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

### **INDEPENDENT AUDITORS' REPORT**

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, 2006, 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, 2006, 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.



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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2006 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.

*Mayer Hoffman McLean P.C.*

Irvine, California  
September 30, 2006

## Management's Discussion and Analysis

As management of the City of Riverside, we offer this narrative overview and analysis of financial activities for the fiscal year ended June 30, 2006. 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 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 59-68 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 governmental fund financial statements can be found on pages 23-27 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 69-78 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, and the combining statement can be found on page 79.

**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	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 569,741	\$ 571,535	\$ 481,914	\$ 396,346	\$ 1,051,655	\$ 967,881
Capital assets, net	<u>660,194</u>	<u>543,970</u>	<u>877,637</u>	<u>809,277</u>	<u>1,537,831</u>	<u>1,353,247</u>
Total assets	<u>1,229,935</u>	<u>1,115,505</u>	<u>1,359,551</u>	<u>1,205,623</u>	<u>2,589,486</u>	<u>2,321,128</u>
Current liabilities	90,849	72,940	88,681	87,797	179,530	160,737
Long-term liabilities	<u>409,973</u>	<u>418,673</u>	<u>524,158</u>	<u>431,447</u>	<u>934,131</u>	<u>850,120</u>
Total liabilities	<u>500,822</u>	<u>491,613</u>	<u>612,839</u>	<u>519,244</u>	<u>1,113,661</u>	<u>1,010,857</u>
Net assets:						
Invested in capital assets, net of related debt	622,336	515,354	425,285	402,377	1,047,621	917,731
Restricted	158,038	154,957	71,386	54,540	229,424	209,497
Unrestricted	<u>(51,261)</u>	<u>(46,419)</u>	<u>250,041</u>	<u>229,462</u>	<u>198,780</u>	<u>183,043</u>
Total net assets	<u>\$729,113</u>	<u>\$623,892</u>	<u>\$746,712</u>	<u>\$686,379</u>	<u>\$1,475,825</u>	<u>\$1,310,271</u>

The City's assets exceeded liabilities by \$1,475,825 at June 30, 2006, an increase of \$165,554 from June 30, 2005.

By far the largest portion of the City's net assets (59 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 (13 percent) may be used to meet the government's ongoing obligations to citizens and creditors. Of this amount, \$250,041 is held by the business type activities; the governmental activities reflect a negative \$51,261. The Riverside Redevelopment Agency (the Agency), a blended component unit of the City, represents \$112,747 of negative

unrestricted net assets for 2006 and was a negative \$116,932 in the prior year. The remaining governmental activities of the City have positive unrestricted net assets of \$61,486 in 2006 and \$70,513 in 2005, 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 City's total net assets increased by \$165,554 during the current fiscal year, which reflects the growth in both the governmental (\$105,221) and business type (\$60,333) 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 is a condensed summary of activities of the City's governmental and business type operations for the period ended June 30, 2006 with the prior fiscal year presented for comparative purposes. Also included in the following analysis are revenue and expense graphs to aid in understanding the results of the current year's activities.

	Governmental Activities		Business Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program Revenues:						
Charges for services	\$ 63,656	\$ 63,087	\$338,092	\$327,032	\$ 401,748	\$ 390,119
Operating Grants and Contributions	13,150	16,140	2,704	2,261	15,854	18,401
Capital Grants and Contributions	18,618	5,292	29,293	32,317	47,911	37,609
General Revenues:						
Sales taxes	57,522	53,348	-	-	57,522	53,348
Property taxes	80,934	61,553	-	-	80,934	61,553
Other taxes and fees	34,434	32,237	-	-	34,434	32,237
Grants and contributions not restricted to specific programs	39,653	15,220	-	-	39,653	15,220
Other	<u>36,323</u>	<u>13,571</u>	<u>29,959</u>	<u>14,910</u>	<u>66,282</u>	<u>28,481</u>
Total revenues	<u>344,290</u>	<u>260,448</u>	<u>400,048</u>	<u>376,520</u>	<u>744,338</u>	<u>636,968</u>
Expenses:						
General government	74,458	69,520	-	-	74,458	69,520
Public safety	120,470	105,131	-	-	120,470	105,131
Highways and streets	20,757	17,983	-	-	20,757	17,983
Culture and recreation	32,602	23,512	-	-	32,602	23,512
Interest on long-term debt	16,358	15,885	-	-	16,358	15,885
Electric	-	-	226,186	200,030	226,186	200,030
Water	-	-	39,486	36,709	39,486	36,709
Sewer	-	-	27,299	26,108	27,299	26,108
Refuse	-	-	14,546	12,841	14,546	12,841
Airport	-	-	1,004	1,185	1,004	1,185
Transportation	-	-	2,917	2,557	2,917	2,557
Public Parking	-	-	<u>2,701</u>	<u>824</u>	<u>2,701</u>	<u>824</u>
Total expenses	<u>264,645</u>	<u>232,031</u>	<u>314,139</u>	<u>280,254</u>	<u>578,784</u>	<u>512,285</u>
Increase in net assets before special item and transfers:						
Special item – canal abandonment	79,645	28,417	85,909	96,266	165,554	124,683
Transfers	-	-	-	(3,014)	-	(3,014)
Transfers	<u>25,576</u>	<u>14,918</u>	<u>(25,576)</u>	<u>(14,918)</u>	<u>-</u>	<u>-</u>
Increase in net assets	105,221	43,335	60,333	78,334	165,554	121,669
Net assets – beginning	<u>623,892</u>	<u>580,557</u>	<u>686,379</u>	<u>608,045</u>	<u>1,310,271</u>	<u>1,188,602</u>
Net assets – ending	<u>\$729,113</u>	<u>\$623,892</u>	<u>\$746,712</u>	<u>\$686,379</u>	<u>\$1,475,825</u>	<u>\$1,310,271</u>

**Governmental activities.** Governmental activities increased the City's net assets by \$105,221, accounting for 64 percent of the total growth in net assets. The net assets in the prior fiscal year increased by \$43,335. Key elements of this year's activity in relation to the prior year are as follows:

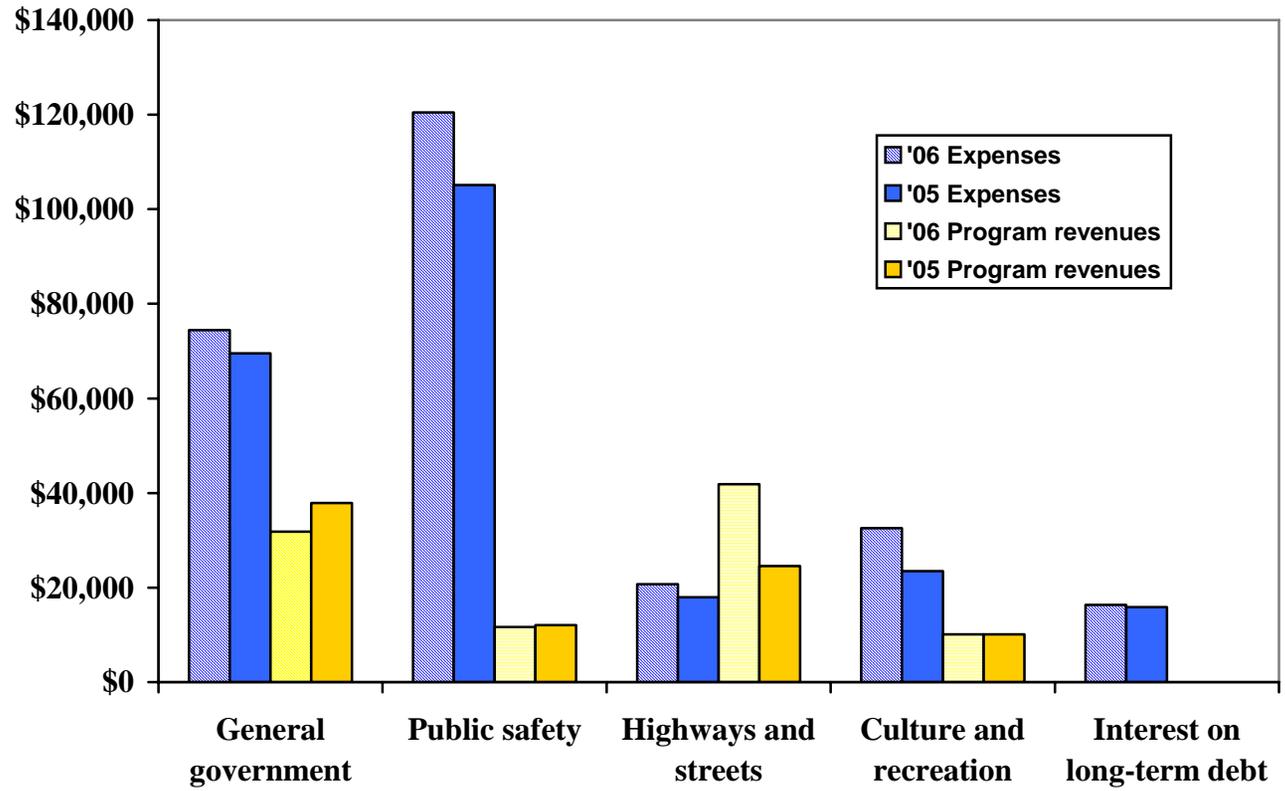
**Revenues:**

- Operating and capital grants and contributions, in total, increased approximately \$10,300 in 2006 primarily due to increased grant funding for street capital projects.
- Property taxes increased approximately \$19,000 in 2006, principally because of the strong local economy, increased property values and the expansion of redevelopment project areas and activities.
- Grants and contributions not restricted to specific programs increased \$24,400 mainly due to an increase in developer contributed assets.
- Other general revenues increased approximately \$22,700 primarily due to the proceeds from the issuance of assessment district bonds, which will be used to fund capital projects within the district that will become City infrastructure.

**Expenditures and Transfers:**

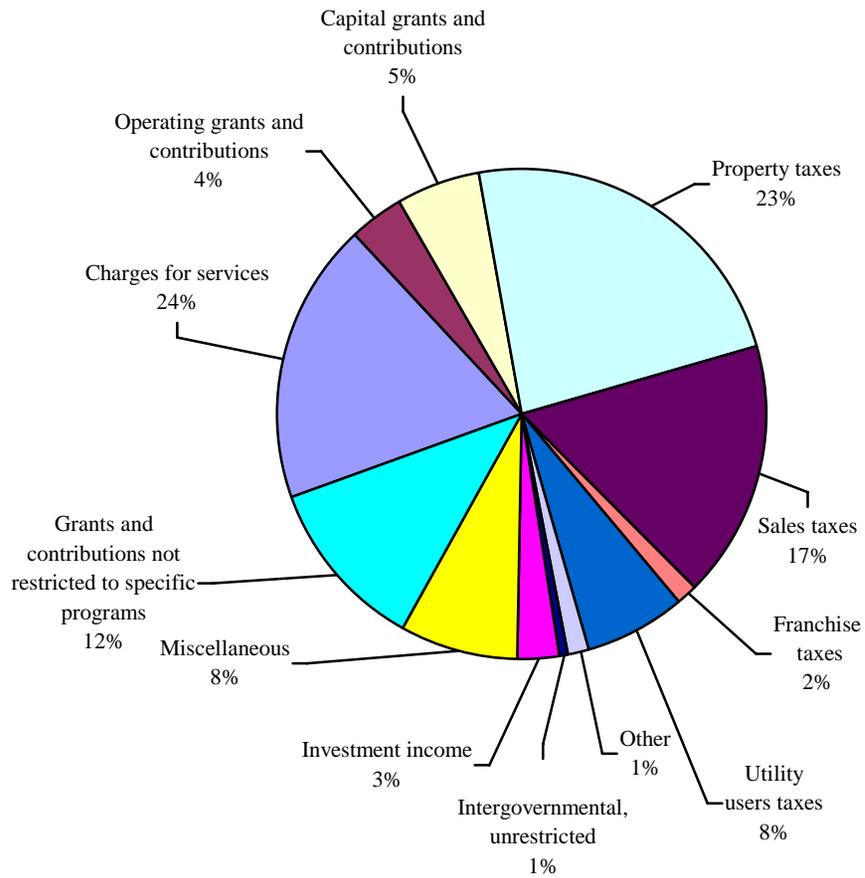
- While significant variances between years exist for the various expense functions, the total net increase was approximately \$33 million. The more significant items are: (1) increased salaries and benefits, including the addition of sworn officers, (2) increased costs associated with capital projects and development activities, (3) increased costs associated with grant-funded activities such as FEMA funded search and rescue activities stemming from Hurricanes Katrina and Rita; and (4) increased costs resulting from worker's compensation and liability claims.
- Transfers to governmental funds increased \$10,658 primarily due to increased operating revenue realized by the Electric and Water funds.

**Expenses and Programs Revenues – Governmental Activities – Fiscal Year Comparison 2006 vs. 2005**

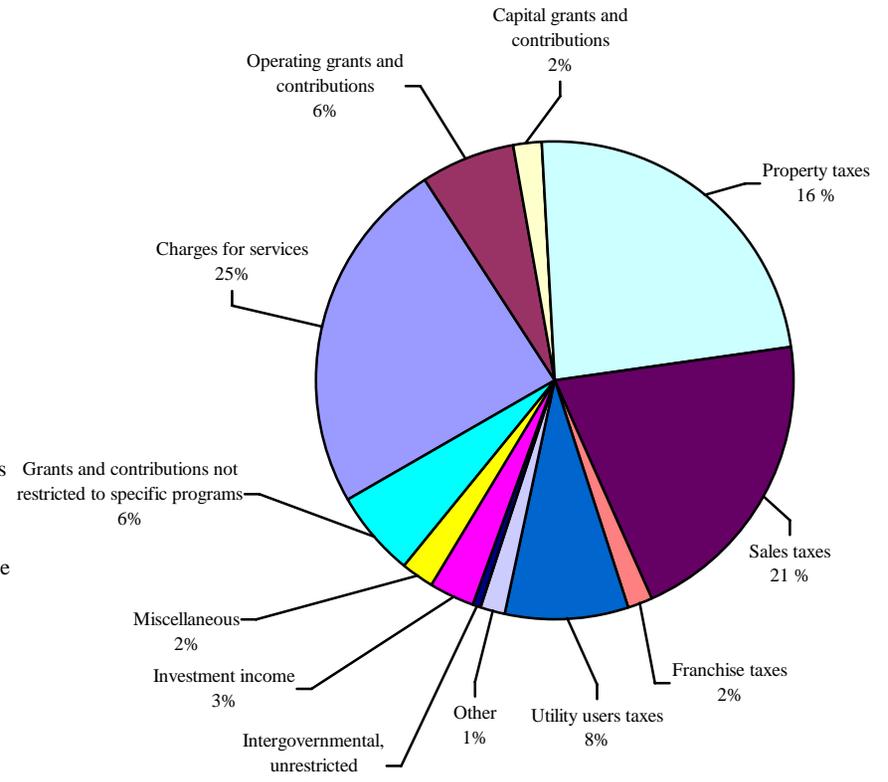


## Revenues by Source – Governmental Activities – Fiscal Year Comparison

2006



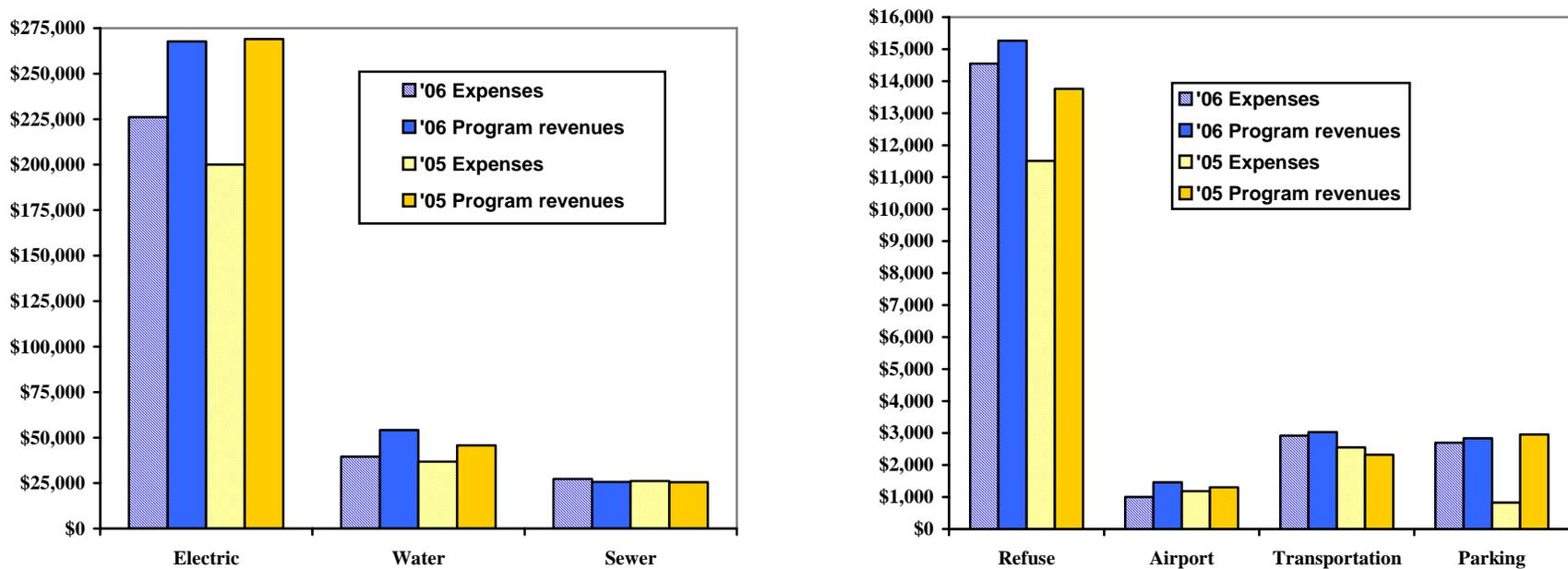
2005



**Business type activities.** Business type activities increased the City’s net assets by \$60,333, accounting for 36 percent of the total growth in net assets. The net assets of business type activities increased by \$78,334 in the prior year. Key elements of this year’s decrease in relation to the prior year are as follows:

- In 2006, charges for services increased \$11,060 to \$338,092 primarily due to an increase in the volume of electric and water sales, a 2.2% electric rate increase and the effects of the second year of an overall 8% water rate increase.
- Capital grants and contributions decreased \$3,024 in the current year to \$29,293. The decrease is mainly due to a reduction in capital contributions related to the CALTRANS project of approximately \$8 million, partially offset by an increase in capital contributions from increased development activity throughout the City.
- Other revenues increased by \$14 million mainly due to the sale of surplus land.
- The total net increase in expenses in Business type activities was approximately \$34 million. Significant items include increased power costs in the Electric fund as well as increased interest costs due to bonded indebtedness issued in 2005.

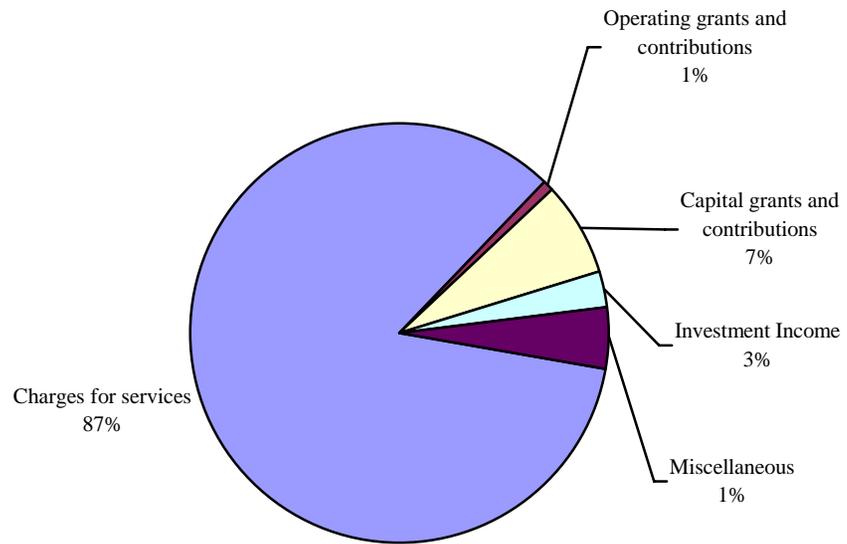
**Expenses and Program Revenues – Business Type Activities – Fiscal Year Comparison 2006 vs. 2005**



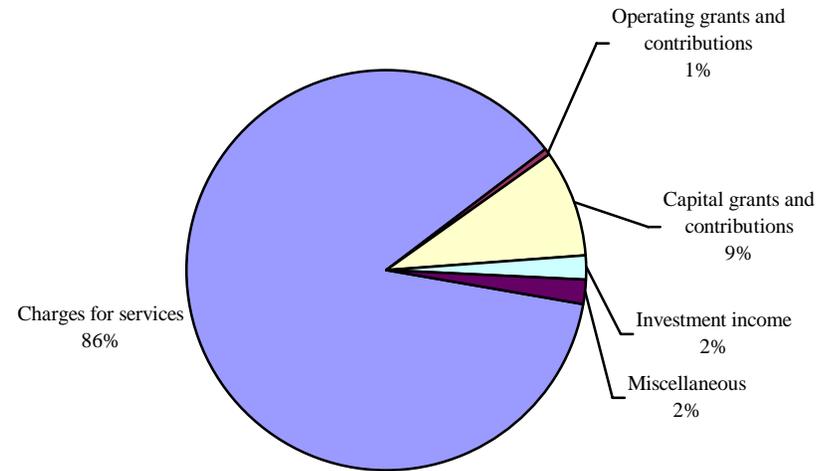
## Revenues

### by Source – Business Type Activities – Fiscal Year Comparison

2006



2005



## Financial Analysis of the City's Funds

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

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

	General Fund		Redevelopment Debt Service		Other Governmental Funds		Total Governmental Funds	
	2006	2005	2006	2005	2006	2005	2006	2005
Total assets	<u>\$202,033</u>	<u>\$209,602</u>	<u>\$41,302</u>	<u>\$41,110</u>	<u>\$216,148</u>	<u>\$191,696</u>	<u>\$459,483</u>	<u>\$442,408</u>
Total liabilities	<u>\$ 73,136</u>	<u>\$ 55,849</u>	<u>\$26,689</u>	<u>\$27,611</u>	<u>\$ 55,719</u>	<u>\$43,297</u>	<u>\$155,544</u>	<u>\$126,757</u>
Fund balances								
Reserved	59,930	44,487	14,613	13,499	39,560	34,178	114,103	92,164
Unreserved:								
Designated for economic contingencies	30,000	27,000	-	-	-	-	30,000	27,000
Designated for future operations	35,487	59,593	-	-	94,170	91,355	129,657	150,948
Designated for liability Insurance	-	6,400	-	-	-	-	-	6,400
Undesignated	<u>3,480</u>	<u>16,273</u>	<u>-</u>	<u>-</u>	<u>26,679</u>	<u>22,866</u>	<u>30,179</u>	<u>39,139</u>
Total	<u>128,897</u>	<u>153,753</u>	<u>14,613</u>	<u>13,499</u>	<u>160,429</u>	<u>148,399</u>	<u>303,939</u>	<u>315,651</u>
Total liabilities and fund balances	<u>\$202,033</u>	<u>\$209,602</u>	<u>\$41,302</u>	<u>\$41,110</u>	<u>\$216,148</u>	<u>\$191,696</u>	<u>\$459,483</u>	<u>\$442,408</u>

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$303,939, a decrease of \$11,712 in comparison with the prior year. About 25% of this amount (\$114,103) is reserved to indicate funds are not available for new spending because it has already been committed for a variety of restricted purposes. The remainder of the fund balance is unreserved, meaning it is available for spending at the City's discretion. Of that amount, \$159,657 has been designated for specific capital projects and economic contingencies, leaving \$30,179 without a commitment; at June 30, 2005 the comparable amount was \$39,139. The decrease in uncommitted, unreserved fund balance is due principally to an increase in the amount designated for specific capital projects.

The General Fund is the principal operating fund of the City. At the end of the current fiscal year, the unreserved fund balance was \$68,967, of which \$65,487 was designated for future operations, economic contingencies and liability insurance, leaving \$3,480 unreserved and undesignated; at June 30, 2005 the comparable number was \$16,273. The total fund balance equaled \$128,897 at June 30, 2006, a decrease of \$24,856 from the prior year. This decrease was primarily due to increased planned spending for capital projects, as well as, an increase in reserved fund balance, primarily due to increases in reserves for encumbrances related to capital projects.

The Redevelopment debt service fund has a total fund balance of \$14,613, all of which is reserved for the payment of debt service. A net increase in the fund balance occurred during the current year (\$1,114) mainly due to increased tax revenues and lower debt costs.

**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 \$123,854, \$35,345, and \$64,716, respectively. The total growth in net assets for these funds was \$28,401, \$29,397 and \$90, respectively, demonstrating the adequacy of the current rate structure for these funds.

**General Fund Budgetary Highlights**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Total Revenues	<u>\$168,028</u>	<u>\$176,286</u>	<u>\$177,172</u>	<u>\$ 886</u>
Expenditures:				
General Government	46,346	67,918	39,713	28,205
Public Safety	154,801	163,036	131,688	31,348
Highways & Streets	12,993	15,824	12,171	3,653
Culture & Recreation	31,970	33,617	25,312	8,305
Debt Service	<u>11,779</u>	<u>17,181</u>	<u>16,177</u>	<u>1,004</u>
Total Expenditures	<u>257,889</u>	<u>297,576</u>	<u>225,061</u>	<u>72,515</u>
Deficiency of Revenue Under				
Expenditures	(89,861)	(121,290)	(47,889)	73,401
Other Financing Sources	<u>22,299</u>	<u>23,028</u>	<u>23,033</u>	<u>5</u>
Net Change in Fund Balances	<u>(67,562)</u>	<u>(98,262)</u>	<u>(24,856)</u>	<u>73,406</u>
Beginning Fund Balance	<u>153,753</u>	<u>153,753</u>	<u>153,753</u>	<u>-</u>
Ending Fund Balance	<u>\$ 86,191</u>	<u>\$ 55,491</u>	<u>\$128,897</u>	<u>\$ 73,406</u>

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

Total budgeted expenditures increased from the amount originally budgeted by approximately \$40,000, from \$258,000 to \$298,000. The reasons for this increase can be generally summarized as follows:

- ❑ The General Services department added appropriations of \$10,000 for construction costs associated with the Magnolia Street Police Precinct, the city hall renovation and the acquisition of the Utility Plaza.
- ❑ The Police department added appropriations of \$2,700 primarily for grant funded operational charges and the addition of sworn officers.
- ❑ The Fire department added appropriations of \$4,500 primarily for grant funded operational charges as well as the purchase of equipment.
- ❑ The Public Works department added appropriations of \$2,900 primarily for equipment and personnel related to street maintenance.
- ❑ The City Manager's office added appropriations of \$14,400, primarily for the acquisition of real property and additional debt service payments associated with the issuance of pension obligation bonds.
- ❑ Other miscellaneous appropriations were added in other departments throughout the year of approximately \$5,000.

Actual amounts differed from the Final Fund budget as follows:

- ❑ Actual total revenues were slightly more than the amount budgeted due to greater than anticipated development activity within the City resulting in increased sales and property taxes. This was offset by intergovernmental revenue being under budget due to the timing of actual receipts which are over the life of the grant projects.
- ❑ Budgeted expenditures exceeded actual amounts by \$73,000. As in prior years, this excess is associated with capital projects not completed at year-end. Such projects and related amounts are carried over to the next fiscal year.
- ❑ The net effect of all of the above was a favorable variance from the amounts budgeted of \$73,406.

## 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, 2006 amounted to \$1,537,831 (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 \$184,584 (\$116,224 for governmental activities including internal service funds and \$68,360 for business type activities).

Major capital improvements during the current fiscal year included: new infrastructure, consisting primarily of street improvements (\$52,500); Riverside Energy Resource Center (\$73,641); Waterman Avenue Transmission Main (\$7,314); Sewer department upgrades (\$6,623); Electric Utility upgrades (\$57,795); Water Utility upgrades (\$21,264); Public Parking garage (\$19,138); and the Victoria Avenue bridge restoration (\$7,200).

Construction in progress totaled \$97,390 at June 30, 2006. Some of the major projects in process were the Magnolia Street Police Precinct, the Fox Theater Rehabilitation, the Mountain View Substation Modernization, the Tyler Street from Wells Avenue to Jurupa Avenue Overhead to Underground Conversion, and the Casa Blanca Energy Demonstration Center. Depreciation expense during the fiscal year was \$18,133 for governmental activities and \$30,010 for business type activities.

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

	Governmental Activities		Business Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$163,594	\$124,475	\$ 30,372	\$ 31,262	\$ 193,966	\$ 155,737
Buildings	49,807	42,933	159,075	140,513	208,883	183,446
Improvements other than Buildings	23,587	20,303	632,265	492,804	655,852	513,107
Machinery and equipment	14,478	12,176	13,861	11,833	28,339	24,009
Infrastructure	353,402	304,812	-	-	353,402	304,812
Construction in progress	<u>55,326</u>	<u>39,271</u>	<u>42,064</u>	<u>132,865</u>	<u>97,390</u>	<u>172,136</u>
Total	<u>\$660,194</u>	<u>\$543,970</u>	<u>\$877,637</u>	<u>\$809,277</u>	<u>\$1,537,831</u>	<u>\$1,353,247</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 debt outstanding of \$930,687, which includes bonded debt of \$871,671.

### City of Riverside's Long-Term Debt

	Governmental Activities		Business Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Lease/Revenue Bonds	\$140,195	\$144,024	\$509,577	\$419,581	\$649,772	\$563,605
General Obligation Bonds	19,858	20,280	-	-	19,858	20,280
Pension Obligation Bonds	146,470	148,280	-	-	146,470	148,280
Certificates of Participation	55,571	57,336	-	-	55,571	57,336
Notes Payable	10,215	10,645	9,841	10,459	20,056	21,104
Capital Leases	6,008	7,431	317	392	6,325	7,823
Compensated Absences	31,656	30,677	-	-	31,656	30,677
Water Acquisition Rights	-	-	979	1,015	979	1,015
<b>Total</b>	<u>\$409,973</u>	<u>\$418,673</u>	<u>\$520,714</u>	<u>\$431,447</u>	<u>\$930,687</u>	<u>\$850,120</u>

The City's total debt increased by \$80,567 (9 percent) during the current fiscal year due to the issuance of \$176,850 in Revenue bonds, partially offset by advance refundings of older debt in conjunction with the bonds issued and scheduled debt service payments.

The City's Electric Utility maintains "A+" and "AA-" ratings, from Standard & Poors and Fitch, respectively, for their revenue bonds, while the Water Utility maintains "AA" ratings from both rating agencies. The City's general obligation bond ratings are "AA-" and "AA", respectively.

State statutes limit the amount of general obligation debt a governmental entity may issue to 15 percent of its total adjusted assessed valuation. The legal debt margin for the City is \$381,703, after deducting the general obligation debt of \$166,328.

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

### **Economic Factors and Next Year's Budget and Rates**

- The assessed value for taxable property in the City increased 6.4% between fiscal year 2005 and fiscal year 2006.
- Property taxes increased between fiscal year 2005 and 2006 by 32% primarily as a result of the State's swapping of Property Tax revenue for Vehicle License fees as well as new development and the expansion of redevelopment activity.
- Unemployment in Riverside County is down to 5.2% as compared to 5.4% for 2005.
- 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, 2007 as follows:
  - Miscellaneous Plan – 22.89% to 21.81%
  - Safety Plan – 30.54% to 28.015%

At the time of budget preparation for fiscal year 2007, the economic outlook for the City was considered to be very good. The General Fund Budget for fiscal year 2007 of approximately \$206 million was adopted as balanced, not having to utilize any reserves for the fiscal year.

### **Request for information**

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

