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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, 2007, 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, 2007, and the respective changes in financial position and cash flows, where applicable, 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  
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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 October 12, 2007 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 McCann & Co.*

Irvine, California  
October 12, 2007

## 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, 2007. 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, the Redevelopment Agency Debt Service Fund, the Capital Outlay Fund, and the Redevelopment Capital Project Fund all of which are major funds. Data from the other thirteen 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 61-68 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>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 814,979	\$ 569,741	\$ 454,149	\$ 481,914	\$ 1,269,128	\$ 1,051,655
Capital assets, net	<u>792,536</u>	<u>660,194</u>	<u>948,306</u>	<u>877,637</u>	<u>1,740,842</u>	<u>1,537,831</u>
Total assets	<u>1,607,515</u>	<u>1,229,935</u>	<u>1,402,455</u>	<u>1,359,551</u>	<u>3,009,970</u>	<u>2,589,486</u>
Current liabilities	118,973	90,849	92,584	88,681	211,557	179,530
Long-term liabilities	<u>702,004</u>	<u>409,973</u>	<u>489,233</u>	<u>524,158</u>	<u>1,191,237</u>	<u>934,131</u>
Total liabilities	<u>820,977</u>	<u>500,822</u>	<u>581,817</u>	<u>612,839</u>	<u>1,402,794</u>	<u>1,113,661</u>
Net assets:						
Invested in capital assets, net of related debt	712,801	622,336	520,059	425,285	1,232,860	1,047,621
Restricted	415,618	158,038	57,613	71,386	473,231	229,424
Unrestricted	<u>(341,881)</u>	<u>(51,261)</u>	<u>242,966</u>	<u>250,041</u>	<u>(98,915)</u>	<u>198,780</u>
Total net assets	<u>\$786,538</u>	<u>\$729,113</u>	<u>\$820,638</u>	<u>\$746,712</u>	<u>\$1,607,176</u>	<u>\$1,475,825</u>

The City's assets exceeded liabilities by \$1,607,176 at June 30, 2007, an increase of \$131,351 from June 30, 2006.

By far the largest portion of the City's net assets (77 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 (29 percent) represents resources that are subject to external restrictions on how they may be used. The remaining unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors. Of this amount, \$242,966 is held by the business type activities; and negative \$341,881 is held by the governmental activities. The Riverside Redevelopment Agency (the Agency), a blended component unit of the City, represents \$276,012 of negative unrestricted net assets for 2007 and was a negative \$112,747 in the prior year. The remaining governmental activities of the City have

negative unrestricted net assets of \$65,869 in 2007 and a positive \$61,486 in 2006. This decrease in unrestricted net assets is primarily due to the restriction of net assets for unspent bond proceeds pertaining to capital projects.

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 \$131,351 during the current fiscal year, which reflects the growth in both the governmental (\$57,425) and business type (\$73,926) 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, 2007 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	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program Revenues:						
Charges for services	\$ 61,520	\$ 63,656	\$370,854	\$338,092	\$ 432,374	\$ 401,748
Operating Grants and Contributions	12,101	13,150	1,939	2,704	14,040	15,854
Capital Grants and Contributions	10,557	18,618	40,066	29,293	50,623	47,911
General Revenues:						
Sales taxes	55,666	57,522	-	-	55,666	57,522
Property taxes	106,114	80,934	-	-	106,114	80,934
Other taxes and fees	35,859	34,434	-	-	35,859	34,434
Grants and contributions not restricted to specific programs	29,743	39,653	-	-	29,743	39,653
Other	<u>22,810</u>	<u>36,323</u>	<u>20,486</u>	<u>29,959</u>	<u>43,296</u>	<u>66,282</u>
Total revenues	<u>334,370</u>	<u>344,290</u>	<u>433,345</u>	<u>400,048</u>	<u>767,715</u>	<u>744,338</u>
Expenses:						
General government	80,353	74,458	-	-	80,353	74,458
Public safety	134,062	120,470	-	-	134,062	120,470
Highways and streets	28,944	20,757	-	-	28,944	20,757
Culture and recreation	32,964	32,602	-	-	32,964	32,602
Interest on long-term debt	26,378	16,358	-	-	26,378	16,358
Electric	-	-	232,346	226,186	232,346	226,186
Water	-	-	42,108	39,486	42,108	39,486
Sewer	-	-	29,510	27,299	29,510	27,299
Refuse	-	-	16,490	14,546	16,490	14,546
Airport	-	-	1,201	1,004	1,201	1,004
Transportation	-	-	2,831	2,917	2,831	2,917
Public Parking	-	-	<u>3,762</u>	<u>2,701</u>	<u>3,762</u>	<u>2,701</u>
Total expenses	<u>302,701</u>	<u>264,645</u>	<u>328,248</u>	<u>314,139</u>	<u>630,949</u>	<u>578,784</u>
Increase in net assets and transfers:						
Transfers	<u>31,171</u>	<u>25,576</u>	<u>(31,171)</u>	<u>(25,576)</u>	<u>-</u>	<u>-</u>
Increase in net assets	62,840	105,221	73,926	60,333	136,766	165,554
Net assets – beginning - restated	<u>723,698</u>	<u>623,892</u>	<u>746,712</u>	<u>686,379</u>	<u>1,470,410</u>	<u>1,310,271</u>
Net assets – ending	<u>\$786,538</u>	<u>\$729,113</u>	<u>\$820,638</u>	<u>\$746,712</u>	<u>\$1,607,176</u>	<u>\$1,475,825</u>

**Governmental activities.** Governmental activities increased the City's net assets by \$62,840 accounting for 46 percent of the total growth in net assets. The net assets in the prior fiscal year increased by \$105,221. Key elements of this year's activity in relation to the prior year are as follows:

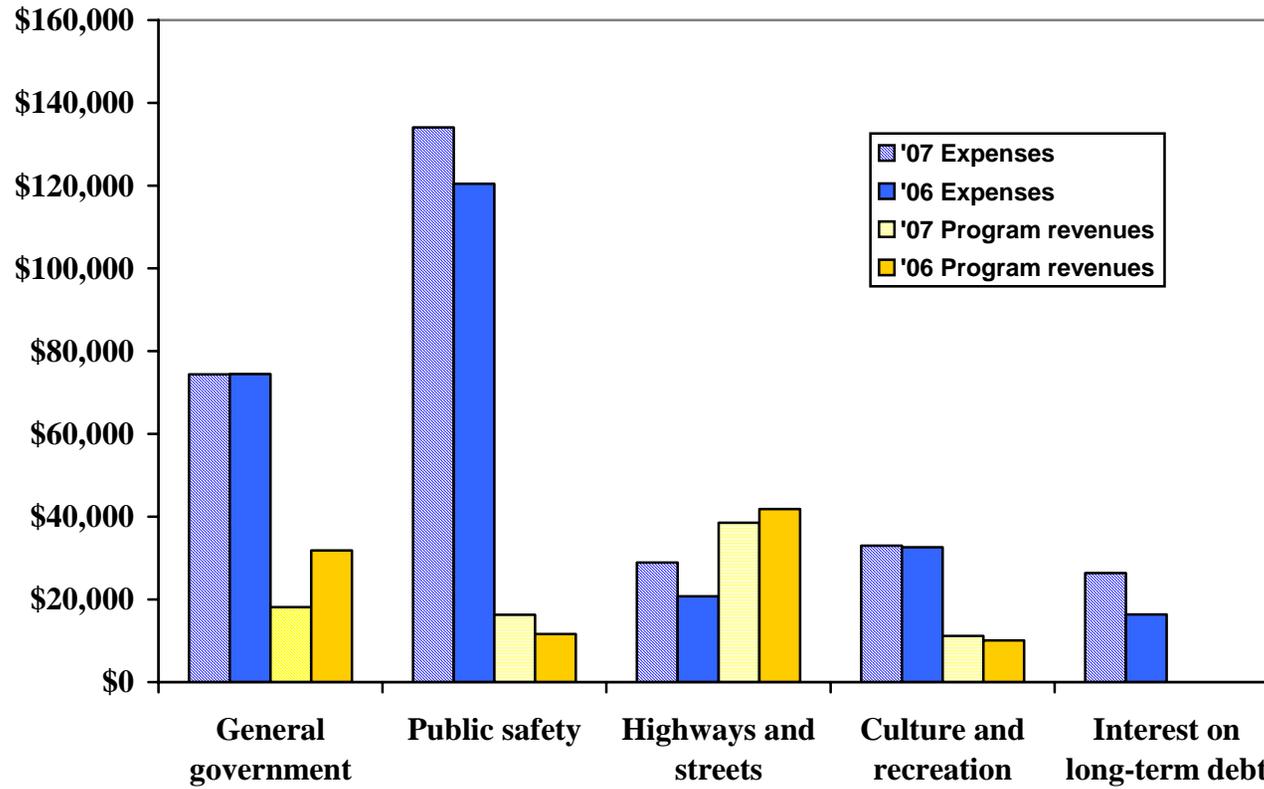
**Revenues:**

- Operating and capital grants and contributions, in total, decreased approximately \$9,100 in 2007 primarily due to decreased grant funding for street capital projects.
- Property taxes increased approximately \$25,180 in 2007, 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 decreased \$10,000 mainly due to a decrease in developer contributed assets.
- The total net decrease in Other general revenues was approximately \$13,400 primarily due to an issuance of special assessment debt in the prior year, offset by an increase in investment income in the current year.

**Expenditures and Transfers:**

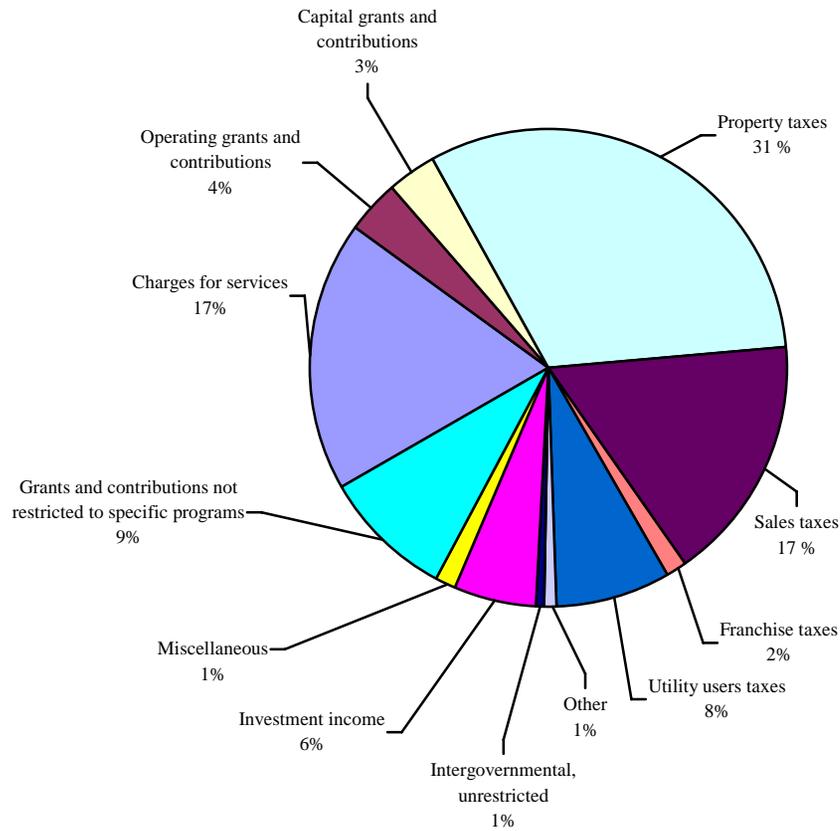
- While significant variances between years exist for the various expense functions, the total net increase was approximately \$32 million. The more significant items are: (1) increased salaries and benefits, including the addition of sworn officers, (2) increased costs associated with capital projects and development activities, (3) increased personnel costs associated with the addition of public works personnel connected with enhanced highway and streets maintenance, and (4) increased costs resulting from additional park and recreation programs. Transfers to governmental funds increased \$5,595 primarily due to increased operating revenue realized by the Electric and Water funds.

**Expenses and Programs Revenues – Governmental Activities – Fiscal Year Comparison 2007 vs. 2006**

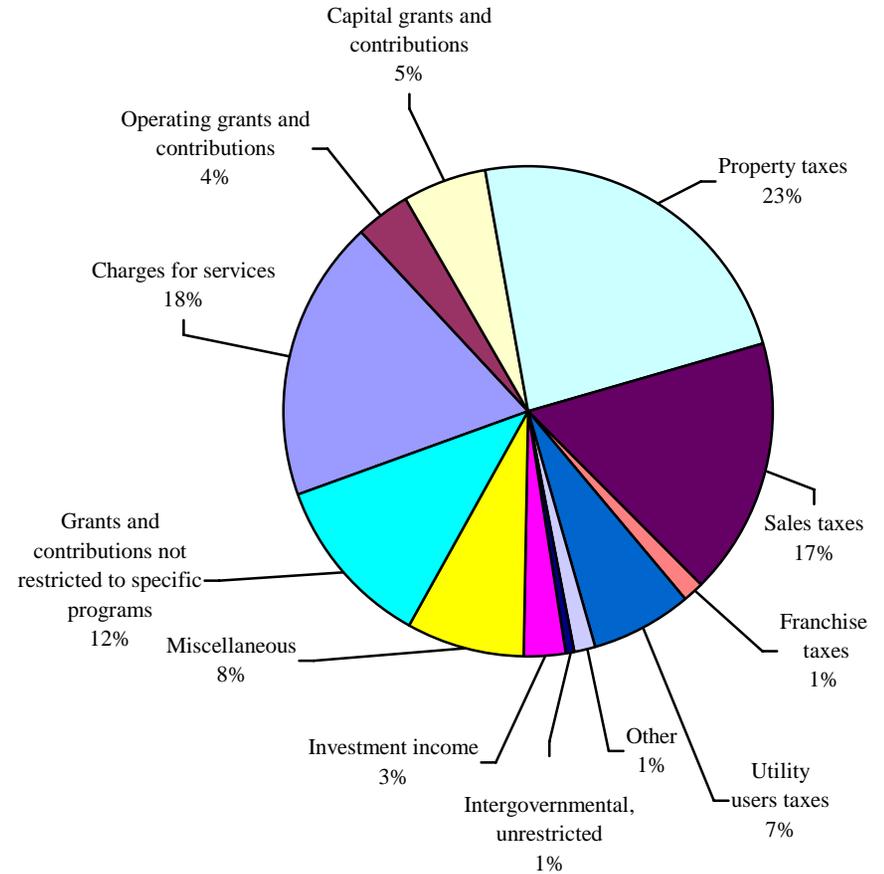


## Revenues by Source – Governmental Activities – Fiscal Year Comparison

2007



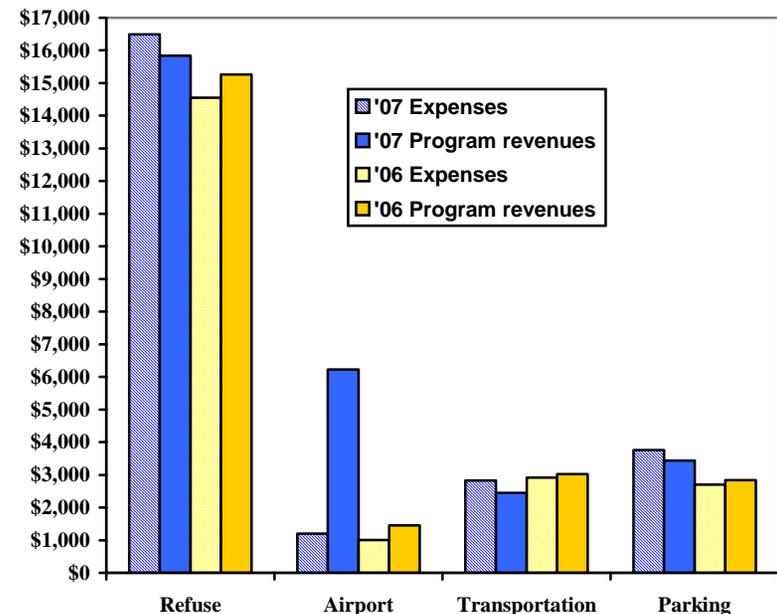
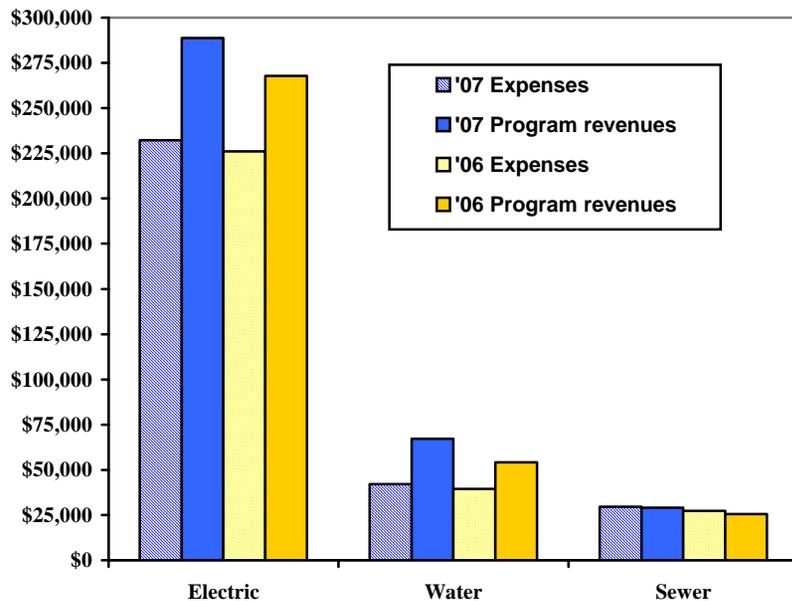
2006



**Business type activities.** Business type activities increased the City’s net assets by \$73,926, accounting for 54 percent of the total growth in net assets. The net assets of business type activities increased by \$60,333 in the prior year. Key elements of this year’s increase in relation to the prior year are as follows:

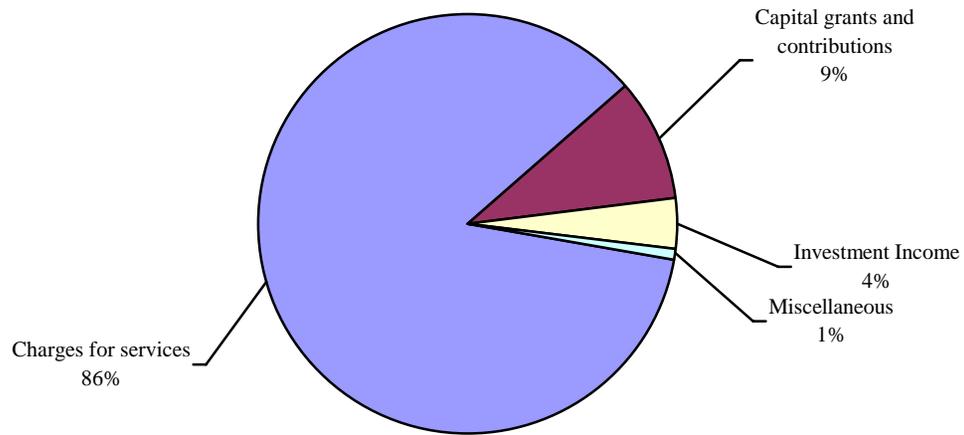
- In 2007, charges for services increased \$32,762 to \$370,854 primarily due to an increase in the volume of electric and water sales, an electric rate increase, the effects of the third and final year of an overall 8% water rate increase, as well as the implementation of the first year of the five year Safe W.A.T.E.R. rate plan consisting of a 12% increase effective November 1, 2006.
- Capital grants and contributions increased \$10,773 in the current year to \$40,066. The increase is due to a City contribution for the construction of a fiber optic network as well as contributions resulting from settlement agreements relating to litigation pertaining to contaminated ground water.
- Other revenues decreased by \$9 million mainly due to a prior year sale of surplus land.
- The total net increase in expenses in Business type activities was approximately \$14 million. Significant items include increased depreciation expense due to the completion of the Riverside Energy Resource Center, increased interest costs, as well as overall increases in staffing levels.

**Expenses and Program Revenues – Business Type Activities – Fiscal Year Comparison 2007 vs. 2006**

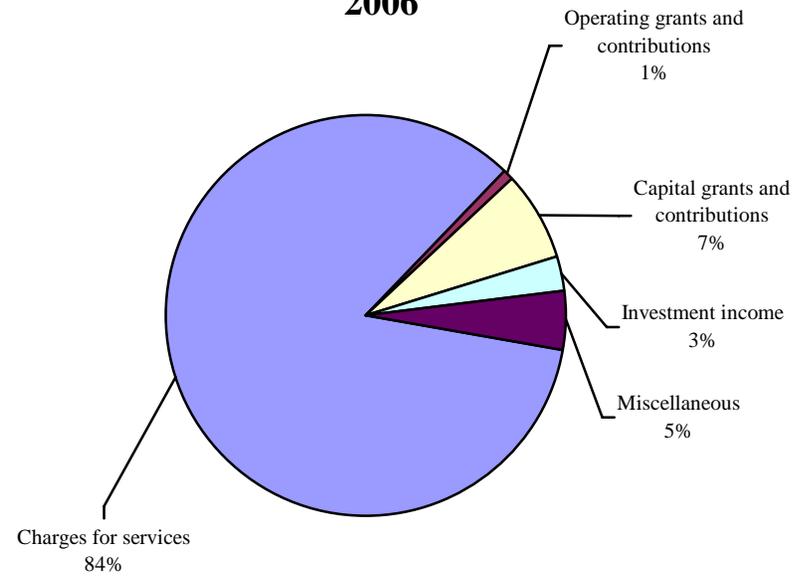


## Revenues by Source – Business Type Activities – Fiscal Year Comparison

2007



2006



## 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, Capital Outlay Fund, Redevelopment Capital Projects 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		Capital Outlay		Redevelopment Capital Projects		Other Governmental Funds		Total Governmental Funds	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Total assets	\$ 178,892	\$ 202,033	\$ 38,185	\$ 41,302	\$ 142,152	\$ 42,494	\$ 235,973	\$ 66,139	\$ 113,655	\$ 216,148	\$ 708,857	\$ 568,116
Total liabilities	\$ 84,126	\$ 73,136	\$ 27,457	\$ 26,689	\$ 6,952	\$ 5,423	\$ 35,135	\$ 23,715	\$ 30,480	\$ 55,719	\$ 184,150	\$ 184,682
Fund balances												
Reserved	50,631	59,930	10,728	14,613	28,586	8,219	39,846	13,404	29,221	39,560	159,012	135,726
Unreserved:												
Designated for economic cont.	34,000	30,000	-	-	-	-	-	-	-	-	34,000	30,000
Designated for future operations	10,135	35,487	-	-	20,751	28,852	154,923	27,571	25,512	94,190	211,321	186,100
Undesignated	-	3,480	-	-	85,863	-	6,069	1,449	28,442	26,679	120,374	31,608
Total	94,766	128,897	10,728	14,613	135,200	37,071	200,838	42,424	83,175	160,429	524,707	383,434
Total liabilities and fund balances	\$ 178,892	\$ 202,033	\$ 38,185	\$ 41,302	\$ 142,152	\$ 42,494	\$ 235,973	\$ 66,139	\$ 113,655	\$ 216,148	\$ 708,857	\$ 568,116

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$708,857, an increase of \$140,741 in comparison with the prior year. About 30% of this amount (\$159,012) 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, \$245,321 has been designated for specific capital projects and economic contingencies, leaving \$120,374 without a commitment; at June 30, 2006 the comparable amount was \$31,608. The increase in Fund balance is due to monies received from bond proceeds that are not committed to specific 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 \$44,135, all of which was designated for future operations and economic contingencies, leaving \$0 unreserved and undesignated; the comparable number at June 30, 2006 was \$3,480. The total fund balance equaled \$94,766 at June 30, 2007, a decrease of \$34,131 from the prior year. This decrease was primarily due to increased planned spending for capital projects.

The Redevelopment debt service fund has a total fund balance of \$10,728 all of which is reserved for the payment of debt service. A net decrease in the fund balance occurred during the current year.

***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 \$137,708, \$46,950, and \$9,534 respectively. The total growth in net assets for these funds was \$13,854, \$11,605 and a decrease of \$55,182, respectively as a result of routine operations.

## 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>\$185,707</u>	<u>\$197,575</u>	<u>\$183,716</u>	<u>\$ (13,859)</u>
Expenditures:				
General Government	45,749	81,418	32,883	48,535
Public Safety	162,481	166,899	153,226	13,673
Highways & Streets	18,911	24,594	20,760	3,834
Culture & Recreation	31,922	33,600	27,090	6,510
Debt Service	<u>15,516</u>	<u>16,868</u>	<u>17,612</u>	<u>(744)</u>
Total Expenditures	<u>274,579</u>	<u>323,379</u>	<u>251,571</u>	<u>71,808</u>
Deficiency of Revenue Under				
Expenditures	(88,872)	(125,804)	(67,855)	57,949
Other Financing Sources	<u>29,849</u>	<u>29,577</u>	<u>31,131</u>	<u>1,554</u>
Net Change in Fund Balances	(59,023)	(96,227)	(36,724)	59,503
Beginning Fund Balance	<u>131,490</u>	<u>131,490</u>	<u>131,490</u>	<u>-</u>
Ending Fund Balance	<u>\$ 72,467</u>	<u>\$ 35,263</u>	<u>\$94,766</u>	<u>\$59,503</u>

Final budgeted revenues increased from the amount originally budgeted as a result of grant related programs and financing associated with capital projects.

Total budgeted expenditures increased from the amount originally budgeted by approximately \$48,000, from \$275,000 to \$323,000. The reasons for this increase can be generally summarized as follows:

- The Development department added appropriations of \$31,000 for construction costs associated with the Fox Theatre Renovation and the Orange Terrace Library.
- The Police department added appropriations of \$4,400 primarily for grant funded operational charges and the addition of sworn officers.
- The General Services department added appropriations of \$3,400 primarily for capital projects and maintenance.
- The Public Works departments added appropriations of \$ 6,000 primarily for increased costs associated with programs such as animal control, tree maintenance, and the addition of the photo red light program.

- Other miscellaneous appropriations were added in other departments throughout the year of approximately \$4,700.

Actual amounts differed from the Final Fund budget as follows:

- Actual total revenues were less than the amount budgeted due to lower than anticipated development activity within the City resulting in decreased sales and property taxes as well as intergovernmental revenue being under budget due to the timing of receipts for grant funded projects.
- Budgeted expenditures exceeded actual amounts by approximately \$72,000. 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 \$59,503.

### **Capital Asset and Debt Administration**

**Capital assets.** The City's investment in capital assets for governmental and business type activities as of June 30, 2007 amounted to \$1,740,842 (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 \$203,011 (\$132,342 for governmental activities including internal service funds and \$70,669 for business type activities).

Major capital improvements during the current fiscal year included: new infrastructure, consisting primarily of street improvements (\$66,800); Magnolia Police Station (\$19,600); Sewer Mains (\$7,000); Electric Utility upgrades (\$17,717); Water Utility upgrades (\$11,072) and Fire Station Relocations (\$12,500).

Construction in progress totaled \$160,938 at June 30, 2007. Some of the major projects in process are the Casa Blanca Energy Demonstration Center, the 230 KV Substation, Mountain View Substation Modernization, Reid Park Improvements, City Hall Improvements, and the Fire Training Facility. Depreciation expense during the fiscal year was \$20,636 for governmental activities and \$35,889 for business type activities.

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

	Governmental Activities		Business Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$191,694	\$163,594	\$ 30,413	\$ 30,372	\$ 222,107	\$ 193,966
Buildings	72,179	49,807	157,155	159,075	229,334	208,883
Improvements other than Buildings	30,792	23,587	648,113	632,265	678,905	655,852
Machinery and equipment	25,299	14,478	16,673	13,861	41,972	28,339
Infrastructure	407,586	353,402	-	-	407,586	353,402
Construction in progress	64,986	55,326	95,952	42,064	160,938	97,390
Total	<u>\$792,536</u>	<u>\$660,194</u>	<u>\$948,306</u>	<u>\$877,637</u>	<u>\$1,740,842</u>	<u>\$1,537,831</u>

Additional information on the City's capital assets can be found in note 5 on page 42 of this report.

**Long-term debt.** At the end of the current fiscal year, the City had total debt outstanding of \$1,191,237 which includes bonded debt of \$1,136,231.

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

	Governmental Activities		Business Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Lease/Revenue Bonds	\$296,598	\$140,195	\$474,332	\$509,577	\$770,930	\$649,772
General Obligation Bonds	19,331	19,858	-	-	19,331	19,858
Pension Obligation Bonds	144,450	146,470	-	-	144,450	146,470
Certificates of Participation	192,874	55,571	-	-	192,874	55,571
Notes Payable	9,759	10,215	9,211	9,841	18,970	20,056
Capital Leases	4,929	6,008	253	317	5,182	6,325
Landfill Capping	-	-	3,121	3,444	3,121	3,444
Arbitrage Liability	-	-	1,343	-	1,343	-
Compensated Absences	34,063	31,656	-	-	34,063	31,656
Water Acquisition Rights	-	-	973	979	973	979
Total	<u>\$702,004</u>	<u>\$409,973</u>	<u>\$489,233</u>	<u>\$524,158</u>	<u>\$1,191,237</u>	<u>\$933,858</u>

The City's total debt increased by \$257,379 (28 percent) during the current fiscal year due to the issuance of \$160,507 in Revenue bonds and \$139,139 in Certificates of Participation.

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 \$451,055, after deducting the general obligation debt of \$19,331.

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 12.2% between fiscal year 2006 and fiscal year 2007.
- Property taxes increased between fiscal year 2006 and 2007 by 31% primarily as a result of new development, the expansion of redevelopment activity and increased assessed value.
- Unemployment in Riverside County is 6.5% as compared to 5.4% for 2006.
- 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 – 21.81% to 21.295%
  - Safety Plan – 28.015% to 28.405%

At the time of budget preparation for fiscal year 2008, the economic outlook for the City was considered to be very good. The General Fund Budget for fiscal year 2008 of approximately \$204 million was adopted as balanced, not having to utilize any reserves.

**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.