

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, 2012. 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 i 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 activities of the City and four blended component units, which consist of the Riverside Redevelopment Agency (which dissolved on January 31, 2012), Riverside Housing Authority, 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. The Successor Agency to the Redevelopment Agency of the City of Riverside (Successor Agency) is included as a fiduciary component unit since it would be misleading to exclude the Successor Agency due to the nature and significance of the relationship between the City and the Successor Agency. The activity of the Successor Agency is reported with the City's fiduciary funds, which is not included in the government-wide statements since the resources of those funds are *not* available to support the City's own programs.

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 sixteen 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 twelve 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 65-72 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 73-82 in this report.

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

Fiduciary funds. Fiduciary funds are used to account for situations where the City's role is purely custodial. Fiduciary 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. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements can be found on pages 33-34 of this report, and the combining statement for the agency fund can be found on page 83.

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 35 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		Business type		Total	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 417,734	\$ 620,030	\$ 901,982	\$ 930,414	\$ 1,319,716	\$ 1,550,444
Capital assets, net	1,271,805	1,214,316	1,413,797	1,338,272	2,685,602	2,552,588
Total assets	1,689,539	1,834,346	2,315,779	2,268,686	4,005,318	4,103,032
Current liabilities	85,513	91,317	176,488	137,667	262,001	228,984
Long-term liabilities	414,859	732,476	1,132,387	1,163,610	1,547,246	1,896,086
Total liabilities	500,372	823,793	1,308,875	1,301,277	1,809,247	2,125,070
Net asset:						
Invested in capital assets, net of related debt	1,066,855	1,019,892	666,919	654,974	1,733,774	1,674,866
Restricted	93,818	80,820	54,923	56,397	148,741	137,217
Unrestricted	28,494	(90,159)	285,062	256,038	313,556	165,879
Total net assets	<u>\$ 1,189,167</u>	<u>\$ 1,010,553</u>	<u>\$ 1,006,904</u>	<u>\$ 967,409</u>	<u>\$ 2,196,071</u>	<u>\$ 1,977,962</u>

The City's assets exceeded liabilities by \$2,196,071 at June 30, 2012, an increase of \$218,109 from June 30, 2011.

By far the largest portion of the City's net assets (79 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 (7 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, \$285,062 is held by the business type activities and \$28,494 is held by the governmental activities. Unrestricted net assets for governmental activities increased in total in comparison to the prior year, which is primarily attributable to the dissolution of the Riverside Redevelopment Agency.

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 that provided for the dissolution of all redevelopment agencies in the State of California. In accordance with the timeline set forth in the bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

The Successor Agency is a separate legal entity, which was formed to hold the assets of the former Redevelopment Agency pursuant to City Council actions taken on March 15, 2011 and January 10, 2012. The activity of the Successor Agency is overseen by an Oversight Board comprised of individuals appointed by various government agencies and the City of Riverside as Successor Agency of the former Redevelopment Agency.

The transfer of the assets and liabilities of the former redevelopment agency as of February 1, 2012 (effectively the same date as January 31, 2012) from governmental funds of the City to fiduciary funds was reported in the governmental funds as an extraordinary loss in the governmental fund financial statements. The receipt of these assets and liabilities as of January 31, 2012 was also reported in the private-purpose trust fund as an extraordinary loss. Because of the different measurement focus of the governmental funds and the measurement focus of the trust funds, the extraordinary loss recognized in the governmental funds was not the same as the extraordinary loss recognized in the fiduciary fund financial statements.

The City's total net assets increased by \$218,109 during the current fiscal year, which reflects growth in governmental activities (\$178,614) and growth in business type activities (\$39,495) activities. Governmental operating results is discussed on page 9 and business-type operating results is discussed on page 12.

On the following page is a condensed summary of activities of the City's governmental and business type operations for the period ended June 30, 2012 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		Business type		Total	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues:						
Charge for services	\$ 43,653	\$ 42,481	\$ 462,249	\$ 434,581	\$ 505,902	\$ 477,062
Operating Grants and Contributions	31,581	21,127	2,738	2,159	34,319	23,286
Capital Grants and Contributions	54,476	38,138	21,164	7,337	75,640	45,475
General Revenues:						
Sales taxes	47,701	44,157	-	-	47,701	44,157
Property taxes	74,179	100,802	-	-	74,179	100,802
Other taxes and fees	35,549	35,644	-	-	35,549	35,644
Investment income	4,440	7,439	11,405	17,548	15,845	24,987
Other	9,273	9,544	3,110	4,808	12,383	14,352
Total Revenues	<u>300,852</u>	<u>299,332</u>	<u>500,666</u>	<u>466,433</u>	<u>801,518</u>	<u>765,765</u>
Expenses:						
General government	48,731	72,606	-	-	48,731	72,606
Public safety	148,605	139,364	-	-	148,605	139,364
Highways and streets	35,342	32,131	-	-	35,342	32,131
Culture and recreation	54,594	50,017	-	-	54,594	50,017
Interest on long-term debt	25,262	33,638	-	-	25,262	33,638
Electric	-	-	288,799	275,922	288,799	275,922
Water	-	-	56,715	56,390	56,715	56,390
Sewer	-	-	43,702	42,276	43,702	42,276
Refuse	-	-	19,979	20,046	19,979	20,046
Airport	-	-	2,646	2,320	2,646	2,320
Transportation	-	-	3,667	3,493	3,667	3,493
Public parking	-	-	4,984	4,401	4,984	4,401
Total expenses	<u>312,534</u>	<u>327,756</u>	<u>420,492</u>	<u>404,848</u>	<u>733,026</u>	<u>732,604</u>
Increase (decrease)						
in net assets before transfers and extraordinary items	(11,682)	(28,424)	80,174	61,585	68,492	33,161
Transfers, net	40,679	34,378	(40,679)	(34,378)	-	-
Extraordinary items:						
Transfer of assets and liabilities to Successor Agency	98,022	-	-	-	98,022	-
Transfer of assets from Successor Agency	56,522	-	-	-	56,522	-
Assumption of obligation	(4,927)	-	-	-	(4,927)	-
Total changes in net assets	<u>178,614</u>	<u>5,954</u>	<u>39,495</u>	<u>27,207</u>	<u>218,109</u>	<u>33,161</u>
Net assets - beginning	1,010,553	1,004,599	967,409	940,202	1,977,962	1,944,801
Net assets - ending	<u>\$ 1,189,167</u>	<u>\$ 1,010,553</u>	<u>\$ 1,006,904</u>	<u>\$ 967,409</u>	<u>\$ 2,196,071</u>	<u>\$ 1,977,962</u>

Governmental activities. Net assets for governmental activities increased by \$178,614, accounting for an 18 percent increase in total net assets. Governmental net assets in the prior fiscal year increased by \$5,954. Key elements of this year's activity in relation to the prior year are as follows:

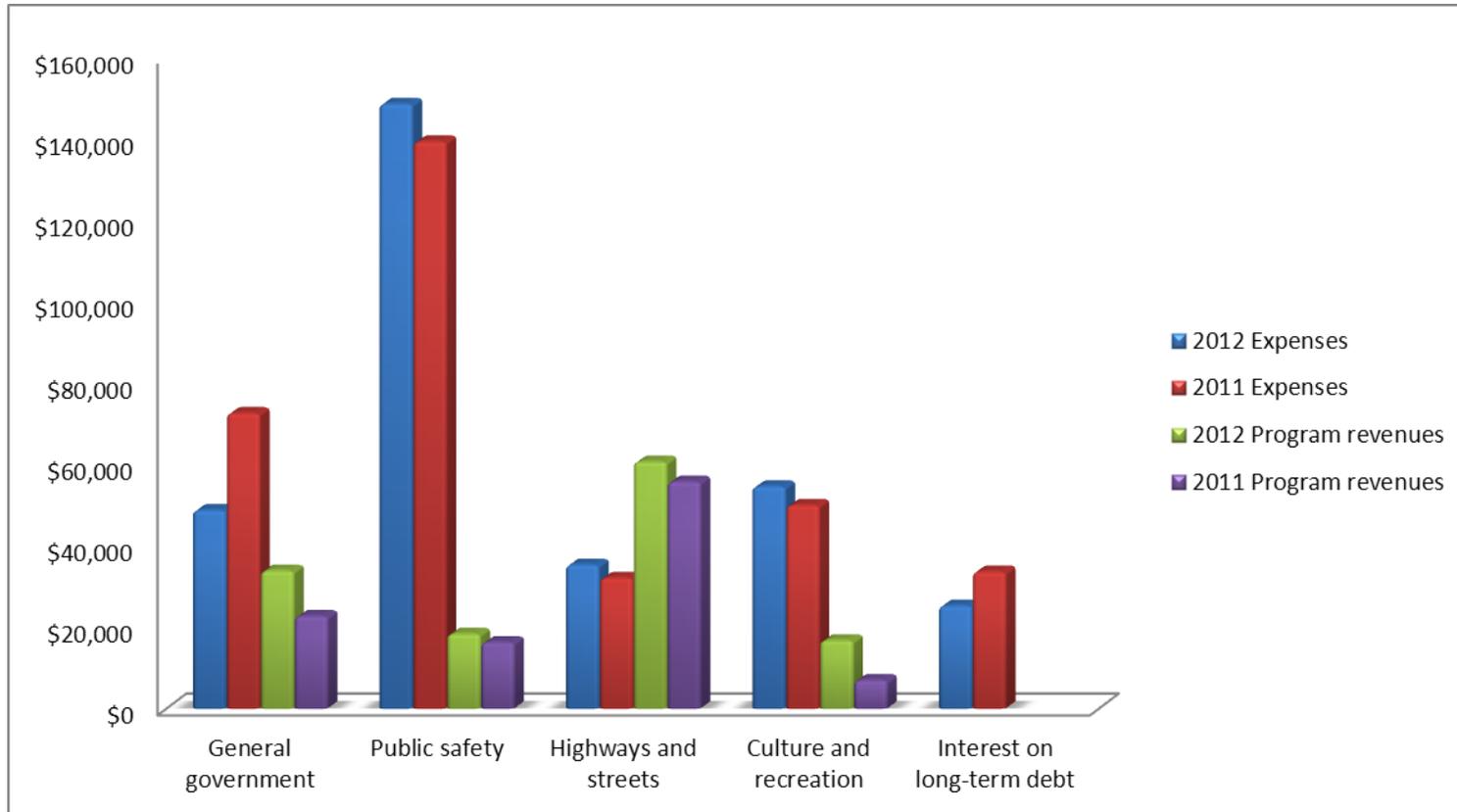
Revenues:

- While variances between years exist for the various revenue categories, the total net increase was approximately \$1.5 million, which is largely attributable to an increase in sales tax revenue. Sales tax revenue increased by \$3.5 million (8%) due to an increase in taxable sales. Higher fuel prices and usage, robust sales of new autos and rebounds in restaurants and general consumer goods helped boost overall receipts.

Expenses:

- While variances between years exist for the various expense functions, the total net decrease was approximately \$15.2 million. The more significant items are as follows:
 - In fiscal year 2010-11, payments from the redevelopment agency were made to the Supplemental Educational Revenue Augmentation Fund ("SERAF") in the amount of \$3.5 million as required by State Legislation. However, no such payment was made in the current fiscal year.
 - Decreased costs associated with interest expense of \$8.4 million, which primarily related to the dissolution of the Redevelopment Agency. The last five months of the fiscal year of the Redevelopment Agency was reported in the fiduciary trust fund of the Successor Agency, which reported interest expense of \$6.1 million. Additionally, the total amount of principal outstanding on debt decreased by approximately 8 percent (primarily related to the refunding of the 2011 Redevelopment Agency Tax Allocation Bonds) and therefore, the related interest paid decreased accordingly.

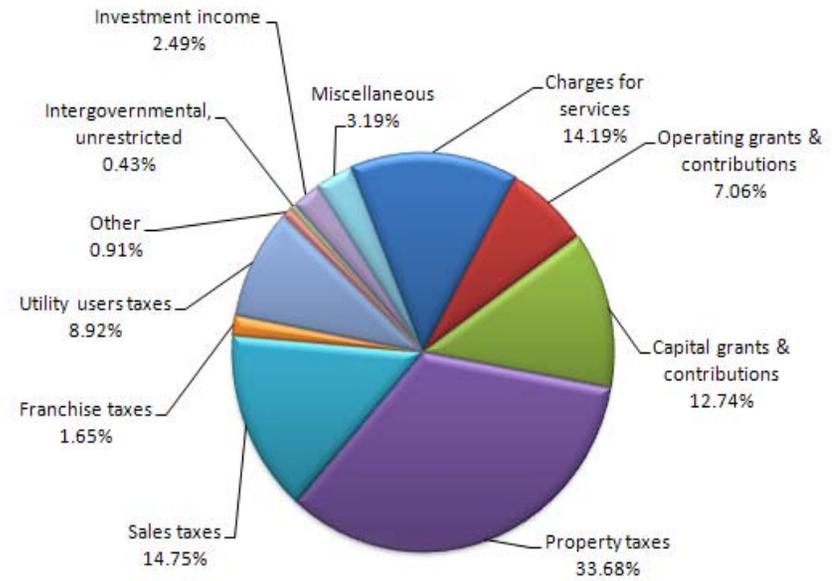
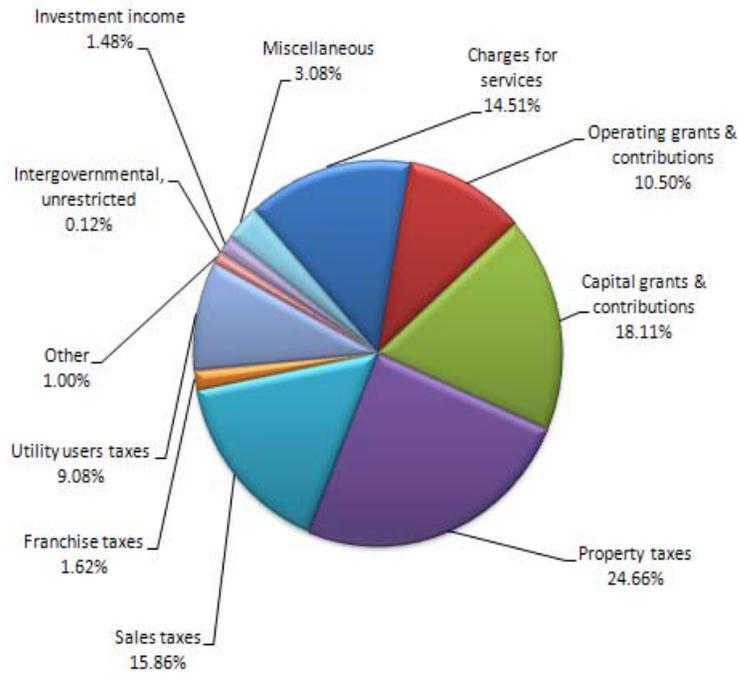
Expenses and Programs Revenues – Governmental Activities – Fiscal Year Comparison 2012 vs. 2011



Revenues by Source – Governmental Activities – Fiscal Year Comparison

2012

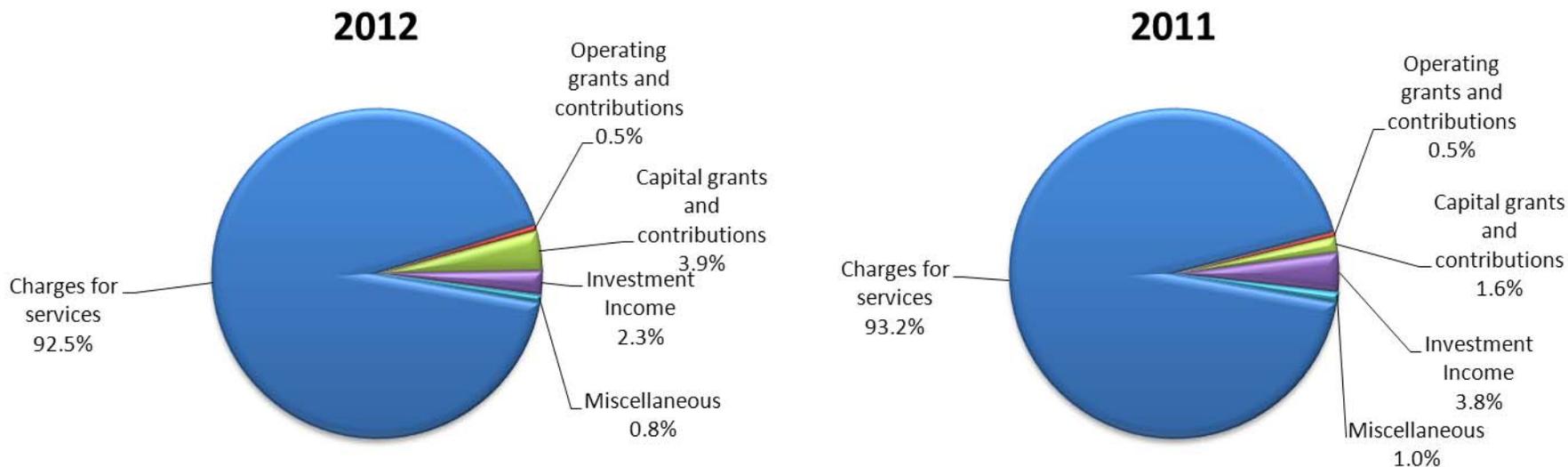
2011



Business-type activities. Business type activities increased the City’s net assets by \$39,495, accounting for a 4.1 percent increase in total net assets. The net assets of business type activities increased by \$27,207 in the prior year. Key elements of this year’s activity in relation to the prior year are as follows:

- In 2012, charges for services increased \$27,668 to \$462,249. The increase primarily related to increases in Electric, Sewer and Water revenues, which is explained in further detail as follows:
 - Electric charges for services increased by \$19,326 (6%). The increase was due to expanded customer base, a 4.6% increase in retail consumption and higher transmission revenues authorized by the Federal Energy Regulatory Commission.
 - Sewer charges for services increased by \$4,978 (15%). New rates and charges went into effect on July 1, 2011 for residential, commercial and industrial customers. Rates for basic single family and multi-family dwellings increased by 15%, which is the primary reason for the increase in Sewer charges for services.
 - Water charges for services increased by \$3,122 (5%). The increase was primarily due to a full year rate increase to support the Water Utility’s Master, Water Supply and Asset Management Plans as well as a 4.4% increase in retail consumption.
- Expenses increased \$14,459 primarily due to a \$13 million increase in Electric Utility operating expenses, which primarily related to an increase in interest expense, transmission costs and distribution expenses.

Revenues by Source – Business Type Activities – Fiscal Year Comparison



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, *unassigned 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, Redevelopment Debt Service, Capital Outlay, Redevelopment Capital Projects, and Other Governmental Funds. As previously mentioned, with the dissolution of the Redevelopment Agency all assets and liabilities of the Redevelopment Agency were transferred to the Successor Agency. 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	
	2012	2011	2012	2011	2012	2011
Total assets	\$ 123,992	\$ 212,468	\$ -	\$ 46,531	\$ 45,302	\$ 48,975
Total liabilities	\$ 49,742	\$ 51,625	\$ -	\$ 23,425	\$ 26,948	\$ 35,468
Fund balances						
Nonspendable	25,720	26,646	-	-	-	-
Restricted	2,803	82,249	-	23,106	18,354	13,507
Assigned	6,380	15,589	-	-	-	-
Unassigned	39,347	36,359	-	-	-	-
Total	74,250	160,843	-	23,106	18,354	13,507
Total liabilities and fund balances	\$ 123,992	\$ 212,468	\$ -	\$ 46,531	\$ 45,302	\$ 48,975
	Redevelopment Capital Projects		Other Governmental Funds		Total Governmental Funds	
	2012	2011	2012	2011	2012	2011
Total assets		\$ 126,943	\$ 121,028	\$ 130,744	\$ 290,322	\$ 565,661
Total liabilities		\$ 75,049	\$ 49,376	\$ 32,996	\$ 126,066	\$ 218,563
Fund balances						
Nonspendable		1	1,539	1,625	27,259	28,272
Restricted		51,893	70,113	96,123	91,270	266,878
Assigned	-	-	-	-	6,380	15,589
Unassigned	-	-	-	-	39,347	36,359
Total	-	51,894	71,652	97,748	164,256	347,098
Total liabilities and fund balances	\$ -	\$ 126,943	\$ 121,028	\$ 130,744	\$ 290,322	\$ 565,661

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$164,256, a decrease of \$182,842 in comparison with the prior year. This was primarily due to the dissolution of the Redevelopment Agency. Additionally, 17% of the fund balance (\$27,259) is *nonspendable*, which comprises the portion of fund balance that cannot be spent due to form. Approximately 56% (\$91,270) of fund balance is *restricted*, which represents the portion of fund balance that is subject to externally enforceable limitations by law, enabling legislation or limitations imposed by creditors or grantors. \$6,380 (4%) of fund balance is constrained by the City's intent to utilize fund balance for specific purposes, which is reported within the fund balance classification *assigned*. The remainder of the fund balance is *unassigned*, meaning it is available for spending at the City's discretion. Of that amount, \$33,000 has been set aside for future economic contingencies, leaving \$6,347; at June 30, 2011 the comparable amount was \$4,359.

The City's governmental funds reported combined total assets of \$290,322 at June 30, 2012, a decrease of \$275,339 in comparison with the prior year which was offset by a decrease of \$92,497 in total liabilities. The dissolution of the Redevelopment Agency was the primary reason for the overall decrease in related fund balances.

The General Fund is the principal operating fund of the City. At the end of the current fiscal year, total fund balance equaled \$74,250 in comparison to \$160,843 in the prior year. The portion of fund balance classified as unassigned was \$39,347, most of which was set aside for future economic contingencies. Fund balance decreased during the current year by \$86,593 in comparison to an increase of \$81,653 in the prior year. The primary reason for this is due to the return of \$76,334 of properties to the Redevelopment Agency Capital Projects Fund, which had been previously transferred to the General Fund in fiscal year 2010/11.

Fund balance for the Capital Outlay Fund increased by \$4,847. The primary reason for the increase is due to the issuance of debt to finance the Ryan Bonaminio Park improvements at the Tequesquite Arroyo.

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 \$219,198, \$61,859, and \$3,343 respectively. The total change in net assets for these funds was an increase of \$20,141, \$9,678 and \$597, respectively as a result of routine operations.

The Electric Fund reported strong operating results, with retail revenues exceeding the previous all-time record, primarily from the effects of an expanded customer base and a 4.6% increase in retail consumption which was partially offset by a reduction in investment income. Retail sales (residential, commercial, industrial, and other sales) represent 82.2% of total revenues. Retail sales, net of reserve/recovery were \$288,616 and \$278,406 for years ended June 30, 2012 and 2011, respectively. Total expenses, excluding transfers, increased \$13 million (4.7%), which primarily related to an increase in transmission costs and interest expense.

The Water Fund reported strong operating results, with retail sales exceeding the previous year's results. Retail sales (residential, commercial, industrial, and other sales) represent 80% of total revenues. Retail sales, net of reserve/recovery were \$59,620 and \$55,186 for years ended June 30, 2012 and 2011, respectively. The increase in sales was primarily due to a full year rate increase of 10% as part of the Water Utility's Master, Water Supply and Asset Management Plans and a 4.4% increase in retail consumption.

Net assets of the Sewer Fund increased by \$70 and decreased by \$5,418 for years ended June 30, 2012 and 2011, respectively. Total revenues increased by \$4,978 (15%) primarily as a result of a rate increase. However, total expenses increased by \$1,093 (3%) primarily as a result of an increase in routine operating expenses.

General Fund Budgetary Highlights

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Total Revenues	<u>\$171,238</u>	<u>\$188,090</u>	<u>\$175,549</u>	<u>(\$12,541)</u>
Expenditures:				
General Government	3,061	10,179	11,717	(1,538)
Public Safety	148,306	163,454	147,086	16,368
Highways & Streets	18,176	20,441	16,651	3,790
Culture & Recreation	27,405	32,069	28,814	3,255
Capital Outlay	153.00	2,202	1,140	1,062
Debt Service	14,138	45,082	44,804	278
Total Expenditures	<u>211,239</u>	<u>273,427</u>	<u>250,212</u>	<u>23,215</u>
Deficiency of Revenue Under Expenditures	(40,001)	(85,337)	(74,663)	10,674
Other Financing Sources	<u>40,001</u>	<u>(12,477)</u>	<u>(11,930)</u>	<u>547</u>
Net Change in Fund Balances	-	(97,814)	(86,593)	11,221
Beginning Fund Balance	<u>160,843</u>	<u>160,843</u>	<u>160,843</u>	-
Ending Fund Balance	<u>\$160,843</u>	<u>\$63,029</u>	<u>\$74,250</u>	<u>\$11,221</u>

Final budgeted revenues increased from the amount originally budgeted as a result of grant related programs and financing associated with capital projects. In addition, final budgeted expenditures increased from the amount originally budgeted as a result of grant related appropriations made during the year.

Actual amounts differed from the final fund budget as follows:

- Approximately \$9.5 million of grant revenue was budgeted but not actually received during the year since the related grant expenditures had not been incurred.
- Approximately \$2.9 million of miscellaneous revenue was budgeted but not actually received during the year. This was primarily due to lower than expected one-time revenues.
- Actual tax revenue was more than the amounts budgeted for sales taxes (\$4.2 million), property taxes (\$1 million), and utility user taxes (\$800 thousand) due to higher than anticipated taxable sales, assessed property values, and utility revenues.
- Actual expenditures were less than budgeted amounts by approximately \$23 million. This is primarily associated with a decrease in grant related expenditures and capital projects not completed during the year (which are carried over to the next fiscal year).

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for governmental and business type activities as of June 30, 2012 amounted to \$2,685,556 (net of accumulated depreciation). This investment includes land, intangibles, 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 \$133,014 (\$57,489 for governmental activities including internal service funds and \$75,525 for business type activities).

Major capital improvements during the current fiscal year included: new infrastructure, consisting primarily of street improvements (\$27 million); Sewer system improvements (\$8 million); Electric Utility upgrades (\$40 million) and Water Utility upgrades (\$40 million).

Construction in progress totaled \$153,609 at June 30, 2012. Some of the major projects in process are various Sewer system improvements including phase 1 of the Water Quality Control Plant and Santa Ana River Trunk Replacement, and the Riverside Transmission Reliability Project (RTRP) and related reliability improvements to the Riverside Public Utility's Sub-Transmission System. Depreciation expense during the fiscal year was \$39,594 for governmental activities and \$49,082 for business type activities.

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

	Governmental Activities		Business Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$322,060	\$290,692	\$34,924	\$34,905	\$356,984	\$325,597
Nuclear fuel	-	-	8,832	4,878	8,832	4,878
Intangibles	-	-	16,627	16,128	16,627	16,128
Buildings	123,128	123,319	143,678	144,579	266,806	267,898
Improvements other than Buildings	170,236	154,601	1,056,566	1,005,897	1,226,802	1,160,498
Machinery and equipment	20,064	19,754	26,227	29,114	46,291	48,868
Infrastructure	609,651	602,388	-	-	609,651	602,388
Construction in progress	26,666	23,562	126,943	102,771	153,609	126,333
Total	\$1,271,805	\$1,214,316	\$1,413,797	\$1,338,272	\$2,685,602	\$2,552,588

Additional information on the City's capital assets can be found in note 5 on page 45 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$1,547,245 which includes bonded debt of \$1,388,028.

City of Riverside's Long-Term Debt

	Governmental Activities		Business Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenue Bonds	\$0	\$305,195	\$1,041,739	\$1,071,554	\$1,041,739	\$1,376,749
General Obligation Bonds	16,107	16,845	-	-	16,107	16,845
Pension Obligation Bonds	127,480	132,095	-	-	127,480	132,095
Certificates of Participation	202,703	207,246	-	-	202,703	207,246
Notes Payable	-	7,749	29,680	31,178	29,680	38,927
Loans Payable	4,000	1,100	44,141	45,569	48,141	46,669
Capital Leases	5,220	6,670	1,332	1,720	6,552	8,390
Landfill Capping	-	-	6,695	6,915	6,695	6,915
Arbitrage Liability	-	-	190	102	190	102
Compensated Absences	21,674	21,153	-	-	21,674	21,153
Claims liability	27,542	26,615	-	-	27,542	26,615
Net OPEB Obligation	10,133	7,808	7,663	5,625	17,796	13,433
Water Acquisition Rights	-	-	947	947	947	947
Total	<u>\$414,859</u>	<u>\$732,476</u>	<u>\$1,132,387</u>	<u>\$1,163,610</u>	<u>\$1,547,246</u>	<u>\$1,896,086</u>

The City's total debt decreased by \$348,841 (18.4 percent) during the current fiscal year primarily due to the transfer of Redevelopment Agency Revenue Bonds to the Successor Agency Trust fund. The remaining decrease relates to payment of obligations related to Electric and Water Revenue Bonds.

The City's Water Utility maintains "AA+" and "AA" ratings, from Standard & Poors and Fitch, respectively, for their revenue bonds, while the Electric 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 limit was \$612,856 at June 30, 2012, which applies only to general obligation debt. At June 30, 2012, the City had \$16,107 of general obligation debt, resulting in available legal debt capacity of \$596,749.

Additional information on the City's long-term debt can be found in note 6 beginning on page 46 of this report.

Economic Factors and Next Year's Budget and Rates

- Unemployment in the City of Riverside is 13.7% as compared to 14.8% for the prior year.
- The required employer contribution rates for the City's retirement program will remain relatively flat next fiscal year, with the rates (as a percentage of payroll) changing effective July 1, 2012 as follows:
 - Miscellaneous Plan –18.438% to 18.277%. Employees are also required to contribute 8% of their annual covered salary. The City pays the employees' contribution for employees hired on or before specific dates as outlined in the notes to the financial statements.
 - Safety Plan – 25.303% to 25.091%. Employees are also required to contribute 9% of their annual covered salary. The City pays the employees' contribution for employees hired on or before specific dates as outlined in the notes to the financial statements.

At the time of budget preparation for fiscal year 2013, the economic outlook for the City was considered to be stable. The General Fund Budget for fiscal year 2013 of approximately \$220 million was adopted as balanced. It represents an increase from the prior year of approximately 4%, principally as a result of the absorption of costs previously funded by the Redevelopment Agency.

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 Finance Department, 3900 Main Street City of Riverside, CA 92522.

