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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, 2008, 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, 2008, 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
City of Riverside
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As described further in note 13 to the financial statements, the City changed its method of accounting for post employment benefits for fiscal years ending on or after June 30, 2008.

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 3, 2008 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.

Mayor Hoffman McCarroll & Co.

Irvine, California
October 3, 2008

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, 2008. 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 nineteen 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 Projects Fund all 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 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.

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 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 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>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current and other assets	\$ 780,914	\$ 814,979	\$ 658,447	\$ 454,149	\$ 1,439,361	\$ 1,269,128
Capital assets, net	<u>966,068</u>	<u>792,536</u>	<u>1,050,010</u>	<u>948,306</u>	<u>2,016,078</u>	<u>1,740,842</u>
Total assets	<u>1,746,982</u>	<u>1,607,515</u>	<u>1,708,457</u>	<u>1,402,455</u>	<u>3,455,439</u>	<u>3,009,970</u>
Current liabilities	116,917	118,973	102,776	92,584	219,693	211,557
Long-term liabilities	<u>708,079</u>	<u>702,004</u>	<u>735,059</u>	<u>489,233</u>	<u>1,443,138</u>	<u>1,191,237</u>
Total liabilities	<u>824,996</u>	<u>820,977</u>	<u>837,835</u>	<u>581,817</u>	<u>1,662,831</u>	<u>1,402,794</u>
Net assets:						
Invested in capital assets, net of related debt	887,964	712,801	541,671	520,059	1,429,635	1,232,860
Restricted	377,137	415,618	82,262	57,613	459,399	473,231
Unrestricted	<u>(343,115)</u>	<u>(341,881)</u>	<u>246,689</u>	<u>242,966</u>	<u>(96,426)</u>	<u>(98,915)</u>
Total net assets	<u>\$921,986</u>	<u>\$786,538</u>	<u>\$870,622</u>	<u>\$820,638</u>	<u>\$1,792,608</u>	<u>\$1,607,176</u>

The City's assets exceeded liabilities by \$1,792,608 at June 30, 2008, an increase of \$185,432 from June 30, 2007.

By far the largest portion of the City's net assets (80 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 (26 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, \$246,689 is held by the business type activities; and negative \$343,115 is held by the governmental activities. The Riverside Redevelopment Agency (the Agency), a blended component unit of the City, represents \$261,344 of negative unrestricted net assets for 2008 and was a negative \$276,012 in the prior year. The remaining governmental activities of the City have

negative unrestricted net assets of \$81,771 in 2008 and negative \$65,869 in 2007. This decrease in unrestricted net assets is primarily due to the restriction of net assets 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 \$185,432 during the current fiscal year, which reflects the growth in both the governmental (\$135,448) and business type (\$49,984) activities. This is primarily due to continued investment by the City in its infrastructure, which is largely funded by grants and dedicated revenue sources.

The following is a condensed summary of activities of the City's governmental and business type operations for the period ended June 30, 2008 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	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program Revenues:						
Charges for services	\$ 57,958	\$ 61,520	\$399,421	\$370,854	\$457,379	\$ 432,374
Operating Grants and Contributions	15,024	12,101	3,308	1,939	18,332	14,040
Capital Grants and Contributions	48,186	10,557	29,215	40,066	77,401	50,623
General Revenues:						
Sales taxes	50,526	55,666	-	-	50,526	55,666
Property taxes	120,646	106,114	-	-	120,646	106,114
Other taxes and fees	37,108	35,859	-	-	37,108	35,859
Grants and contributions not restricted to specific programs	67,796	29,743	-	-	67,796	29,743
Other	<u>35,280</u>	<u>22,810</u>	<u>27,687</u>	<u>20,486</u>	<u>62,967</u>	<u>43,296</u>
Total revenues	<u>432,524</u>	<u>334,370</u>	<u>459,631</u>	<u>433,345</u>	<u>892,155</u>	<u>767,715</u>
Expenses:						
General government	76,313	80,353	-	-	76,313	80,353
Public safety	143,337	134,062	-	-	143,337	134,062
Highways and streets	36,978	28,944	-	-	36,978	28,944
Culture and recreation	38,699	32,964	-	-	38,699	32,964
Interest on long-term debt	34,075	26,378	-	-	34,075	26,378
Electric	-	-	271,411	232,346	271,411	232,346
Water	-	-	47,570	42,108	47,570	42,108
Sewer	-	-	31,209	29,510	31,209	29,510
Refuse	-	-	18,430	16,490	18,430	16,490
Airport	-	-	1,418	1,201	1,418	1,201
Transportation	-	-	3,190	2,831	3,190	2,831
Public Parking	-	-	4,093	3,762	4,093	3,762
Total expenses	<u>329,402</u>	<u>302,701</u>	<u>377,321</u>	<u>328,248</u>	<u>706,723</u>	<u>630,949</u>
Increase in net assets before transfers:	103,122	31,669	82,310	105,097	185,432	136,766
Transfers	<u>32,326</u>	<u>31,171</u>	<u>(32,326)</u>	<u>(31,171)</u>	-	-
Increase in net assets	135,448	62,840	49,984	73,926	185,432	136,766
Net assets – beginning	<u>786,538</u>	<u>723,698</u>	<u>820,638</u>	<u>746,712</u>	<u>1,607,176</u>	<u>1,470,410</u>
Net assets – ending	<u>\$921,986</u>	<u>\$786,538</u>	<u>\$870,622</u>	<u>\$820,638</u>	<u>\$1,792,608</u>	<u>\$1,607,176</u>

Governmental activities. Governmental activities increased the City's net assets by \$135,448 accounting for 73 percent of the total growth in net assets. The net assets in the prior fiscal year increased by \$62,840. Key elements of this year's activity in relation to the prior year are as follows:

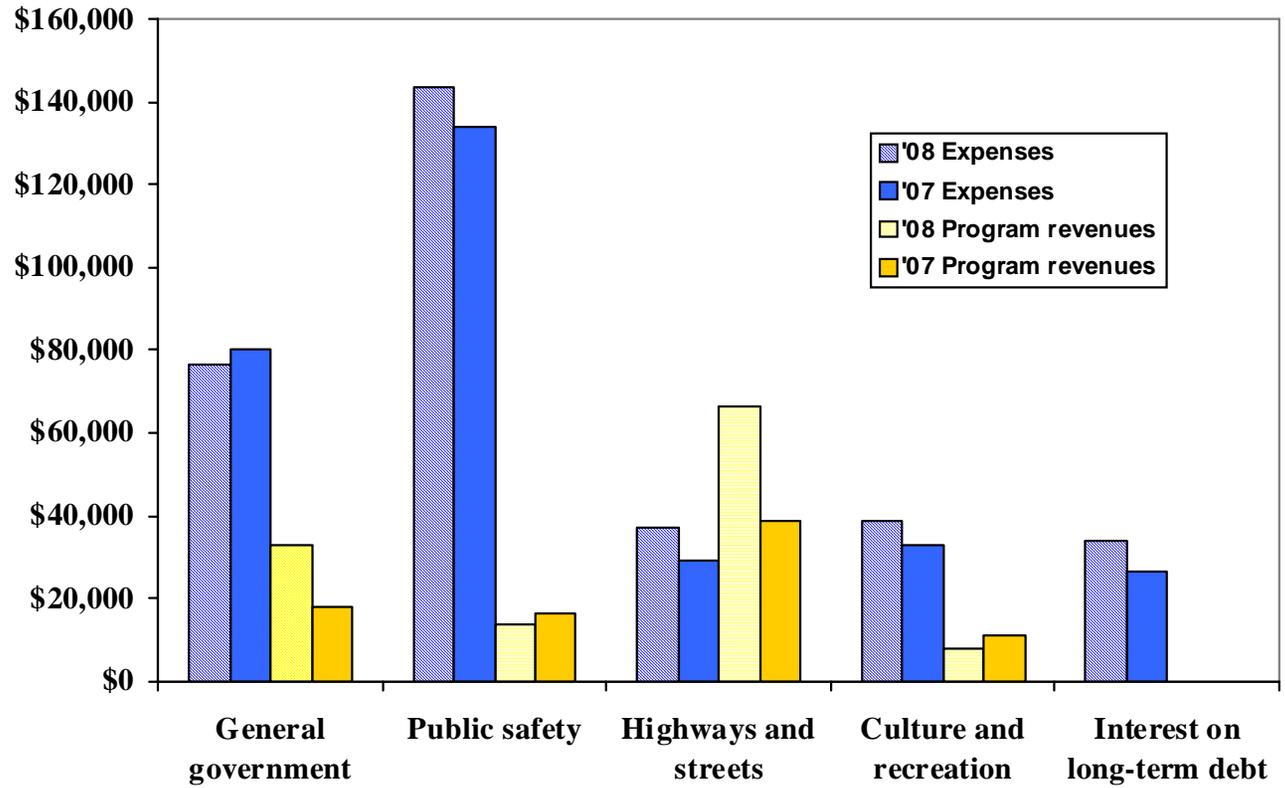
Revenues:

- Operating and capital grants and contributions, in total, increased approximately \$4,300 in 2008 primarily due to increased grant funding for capital projects.
- Sales taxes decreased approximately \$5,100 in 2008 due to the current downturn in the economy.
- Property taxes increased approximately \$14,500 in 2008, principally because of increased property values and the expansion of redevelopment activities.
- Grants and contributions not restricted to specific programs increased approximately \$38,100 mainly due to an increase in developer contributed assets.
- The total net increase in Other general revenues was approximately \$12,500 primarily due to an increase in rental and investment income.

Expenditures and Transfers:

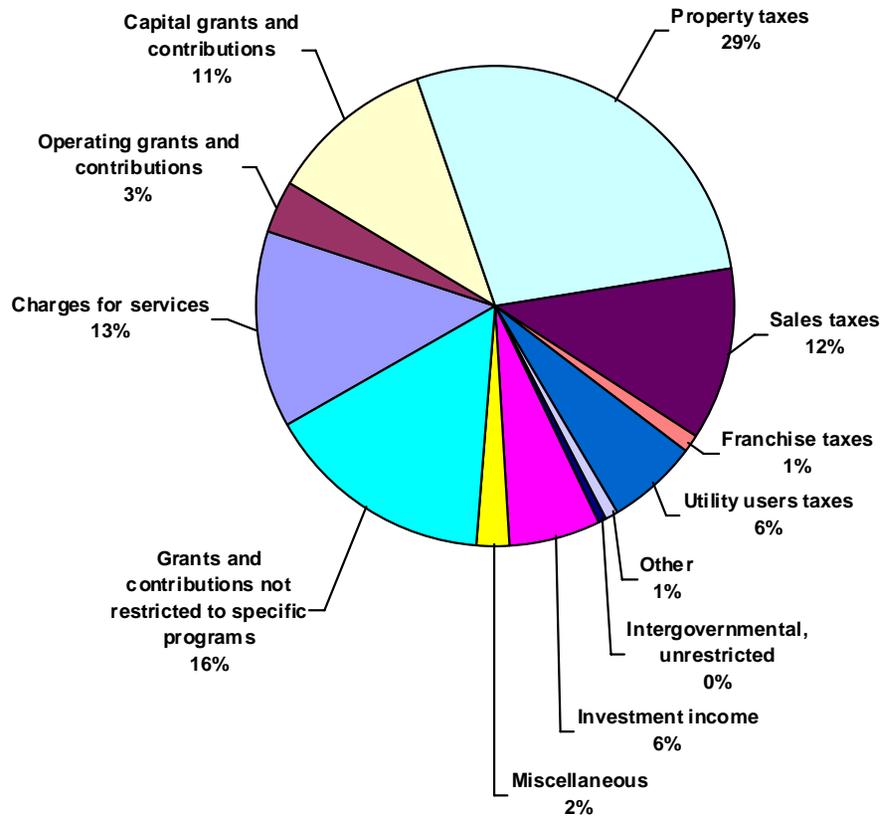
- While significant variances between years exist for the various expense functions, the total net increase was approximately \$27 million. The more significant items are: (1) increased salaries and benefits and (2) increased costs associated with capital projects and development activities. Transfers to governmental funds increased \$1,155 primarily due to increased operating revenue realized by the Electric and Water funds.

Expenses and Programs Revenues – Governmental Activities – Fiscal Year Comparison 2008 vs. 2007

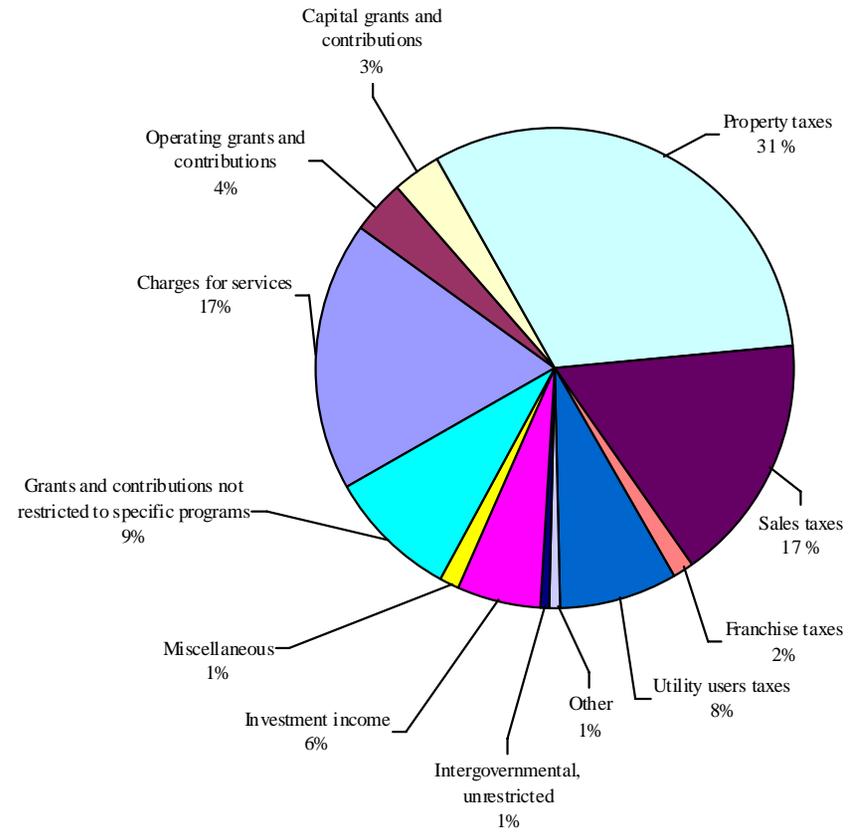


Revenues by Source – Governmental Activities – Fiscal Year Comparison

2008



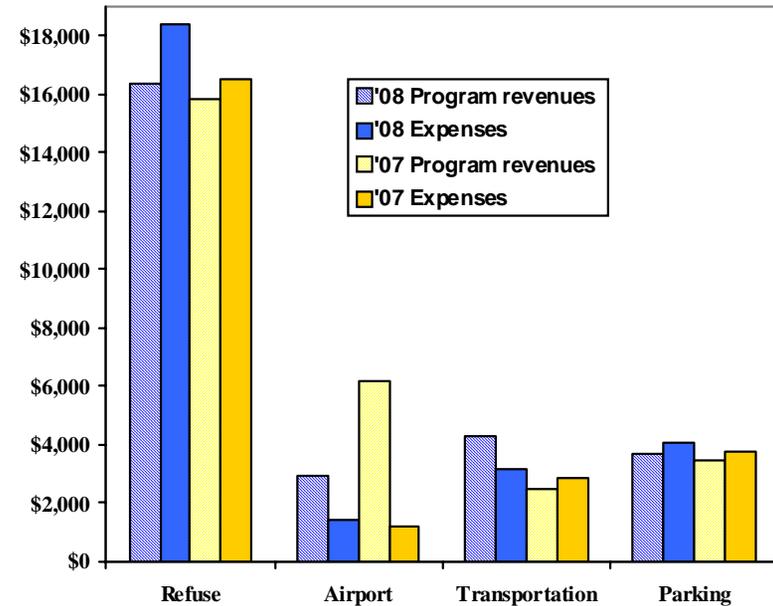
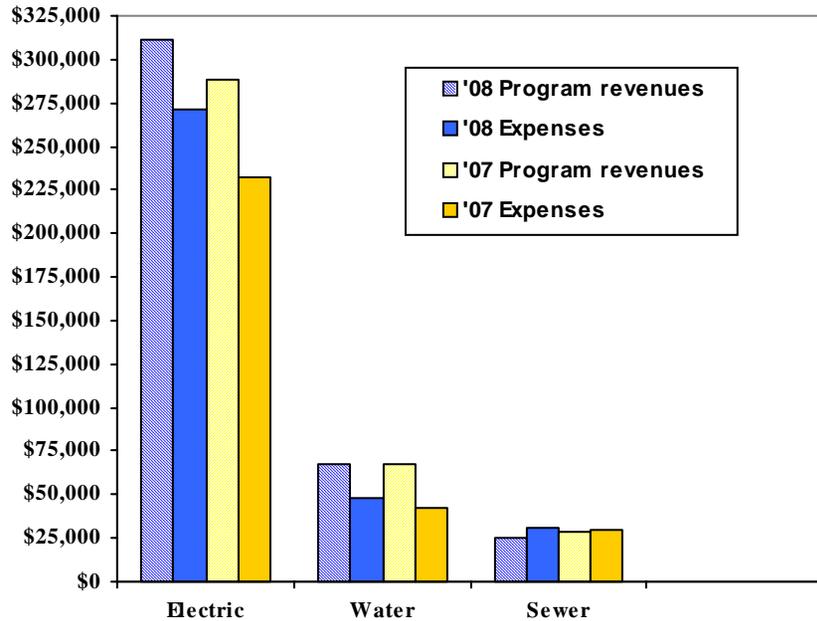
2007



Business type activities. Business type activities increased the City’s net assets by \$49,984, accounting for 27 percent of the total growth in net assets. The net assets of business type activities increased by \$73,926 in the prior year. Key elements of this year’s increase in relation to the prior year are as follows:

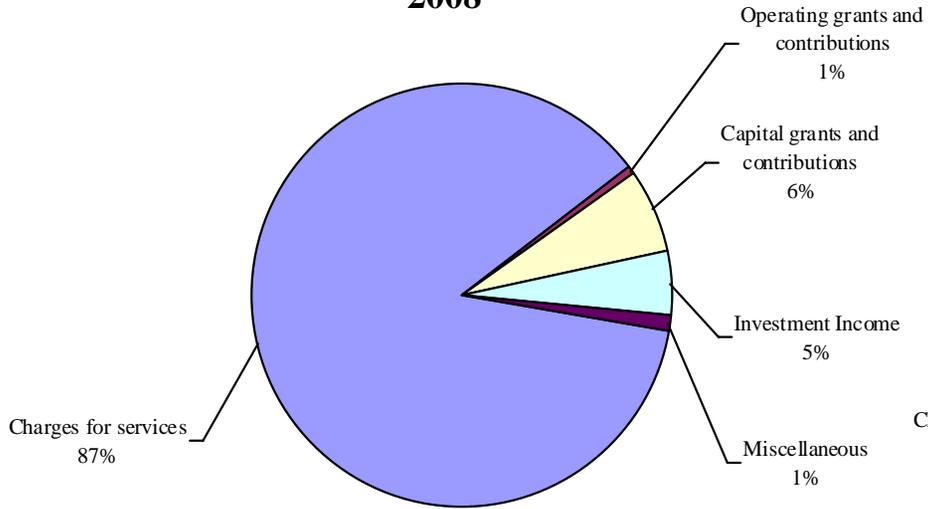
- In 2008, charges for services increased \$28,567 to \$399,421 primarily due to an increase in the volume of electric and water sales, an electric rate increase, and the continued implementation of the five year Safe W.A.T.E.R. rate plan with a 10% rate increase in 2008.
- Capital grants and contributions decreased \$10,851 in the current year to \$29,215. The decrease is due primarily to a one-time City contribution for the construction of a fiber optic network in 2007.
- Other revenues increased by \$7 million mainly due to an increase in interest income.
- The total net increase in expenses in Business type activities was approximately \$49 million due to increased staffing, professional services and maintenance costs.

Expenses and Program Revenues – Business Type Activities – Fiscal Year Comparison 2008 vs. 2007

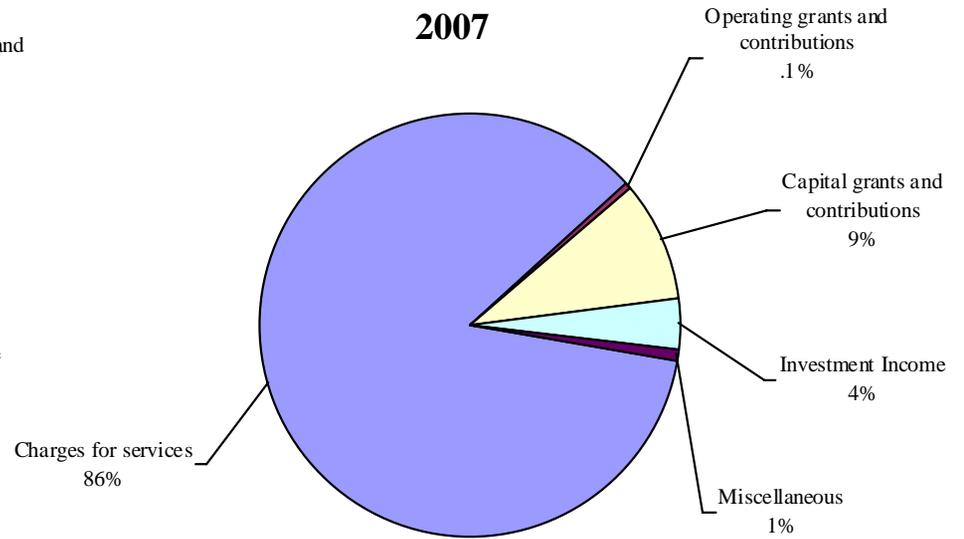


Revenues by Source – Business Type Activities – Fiscal Year Comparison

2008



2007



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, Redevelopment Debt Service, Riverside Municipal Improvements Corporation, Capital Outlay, Redevelopment Capital Projects, 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		Riverside Muni. Improvements Corp.			
	2008	2007	2008	2007	2008	2007		
Total assets	\$ 156,184	\$ 178,892	\$ 49,315	\$ 38,185	\$ 18,194	\$ 14,145		
Total liabilities	\$ 74,967	\$ 84,126	\$ 25,596	\$ 27,457	\$ 80	\$ -		
Fund balances								
Reserved	36,025	50,631	23,719	10,728	18,114	14,145		
Unreserved:								
Designated for economic cont.	34,000	34,000	-	-	-	-		
Designated for future operations	11,192	10,135	-	-	-	-		
Undesignated	-	-	-	-	-	-		
Total	81,217	94,766	23,719	10,728	18,114	14,145		
Total liabilities and fund balances	\$ 156,184	\$ 178,892	\$ 49,315	\$ 38,185	\$ 18,194	\$ 14,145		

	Capital Outlay		Redevelopment Capital Projects		Other Governmental Funds		Total Governmental Funds	
	2008	2007	2008	2007	2008	2007	2008	2007
Total assets	\$ 115,182	\$ 142,152	\$ 233,402	\$ 235,973	\$ 90,783	\$ 98,422	\$ 663,060	\$ 707,769
Total liabilities	\$ 14,466	\$ 6,952	\$ 40,748	\$ 35,135	\$ 23,389	\$ 29,392	\$ 179,246	\$ 183,062
Fund balances								
Reserved	59,189	28,586	73,963	39,846	20,097	15,076	231,107	159,012
Unreserved:								
Designated for economic cont.	-	-	-	-	-	-	34,000	34,000
Designated for future operations	23,756	20,751	119,891	154,923	23,891	22,665	178,730	208,474
Undesignated	17,771	85,863	(1,200)	6,069	23,406	31,289	39,977	123,221
Total	100,716	135,200	192,654	200,838	67,394	69,030	483,814	524,707
Total liabilities and fund balances	\$ 115,182	\$ 142,152	\$ 233,402	\$ 235,973	\$ 90,783	\$ 98,422	\$ 663,060	\$ 707,769

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$663,060, a decrease of \$44,709 in comparison with the prior year. About 35% of this amount (\$231,107) 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, \$212,730 has been designated for specific capital projects and economic contingencies, leaving \$39,977 without a commitment; at June 30, 2007 the comparable amount was \$123,221.

The General Fund is the principal operating fund of the City. At the end of the current fiscal year, the unreserved fund balance was \$45,192, most of which was designated for future operations and economic contingencies, leaving \$939 unreserved and undesignated; the comparable number at June 30, 2007 was \$0. The total fund balance equaled \$81,217 at June 30, 2008, a decrease of \$13,549 from the prior year. This decrease was primarily due to planned spending for capital projects.

The Redevelopment debt service fund has a total fund balance of \$23,719 all of which is reserved for the payment of debt service. A net increase 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 \$146,439, \$37,885, and \$41,733 respectively. The total growth in net assets for these funds was an increase of \$8,731, a decrease of \$9,065 and an increase of \$32,199, respectively as a result of routine operations. The City Council recently approved an increase in the sewer rate structure to avoid continuing deficits in the Sewer Fund.

General Fund Budgetary Highlights

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Total Revenues	<u>\$203,806</u>	<u>\$218,622</u>	<u>\$195,570</u>	<u>\$ (23,052)</u>
Expenditures:				
General Government	60,128	35,841	14,084	21,757
Public Safety	151,724	165,809	157,816	7,993
Highways & Streets	26,352	26,606	25,908	698
Culture & Recreation	38,652	42,395	37,219	5,176
Debt Service	<u>17,552</u>	<u>23,509</u>	<u>17,961</u>	<u>5,548</u>
Total Expenditures	<u>294,408</u>	<u>294,160</u>	<u>252,988</u>	<u>41,172</u>
Deficiency of Revenue Under				
Expenditures	(90,602)	(75,538)	(57,418)	18,120
Other Financing Sources	<u>61,639</u>	<u>73,003</u>	<u>43,869</u>	<u>(29,134)</u>
Net Change in Fund Balances	(28,963)	(2,535)	(13,549)	(11,014)
Beginning Fund Balance	<u>94,766</u>	<u>94,766</u>	<u>94,766</u>	<u>-</u>
Ending Fund Balance	<u>\$ 65,803</u>	<u>\$ 92,231</u>	<u>\$81,217</u>	<u>\$(11,014)</u>

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

Actual amounts differed from the Final Fund budget as follows:

- Actual total revenues were less than the amount budgeted due to (1) lower than anticipated development activity within the City resulting in decreased sales taxes, property taxes, and licenses and permits, (2) intergovernmental revenue was under budget due to the timing of receipts for grant funded projects, and (3) revenue from the Red Light Photo Enforcement Program was lower than anticipated.
- Budgeted expenditures exceeded actual amounts by approximately \$41,000. As in prior years, this excess is primarily associated with capital projects not being completed by year-end. Such projects and related amounts are carried over to the next fiscal year.
- The net effect of all of the above was that the ending fund balance decreased \$11,014 more than anticipated.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for governmental and business type activities as of June 30, 2008 amounted to \$2,016,078 (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 \$275,236 (\$173,532 for governmental activities including internal service funds and \$101,704 for business type activities).

Major capital improvements during the current fiscal year included: new infrastructure, consisting primarily of street improvements (\$55,425); Sewer Mains (\$6,681); Electric Utility upgrades (\$58,447); Water Utility upgrades (\$39,959); public improvements to the Galleria Mall (\$15,274); Reid Park Improvements (\$7,012); Arlington Branch Library (\$6,992); Orange Terrace Park Improvements (\$5,712); and the Fire Training Facility (\$9,479).

Construction in progress totaled \$193,321 at June 30, 2008. Some of the major projects in process are the Riverside Energy Resource Center Power Plant Units 3 & 4, a 203 KV Transmission Substation, the John W. North Water Treatment Plant, the Orange Terrace Community Center, the Fox Theatre, and City Hall Improvements. Depreciation expense during the fiscal year was \$25,449 for governmental activities and \$38,898 for business type activities.

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

	Governmental Activities		Business Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$250,582	\$191,694	\$ 37,198	\$ 30,413	\$ 287,780	\$ 222,107
Buildings	91,239	72,179	153,859	157,155	245,098	229,334
Improvements other than Buildings	63,022	30,792	728,835	648,113	791,857	678,905
Machinery and equipment	28,398	25,299	21,458	16,673	49,856	41,972
Infrastructure	448,165	407,586	-	-	448,165	407,586
Construction in progress	<u>84,661</u>	<u>64,986</u>	<u>108,660</u>	<u>95,952</u>	<u>193,321</u>	<u>160,938</u>
Total	<u>\$966,068</u>	<u>\$792,536</u>	<u>\$1,050,010</u>	<u>\$948,306</u>	<u>\$2,016,078</u>	<u>\$1,740,842</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 \$1,443,138 which includes bonded debt of \$1,374,210.

City of Riverside's Long-Term Debt

	Governmental Activities		Business Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Lease/Revenue Bonds	\$292,244	\$296,598	\$720,749	\$482,930	\$1,012,993	\$779,528
General Obligation Bonds	18,774	19,331	-	-	18,774	19,331
Pension Obligation Bonds	142,170	144,450	-	-	142,170	144,450
Certificates of Participation	200,273	192,874	-	-	200,273	192,874
Notes Payable	9,040	9,759	8,569	9,211	17,609	18,970
Capital Leases	9,391	4,929	211	253	9,602	5,182
Landfill Capping	-	-	2,881	3,121	2,881	3,121
Arbitrage Liability	-	-	481	1,343	481	1,343
Compensated Absences	34,295	34,063	-	-	34,295	34,063
Net OPEB Obligation	1,892	-	1,204	-	3,096	-
Water Acquisition Rights	-	-	964	974	964	974
Total	<u>\$708,079</u>	<u>\$702,004</u>	<u>\$735,059</u>	<u>\$497,832</u>	<u>\$1,443,138</u>	<u>\$1,199,836</u>

The City's total debt increased by \$243,302 (20 percent) during the current fiscal year due to the issuance of \$267,975 in 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 margin for the City is \$512,184, after deducting the general obligation debt of \$18,774.

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 9.5% between fiscal year 2007 and fiscal year 2008.
- Property taxes increased between fiscal year 2007 and 2008 by 20% primarily as a result of new development, the expansion of redevelopment activity and increased assessed value.
- Unemployment in Riverside County is 8.3% as compared to 6.5% for 2007.
- 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, 2008 as follows:
 - Miscellaneous Plan – 23.00% to 24.00%
 - Safety Plan – 31.00% to 31.70%

At the time of budget preparation for fiscal year 2009, the economic outlook for the City was considered to be stable. The General Fund Budget for fiscal year 2009 of approximately \$215 million was adopted as balanced, not having to utilize any reserves. However, it represents a reduction from the prior year of approximately 5%, principally as a result of a projected reduction in sales taxes.

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.