

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, 2010. 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 City and its component units. The City's component units are the Riverside Redevelopment Agency, 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.

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 COPS 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 67-74 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 75-84 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 85.

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 | |
|--|----------------------------|--------------------|-----------------------------|------------------|--------------------|--------------------|
| | 2010 | 2009* | 2010 | 2009* | 2010 | 2009* |
| Current and other assets | \$ 645,237 | \$ 699,419 | \$ 867,615 | \$ 571,294 | \$ 1,512,852 | \$ 1,270,713 |
| Capital assets, net | <u>1,168,832</u> | <u>1,114,814</u> | <u>1,220,188</u> | <u>1,147,793</u> | <u>2,389,020</u> | <u>2,262,607</u> |
| Total assets | <u>1,814,069</u> | <u>1,814,233</u> | <u>2,087,803</u> | <u>1,719,087</u> | <u>3,901,872</u> | <u>3,533,320</u> |
| Current liabilities | 98,782 | 105,303 | 157,389 | 120,723 | 256,171 | 226,026 |
| Long-term liabilities | <u>710,688</u> | <u>701,392</u> | <u>990,212</u> | <u>692,434</u> | <u>1,700,900</u> | <u>1,393,826</u> |
| Total liabilities | <u>809,470</u> | <u>806,695</u> | <u>1,147,601</u> | <u>813,157</u> | <u>1,957,071</u> | <u>1,619,852</u> |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 976,614 | 950,496 | 660,619 | 659,904 | 1,637,233 | 1,610,400 |
| Restricted | 108,932 | 98,903 | 59,863 | 38,621 | 168,795 | 137,524 |
| Unrestricted | <u>(80,947)</u> | <u>(41,861)</u> | <u>219,720</u> | <u>207,405</u> | <u>138,773</u> | <u>165,544</u> |
| Total net assets | <u>\$1,004,599</u> | <u>\$1,007,538</u> | <u>\$940,202</u> | <u>\$905,930</u> | <u>\$1,944,801</u> | <u>\$1,913,468</u> |

* Certain reclassifications of prior year data have been made in order to enhance their comparability with current year figures.

The City's assets exceeded liabilities by \$1,944,801 at June 30, 2010, an increase of \$31,333 from June 30, 2009.

By far the largest portion of the City's net assets (84 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 (9 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, \$219,720 is held by the business type activities; and negative \$80,947 is held by the governmental activities. The Riverside Redevelopment Agency (the Agency), a blended component unit of the City, represents \$81,490 of negative unrestricted net assets for 2010 and was a negative \$62,115 in the prior year. The remaining governmental activities of the City have positive

unrestricted net assets of \$543 in 2010 and positive \$20,254 in 2009. This decrease in unrestricted net assets is partly due to an increase in deficit net assets of the Public Liability Internal Service Fund.

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

The City's total net assets increased by \$31,333 during the current fiscal year, which reflects a reduction in governmental activities (\$2,939) and growth in business type activities (\$34,272) activities. Governmental operating results is discussed on page 9 and business-type operating results is discussed on page 15.

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, 2010 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 | |
|---|----------------------------|--------------------|-----------------------------|------------------|--------------------|--------------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for services | \$ 41,324 | \$ 39,664 | \$420,017 | \$416,628 | \$461,341 | \$456,292 |
| Operating Grants and Contributions | 32,853 | 23,313 | 2,487 | 1,929 | 35,340 | 25,242 |
| Capital Grants and Contributions | 23,395 | 69,745 | 6,838 | 17,288 | 30,233 | 87,033 |
| General Revenues: | | | | | | |
| Sales taxes | 39,645 | 41,882 | - | - | 39,645 | 41,882 |
| Property taxes | 104,087 | 116,420 | - | - | 104,087 | 116,420 |
| Other taxes and fees | 34,279 | 38,589 | - | - | 34,279 | 38,589 |
| Investment income | 11,405 | 15,941 | 21,271 | 23,402 | 32,676 | 39,343 |
| Other | 228 | 5,137 | 7,447 | 4,590 | 7,675 | 9,727 |
| Total revenues | <u>287,216</u> | <u>350,691</u> | <u>458,060</u> | <u>463,837</u> | <u>745,276</u> | <u>814,528</u> |
| Expenses: | | | | | | |
| General government | 119,676 | 102,665 | - | - | 119,676 | 102,665 |
| Public safety | 118,868 | 127,350 | - | - | 118,868 | 127,350 |
| Highways and streets | 22,036 | 18,731 | - | - | 22,036 | 18,731 |
| Culture and recreation | 37,679 | 24,121 | - | - | 37,679 | 24,121 |
| Interest on long-term debt | 32,049 | 34,361 | - | - | 32,049 | 34,361 |
| Electric | - | - | 256,860 | 269,209 | 256,860 | 269,209 |
| Water | - | - | 55,402 | 53,931 | 55,402 | 53,931 |
| Sewer | - | - | 41,248 | 34,853 | 41,248 | 34,853 |
| Refuse | - | - | 20,527 | 18,425 | 20,527 | 18,425 |
| Airport | - | - | 2,206 | 1,734 | 2,206 | 1,734 |
| Transportation | - | - | 3,368 | 3,194 | 3,368 | 3,194 |
| Public Parking | - | - | 4,024 | 5,095 | 4,024 | 5,095 |
| Total expenses | <u>330,308</u> | <u>307,228</u> | <u>383,635</u> | <u>386,441</u> | <u>713,943</u> | <u>693,669</u> |
| Increase (decrease) in net assets and transfers: | | | | | | |
| Transfers | (43,092) | 43,463 | 74,425 | 77,396 | 31,333 | 120,859 |
| Transfers | <u>40,153</u> | <u>42,087</u> | <u>(40,153)</u> | <u>(42,087)</u> | <u>-</u> | <u>-</u> |
| Increase (decrease) in net assets | (2,939) | 85,550 | 34,272 | 35,309 | 31,333 | 120,859 |
| Net assets – beginning | <u>1,007,538</u> | <u>921,988</u> | <u>905,930</u> | <u>870,621</u> | <u>1,913,468</u> | <u>1,792,609</u> |
| Net assets – ending | <u>\$1,004,599</u> | <u>\$1,007,538</u> | <u>\$940,202</u> | <u>\$905,930</u> | <u>\$1,944,801</u> | <u>\$1,913,468</u> |

Governmental activities. Net assets for governmental activities decreased by \$2,939, accounting for a 0.2 percent decrease in total net assets. Governmental net assets in the prior fiscal year increased by \$85,550. Key elements of this year's activity in relation to the prior year are as follows:

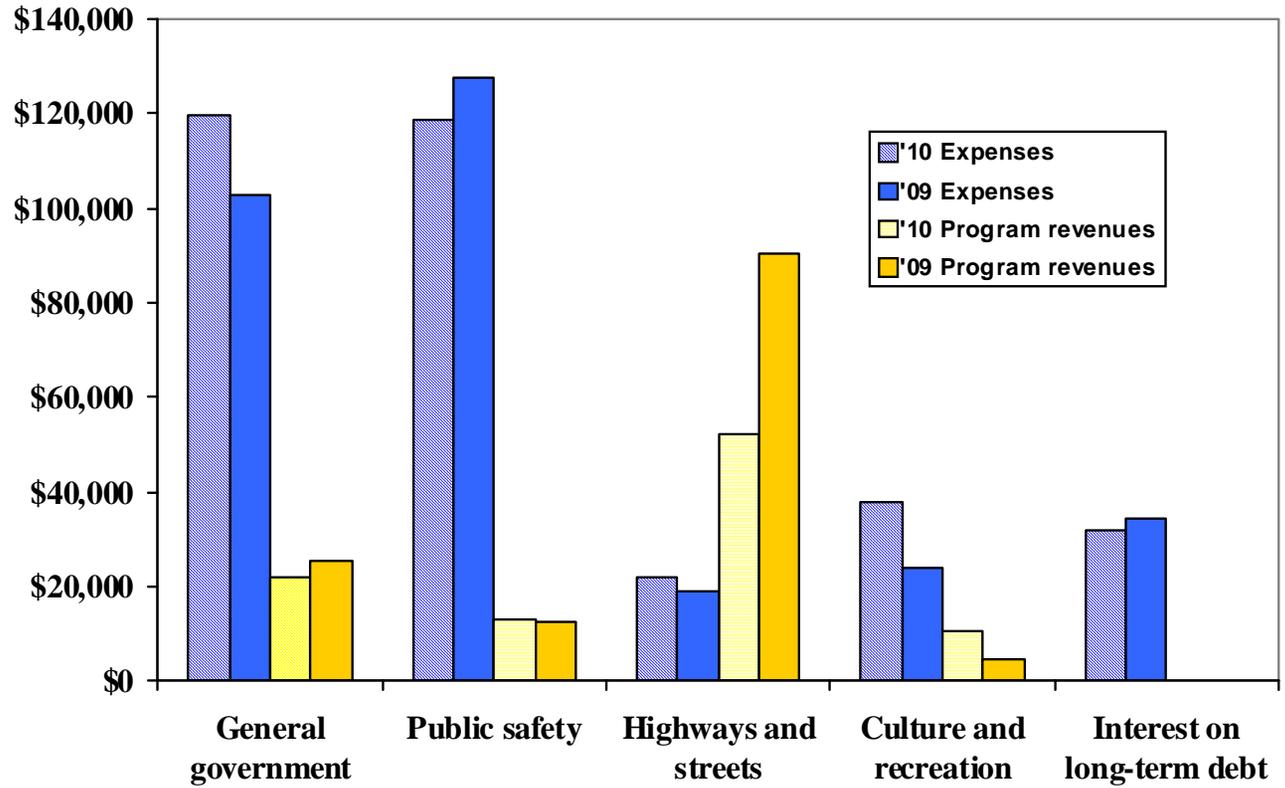
Revenues:

- Capital grant activity over the past ten fiscal years on average has been approximately \$20 million annually except for fiscal years 2007/08 and 2008/09, which had particularly large construction project activity. In the current year, capital grant revenue amounted to \$23.4 million, which is a \$46.4 million decrease from the prior year. In the prior year there were several large transportation projects that were funded by Transportation Uniform Mitigation Fees (TUMF), Measure A and other federal and state grants, which were substantially completed in 08/09. For example, \$16.5 million was received in the prior year for the La Sierra Freeway Interchange Reconstruction Project, which was completed in the summer of 2009. Capital grant related expenditures are capitalized in the government-wide statements and therefore the related grant revenue increases net assets in the year of construction. Capital assets are subsequently depreciated over their estimated useful lives after the assets have been constructed and placed in service.
- There was a \$14 million decrease in the amount of fixed assets donated by developers due to the current slowdown in the local construction industry.
- Property tax revenue decreased by \$12 million (12%) due to a decline in assessed property values.
- Investment income decreased by \$4.5 million (28%) primarily due to a decrease in cash and investments of approximately \$63 million (a 24% decrease from cash and investment balances at 6/30/09). The decrease in cash and investments was primarily due to capital outlays on projects related to the Riverside Renaissance.

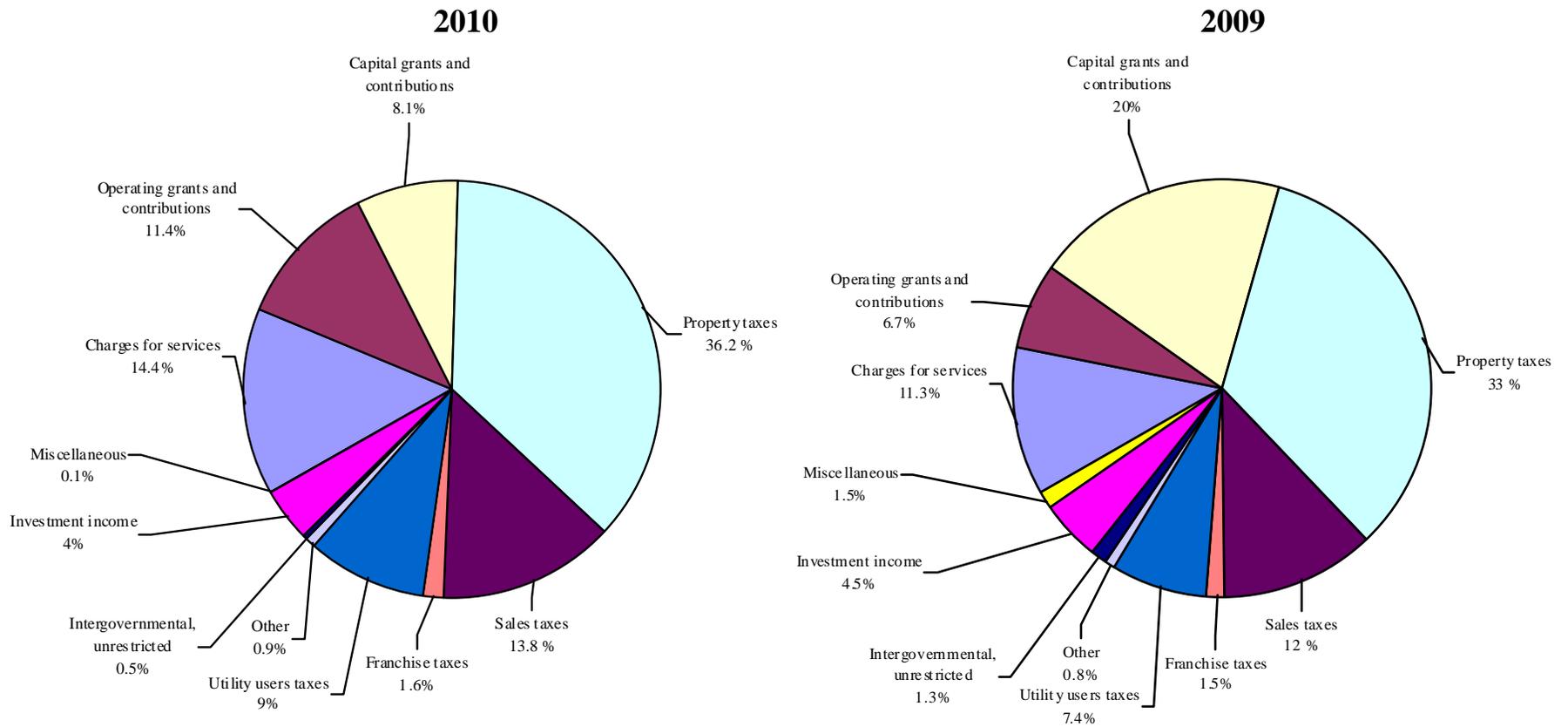
Expenses:

- While variances between years exist for the various expense functions, the total net increase was approximately \$23 million. The primary reason for this is due to a \$17 million payment from the redevelopment agency to the Supplemental Educational Revenue Augmentation Fund ("SERAF") as required by Assembly Bill 26.

Expenses and Programs Revenues – Governmental Activities – Fiscal Year Comparison 2010 vs. 2009



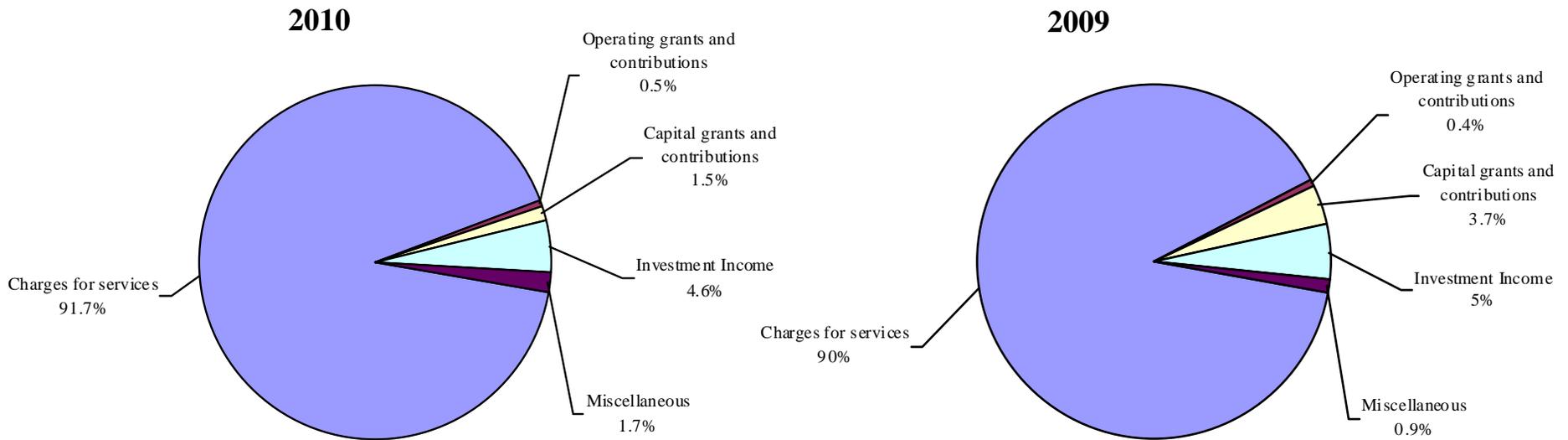
Revenues by Source – Governmental Activities – Fiscal Year Comparison



Business type activities. Business type activities increased the City’s net assets by \$34,272, accounting for a 2 percent increase in total net assets. The net assets of business type activities increased by \$35,309 in the prior year. Key elements of this year’s activity in relation to the prior year are as follows:

- In 2010, charges for services increased \$3,389 to \$420,017. The increase primarily related an increase in Sewer revenues, which increased by \$4,095 (18%). New rates and charges went into effect on July 1, 2009 for residential, commercial and industrial customers. The monthly sewer rates for basic single family dwelling customers and flat commercial customers increased by 27%.
- Expenses decreased \$2,806 primarily due to a decrease in Electric Utility operating expenses related to production and purchased power costs.

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, *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, COPS Debt Service, Capital Outlay, Redevelopment Capital Projects, and Other 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 | | COPS Debt Service | | | |
|-------------------------------------|--------------|------------|-------------------------------|-----------|----------------------|-----------|--|--|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | | |
| Total assets | \$ 129,623 | \$ 128,882 | \$ 45,140 | \$ 48,356 | \$ 32,917 | \$ 16,094 | | |
| Total liabilities | \$ 50,433 | \$ 51,503 | \$ 24,225 | \$ 25,103 | \$ 37 | \$ 238 | | |
| Fund balances | | | | | | | | |
| Reserved | 40,734 | 41,400 | 20,915 | 23,253 | 32,880 | 15,856 | | |
| Unreserved: | | | | | | | | |
| Designated for economic cont. | 30,000 | 30,000 | - | - | - | - | | |
| Designated for future operations | 6,433 | 2,888 | - | - | - | - | | |
| Undesignated | 2,023 | 3,091 | - | - | - | - | | |
| Total | 79,190 | 77,379 | 20,915 | 23,253 | 32,880 | 15,856 | | |
| Total liabilities and fund balances | \$ 129,623 | \$ 128,882 | \$ 45,140 | \$ 48,356 | \$ 32,917 | \$ 16,094 | | |

| | Capital Outlay | | Redevelopment Capital Projects | | Other Governmental Funds | | Total Governmental Funds | |
|-------------------------------------|----------------|-----------|-----------------------------------|------------|-----------------------------|-----------|-----------------------------|------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Total assets | \$ 42,324 | \$ 82,248 | \$ 199,412 | \$ 216,747 | \$ 102,771 | \$ 96,572 | \$ 552,187 | \$ 588,899 |
| Total liabilities | \$ 21,433 | \$ 34,035 | \$ 61,918 | \$ 42,009 | \$ 33,383 | \$ 27,104 | \$ 191,429 | \$ 179,992 |
| Fund balances | | | | | | | | |
| Reserved | 37,056 | 35,711 | 97,398 | 84,560 | 33,866 | 19,369 | 262,849 | 220,149 |
| Unreserved: | | | | | | | | |
| Designated for economic cont. | - | - | - | - | - | - | 30,000 | 30,000 |
| Designated for future operations | - | 12,502 | 30,433 | 79,612 | 27,275 | 38,016 | 64,141 | 133,018 |
| Undesignated | (16,165) | - | 9,663 | 10,566 | 8,247 | 12,083 | 3,768 | 25,740 |
| Total | 20,891 | 48,213 | 137,494 | 174,738 | 69,388 | 69,468 | 360,758 | 408,907 |
| Total liabilities and fund balances | \$ 42,324 | \$ 82,248 | \$ 199,412 | \$ 216,747 | \$ 102,771 | \$ 96,572 | \$ 552,187 | \$ 588,899 |

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$360,758, a decrease of \$48,149 in comparison with the prior year. About 73% of this amount (\$262,849) 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, \$94,141 has been designated for specific capital projects and economic contingencies, leaving \$3,768 without a commitment; at June 30, 2009 the comparable amount was \$25,740. The City's governmental funds reported combined total assets of \$552,187 at June 30, 2010, a decrease of \$36,712 in comparison with the prior year. The primary reason for the decrease in total assets and related fund balances is due to expenditure of capital projects in the Capital Outlay Fund.

The General Fund is the principal operating fund of the City. At the end of the current fiscal year, total fund balance equaled \$79,190 in comparison to \$77,379 in the prior year. The unreserved fund balance was \$38,456, most of which was designated for future operations and economic contingencies, leaving \$2,023 unreserved and undesignated; the comparable number at June 30, 2009 was \$3,091. Fund balance increased during the current year by \$1,811 in comparison to a decrease of \$3,838 in the prior year. The primary reason for this is due to an overall decrease in spending across the various functions in response to reduced revenue resulting from the current downturn in the economy.

The Redevelopment Debt Service Fund has a total fund balance of \$20,915 all of which is reserved for the payment of debt service. A net decrease of \$2,338 in the fund balance occurred during the current year.

Fund balance for the Certificates of Participation Debt Service Fund increased by \$17,024, which is primarily attributable to the \$20,660 issuance of the 2010 Recovery Zone Facility Hotel Project Certificates of Participation.

Fund balance for the Capital Outlay Fund decreased by \$27,322. The primary reason for this is due to a decrease in cash and investments of approximately \$28 million due to capital outlays on projects related to the Riverside Renaissance. As of June 30, 2010, \$37 million had been encumbered, which relates to purchase orders that will be fulfilled in a subsequent fiscal period. Therefore, \$37 million of fund balance was reserved, which created a \$16 million deficit in unreserved, undesignated fund balance. These encumbrances and related expenditures will be funded by grant revenue to be recognized in subsequent fiscal periods.

Fund balance for the Redevelopment Capital Projects Fund decreased by \$37,244. This is partly due to a \$17 million SERAF payment as discussed earlier.

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 \$189,431, \$32,029, and \$2,691 respectively. The total change in net assets for these funds was an increase of \$41,785, an increase of \$2,851 and a decrease of \$9,549, respectively as a result of routine operations.

The Electric Fund reported positive operating results, with retail revenues exceeding the previous all-time record, primarily from the effects of rate increases which was partially offset by a reduction in consumption. Retail sales (residential, commercial, industrial, and other sales) represent 82.8% of total revenues. Retail sales, net of reserve/recovery were \$274,206 and \$272,298 for years ended June 30, 2010 and 2009, respectively. Total expenses, excluding general fund transfer, decreased \$7,363 (2.8%), which primarily related to a decrease in production and purchased power costs due to lower generation costs resulting from lower natural gas and power prices.

The Water Fund reported positive operating results, with retail sales exceeding the previous year's results. Retail sales (residential, commercial, industrial, and other sales) represent 80.5% of total revenues. Retail sales, net of reserve/recovery were \$51,147 and \$49,591 for years ended June 30, 2010 and 2009, respectively. The increase in sales was primarily due to recent rate increases to support the Water Utility's Master, Water Supply and Asset Management Plans, partially offset by a 9.2% reduction in retail consumption.

Net assets of the Sewer Fund decreased by \$9,549 and \$8,782 for years ended June 30, 2010 and 2009, respectively. Revenues increased by \$4,095 (18%) as a result of a rate increase. However, interest expense increased by \$5,898 (268%), which is due to the issuance of \$240,910 of Sewer Revenue Bonds on August 6, 2009.

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>\$157,125</u> | <u>\$172,202</u> | <u>\$156,532</u> | <u>\$ (15,670)</u> |
| Expenditures: | | | | |
| General Government | 6,419 | 14,115 | 8,174 | 5,941 |
| Public Safety | 136,484 | 139,977 | 137,331 | 2,646 |
| Highways & Streets | 15,000 | 18,054 | 14,987 | 3,067 |
| Culture & Recreation | 23,287 | 28,921 | 23,182 | 5,739 |
| Capital Outlay | - | 7,174 | 1,609 | 5,565 |
| Debt Service | <u>13,902</u> | <u>47,747</u> | <u>46,616</u> | <u>1,131</u> |
| Total Expenditures | <u>195,092</u> | <u>255,988</u> | <u>231,899</u> | <u>24,089</u> |
| Deficiency of Revenue Under Expenditures | (37,967) | (83,786) | (75,367) | 8,419 |
| Other Financing Sources | <u>35,797</u> | <u>76,302</u> | <u>77,178</u> | <u>876</u> |
| Net Change in Fund Balances | (2,170) | (7,484) | 1,811 | 9,295 |
| Beginning Fund Balance | <u>77,379</u> | <u>77,379</u> | <u>77,379</u> | <u>-</u> |
| Ending Fund Balance | <u>\$ 75,209</u> | <u>\$ 69,895</u> | <u>\$ 79,190</u> | <u>\$ 9,295</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:

- Approximately \$7 million of grant revenue was budgeted but not actually received during the year since the related grant expenditures had not been incurred.
- Actual total revenues were less than the amount budgeted partially due to the downturn in the economy resulting in less than budgeted sales taxes (\$2.3 million) and utility users' tax (\$2 million).
- Actual expenditures were less than budgeted amounts by approximately \$24 million. This is primarily associated with capital projects not completed during the year (which are carried over to the next fiscal year) and planned reductions in expenditures in all departments.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for governmental and business type activities as of June 30, 2010 amounted to \$2,389,020 (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 \$126,413 (\$54,018 for governmental activities including internal service funds and \$72,395 for business type activities).

Major capital improvements during the current fiscal year included: new infrastructure, consisting primarily of street improvements (\$35,032); Sewer system improvements (\$12,432); Electric Utility upgrades (\$40,883); Water Utility upgrades (\$16,703); and the Arlington Heights Sports Park (\$12,938).

Construction in progress totaled \$214,679 at June 30, 2010. Some of the major projects in process are the RERC Power Plant Units 3 & 4 and a 203 KV Transmission Substation. Depreciation expense during the fiscal year was \$33,113 for governmental activities and \$45,538 for business type activities.

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

| | Governmental Activities | | Business Type Activities | | Total | |
|--------------------------------------|----------------------------|--------------------|-----------------------------|--------------------|--------------------|--------------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Land | \$280,446 | \$270,580 | \$ 41,127 | \$ 40,835 | \$ 321,573 | \$ 311,415 |
| Buildings | 127,421 | 88,367 | 144,774 | 152,316 | 272,195 | 240,683 |
| Improvements other than Buildings | 118,333 | 79,494 | 835,239 | 790,575 | 953,572 | 870,069 |
| Machinery and equipment | 24,427 | 25,664 | 29,575 | 28,809 | 54,002 | 54,473 |
| Infrastructure | 572,999 | 537,967 | - | - | 572,999 | 537,967 |
| Construction in progress | <u>45,206</u> | <u>112,742</u> | <u>169,473</u> | <u>135,258</u> | <u>214,679</u> | <u>248,000</u> |
| Total | <u>\$1,168,832</u> | <u>\$1,114,814</u> | <u>\$1,220,188</u> | <u>\$1,147,793</u> | <u>\$2,389,020</u> | <u>\$2,262,607</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 \$1,700,900 which includes bonded debt of \$1,612,055.

City of Riverside's Long-Term Debt

| | Governmental Activities | | Business Type Activities | | Total | |
|-------------------------------|----------------------------|------------------|-----------------------------|------------------|--------------------|--------------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Lease/Revenue Bonds | \$278,867 | \$285,743 | \$968,393 | \$670,512 | \$1,247,260 | \$956,255 |
| General Obligation Bonds | 17,533 | 18,171 | - | - | 17,533 | 18,171 |
| Pension Obligation Bonds | 136,050 | 139,410 | - | - | 136,050 | 139,410 |
| Certificates of Participation | 211,212 | 192,690 | - | - | 211,212 | 192,690 |
| Notes Payable | 8,191 | 8,749 | 7,249 | 7,915 | 15,440 | 16,664 |
| Commercial Loan | 1,100 | - | - | - | 1,100 | - |
| Capital Leases | 6,303 | 7,455 | 2,151 | 2,574 | 8,454 | 10,029 |
| Landfill Capping | - | - | 7,380 | 7,512 | 7,380 | 7,512 |
| Arbitrage Liability | - | - | 27 | 502 | 27 | 502 |
| Compensated Absences | 20,101 | 20,494 | - | - | 20,101 | 20,494 |
| Claims liability | 25,541 | 24,958 | - | - | 25,541 | 24,958 |
| Net OPEB Obligation | 5,790 | 3,722 | 4,063 | 2,470 | 9,853 | 6,192 |
| Water Acquisition Rights | - | - | 949 | 949 | 949 | 949 |
| Total | <u>\$710,688</u> | <u>\$701,392</u> | <u>\$990,212</u> | <u>\$692,434</u> | <u>\$1,700,900</u> | <u>\$1,393,826</u> |

The City's total debt increased by \$307,074 (22 percent) during the current fiscal year primarily due to the issuance of \$240,910 of Sewer 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 \$631,522 at June 30, 2010, which applies only to general obligation debt. At June 30, 2010, the City had \$17,533 of general obligation debt, resulting in available legal debt capacity of \$613,989.

Additional information on the City's long-term debt can be found in note 6 beginning on page 43 of this report.

Economic Factors and Next Year's Budget and Rates

- ❑ Unemployment in Riverside County is 14.6% as compared to 14.1% for 2009.
- ❑ 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, 2010 as follows:
 - Miscellaneous Plan – 22.219% to 22.507%
 - Safety Plan – 29.323% to 29.756%

At the time of budget preparation for fiscal year 2011, the economic outlook for the City was considered to be stable. The General Fund Budget for fiscal year 2011 of approximately \$195 million was adopted as balanced, not having to utilize any reserves. It represents a reduction from the prior year of approximately 1.5%, principally as a result of a projected reduction in utilities users' tax revenue.

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.

