfers	<u>10,302</u>	<u>18,218</u>	<u>(10,302)</u>	<u>(18,218)</u>	-	-
Increase in net assets	12,542	15,314	62,097	35,940	74,639	51,254
Net assets – beginning	<u>568,015</u>	<u>552,701</u>	<u>545,948</u>	<u>510,008</u>	<u>1,113,963</u>	<u>1,062,709</u>
Net assets – ending	<u>\$580,557</u>	<u>\$568,015</u>	<u>\$608,045</u>	<u>\$545,948</u>	<u>\$1,188,602</u>	<u>\$1,113,963</u>

Governmental activities. Governmental activities increased the City's net assets by \$12,542, accounting for 17 percent of the total growth in net assets. The prior fiscal period net assets increased by \$15,314. Key elements of this year's activity in relation to the prior year are as follows:

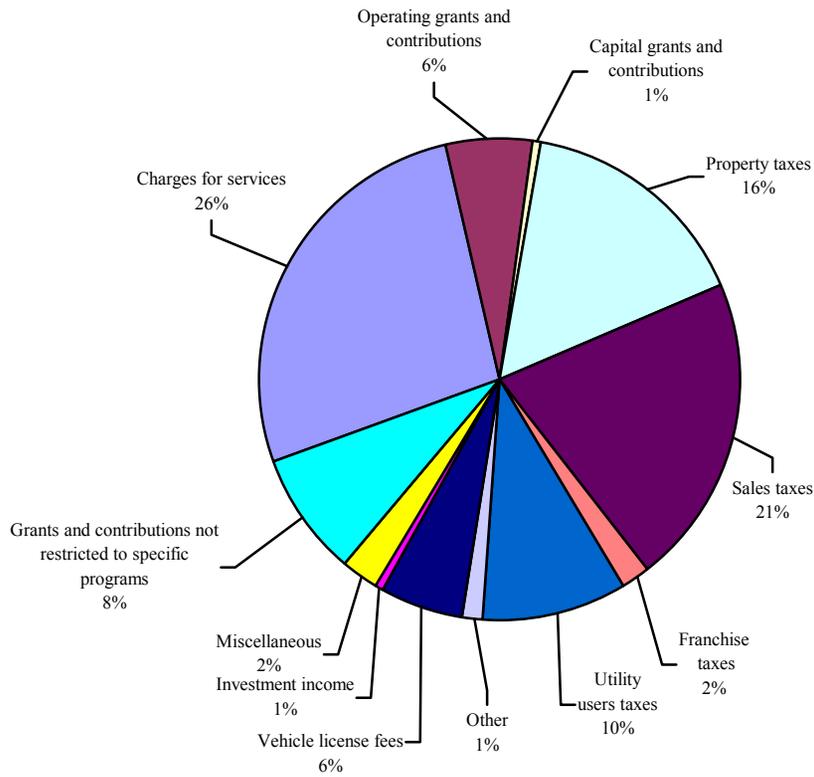
- Charges for services increased by \$2,000 primarily as a result of increased revenues from building and related fees from new developments within the City.
- Sales, property and other taxes and fees increased \$6,400 in 2004 because of the strong local economy.
- Other general revenues decreased \$3,500 mainly due to a decrease in investment income resulting from an unrealized market value adjustment required for financial statement reporting purposes.
- While significant variances between years exist between the various expense functions, the total increase was \$20 million. The more significant items are: (1) public safety salaries and benefits, coupled with costs associated with substantial technological improvements and increased training for police officers; (2) depreciation costs for the City's streets due to new accounting pronouncements (3) increased interest expense from \$183,000 of new debt issuances (net of debt refinancing and bond premiums) during 2004; (4) increased costs associated with the City's General Plan; and (5) implementation of a new work order management and electronic timekeeping system.
- Transfers into governmental funds were approximately the same as last year; however, transfers out to proprietary funds increased by \$9,000 to cover costs associated with projects funded with Certificates of Participation debt issued by the General fund.
- Grants and contributions not restricted to specific programs increased by \$21,500 in 2004 principally due to the donation of streets and roads by developers of approximately \$14,500, as well as, the proceeds from the issuance of bonds for two special assessment districts to fund public improvements of \$4,200. The negative contribution in fiscal year 2003 resulted from the contribution of certain assets to proprietary funds.

Expenses and Programs Revenues – Governmental Activities – Fiscal Year Comparison

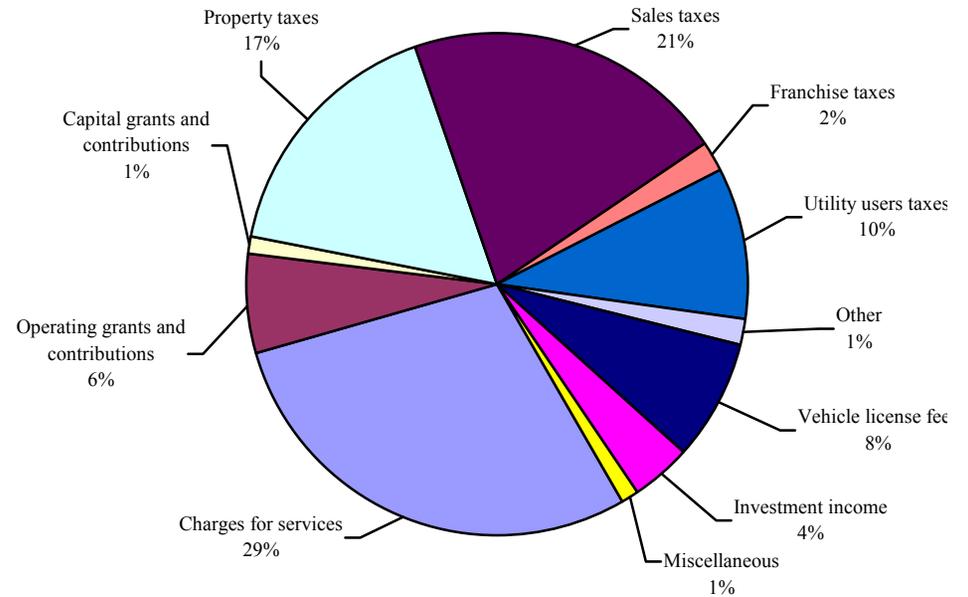


Revenues by Source – Governmental Activities – Fiscal Year Comparison

2004



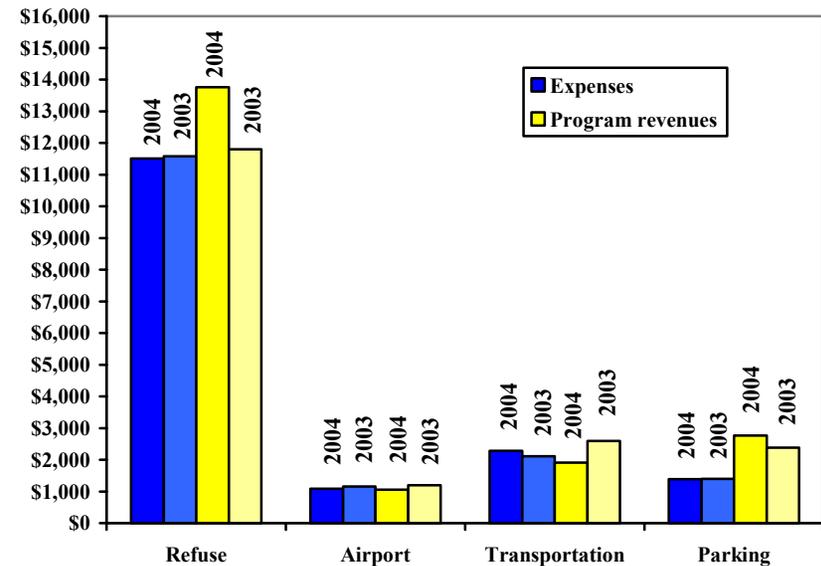
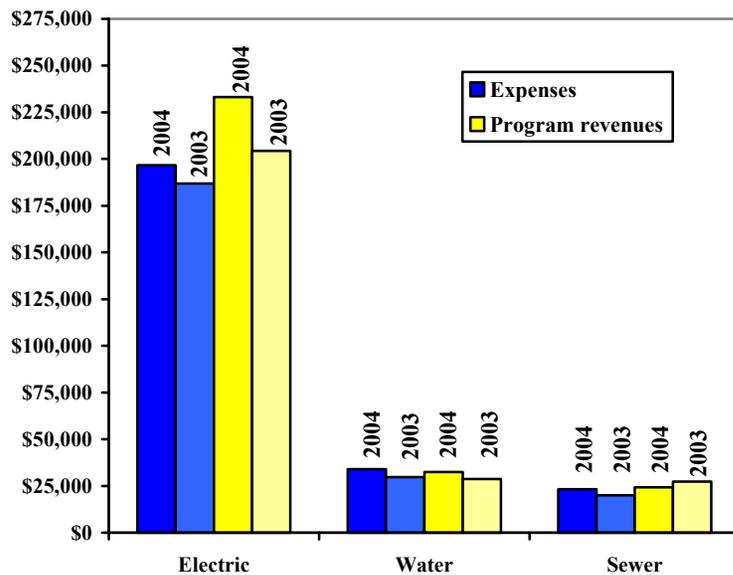
2003



Business type activities. Business type activities increased the City’s net assets by \$62,097, accounting for 83 percent of the total growth in net assets. Net assets of business type activities increased from the prior fiscal period by \$26,157. Key elements of this year’s increase in relation to the prior year are as follows:

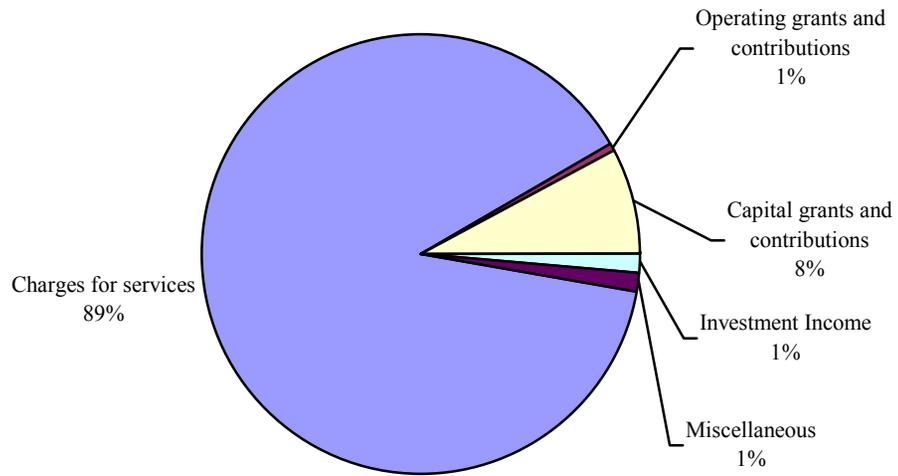
- Charges for services increased in 2004 to \$304,911 from \$269,498 in 2003 primarily due to an increase in the volume of electric and water sales, in conjunction with a 3.1% electric rate increase during the year.
- Capital grants and contributions increased \$5,442 in the current year to \$26,390 from \$20,948 in the prior year. The increase is mainly due to contributions in aid related to a CALTRANS project.

Expenses and Programs Revenues – Business Type Activities – Fiscal Year Comparison

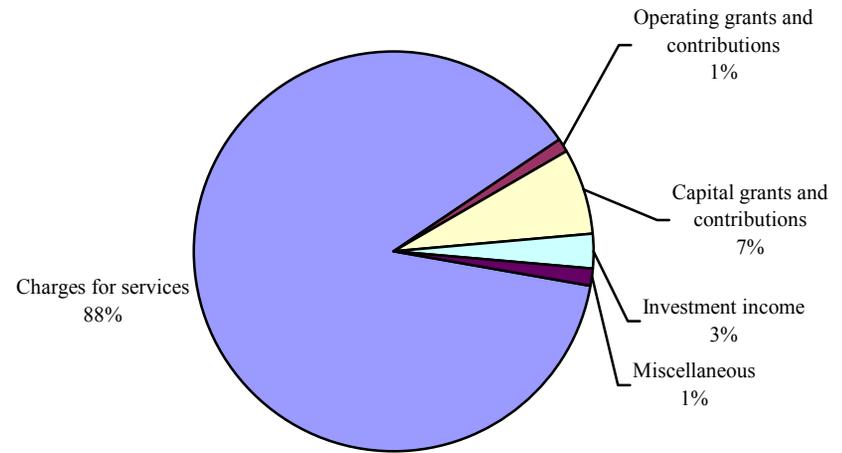


Revenues by Source – Business Type Activities – Fiscal Year Comparison

2004



2003



Financial Analysis of the City's Funds

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

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

	General Fund		Total Governmental Funds	
	2004	2003	2004	2003
Total assets	<u>\$192,678</u>	<u>\$121,367</u>	<u>\$397,438</u>	<u>\$292,698</u>
Liabilities	<u>\$ 58,151</u>	<u>\$ 39,629</u>	<u>\$117,833</u>	<u>\$ 97,470</u>
Fund balances				
Reserved	17,268	14,362	52,445	42,485
Unreserved	<u>117,259</u>	<u>67,376</u>	<u>227,160</u>	<u>152,743</u>
Total	<u>134,527</u>	<u>81,738</u>	<u>279,605</u>	<u>195,228</u>
Total liabilities and fund balances	<u>\$192,678</u>	<u>\$121,367</u>	<u>\$397,438</u>	<u>\$292,698</u>

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$279,605, an increase of \$84,377 in comparison with the prior year. Over three quarters of this amount (\$227,160) constitutes unreserved fund balance, which is available for spending at the City's discretion. \$186,432 of that amount has been designated for specific capital projects and economic contingencies, leaving \$40,728 without a commitment. The remainder of the fund balance is reserved to indicate funds are not available for new spending because it has already been committed for a variety of restricted purposes.

The General Fund is the principal operating fund of the City. At the end of the current fiscal year, the unreserved fund balance was \$117,259, of which \$101,566 was designated for future operations, economic contingencies and liability insurance. The total fund balance reached \$134,527, an increase of \$52,789 over the prior year. This increase is due to unexpended proceeds from the issuance of long-term debt. The debt funded a number of capital projects, including a parking structure, a police precinct, a fire station, park improvements, a library and software, all of which are still under construction or in process of implementation. Accordingly, such funds are reflected as part of the designated fund balance.

The Redevelopment debt service fund has a total fund balance of \$11,517, all of which is reserved for the payment of debt service. A net increase in the fund balance occurred during the current year (\$3,123) mainly due to bond premiums.

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

Unrestricted net assets of the Electric, Water and Sewer operations at the end of the year amounted to \$104,026, \$18,586, and \$77,680, respectively. The total growth in net assets for these funds was \$32,994, \$12,597 and \$3,471, respectively, demonstrating the adequacy of the current rate structure for these funds.

General Fund Budgetary Highlights

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

Total budgeted expenditures increased from \$201,119 to \$250,674 or \$49,555. The increases can be generally summarized as follows:

- ❑ The General Services department added appropriations of \$7,300 for improvements to City Hall and construction of the Arlington Branch Library.
- ❑ The Police department added appropriations of \$7,000, primarily for grant funded operational charges and a new computer aided dispatch system;
- ❑ The Fire department added appropriations of \$25,500, mainly for the construction of four new fire stations funded through the voter approved Fire Bond Measure passed by the citizens in November 2003.
- ❑ The Park and Recreation department added appropriations of \$5,400, primarily for grant funded improvement projects as well as a Trails and Open Space Management Plan; and
- ❑ Other miscellaneous appropriations were added in other departments throughout the year of approximately \$4,400.

Actual amounts differed from those budgeted as follows:

- ❑ Actual total revenues were less than the amount budgeted principally as a result of the State deferring payments associated with vehicle license fees (\$4.6 million) to fiscal year 2007.
- ❑ Budgeted expenditures exceeded actual amounts by \$83,797. As in prior years, the principal reason is associated with capital projects not completed at year-end. Such projects and related amounts are continued to the next fiscal year.
- ❑ Other financing sources (uses) exceeded the final amount budgeted by \$78,208. The major event causing this variance is the issuance of Pension Obligation Bonds to fund the Unfunded Actuarial Accrued Liability (UAAL) associated with the City's Safety employees. Netted against this issuance of bonds is the payment of the UAAL in the amount of \$88,300 reflected as a "Special Item – pension expense."
- ❑ The net effect of all of the above was a favorable variance from the amounts budgeted of \$67,214.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business type activities as of June 30, 2004 amounted to \$1,200,691 (net of accumulated depreciation). This investment includes land, buildings and improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City's net investment in capital assets for the current fiscal year was \$67,479 (\$25,696 for governmental activities including internal service funds and \$41,783 for business type activities).

Major capital improvements during the current fiscal year included: new infrastructure, consisting primarily of street improvements (\$26,705); completion of the University Village parking garage (\$6,422); a CNG refueling system (\$1,488); remodel of the Municipal Auditorium (\$1,751); Electric Utility upgrades (\$17,990); Water Utility system upgrades (\$8,086); and Sewer department upgrades (\$4,334).

Construction in progress totaled \$84,049 at June 30, 2004. Some of the major projects in process are the Riverside Energy Resource Center, the Orangecrest T-5 addition, replacement of the water transmission main at the 60/215 interchange, Magnolia Street Police Precinct, and the Janet Goeske Center. Depreciation expense during the fiscal year was \$22,831 for governmental activities and \$26,938 for business type activities.

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

	Governmental Activities		Business Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$116,925	\$109,965	\$ 32,725	\$ 32,560	\$ 149,650	\$ 142,525
Buildings and improvements	52,826	48,757	135,062	136,243	187,888	185,000
Improvements other than Buildings	20,675	17,369	449,683	441,875	470,358	459,244
Machinery and equipment	12,883	13,983	9,074	9,097	21,957	23,080
Infrastructure	286,789	275,059	-	-	286,789	275,059
Construction in progress	<u>17,145</u>	<u>16,414</u>	<u>66,904</u>	<u>31,890</u>	<u>84,049</u>	<u>48,304</u>
Total	<u>\$507,243</u>	<u>\$481,547</u>	<u>\$693,448</u>	<u>\$651,665</u>	<u>\$1,200,691</u>	<u>\$1,133,212</u>

Additional information on the City's capital assets can be found in note 5 on page 41 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$741,091.

City of Riverside's Long-Term Debt

	Governmental Activities		Business Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Lease/Revenue Bonds	\$131,590	\$109,615	\$440,970	\$342,559	\$572,560	\$456,824
General Obligation Bonds	20,285	-	-	-	20,285	-
Pension Obligation Bonds	89,540	-	-	-	89,540	-
Certificates of Participation	58,706	4,650	-	-	58,706	4,650
Notes Payable	11,057	11,447	11,066	11,524	22,123	22,971
Capital Leases	8,938	5,517	439	498	9,377	6,015
Compensated Absences	29,301	26,604	-	-	29,301	26,604
Water Acquisition Rights	-	-	<u>1,039</u>	<u>1,083</u>	<u>1,039</u>	<u>1,083</u>
Total	<u>\$349,417</u>	<u>\$157,833</u>	<u>\$453,514</u>	<u>\$355,664</u>	<u>\$802,931</u>	<u>\$518,147</u>

The City's total debt increased by \$284,784 (55 percent) during the current fiscal year due to the issuance of \$20,000 in voter approved Fire bonds, \$89,540 in Pension Obligation bonds, \$53,185 in Certificates of Participation, \$185,405 in new Electric Fund debt and \$79,025 in Redevelopment Agency debt; offset by scheduled debt service payments.

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

State statutes limit the amount of general obligation debt a governmental entity may issue to 15 percent of its total assessed valuation. The legal debt margin for the City is \$1,752,793, after deducting the general obligation debt of \$162,725.

Additional information on the City's long-term debt can be found in note 7 on page 43 of this report

Economic Factors and Next Year's Budget and Rates

- The assessment roll for the City increased 7.4% between fiscal year 2003 and fiscal year 2004.
- Property taxes increased between fiscal year 2003 and 2004 by 8.5% due to new development and higher assessed property values.
- Employment in Riverside County is 4.2 % over the prior year and unemployment is down to 6.2% as compared to 6.8% for 2003.
- The required contribution rates as a percentage of payroll for the City's retirement program, including the employee portion which is paid by the City, will be changing effective July 1, 2005 as follows:
 - Miscellaneous Plan – 12.34% to 19.737%
 - Safety Plan – 31.2% to 16.143%

The apparent reduction in the Safety Plan reflects the issuance of Pension Obligation Bonds (POBs) to fully fund the unfunded actuarial amount accrued liability. Had the POBs not been issued the Safety Plan contribution rate would have increased to 40.25%

At the time of budget preparation for fiscal year 2005, the economic outlook for the City was considered to be very good. The General Fund Budget for fiscal year 2004 of \$178 million contemplates the use of approximately \$12 million of the beginning fund balance.

The State of California has been and continues to face significant budget shortfalls. During fiscal year 2003/2004, the State withheld payment of \$4.6 million representing vehicle license fees otherwise due to the City. However, Assembly Bill 1768 was adopted that requires the State to pay this amount to the City in fiscal year 2006/2007.

As part of the 2004/2005 State budget, a constitutional amendment was passed on the November 2004 ballot that, among other things, prohibits future transfers of local government taxes for the benefit of the State without the requirement of repayment. In exchange, local governments have agreed to the transfer of \$1.3 billion to the State for both fiscal years 2004/2005 and 2005/2006. For the City, this means the transfer of \$2.7 million each fiscal year. At this time, the City is not able to predict the ultimate effect of the State's budgetary issues.

Request for information

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