NEW ISSUE — BOOK-ENTRY ONLY

RATINGS: S&P: “AAA” (Insured)
S&P: “A+” (Underlying)
Fitch: “AAA” (Insured)
Fitch: “A+” (Underlying)
(See “CONCLUDING INFORMATION — Ratings” herein.)

In the opinion of Best Best & Krieger LLP, Riverside, California, Special Counsel, under existing law, interest with respect to the Certificates is exempt from personal income taxes of the State of California, and, assuming continuing compliance after the date of initial delivery of the Certificates with certain covenants contained in the legal documents authorizing the delivery of the Certificates, and subject to the matters set forth under the caption "CONCLUDING INFORMATION - Tax Matters" herein, interest with respect to the Certificates for federal income tax purposes under existing statutes, regulations, published rulings and court decisions will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Certificates, and will not be included in computing the alternative minimum taxable income of individuals, or, except as described herein, corporations. See "CONCLUDING INFORMATION — Tax Matters" herein.

$19,945,000
CITY OF RIVERSIDE
2006 LEASE REVENUE CERTIFICATES OF PARTICIPATION
(GALLERIA AT TYLER PUBLIC IMPROVEMENTS)

Dated: Date of Delivery **Due: September 1, as set forth herein**

The Certificates will be executed and delivered as fully registered certificates in book-entry form only, initially registered in the name of Cede & Co., New York, New York, as nominee of The Depository Trust Company (“DTC”), New York, New York. Individual purchases of the Certificates will be in principal amounts of $5,000 or in any integral multiples of $5,000. Interest payable with respect to the Certificates will be payable on March 1 and September 1 of each year, commencing March 1, 2007, and principal payable on the Certificates will be paid on September 1 in the years set forth on the maturity schedule on the inside cover of this Official Statement. Payments of principal of and interest with respect to the Certificates will be paid by U.S. Bank National Association, Los Angeles, California, as trustee (the “Trustee”), to DTC for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the Certificates.

The Certificates are being sold, executed and delivered (i) to provide funds to the City of Riverside (the “City”) to finance acquisition and construction of various public improvements, (ii) to fund, in whole or in part, a reserve fund for the Certificates, (iii) to capitalize interest with respect to the Certificates through March 1, 2008, and (iv) to pay certain costs of issuing the Certificates.

The Certificates are subject to optional, extraordinary and mandatory sinking fund prepayment prior to maturity as described herein. See “THE CERTIFICATES” herein.

The Certificates evidence and represent undivided proportionate interests in the right to receive certain Lease Payments (which include principal and interest components) to be made by the City for the right to the use of certain real property and improvements (the “Leased Premises”) pursuant to that certain Lease Agreement, dated as of September 1, 2006 (the “Lease Agreement”), by and between the City, as lessee, and the City of Riverside Municipal Improvements Corporation (the “Corporation”), as lessor. The City has covenanted in the Lease Agreement to make the Lease Payments for the Leased Premises, to include all such Lease Payments in each of its budgets and to make the necessary annual appropriations for all such Lease Payments. The Lease Payments are subject to abatement, however. See “SECURITY FOR THE CERTIFICATES” and “RISK FACTORS” herein.

Payment of the principal of and interest with respect to the Certificates when due will be secured by an insurance policy to be issued by Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company simultaneously with the delivery of the Certificates. See “CERTIFICATE INSURANCE” herein.

FGIC

THE CITY’S OBLIGATION TO MAKE LEASE PAYMENTS IS AN OBLIGATION PAYABLE FROM THE CITY’S GENERAL FUND OR ANY OTHER SOURCE OF FUNDS LEGALLY AVAILABLE TO THE CITY TO MAKE LEASE PAYMENTS. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS CONSTITUTES A DEBT OF THE CITY OF RIVERSIDE OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION OR ANY OBLIGATION FOR WHICH THE CITY OR THE STATE OF CALIFORNIA IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY OR THE STATE OF CALIFORNIA HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

THIS COVER PAGE CONTAINS INFORMATION FOR GENERAL REFERENCE ONLY. IT IS NOT A SUMMARY OF THE SECURITY OR TERMS OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING THE SECTION ENTITLED “RISK FACTORS”, FOR A DISCUSSION OF SPECIAL FACTORS WHICH SHOULD BE CONSIDERED, IN ADDITION TO THE OTHER MATTERS SET FORTH HEREIN, IN CONSIDERING THE INVESTMENT QUALITY OF THE CERTIFICATES. CAPITALIZED TERMS USED ON THIS COVER PAGE AND NOT OTHERWISE DEFINED SHALL HAVE THE MEANINGS SET FORTH HEREIN.

MATURITY SCHEDULE
(See inside cover page)

The Certificates are offered when, as and if sold, executed and delivered, subject to the approval as to their legality by Best Best & Krieger LLP, Riverside, California, Special Counsel. Certain legal matters will be passed upon for the City by the City Attorney, and for the Underwriter by its counsel, Jones Hall, A Professional Law Corporation, San Francisco, California. It is anticipated that the Certificates in book-entry form, will be available for delivery to DTC in New York, New York, on or about September 27, 2006.

STONE & YOUNGBERG LLC

Dated: September 13, 2006

MATURITY SCHEDULE
(Base CUSIP:† 769030)

Maturity Date (September 1)	Principal Amount	Interest Rate	Price	CUSIP†
2011	$435,000	4.500%	104.257	AA5
2012	455,000	4.000	102.115	AB3
2013	470,000	4.500	105.159	AC1
2014	495,000	4.000	102.042	AD9
2015	515,000	4.000	101.879	AE7
2016	535,000	4.000	101.638	AF4
2017	555,000	4.000	100.978(c)	AG2
2018	580,000	4.000	100.404(c)	AH0
2019	600,000	4.000	99.697	AJ6
2020	625,000	4.000	98.631	AK3
2021	650,000	4.100	98.678	AL1
2022	675,000	4.125	98.334	AM9
2023	705,000	4.200	98.803	AN7
2024	735,000	4.250	98.761	AP2

$5,140,000 4.500% Term Certificates due September 1, 2030, Price: 98.128 CUSIP:† AQ0
$6,775,000 5.000% Term Certificates due September 1, 2036, Price: 104.045(c) CUSIP:† AR8

(c) Priced to par call date of September 1, 2016.

CITY OF RIVERSIDE, CALIFORNIA

CITY COUNCIL

Ronald O. Loveridge, *Mayor*
Steve Adams, *Mayor Pro Tem*
Andy Melendez, *Councilmember*
Ed Adkison, *Councilmember*
Dom Betro, *Councilmember*
Art Gage, *Councilmember*
Nancy Hart, *Councilmember*
Frank Schiavone, *Councilmember*

CITY STAFF

Bradley J. Hudson, *City Manager*
Paul C. Sundeen, *Assistant City Manager, Chief Financial Officer*
Michael J. Beck, *Assistant City Manager*
Tom DeSantis, *Assistant City Manager*
Colleen J. Nicol, *City Clerk*
Brent A. Mason, *Assistant Director of Finance*
Gregory P. Priamos, Esq., *City Attorney*

SPECIAL SERVICES

Special Counsel
Best Best & Krieger LLP
Riverside, California

Trustee
U.S. Bank National Association
Los Angeles, California

(THIS PAGE INTENTIONALLY LEFT BLANK)

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

No Offering May Be Made Except by this Official Statement*.* No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations with respect to the Certificates other than as contained in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been authorized.

No Unlawful Offers or Solicitations*.* This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Effective Date. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Certificates will, under any circumstances, create any implication that there has been no change in the affairs of the City or any other parties described in this Official Statement.

Use of this Official Statement. This Official Statement is submitted in connection with the sale of the Certificates referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract with the purchasers of the Certificates.

Preparation of this Official Statement. The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Document References and Summaries. All references to and summaries of the Trust Agreement, the Lease Agreement or other documents contained in this Official Statement are subject to the provisions of those documents and do not purport to be complete statements of those documents.

Certificates are Exempt from Securities Laws Registration. The issuance and sale of the Certificates have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exemptions for the issuance and sale of municipal securities provided under Section 3(a)(2) of the Securities Act of 1933 and Section 3(a)(12) of the Securities Exchange Act of 1934.

Stabilization of Prices. In connection with this offering, the Underwriter may overallot or effect transactions which stabilize or maintain the market price of the Certificates at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Certificates to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

Estimates and Projections. Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

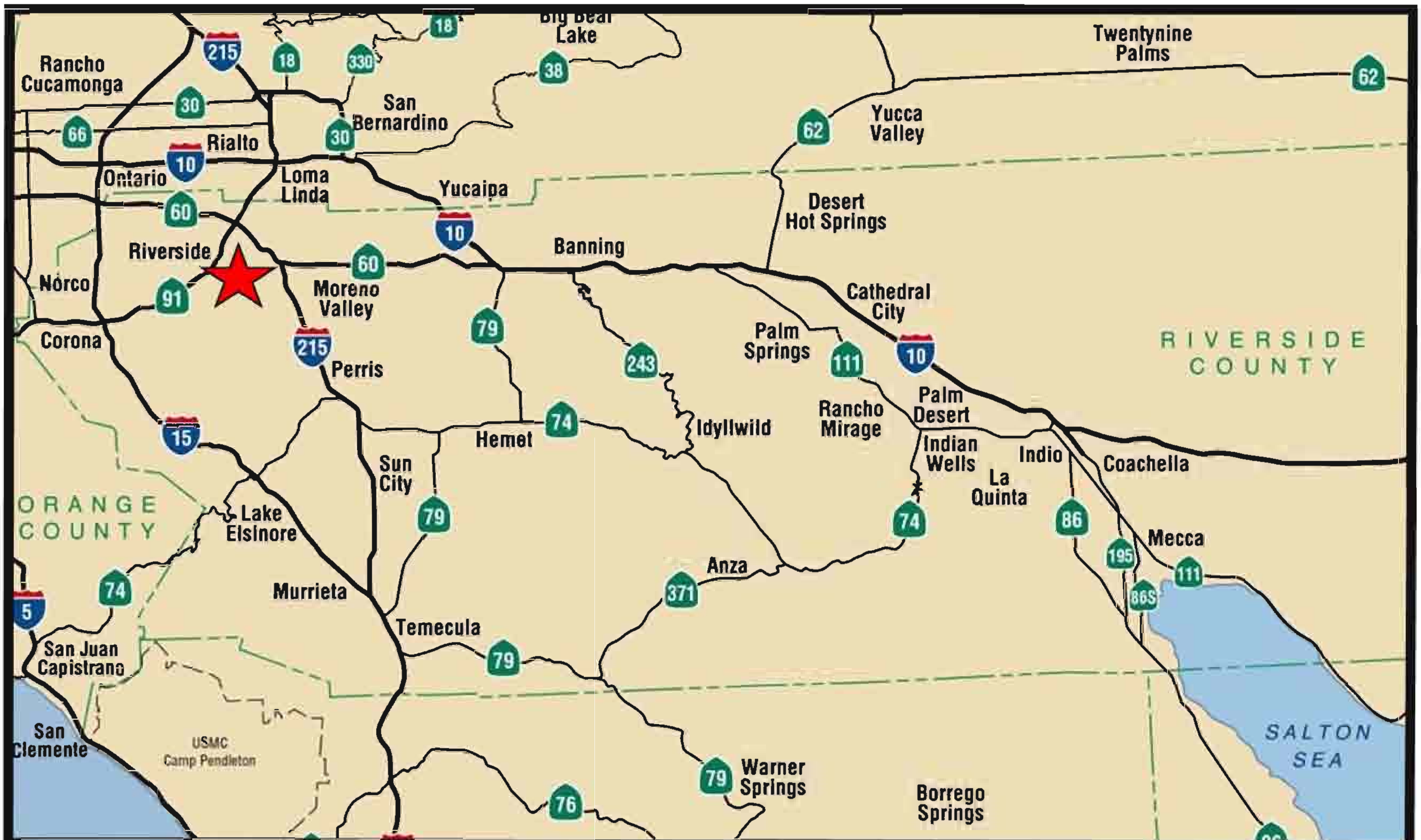
(THIS PAGE INTENTIONALLY LEFT BLANK)

TABLE OF CONTENTS

City of Riverside

(Riverside County, California)

Regional Location Map



$19,945,000
CITY OF RIVERSIDE
2006 LEASE REVENUE CERTIFICATES OF PARTICIPATION
(GALLERIA AT TYLER PUBLIC IMPROVEMENTS)

INTRODUCTION

This introduction contains only a brief summary of certain of the terms of the Certificates being offered, and a brief description of the Official Statement. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement.

General

The purpose of this Official Statement (which includes the cover page and the Appendices attached hereto) is to provide information concerning the execution and delivery of the City of Riverside's (the "**City**") 2006 Certificates of Participation (Galleria at Tyler Public Improvements) (the "**Certificates**").

The City

The City was incorporated in 1883 and operates under a charter adopted in 1953. The City operates under a council-manager form of government, and is governed by a seven-member City Council elected by wards with four-year staggered terms. The Mayor is elected at large for a four-year term. The positions of City Clerk, City Manager and City Attorney are filled by appointment of the City Council.

The City encompasses approximately 80.1 square miles in the western portion of Riverside County (the "**County**"), about 60 miles east of downtown Los Angeles and approximately 90 miles north of San Diego. The City is the county seat of the County. The current population of the City is approximately 287,820. For other selected information concerning the City, see "APPENDIX A - CITY OF RIVERSIDE GENERAL ECONOMIC AND FINANCIAL INFORMATION" hereto.

Authority for the Certificates

The Certificates are being executed and delivered pursuant to the provisions of a Trust Agreement, dated as of September 1, 2006 (the "**Trust Agreement**"), among the City, the City of Riverside Municipal Improvements Corporation (the "**Corporation**") and U.S. Bank National Association, as trustee (the "**Trustee**").

Purpose

The proceeds of the sale of the Certificates will be used, together with other available moneys, (i) to provide funds to the City to finance acquisition, construction, installation and equipping of various public improvements (the "**Project**") related to the Galleria at Tyler, a retail center in the City, (ii) to fund, in whole or in part, a reserve fund for the Certificates, (iii) to capitalize interest with respect to the Certificates through March 1, 2008, and (iv) to pay certain costs of issuance of the Certificates. See "THE PROJECT AND THE LEASED PREMISES" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

The public improvements comprising the Project also constitute a portion of the Leased Premises (as defined below). As a result, and to minimize the risk that the Lease Payments will be abated as a result of failure to complete the Project as expected by December 2007 (see "RISK FACTORS - Abatement"), a portion of the proceeds of the Certificates will be used to capitalize interest with respect to the Certificates through March 1, 2008. See "THE PROJECT AND THE LEASED PREMISES".

Security for the Certificates

The Certificates evidence and represent undivided proportionate interest in the right to receive certain Lease Payments and prepayments thereof. Lease Payments (as defined herein) will be made by the City to the Corporation for the right to the use and occupancy of certain real property and improvements thereon, including certain components of the Project (the "**Leased Premises**") (see "THE PROJECT AND THE LEASED PREMISES - The Leased Premises" below). The Leased Premises will be leased by the City from the Corporation pursuant to a Lease Agreement, dated as of September 1, 2006 (the "**Lease Agreement**"), between the City, as lessee, and the Corporation, as lessor.

In accordance with the Lease Agreement, the City is required to pay to the Trustee specified Lease Payments for the Leased Premises which are designed to be sufficient to pay the principal and interest with respect to the Certificates. See "APPENDIX B - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" herein.

The City has covenanted in the Lease Agreement to take all such actions as may be necessary to include all Lease Payments in each of its annual budgets for the General Fund during the Term of the Lease Agreement and to make the necessary annual appropriations for all such Lease Payments and Additional Payments. The covenants of the City constitute duties imposed by law. In addition, the City has covenanted to maintain, or cause to be maintained, insurance on the Leased Premises. See "SECURITY FOR THE CERTIFICATES -- Insurance" herein. However, the Lease Payments are subject to abatement in certain circumstances. See " - Abatement" below.

Pursuant to the Trust Agreement, the Corporation has assigned to the Trustee for the benefit of the Owners of the Certificates (i) its right to receive Lease Payments from the City under the Lease Agreement, (ii) all estate, right, title and interest of the Corporation in and to and all duties and obligations of the Corporation under the Lease Agreement and (iii) all the moneys and securities deposited or required to be deposited with the Trustee pursuant to the Trust Agreement not expressly held for the benefit of the City.

Payment of the principal of and interest with respect to the Certificates when due will be secured by an insurance policy (the " **Policy**") to be issued by Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company (the "**Insurer**" or **"Financial Guaranty"**) simultaneously with the delivery of the Certificates. See "CERTIFICATE INSURANCE" below and APPENDIX G — "SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY" attached hereto.

Abatement

The amount of Lease Payments due under the Lease Agreement and, correspondingly, the amount available to pay the principal and interest with respect to the Certificates, will be subject to complete or partial abatement during any period in which, by reason of damage or destruction or eminent domain, there is substantial interference with the use and possession by the City of the Leased Premises. The amount of the abatement will be determined by the City so that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of the Leased Premises not damaged or destroyed. See "RISK FACTORS -- Abatement" herein.

Amounts on deposit in the Lease Payment Fund and the Reserve Fund, and proceeds from any insurance or eminent domain award, constitute a special fund for payment of Lease Payments, and will be available for to pay Lease Payments in the event there is substantial interference with the use and possession of the Leased Premises.

Prepayment

The Certificates are subject to optional, extraordinary and mandatory prepayment as described herein.

Limited Obligations

THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS IS AN OBLIGATION PAYABLE EACH YEAR FROM THE CITY'S GENERAL FUND OR ANY SOURCE OF FUNDS LEGALLY AVAILABLE FOR THE PAYMENT OF LEASE PAYMENTS, BUT DOES NOT CONSTITUTE A DEBT OF THE CITY OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY STATUTORY OR CONSTITUTIONAL DEBT LIMITATION OR RESTRICTION, OR AN OBLIGATION FOR WHICH THE CITY OR THE STATE OF CALIFORNIA IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY OR THE STATE OF CALIFORNIA HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Summaries Not Definitive

The summaries and references of documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each document, statute, report, or instrument. The capitalization of any word not conventionally capitalized, or otherwise defined herein, indicates that such word is defined in a particular agreement or other document and, as used herein, has the meaning given it in such agreement or document. See "APPENDIX B - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" for summaries of certain of such definitions.

Copies of the documents described herein will be available at the Director of Finance's office, City of Riverside, 3900 Main St. 4th Floor, Riverside, CA 92501.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of owners of the Certificates to provide certain financial information and operating data relating to the City by not later than nine months after the end of the City's Fiscal Year (presently June 30) in each year commencing with its report for fiscal year 2005-06 to be delivered not later than April 1, 2007 (the "**Annual Report**") and to provide notices of the occurrence of certain enumerated events. These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5). The specific nature of the information to be contained in the Annual Report or the notices of material events by the City is contained in "APPENDIX E - FORM OF CONTINUING DISCLOSURE AGREEMENT."

Failure of the City to provide the required information at the required time may have a negative impact on the value of the Certificates in the secondary market.

The City failed to include certain statistical information in its annual reports required under a continuing disclosure obligation undertaken in connection with certificates of participation executed and delivered in 1999. The City has since filed all required material and is now current on all filings required pursuant to its previous continuing disclosure undertakings.

THE PROJECT AND THE LEASED PREMISES

The Project being financed with proceeds of the Certificates (see " - The Project" below) is related to the Galleria at Tyler ("**Tyler Mall**"), a regional retail mall located in the City.

Tyler Mall

Tyler Mall is bounded by Magnolia Avenue on the north, Hughes Alley on the east, State Route 91 on the south and Tyler Street on the west.

Tyler Mall currently consists of approximately 1,100,000 square feet of retail space, including J.C. Penney, Macy’s and Nordstrom department stores, a large number of enclosed mall tenants and a free-standing Barnes & Noble bookstore. As a result of the merger of Federated Department Stores and May Department Stores Company, the former Macy’s department store has closed and re-opened in the former Robinson’s-May department store, which has permanently closed. The City is not aware of Federated Department Stores’ plans for use of the former Macy’s department store.

Tyler Mall Limited Partnership ("**Tyler Mall Limited Partnership**"), the owner of most of Tyler Mall (three of the anchor tenants own their own pads and related areas), has obtained all discretionary land-use entitlements from the City to add approximately 150,000 net square feet of retail and other space to the project, including an approximately 70,000 square foot multiplex cinema. At completion of the additions, Tyler Mall will consist of approximately 1,200,000 square feet of retail and other space.

As a condition of approval of the entitlements for additions to Tyler Mall, Tyler Mall Limited Partnership is obligated to construct the Parking Structure Addition (defined below) and the Other Public Improvements (defined below) to serve public demand in the vicinity of Tyler Mall. Upon completion of construction by Tyler Mall Limited Partnership and acceptance by the

City, the Parking Structure Addition and the Other Public Improvements will be owned by the City.

The Project

A portion of the proceeds of the Certificates will be deposited in the Project Fund established pursuant to the Trust Agreement and applied to the payment of the costs of the following public improvements (the "**Project**"):

Parking Structure Addition. Addition of 645 net parking spaces (the "**Parking Structure Addition**") to the existing Hughes Alley parking structure (the "**Existing Parking Structure**"). The Parking Structure Addition -- but not the Existing Parking Structure -- is one element of the Leased Premises (see the "Leased Premises" below).

> Existing Parking Structure. The Existing Parking Structure is a two-level structure with one level at grade and one elevated level, covering a footprint approximately 128 feet wide by approximately 1,190 feet long. The Existing Parking Structure is composed of three structurally independent segments, linked by expansion joints on the elevated level. An internal parking ramp in the center segment provides access between the upper and lower levels.
>
> The Existing Parking Structure contains approximately 906 parking spaces. The Existing Parking Structure is served by 5 entry-exits, two along the east side facing Hughes Alley and three along the west side facing Tyler Mall. The entry-exit on the east side on the south end provides direct access to the second level. All other entry-exits provide access to the ground level.
>
> The Existing Parking Structure was designed as a Type I Structure in accordance with the provisions of the 1988 Uniform Building Code and was constructed in the 1989-1990 timeframe.
>
> The Parking Structure Addition. The Parking Structure Addition consists of three discrete elements:
>
> - A horizontal extension of the Existing Parking Structure, consisting of 229 parking spaces, with one level at grade and two levels above grade will be located directly west of the Existing Parking Structure on the north end. The extension will encompass a footprint of approximately 64 feet wide by approximately 410 feet long. This extension will contain no ramps and no entry-exits. Access to the extension will be provided via the ramps and entry-exits in the Existing Parking Structure. The horizontal extension will be structurally independent from the Existing Parking Structure, but will be linked by expansion joints on the above-grade levels. Tyler Mall Limited Partnership reports that that the addition will be founded on spread footings, possibly augmented by micro-piles to resist seismic uplift loads. The vertical load carrying structural system will consist of cast-in-place concrete beams and columns supporting a cast-in-place concrete deck. The beams and deck will be post-tensioned and the columns will be conventionally reinforced. Shear walls will be used for the lateral force resisting system. The addition was designed and will

be built as a Type I Structure in accordance with the provisions of the 2001 California Building Code.

- A horizontal extension of the Existing Parking Structure, consisting of approximately 63 spaces (32 net spaces), with one level at grade and two levels above grade will be located directly south of the Existing Parking Structure. The extension will encompass a footprint of approximately 128 feet wide by 54 feet long. This extension will contain no ramps and no entry-exits. Access to the extension will be provided via the ramps and entry-exits in the Existing Parking Structure. The horizontal extension will be linked structurally to the south end of the Existing Parking Structure. The addition will be founded on spread footings, augmented by micro-piles to resist seismic uplift loads. The vertical load carrying structural system will consist of cast-in-place concrete beams and columns supporting a cast-in-place concrete deck. The beams and deck will be post-tensioned and the columns will be conventionally reinforced. Shear walls will be used for the lateral force resisting system. The extension was designed and will be built as a Type I Structure in accordance with the provisions of the 2001 California Building Code.

- A vertical extension of the Existing Parking Structure, consisting of 451 parking spaces, will be located directly above the Existing Parking Structure. A ramp from the second above-grade level to the new third above-grade level will be constructed parallel to and directly above the existing ramp in the center segment of the Existing Parking Structure. As is the case for the Existing Parking Structure, the three segments of this element of the Parking Structure Addition will be linked by expansion joints on the top level. Tyler Mall Limited Partnership reports that the Existing Parking Structure's columns and foundation will be adequate to support the vertical loads from the vertical extension. The existing lateral load-resisting system will need to be strengthened to carry the additional lateral loads from the added deck and to meet current code requirements. Existing shear walls will be reinforced by thickening them, existing footings will be enlarged, and micro-piles will be used to resist seismic uplift loads. The vertical load carrying structural system for the vertical extension will consist of cast-in-place concrete beams and columns supporting a cast-in-place concrete deck. The beams and deck will be post-tensioned and the columns will be conventionally reinforced. Shear walls will be used for the lateral force resisting system. The vertical extension was designed and will be built as a Type I Structure in accordance with the provisions of the 2001 California Building Code.

Pursuant to the Agreement Regarding Financing and Construction of Parking Facility and Other Public Improvements dated January 4, 2005, between the City, the Redevelopment Agency of the City of Riverside and Tyler Mall Limited Partnership, as amended (the "**Agreement Regarding Financing**"), Tyler Mall Limited Partnership is responsible for construction of the Parking Structure Addition. Tyler Mall Limited Partnership has awarded a contract for construction of the Parking Structure Addition to Camco Construction, Inc. Tyler Mall Limited Partnership expects to obtain a building permit for construction of the Parking Structure Addition and to begin construction on or about August 1, 2006 and to complete construction in approximately December 2007.

Tyler Mall Limited Partnership, based on its acceptance of a bid from Camco Construction, Inc., currently estimates the following construction budget for the Parking Structure Addition and the Other Public Improvements described below:

Uses of Funds	Amount
Architectural/Engineering	$ 1,056,775
General Conditions	3,239,566
Other Public Improvements	3,848,608
Parking Structure Addition	12,233,515
Contingency	3,745,376
Total Budget	$24,123,840

Sources of Funds	Amount
Proceeds of the Certificates [(1)]	$17,350,000
Tyler Mall Limited Partnership Capital	6,773,840
Total Sources	$24,123,840

(1) The Project Fund established under the Trust Agreement will be funded with proceeds of the Certificates in the amount of $16,987,189.94 and invested in a guaranteed investment agreement at a rate of 5.053% with the intent of making the amount of $17,350,000 available to fund the Project.

Because portions of the Parking Structure Addition will be dependent structurally and all of it will be dependent operationally on the Existing Parking Structure, which is not one of the assets comprising the Leased Premises (see "RISK FACTORS - Abatement" for a discussion of certain risks arising out of the relationship between the Existing Parking Structure and the Parking Structure Addition), the City and the Corporation, as applicable, will undertake certain covenants in the Lease Agreement to ensure the availability to the City of the Parking Structure Addition, including the following:

Right of Ingress and Egress. The City and the Corporation shall assure that there shall be a right of ingress and egress through the Existing Parking Structure during the term of the Lease Agreement, such that vehicular and pedestrian access to and from the Parking Structure Addition will not be hampered or impeded. The City and the Corporation shall cause any necessary parties with an interest in the Existing Parking Structure to grant a similar right of ingress and egress.

Insurance. The City shall cause to be maintained all insurance with respect to the Existing Parking Structure required under an existing lease agreement relating to the Existing Parking Structure for the term of the Lease Agreement relating to the Certificates. Moreover, the City shall maintain "all risk" insurance in an amount equal to the lesser of (i) the full replacement value of the Existing Parking Structure and (ii) the sum of the outstanding principal amount of (A) the certificates of participation executed and delivered in 1999 to refinance acquisition and construction of the Existing Parking Structure (the "**Existing Parking Structure COPs**") and (B) the Certificates.

Other Public Improvements. In addition to the Parking Structure Addition, proceeds of the Certificates will be used to finance construction of the following public improvements at Tyler Mall ("**Other Public Improvements**"), which will also constitute a portion of the Leased Premises:

- North Plaza – An approximately 121,365 square foot public plaza and adjacent public walkways near the corner of Tyler Street and Hughes Alley, together with related improvements, water pools and fountains, landscaping, lighting and irrigation.

- North Plaza Parking – An approximately 166,054 square foot surface public parking field including approximately 419 public parking spaces, together with related improvements, landscaping, lighting and irrigation.

- Storm Drains - Storm drains relating to the other elements of the Other Public Improvements.

Tyler Mall Limited Partnership has awarded a contract for construction of the Other Public Improvements to Camco Construction, Inc. Tyler Mall Limited Partnership expects to obtain a building permit for construction of the Other Public Improvements and to begin construction on or about August 1, 2006 and to complete construction in approximately December 2007. The budget for the Parking Structure Addition and the Other Public Improvements is summarized above.

Abatement Risk Relating to Parking Structure Addition and Other Public Improvements. Because the City may not promise to make Lease Payments from its general fund for the Parking Structure Addition or the Other Public Improvements during the time they are under construction and not available for use, the City will use a portion of the proceeds of the Certificates to capitalize interest on the Certificates through March 1, 2008. The City believes that the Parking Structure Addition and the Other Public Improvements can be constructed within the estimated project schedule and within the estimated project cost. Although the City has not in any way guaranteed the performance of either Tyler Mall Limited Partnership or the contractors, it will obtain from Tyler Mall Limited Partnership, prior to execution and delivery of the Certificates, a completion guaranty in the form of a completion agreement executed by Tyler Mall Limited Partnership, whose general partner is GGP-Tyler Mall LLC, a Delaware limited liability company. In the event Tyler Mall Limited Partnership fails to complete the Parking Structure Addition and the Other Public Improvements, the City has the right, but not the obligation, under the Agreement Regarding Financing to complete the project.

No assurance can be given that the Parking Structure Addition and the Other Public Improvements will be completed as expected, or at all. If the Parking Structure Addition or the Other Public Improvements are not completed prior to the time through which interest has been capitalized on the Certificates, the Lease Payments may be subject to abatement and, as a result, the Lease Payments could be insufficient to pay principal and interest with respect to the Certificates.

In addition, because a portion of the Parking Structure Addition will be dependent structurally on the Existing Parking Structure, which is not one of the Leased Premises, and all of it will be dependent operationally on the Existing Parking Structure, there may be an additional risk of abatement. See “RISK FACTORS-Abatement.”

The Leased Premises

Elements of the Leased Premises. “Leased Premises” is defined in the Lease Agreement as the following real property and improvements:

Parking Structure Addition: The Parking Structure Addition. See " - The Project" above.

Other Public Improvements: The Other Public Improvements. See “-The Project” above. The City owns a leasehold interest in the land underlying the Other Public Improvements under lease agreements with Tyler Mall Limited Partnership and J.C. Penney Properties, Inc. Because of the existence of certain financing arrangements involving the land underlying the Other Public Improvements, the City will obtain a non-disturbance covenant from the lessors in the lease agreements; as a result, the City does not expect the exercise of remedies under such financing arrangements to impact its ability to make Lease Payments.

Second Parking Structure: The City owns a leasehold interest in a 912-space parking structure (the “**Second Parking Structure**”) located at the Tyler Mall and a leasehold interest in the land upon which the Second Parking Structure is located pursuant to a Land and Parking Structure Lease Agreement, dated as of September 1, 2006 (the "**Land and Parking Structure Lease Agreement**"), between the City, as lessee, and Tyler Mall Limited Partnership. Tyler Mall Limited Partnership reports that the estimated value of the Second Parking Structure is approximately $9.1 million, based on a replacement cost of $10,000 per parking space. The Second Parking Structure is a four-level structure with one level at grade and three elevated levels, covering a footprint approximately 250 feet wide by approximately 300 feet long.

The Second Parking Structure is founded on piles. The vertical load carrying structural system consists of precast concrete beams and columns supporting a cast-in-place concrete deck. The beams are post-tensioned and the columns and deck are conventionally reinforced. Shear walls are used for the lateral force resisting system. The Second Parking Structure was designed as a Type I Structure in accordance with the provisions of the 1988 Uniform Building Code.

Streets: The Streets consist of the following arterial streets located in the City:

Street Name	To/From Cross Street Location	Length (Feet)	Width (Feet)	Right-of-Way Value*	Pavement Replacement Cost*	Lanes	Year Built
Tyler Street	91 Freeway to 3,200 ft. northerly	3,200	86-106 ft.	$9,000,000	$756,250	6-8	1991
Magnolia Avenue	Banbury Drive to Dawes Street	3,400	98-122 ft.	11,837,500	913,000	6	1991

* Based on replacement cost as determined by the Department of Public Works and the value of comparable rights of way.

The value of the Streets includes the value of the right-of-way as well as the value of the asphalt. The Streets are owned by the City. The City will lease them to the Corporation pursuant to a Lease and Right of Entry Agreement dated as of September 1, 2006 (the "**Lease and Right of Entry Agreement**") and lease them back from the Corporation pursuant to the Lease Agreement. The City does not make any representations concerning the ownership of the land underlying the Streets which may not be owned by the City in all cases. The City does not intend to obtain a policy of title insurance on the Streets, and does not intend to record the Lease and Right of Entry Agreement or the Lease Agreement with the Riverside County Recorder's Office as an encumbrance on the Streets.

Limitation on Enforcement of Remedies. Notwithstanding the provisions of the Lease Agreement purporting to permit the Leased Premises to be entered upon and re-let in the event of a default by the City thereunder, the enforcement of this remedy may be limited with respect to (i) the Streets (because of their essential public purposes) and (ii) the Parking Structure Addition, the Second Parking Structure and the Other Public Improvements (because of a Reciprocal Easement Agreement governing operation of Tyler Mall). See "RISK FACTORS - Limitation on Enforcement of Remedies; No Acceleration".

Operation of the Leased Premises

Following completion of the Parking Structure Addition and the Other Public Improvements that will constitute part of the Leased Premises, they will be owned by the City but operated and maintained by Tyler Mall Limited Partnership, along with the Second Parking Structure, pursuant to the terms of an Operating Agreement for Galleria at Tyler Public Parking and Other Public Improvements dated as of September 1, 2006 (the "**Operating Agreement**").

Pursuant to the Operating Agreement, Tyler Mall Limited Partnership will be authorized to operate the Parking Structure Addition, the Second Parking Structure and the Other Public Improvements for public purposes as set forth in the Operating Agreement including, among other things, providing to the City and its representatives and the general public, the right of ingress and egress across other property owned or otherwise controlled by Tyler Mall Limited Partnership. Tyler Mall Limited Partnership will be required to manage and operate the Parking Structure Addition, the Second Parking Structure and the Other Public Improvements at its sole cost and expense, pursuant to guidelines set forth in the Operating Agreement. In connection with its obligation to maintain the Parking Structure Addition, the Second Parking Structure and the Other Public Improvements, Tyler Mall Limited Partnership will also be required to pay for capital repair, replacement and improvements.

Unless otherwise agreed by the City and Tyler Mall Limited Partnership, the general public will not be charged for parking in the Parking Structure Addition or the Second Parking Structure. Pursuant to the Operating Agreement, Tyler Mall Limited Partnership will have certain financial accounting and budgetary obligations, as well as certain obligations to indemnify and hold harmless the City and its officers, agents, elected and appointed officials, employees and volunteers. Tyler Mall Limited Partnership's indemnity agreement will be supplemented with insurance policies as set forth in the Operating Agreement. The term of the Operating Agreement will terminate on the earlier of (a) the date on which the City no longer owns the public facilities and (b) the 15th anniversary of the agreement's commencement.

Release of Property; Substitution

Under the Lease Agreement, the City has the option to substitute other land, facilities or improvements for the Leased Premises or any portion thereof or to release a portion of the Leased Premises and Site from the lien of the Lease Agreement, provided that the City satisfies all of the requirements set forth in the Lease Agreement.

The City is not entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of such substitution or release.

See "APPENDIX B - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - The Lease Agreement -- Release and Substitution."

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the Certificates are anticipated to be applied as follows:

SOURCES:	
Principal Amount of Certificates	$19,945,000.00
Plus Net Original Issue Premium	218,777.35
Total Sources	$20,163,777.35
USES:	
Project Fund (1)	$16,987,189.94
Reserve Fund	1,337,591.26
Delivery Costs Fund (2)	553,259.05
Lease Payment Fund (3)	1,285,737.10
Total Uses:	$20,163,777.35

(1) To be used to finance a portion of the Project (see "THE PROJECT AND THE LEASED PREMISES" above). Proceeds of the Certificates deposited in the Project Fund will be invested in a guaranteed investment agreement at a rate of 5.053% with the intent of making the amount of $17,350,000 available to fund the Project.
(2) Includes Underwriter's discount, premium for the Policy and other costs of issuing the Certificates.
(3) Represents gross-funded capitalized interest on the Certificates through March 1, 2008.

THE CERTIFICATES

General

The Certificates shall be delivered in the form of fully registered Certificates, without coupons, in denominations of $5,000 or any integral multiple thereof, and shall be dated the date of delivery to the original purchaser thereof. The Certificates will mature on the dates and in the amounts set forth on the inside front cover of this Official Statement.

The Certificates, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("**DTC**"). So long as DTC, or Cede & Co. as its nominee, is the registered owner of all Certificates, all payments on the Certificates will be made directly to DTC, and disbursement of such payments to the DTC "Participants" (as defined in Appendix F) will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners (as defined in Appendix F) will be the responsibility of the Participants, as more fully described in "Book-Entry Only System" below.

Interest with respect to the Certificates is payable on March 1 and September 1 of each year, commencing March 1, 2007, and continuing to and including the date of maturity or prepayment, whichever is earlier.

Principal represented by the Certificates is payable on September 1 in each of the years and in the amounts set forth on the inside front cover of this Official Statement.

Any Certificate may be transferred upon the registration books kept by the Trustee by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of the Certificate for cancellation, accompanied by delivery of a written instrument of transfer in a form approved by the Trustee, duly executed.

Certificates may be exchanged at the corporate trust office of the Trustee for a like aggregate principal amount of Certificates of other authorized denominations of the same maturity. The Trustee may require the payment by the Certificate Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. The Trustee is not required to register the transfer or exchange of any Certificate during the period the Trustee is selecting Certificates for prepayment or any certificate selected for prepayment.

Prepayment of the Certificates

Optional Prepayment. Certificates maturing on or after September 1, 2017, are subject to prepayment in whole or in part from prepayments made at the option of the City pursuant to the Lease Agreement on or after September 1, 2016 or any date thereafter, at a prepayment price equal to the principal amount thereof, without any premium together with interest accrued with respect thereto to the date fixed for prepayment.

Mandatory Sinking Fund Prepayment. The Certificates maturing on September 1, 2030 and September 1, 2036 are also subject to mandatory sinking fund prepayment on September 1 in each year on or after September 1, 2025 and September 1, 2031, respectively, by lot, at a prepayment price equal to the principal amount thereof, without premium, together with accrued interest to the date of prepayment, from the principal component of the Lease Payment to be paid by the City pursuant to the Lease Agreement with respect to each such prepayment date as follows:

Certificates Maturing September 1, 2030

Prepayment Date (September 1)	Principal Amount of Certificates to be Prepaid
2025	$765,000
2026	800,000
2027	835,000
2028	875,000
2029	910,000
2030 (maturity)	955,000

Certificates Maturing September 1, 2036

Prepayment Date (September 1)	Principal Amount of Certificates to be Prepaid
2031	$ 995,000
2032	1,045,000
2033	1,100,000
2034	1,155,000
2035	1,210,000
2036 (maturity)	1,270,000

In the event that the Trustee prepays Certificates in part, but not in whole, pursuant to subsections an optional prepayment or a prepayment from Net Proceeds of insurance or condemnation, the amount of the Certificates to be prepaid in each subsequent year pursuant to a mandatory sinking fund prepayment will be modified to correspond to the principal components of the Lease Payments prevailing following such prepayment.

In providing for the mandatory sinking fund prepayment of Certificates, the Trustee may, at the written direction of the City, utilizing funds on deposit in the Lease Payment Fund, purchase in the open market Certificates in the full principal amount of the Certificates to be prepaid on any prepayment date, or any part thereof; provided that the City will not direct the Trustee to purchase Certificates for such purpose after the 75th day preceding any such prepayment date, and provided further that the City shall not provide for the purchase of Certificates, at a purchase price for any Certificate which exceeds the principal amount thereof. If the Trustee purchases Certificates in a principal amount which is less than the full principal amount of the Certificates to be prepaid on the succeeding prepayment date, the Trustee shall, at the written direction of the City, prepay Certificates in a principal amount equal to the remainder of the principal amount of Certificates to be prepaid on such prepayment date.

Extraordinary Prepayment. The Certificates are also subject to mandatory prepayment on any date, in whole or in part, from the Net Proceeds of insurance or condemnation or sale of the Leased Premises and Site, which Net Proceeds are deposited in the Lease Payment Fund and credited as a Prepayment made by the City pursuant to the Lease Agreement, at a prepayment price equal to the principal amount, together with accrued interest to the date fixed for prepayment, without premium.

Selection of Certificates for Prepayment. Except with respect to mandatory sinking fund prepayment, whenever less than all Outstanding Certificates are called for prepayment, the Trustee will select Certificates for prepayment, from the Outstanding Certificates not previously called for prepayment, such that, as nearly as practicable, approximately equal principal, interest and mandatory sinking fund prepayment payments prevail with respect to the Certificates in each Fiscal Year following the prepayment as determined by the City. The Trustee will select Certificates for prepayment by lot within a maturity in any manner which the Trustee in its sole discretion deems appropriate and fair.

Notice of Prepayment. The Trustee will give notice of the prepayment specifying: (a) that the Certificates or a designated portion thereof are to be redeemed, (b) the date of prepayment, (c) the place or places where the prepayment will be made and (d) if money has been deposited to the appropriate fund or account under the Trust Agreement, that on the specified date there will become due and payable upon each Certificate, the principal and premium, if any, together with interest accrued to said date, and that from and after such date interest with respect thereto will cease to accrue and be payable.

Notice of prepayment shall be mailed by first class postage prepaid to the Securities Depositories and to one or more of the Information Services, to the managing member of such syndicate and to the respective Owners of Certificates designated for prepayment at their addresses appearing on the Certificate registration books at least 30 days but not more than 60 days prior to the prepayment date, which notice will, in addition to setting forth the above information, set forth, in the case of each Certificate called only in part, the portion of the principal thereof which is to be redeemed.

The Trust Agreement provides that neither failure to receive a redemption notice nor any immaterial defect in any notice will affect the sufficiency of the proceedings for the prepayment of Certificates.

Book-Entry System

DTC will act as securities depository for the Certificates. The Certificates will be issued as fully-registered certificates registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Certificate will be issued for each maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See "APPENDIX F – BOOK-ENTRY PROVISIONS" herein.

The City and the Trustee cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal, interest or premium, if any, with respect to the Certificates paid to DTC or its nominee as the registered owner, or will distribute any prepayment notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The City and the Trustee are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the Certificates or an error or delay relating thereto.

Schedule of Lease Payments

The table below shows the scheduled annual Lease Payments established by the Lease Agreement. The Lease Payments are due fifteen days prior to each Interest Payment Date.

September 1	Principal	Interest	Annual Total
2007	$ 0	$ 835,478.97	$ 835,478.97
2008	0	900,516.26	900,516.26
2009	0	900,516.26	900,516.26
2010	0	900,516.26	900,516.26
2011	435,000	900,516.26	1,335,516.26
2012	455,000	880,941.26	1,335,941.26
2013	470,000	862,741.26	1,332,741.26
2014	495,000	841,591.26	1,336,591.26
2015	515,000	821,791.26	1,336,791.26
2016	535,000	801,191.26	1,336,191.26
2017	555,000	779,791.26	1,334,791.26
2018	580,000	757,591.26	1,337,591.26
2019	600,000	734,391.26	1,334,391.26
2020	625,000	710,391.26	1,335,391.26
2021	650,000	685,391.26	1,335,391.26
2022	675,000	658,741.26	1,333,741.26
2023	705,000	630,897.50	1,335,897.50
2024	735,000	601,287.50	1,336,287.50
2025	765,000	570,050.00	1,335,050.00
2026	800,000	535,625.00	1,335,625.00
2027	835,000	499,625.00	1,334,625.00
2028	875,000	462,050.00	1,337,050.00
2029	910,000	422,675.00	1,332,675.00
2030	955,000	381,725.00	1,336,725.00
2031	995,000	338,750.00	1,333,750.00
2032	1,045,000	289,000.00	1,334,000.00
2033	1,100,000	236,750.00	1,336,750.00
2034	1,155,000	181,750.00	1,336,750.00
2035	1,210,000	124,000.00	1,334,000.00
2036	1,270,000	63,500.00	1,333,500.00
Total	$19,945,000	$18,309,782.87	$38,254,782.87

SECURITY FOR THE CERTIFICATES

General

Lease Payments. In the Lease Agreement, the City agrees to pay the Lease Payments to the Corporation as rental for the use and occupancy of the Leased Premises. The Lease Payments are denominated into components of principal and interest that correspond to the components of principal and interest with respect to the Certificates.

The City covenants in the Lease Agreement to take such action as may be necessary to include all Lease Payments in its annual budgets and to make the necessary annual appropriations for all such Lease Payments. However, the obligation of the City to make Lease Payments (other than to the extent that funds to make Lease Payments are available in the Lease Payment Fund or Reserve Fund, or otherwise available from an insurance or eminent domain award) may be abated in whole or in part if the City does not have use and possession of all or part of the Leased Premises.

Assignment of Rights to the Trustee. The Corporation, pursuant to the Trust Agreement, has assigned its rights, including its right to receive Lease Payments and its remedies under the Lease Agreement, to the Trustee for the benefit of the Owners of the Certificates.

Certificates. Each Certificate evidences and represents an undivided interest in the Lease Payments due under the Lease Agreement on the payment date or prepayment date of such Certificate.

Lease Payments

Lease Payments are required to be made by the City under the Lease Agreement 15 Business Days prior to each Interest Payment Date (individually, a "**Lease Payment Date**"), for use and possession of the Leased Premises to the next occurring Lease Payment Date.

Lease Payments are required to be deposited in the Lease Payment Fund maintained by the Trustee. Pursuant to the Trust Agreement, on each Lease Payment Date the Trustee will withdraw from the Lease Payment Fund the amount of the Lease Payment then due and will apply such amounts to make principal and interest payments due with respect to the Certificates.

Appropriation; Use of Leased Premises

The City covenants in the Lease Agreement to take such action as may be necessary to include all Lease Payments in its annual budgets and to make the necessary annual appropriations for all such Lease Payments. The Lease Agreement provides that this covenant shall be deemed to be and shall be construed to be a duty imposed by law, and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the budget and appropriation covenant.

The Lease Agreement provides that the obligation of the City to pay Lease Payments constitutes a current expense of the City and shall not in any way be construed to be a debt of the City in contravention of any applicable constitutional or statutory limitation or requirement concerning the creation of indebtedness by the City, and that nothing in the Lease Agreement *constitutes a pledge of the general tax revenues, funds or moneys of the City. Lease Payments are payable only from current funds which are budgeted and appropriated, or otherwise legally available, for the purpose of paying Lease Payments as consideration for use of the Leased Premises during the fiscal year of the City for which such funds were budgeted and appropriated or otherwise made legally available for such purpose. The Lease Agreement does not create an immediate indebtedness for any aggregate payments which may become due thereunder. The City has not pledged the full faith and credit of the City, the State of California or any agency or department thereof to the payment of the Lease Payments, the Certificates or the interest thereon.*

Reserve Fund

A Reserve Fund is established under the Trust Agreement, will initially be funded from proceeds of the Certificates (see "ESTIMATED SOURCES AND USES OF FUNDS" hereof), and must be maintained in an amount (the "**Reserve Requirement**") equal to the least of (i) 10% of the proceeds of the Certificates, (ii) maximum aggregate Lease Payments required to be paid in any Certificate Year, or (iii) 125% of the average annual Lease Payment.

Amounts in the Reserve Fund are to be used only for the payment of Lease Payments to the extent amounts in the Lease Payment Fund are insufficient therefor or in the event of a full or partial defeasance of the Certificates.

At the option of the City, amounts to be held in the Reserve Fund may be replaced, in whole or in part, by a Reserve Fund Credit Facility deposited with the Trustee.

See "APPENDIX B - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" for more information about the Reserve Fund.

Assignment; Recourse on Default

Pursuant to the Trust Agreement, the Corporation assigns to the Trustee for the benefit of the Owners of the Certificates its rights and remedies under the Lease Agreement, including its rights to receive amounts payable by the City under the Lease Agreement.

If the City defaults on its obligations under the Lease Agreement, the Trustee, as assignee of the Corporation, may exercise any and all remedies authorized by law or granted to the Corporation pursuant to the Lease Agreement. The Lease Agreement expressly authorizes the Trustee, as assignee of the Corporation, to re-enter the Leased Premises for the purpose of removing persons and personal property and of re-letting the Leased Premises and, at its option, to terminate the Lease Agreement. In the event the Trustee, as assignee of the Corporation, does not elect to terminate the Lease Agreement, it may enforce the Lease Agreement and hold the City liable for all Lease Payments and the performance of all conditions under the Lease Agreement. Any re-entry and re-letting will not effect a surrender of the Lease Agreement. The City, in the event of default, waives all rights to any rentals received by the Trustee through re-letting of the Lease Agreement. The City agrees to pay any and all costs, loss or damage, howsoever occurring, as a result of any re-entry or re-letting. See "RISK FACTORS - Bankruptcy"; "- Limitation as Enforcement of Remedies" and "- No Acceleration" herein for a discussion of factors potentially limiting the available remedies in the event of a default.

The City may not mortgage, pledge, assign or transfer its interest in the Lease Agreement except as specifically provided in the Lease Agreement. The Lease Agreement authorizes the City to sublease a portion of the Leased Premises in the circumstances described in "APPENDIX B - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS".

Insurance

The Lease Agreement requires the City to maintain certain insurance with respect to the Leased Premises (see "APPENDIX B - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS -- Lease Agreement"), including the policies described in the following paragraphs.

General Liability. The Lease Agreement requires the City to maintain a standard comprehensive general liability insurance policy or policies in protection of the City, the Corporation and its members, officers, agents and employees, and the Trustee, with minimum liability limits of $1,000,000 for personal injury or death of each person and $3,000,000 for personal injury or deaths of two or more persons in a single accident or event, and in a minimum amount of $250,000 for damage to property (subject to a deductible clause of not to exceed $200,000) resulting from a single accident or event. In the alternative, the public liability and property damage insurance may be in the form of a single limit policy in the amount of $3,000,000 covering all such risks.

The liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried or required to be carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City.

Workers' Compensation. The Lease Agreement requires the City to maintain workers' compensation insurance against liability for compensation under the Workers Compensation Insurance and Safety Act of California or any similar law.

Fire and Extended Coverage. The Lease Agreement requires the City to maintain City insurance against loss or damage to any structures constituting any part of the Leased Premises by fire and lightning, with extended coverage and vandalism and malicious mischief insurance. The extended coverage insurance must, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance.

This insurance must be in an amount equal to the greater of (a) 100% of the replacement cost of such structures on the Leased Premises or (b) the principal amount of the outstanding Certificates. The fire and extended coverage insurance may be subject to deductible clauses of not to exceed $100,000 for any one loss, may be maintained as part of or in conjunction with any other fire and extended coverage insurance carried or required to be carried by the City, and may not be maintained in whole or in part in the form of self-insurance by the City.

Rental Interruption or Use and Occupancy Insurance. The Lease Agreement requires the City to maintain rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of any structures constituting any part of the Leased Premises as a result of any of the hazards covered in the fire and extended coverage policy, in an amount sufficient to pay the maximum Lease Payments with respect thereto payable in any 24-month period.

The Net Proceeds of an rental interruption or use and occupancy insurance will be paid to the Trustee and deposited in the Lease Payment Fund, and will be credited towards the payment of the Lease Payments in the order in which such Lease Payments come due and payable.

Title Insurance. Upon the execution and delivery of the Certificates the City will provide one or more CLTA leasehold title insurance policies in the aggregate amount of not less than the initial principal amount of the Certificates with respect to the City's leasehold interest in the Site. All Net Proceeds received under the title insurance policy will be deposited with the Trustee in the Lease Payment Fund and shall be credited towards the prepayment of the remaining Lease Payments. Because of the nature of the Streets, the City will not acquire title insurance covering the Streets.

No assurance can be given that insurance proceeds will be adequate to avoid an interruption of Lease Payments. Under such a situation, an abatement of Lease Payments is likely to occur. See "RISK FACTORS – Abatement" below.

Additional Payments

The City is responsible for all improvement, repair and maintenance of the Leased Premises, for the payment of all utility services supplied to the Leased Premises, and for the cost of the repair and replacement of the Leased Premises resulting from ordinary wear and tear or want of care on the part of the City or any assignee or lessee thereof.

The City will also pay all taxes and assessments of any type or nature payable during the Term of the Lease Agreement.

The City has also agreed in the Lease Agreement to pay all amounts required to restore amounts on deposit in the Reserve Fund to the Reserve Requirement, although this payment obligation is also subject to abatement. See "RISK FACTORS – Abatement" below.

Special Taxes Not Available as Security

Pursuant to the Mello-Roos Community Facilities Act of 1982, and for the purpose of providing for reimbursement of a portion of the Lease Payments made by the City, the City has formed Community Facilities District No. 2004-1 (Galleria at Tyler) of the City of Riverside, County of Riverside, State of California (the "**CFD**"). *Neither the City's obligation to make Lease Payments nor the Certificates are secured by proceeds of special taxes levied and collected by the City from property owners in the CFD or proceeds of foreclosure of delinquent parcels in the CFD.*

CERTIFICATE INSURANCE

The following information concerning the Insurer and the Policy has been *furnished by the Insurer for use in this Official Statement, and has not been independently certified or verified by the City or the Underwriter. No representation is made by the City or the Underwriter* as *to the accuracy,* completeness *or adequacy of such information* or as to *the* absence *of material adverse changes in the condition of the Insurer subsequent* to the *date of this Official Statement. Reference is made to APPENDIX G for a specimen of* the *Policy.*

Payments Under the Policy

Concurrently with the issuance of the Bonds, Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company ("**Financial Guaranty**") will issue its Municipal Bond New Issue Insurance Policy for the Bonds (the "**Policy**"). The Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest with respect to the Certificates which has become due for payment, but shall be unpaid by reason of nonpayment by the issuer of the Certificates (the "**Issuer**"). Financial Guaranty will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the "**Fiscal Agent**"), on the later of the date on which such principal, accreted value or interest (as applicable) is due or on the business day next following the day on which Financial Guaranty shall have received notice (in accordance with the terms of the Policy) from an owner of Certificates or the Trustee of the nonpayment of such amount by the Issuer. The Fiscal Agent will disburse such amount due on any Certificate to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value or interest (as applicable) shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Certificate includes any payment of principal, accreted value or interest (as applicable) made to an owner of a Certificate which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

Once issued, the Policy is non-cancellable by Financial Guaranty. The Policy covers failure to pay principal (or accreted value, if applicable) with respect to the Certificates on their stated maturity dates and their mandatory sinking fund redemption dates, and not on any other date on which the Certificates may have been otherwise called for redemption, accelerated or advanced in maturity. The Policy also covers the failure to pay interest on the stated date for its payment. In the event that payment of the Certificates is accelerated, Financial Guaranty will only be obligated to pay principal (or accreted value, if applicable) and interest in the originally scheduled amounts on the originally scheduled payment dates. Upon such payment, Financial Guaranty will become the owner of the Certificate, appurtenant coupon or right to payment of principal or interest on such Certificate and will be fully subrogated to all of the Certificateowners' rights thereunder.

The Policy does not insure any risk other than Nonpayment by the Issuer, as defined in the Policy. Specifically, the Policy does not cover: (i) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity; (ii) payment of any redemption, prepayment or acceleration premium; or (iii) nonpayment of principal (or accreted value, if applicable) or interest caused by the insolvency or negligence or any other act or omission of the trustee or paying agent, if any.

As a condition of its commitment to insure the Certificates, Financial Guaranty may be granted certain rights under the Certificate documentation. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the Certificates may be set forth in the description of the principal legal documents appearing elsewhere in this Official Statement, and reference should be made thereto.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

The Policy is not covered by the California Insurance Guaranty Association (California Insurance Code, Article 14.2).

Financial Guaranty Insurance Company

Financial Guaranty is a New York stock insurance corporation that writes financial guaranty insurance in respect of public finance and structured finance obligations and other financial obligations, including credit default swaps. Financial Guaranty is licensed to engage in the financial guaranty insurance business in all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the U.S. Virgin Islands and the United Kingdom.

Financial Guaranty is a direct, wholly owned subsidiary of FGIC Corporation, a Delaware corporation. At June 30, 2006, the principal owners of FGIC Corporation and the approximate percentage of its outstanding common stock owned by each were as follows: The PMI Group, Inc. – 42%; affiliates of the Blackstone Group L.P. – 23%; and affiliates of the Cypress Group L.L.C. – 23%. Neither FGIC Corporation nor any of its stockholders or affiliates is obligated to pay any debts of Financial Guaranty or any claims under any insurance policy, including the Policy, issued by Financial Guaranty.

Financial Guaranty is subject to the insurance laws and regulations of the State of New York, where Financial Guaranty is domiciled, including New York's comprehensive financial guaranty insurance law. That law, among other things, limits the business of each financial guaranty insurer to financial guaranty insurance (and related lines); requires that each financial guaranty insurer maintain a minimum surplus to policyholders; establishes limits on the aggregate net amount of exposure that may be retained in respect of a particular issuer or revenue source (known as single risk limits) and on the aggregate net amount of exposure that may be retained in respect of particular types of risk as compared to the policyholders' surplus (known as aggregate risk limits); and establishes contingency, loss and unearned premium reserve requirements. In addition, Financial Guaranty is also subject to the applicable insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction.

At June 30, 2006, Financial Guaranty had net admitted assets of approximately \$3.752 billion, total liabilities of approximately \$2.616 billion, and total capital and policyholders' surplus of approximately \$1.136 billion, determined in accordance with statutory accounting practices ("**SAP**") prescribed or permitted by insurance regulatory authorities.

The unaudited consolidated financial statements of Financial Guaranty and subsidiaries, on the basis of U.S. generally accepted accounting principles ("**GAAP**"), as of June 30, 2006 and the audited consolidated financial statements of Financial Guaranty and subsidiaries, on the basis of GAAP, as of December 31, 2005 and 2004, which have been filed with the Nationally Recognized Municipal Securities Information Repositories ("**NRMSIRs**"), are hereby included by specific reference in this Official Statement. Any statement contained herein under the heading "CERTIFICATE INSURANCE" or in any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by Financial Guaranty with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. All financial statements of Financial Guaranty (if any) included in documents filed by Financial Guaranty with the NRMSIRs subsequent to the date of this Official Statement and prior to the termination of the offering of the Certificates shall be deemed to be included by specific reference into this Official Statement and to be a part hereof from the respective dates of filing of such documents.

The New York State Insurance Department recognizes only SAP for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the New York Insurance Law, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. Although Financial Guaranty prepares both GAAP and SAP financial statements, no consideration is given by the New York State Insurance Department to financial statements prepared in accordance with GAAP in making such determinations. A discussion of the principal differences between SAP and GAAP is contained in the notes to Financial Guaranty's audited SAP financial statements.

Copies of Financial Guaranty's most recently published GAAP and SAP financial statements are available upon request to: Financial Guaranty Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. Financial Guaranty's telephone number is (212) 312-3000.

Financial Guaranty's Credit Ratings

The financial strength of Financial Guaranty is rated "AAA" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., "Aaa" by Moody's Investors Service, and "AAA" by Fitch Ratings. Each rating of Financial Guaranty should be evaluated independently. The ratings reflect the respective ratings agencies' current assessments of the insurance financial strength of Financial Guaranty. Any further explanation of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell or hold the Certificates, and are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Certificates. Financial Guaranty does not guarantee the market price or investment value of the Certificates nor does it guarantee that the ratings on the Certificates will not be revised or withdrawn.

Neither Financial Guaranty nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Official Statement or any information or disclosure that is provided to potential purchasers of the Certificates, or omitted from such disclosure, other than with respect to the accuracy of information with respect to Financial Guaranty or the Policy under the heading "CERTIFICATE INSURANCE". In addition, Financial Guaranty makes no representation regarding the Certificates or the advisability of investing in the Certificates.

RISK FACTORS

The following factors, along with other information in this Official Statement, should be considered by potential investors in evaluating the risks in the purchase of the Certificates. However, the following does not purport to be an exhaustive listing of risk factors and other considerations which may be relevant to an investment in the Certificates. Additionally, there can be no assurance that other risk factors will not become evident at any future time.

No Tax Pledge

The obligation of the City to pay the Lease Payments does not constitute an obligation of the City or the State for which the City or the State has levied or pledged any form of taxation. The obligation of the City to pay Lease Payments does not constitute a debt or indebtedness of the City, the State of California or any of its political subdivisions, within the meaning of any constitutional or statutory debt limitation or restriction.

Appropriation

Although the Lease Agreement does not create a pledge, lien or encumbrance upon the funds of the City, the City is obligated under the Lease Agreement, so long as the Leased Premises are available for its use and possession, to pay Lease Payments from any source of legally available funds (subject to certain exceptions) and has covenanted in the Lease Agreement that, for so long as the Leased Premises are available for its use, it will make the necessary annual appropriations within its budget for all Lease Payments.

However, the City may incur obligations payable from general revenues which have a priority over the Lease Payments, and the Lease Agreement does not prohibit the City from incurring additional obligations payable from general revenues on a parity with the Lease Payments. See "APPENDIX A -- CITY OF RIVERSIDE GENERAL DEMOGRAPHIC AND FINANCIAL INFORMATION" herein and the financial statements included in APPENDIX C hereto.

In the event the City's revenue sources are less than its total obligations, the City could choose to fund other municipal services before making Lease Payments and other payments due under the Lease Agreement, except from amounts on deposit in the Lease Payment Fund. The City's ability to collect, budget and appropriate various revenues is subject to current and future State laws and constitutional provisions, and it is possible that the interpretation and application of these provisions could result in an inability of the City to pay Lease Payments when due (see "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS" below).

No Limit on Additional Debt

The City has the ability to enter into other obligations which may constitute additional charges against its general revenues, and has previously issued certificates of participation similarly payable from its general fund.

Abatement

Abatement As a Result of Failure to Complete the Project. The Lease Payments are subject to abatement if Tyler Mall Limited Partnership fails to complete construction of the Project prior to the time through which interest has been capitalized on the Certificates. The amount of the abatement would be determined by the City so that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of the Leased Premises that are available for use. Tyler Mall Limited Partnership expects construction of the Project to be complete in December 2007 and interest has been capitalized with respect to the Certificates through March 1, 2008.

Abatement As a Result of Damage or Destruction. The amount of the Lease Payments relating to structures on the Leased Premises will be abated during any period in which by reason of damage or destruction there is substantial interference with the use and occupancy of the structures on the Leased Premises by the City.

The amount of the abatement will be determined by the City so that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of the Leased Premises and Site not damaged or destroyed. The failure to make such payments of principal and interest would not under such circumstances constitute a default under the Trust Agreement, the Lease Agreement or the Certificates.

The abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of damage or destruction, the Lease Agreement will continue in full force and effect and, in the Lease Agreement, the City waives any right to terminate the Lease Agreement by virtue of any such damage or destruction.

There will be no abatement of Lease Payments as a result of damage or destruction in the event and to the extent that the net proceeds of rental interruption insurance are available to pay lease payments (see “ – Insurance” below”) and to the extent that amounts in the Reserve Fund are available.

Eminent Domain. If all of the Leased Premises and Site are taken permanently under the power of eminent domain, the term of the Lease Agreement will cease as of the day possession is taken. If less than all of the Leased Premises and Site are taken permanently, or if all of the Leased Premises and Site or any part thereof is taken temporarily, under the power of eminent domain, (1) the Lease Agreement will continue in full force and effect, and (2) there will be a partial abatement of Lease Payments as a result of the application of the Net Proceeds of any eminent domain award to the prepayment of the Lease Payments, but in no event will the resulting Lease Payments be less than the amount required for the payment of the principal and interest with respect to outstanding Certificates as the same become due and payable.

Relationship of Parking Structure Addition and Existing Parking Structure. The Parking Structure Addition, when built, will include a structurally-independent horizontal extension and a structurally-dependent vertical extension of the Existing Parking Structure (the Existing Parking Structure is not an element of the Leased Premises). The City previously refinanced acquisition and construction of the Existing Parking Structure through execution and delivery of the Existing Parking Structure COPs; the Existing Parking Structure COPs represent interests in lease payments made by the City for the Existing Parking Structure pursuant to a Facilities Lease dated as of April 1, 1990, as amended by an Amendment Number One to Facilities Lease dated as of September 1, 1999 (collectively, the "**Existing Parking Structure Lease**").

The relationship between the Existing Parking Structure and the Parking Structure Addition may pose risks to potential purchasers of the Certificates. For example, if the City were to default under the Existing Parking Structure Lease, the trustee with respect to the Existing Parking Structure COPs, as assignee of the Corporation's rights under the Existing Parking Structure Lease, would have certain remedies, including the right to enter and re-let the Existing Parking Structure. Any such remedy could impact the City's ability to access the Parking Structure Addition, potentially causing abatement of the Lease Payments. Similarly, in the event of damage to the Existing Parking Structure, failure to repair the Existing Parking Structure could impact the availability of the Parking Structure Addition, which could result in the Lease Payments being subject to abatement.

To mitigate these risks, the City and the Corporation have agreed as follows in the Lease Agreement:

> Right of Ingress and Egress. The City and the Corporation shall assure that there shall be a right of ingress and egress through the Existing Parking Structure during the term of the Lease Agreement, such that vehicular and pedestrian access to and from the Parking Structure Addition will not be hampered or impeded. The City and the Corporation shall cause any other necessary parties with an interest in the Existing Parking Structure to grant a similar right of ingress and egress.
>
> Insurance. The City shall cause to be maintained all insurance with respect to the Existing Parking Structure required under an existing lease agreement relating to the Existing Parking Structure for the term of this Lease Agreement. Moreover, the City agrees in the Lease Agreement to maintain "all risk" insurance in an amount equal to the lesser of (i) the full replacement value of the Existing Parking Structure and (ii) the sum of the outstanding principal amount of (A) the Existing Parking Structure COPs and (B) the Certificates.

Limitation on Enforcement of Remedies; No Acceleration

Limitation on Enforcement of Remedies. The enforcement of any remedies provided in the Lease Agreement and Trust Agreement could prove both expensive and time consuming. Although the Lease Agreement provides that the Trustee may take possession of the Leased Premises and lease it if there is a default by the City, and the Lease Agreement provides that the Trustee may have such rights of access to the Leased Premises as may be necessary to exercise any remedies, portions of such Leased Premises may not be easily recoverable and could be of little value to others.

In addition, there are likely to be certain limitations on the ability to re-enter and re-let the Leased Premises. For example:

- Tyler Mall is governed by a "Third Amendment to and Restatement of Construction, Operation and Reciprocal Easement Agreement" dated January 15, 1991 (the "**Reciprocal Easement Agreement**") among Tyler Mall Limited Partnership, Nordstrom Inc., J.C. Penney Properties, Inc., CMF Inc., doing business in California under the name Finance Lease Properties, Inc., and Riverside California Associates. The Reciprocal Easement

Agreement generally provides for free public use of the Parking Structure Addition, the Second Parking Structure and the Other Public Improvements. Consequently, there can be no assurance that, in the event of a payment default under the Lease Agreement, the Trustee or the Insurer would be able to re-enter and re-let or otherwise restrict the use of the Parking Structure Addition, the Second Parking Structure or the Other Public Improvements.

- Depending upon whether the Leased Premises are considered to serve an essential governmental function (as is likely to be the case with respect to the Streets), it is not certain whether a court would permit the exercise of the remedies of repossession and leasing with respect thereto. See "THE PROJECT AND THE LEASED PREMISES" herein.

No Acceleration. In the event of a default under the Lease Agreement, there is no available remedy of acceleration of the total Lease Payments due over the term of the Lease Agreement. The City will only be liable for Lease Payments on an annual basis as they come due, and the Trustee would be required to seek separate judgments for the Lease Payments as they come due. In addition, any such suit for money damages could be subject to limitations on legal remedies against public agencies in California, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest and a limitation on enforcement of judgments against funds of a fiscal year other than the fiscal year in which the lease payments were due.

Geologic, Topographic and Climatic Conditions

The value of the Leased Premises, and the financial stability of the City, can be adversely affected by a variety of factors, particularly those which may affect infrastructure and other public improvements and private improvements and the continued habitability and enjoyment of such private improvements. Such additional factors include, without limitation, geologic conditions (such as earthquakes), topographic conditions (such as earth movements and floods), climatic conditions (such as droughts) and fires.

The area encompassed by the City, like that in much of California, may be subject to unpredictable seismic activity. The City is located within a regional network of several active and potentially active faults. The San Jacinto Fault, the Glen Helen Fault, the San Andreas Fault and the Lytle Creek Fault are all located within the vicinity of the City. Although the City believes that no active or inactive fault lines pass through the City, if there were to be an occurrence of severe seismic activity in the City, there could be an abatement or adverse impact on the City's ability to pay the Lease Payments. The City is not obligated to maintain earthquake insurance with respect to the Leased Premises. The Second Parking Structure and the Existing Parking Structure were constructed prior to enactment of current seismic standards, although construction of the Parking Structure Addition will involve strengthening of certain structural elements of the Existing Parking Structure.

Portions of the City, including certain components of the Leased Premises, are located in a 100-year flood plain. In particular, the Galleria site is located in a Flood Plain Zone “B” for the FEMA Map for this area. Properties within a Flood Plain Zone “B” are between the limits of the 100-year flood and the 500-year flood or certain areas subject to 100-year flooding with average depths less than one foot or where the contributing drainage is less than one square mile or areas protected by levees from the base flood.

Building codes require that some of these factors be taken into account, to a limited extent, in the design of improvements, including improvements of the Leased Premises. Some of these factors may also be taken into account, to a limited extent, in the design of other infrastructure and public improvements neither designed nor subject to design approval by the City. Design criteria in any of these circumstances are established upon the basis of a variety of considerations and may change, leaving previously-designed improvements unaffected by more stringent subsequently established criteria. In general, design criteria reflect a balance at the time of protection and the future costs of lack of protection, based in part upon a present perception of the probability that the condition will occur and the seriousness of the condition should it occur. Conditions may occur and may result in damage to improvements of varying seriousness, such that the damage may entail significant repair or replacement costs and that repair or replacement may never occur either because of the cost or because repair or replacement will not facilitate habitability or other use, or because other considerations preclude such repair or replacement. Under any of these circumstances, the actual value of the Leased Premises, as well as public and private improvements within the City in general, may well depreciate or disappear, notwithstanding the establishment of design criteria for any such condition.

Hazardous Substances

Discovery of hazardous substances on parcels within the City could impact the City's ability to pay debt service with respect to the Certificates.

In general, the owners and operators of a property may be required by law to remedy conditions of the property relating to releases or threatened releases of hazardous substances. The Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "**CERCLA**" or the "**Superfund Act**" is the most well known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of property whether or not the owner or operator has any thing to do with creating or handling the hazardous substance.

The effect, therefore, should the Leased Premises or any substantial amount of property within the City be affected by a hazardous substance, would be to reduce the marketability and value of the property by the costs of, and any liability incurred by, remedying the condition, since the purchaser, upon becoming an owner, will become obligated to remedy the condition just as is the seller. Such reduction in the value of the Leased Premises could adversely impact the fair rental value of the Leased Premises and potentially result in abatement of the Lease Payments. In addition, reduction in the value of property in the City as a whole could reduce property tax revenues received by the City and deposited in the general fund, which could significantly and adversely affect the ability of the City to make Lease Payments.

Impact of State Budget

The State of California is likely to continue to face significant budget issues for the foreseeable future. In connection with its approval of former budgets, the State Legislature enacted legislation that has a direct impact on the financial situation of cities and counties in the State.

The Budget Process. Through the State budget process, the State can enact legislation that significantly impacts the source, amount and timing of the receipt of revenues by local agencies, including the City. As in recent years, State budget deficits can result in legislation that adversely impacts local agency budgets.

The State's fiscal year begins on July 1 and ends on June 30. The annual budget is proposed by the Governor by January 10 of each year for the next fiscal year (the "**Governor's Budget**"). Under State law, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of projected revenues and balances available from prior fiscal years. Following the submission of the Governor's Budget, the Legislature takes up the proposal.

Under the State Constitution, money may be drawn from the Treasury only through an appropriation made by law. The primary source of the annual expenditure authorizations is the Budget Act as approved by the Legislature and signed by the Governor. The Budget Act must be approved by a two-thirds majority vote of each House of the Legislature. The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line item vetoes are subject to override by a two-thirds majority vote of each House of the Legislature.

Appropriations also may be included in legislation other than the Budget Act. Bills containing appropriations (except for K-14 education) must be approved by a two-thirds majority vote in each House of the Legislature and be signed by the Governor. Bills containing K-14 education appropriations only require a simple majority vote. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution.

Funds necessary to meet an appropriation need not be in the State Treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

Recent State Budgets. Certain information about the State budgeting process and the State Budget is available through several State of California sources. A convenient source of information is the State's website, where recent official statements for State bonds are posted. The references to internet websites shown below are shown for reference and convenience only; the information contained within the websites has not been reviewed by the City and is not incorporated herein by reference.

The California State Treasurer's Internet home page at www.treasurer.ca.gov, under the heading "Financial Information," posts the State's audited financial statements. In addition, the "Financial Information" section includes the State's Rule 15c2-12 filings for State bond issues. The "Financial Information" section also includes the "Overview of the State Economy and Government, State Finances, State Indebtedness, Litigation" from the State's most current Official Statement, which discusses the State budget and its impact on school districts.

The California Department of Finance's Internet home page at www.dof.ca.gov, under the heading "California Budget," includes the text of proposed and adopted State Budgets.

The State Legislative Analyst's Office prepares analyses of the proposed and adopted State budgets. The analyses are accessible on the Legislative Analyst's Internet home page at www.lao.ca.gov under the heading "Products."

2005-06 State Budget. On July 11, 2005, Governor Schwarzenegger signed the 2005-06 Budget Act. The 2005-06 Budget Act projects 2005-06 General Fund revenues of $84.2 billion, expenditures of $90 billion and an ending reserve balance of $1.3 billion (including an allowance for $900 million of tax refunds which the State may be obligated to make).

The 2005-06 Budget Act includes funding for local governments to make up the difference between the 0.65% rate of the VLF and the previous 2% rate through a reallocation of property tax from schools and community colleges to cities and counties. The 2005-06 Budget Act also includes the accelerated repayment of all of the VLF revenue that the local governments did not receive in 2003-04 due to the suspension of the VLF backfill, which was not required to be paid until fiscal year 2006-07.

Among the measures in the fiscal year 2005-06 State budget affecting local governments are the following:

Vehicle License Fee Backfill. The State has enacted Vehicle License Fee reductions for the current and prior fiscal years, but under the law authorizing these reductions, the State is required to "backfill" local governments for their revenue losses resulting from the lowered rates, and the Vehicle License Fee rate must be increased whenever there are insufficient moneys in the State general fund to pay for the backfill. The fiscal year 2004-05 and fiscal year 2005-06 State budgets deleted the requirement for backfill payments and, instead, provided that the amount of the backfill requirement will be met by an increase in the property tax allocation to cities and counties.

Property Tax Shift to the ERAF. The budget included a $1.3 billion shift of local government property taxes to the ERAF. The budget apportioned the $1.3 billion among cities ($350 million), counties ($350 million), special districts ($350 million) and redevelopment agencies ($250 million) and limited the $1.3 billion ERAF transfer to the two fiscal years 2004-05 and 2005-06. The City's share of this additional shift of property taxes was $2,700,000 in fiscal year 2004-05 and $2,700,000 in 2005-06.

Deferral of Mandate Reimbursement. The budget defers reimbursement to counties, cities and special districts for State mandates (i.e., State-mandated requirements that local agencies must carry out without regard to the timing of State reimbursement of the costs of those mandates).

Other Measures. In addition to the ERAF shift, the budget contained numerous other changes that reduce local government funds or increase local costs, including the elimination of booking fee subventions.

Triple Flip. The City anticipates that property tax revenue could be an increasingly significant portion of City revenues, and that sales tax revenues could be an increasingly smaller portion of City revenues, at least over the next few fiscal years, because of legislation, commonly referred to as the "Triple Flip," which was submitted to the voters on March 2, 2004, as part of a bond initiative formally known as the "California Economic Recovery Act." This act authorized the issuance of $15 billion in bonds to finance the fiscal years 2002-03 and 2003-04 State budget deficits, which are payable from a fund established by the redirection of tax revenues through the Triple Flip. Currently, $11.3 billion of the $15 billion authorization has been sold, with the remaining authorization being held in reserve to assist in defraying any future State budget deficits.

Under the "Triple Flip" one-quarter of local governments' one percent share of the sales tax imposed on taxable transactions within their jurisdiction is redirected to the State. In an effort to eliminate the adverse impact of the sales tax revenue redirection on local government, the legislation provides for property taxes in the ERAF to be redirected to local government. Because the ERAF moneys were previously earmarked for schools, the legislation provides for schools to receive other state general fund revenues. It is expected that the swap of sales taxes for property taxes would terminate once the deficit financing bonds were repaid. The "Triple Flip" legislation was approved by voters at the election on March 2, 2004 and the bonds were sold in May 2004. See " – Impact of Sales and Use Tax Redirection" below.

2006-07 State Budget. On June 30, 2006 the Governor signed the budget act for fiscal year 2006-07 (the "**2006-07 Budget**"). The 2006-07 Budget projects that the State will be able to fund much more than a current-law budget and still maintain fiscal balance in 2006-07, primarily due to both a major increase in revenues and a significant amount of savings adopted in the 2005-06 spending plan. The 2006-07 Budget provides for over $4 billion in higher spending. The main increase involves Proposition 98 education.

The 2006-07 State Budget showed a stronger state revenue outlook with projected revenues of $92 billion, and included a number of specific proposals that will benefit cities. These include additional funds for transportation projects; $98 million reimbursement to local governments of state mandated programs; $23.3 million increased funding for public safety programs; and a number of other items.

Future State Budgets. The City cannot predict what actions will be taken in future years by the State Legislature and the Governor to address the State's current or future budget deficits. Future State budgets will be affected by national and state economic conditions and other factors over which the City has no control. To the extent that the State budget process results in reduced revenues to the City, the City will be required to make adjustments to its budget. Decrease in such revenues may have an adverse impact on the City's ability to pay Lease Payments.

Impact of Sales and Use Tax Redirection

As described in "APPENDIX A - CITY OF RIVERSIDE GENERAL DEMOGRAPHIC AND FINANCIAL INFORMATION", the State will temporarily redirect local sales and use taxes to the State, including 0.25% that would otherwise be available to the City, to pay debt service on its "economic recovery" bonds; the State will increase local governments' share of local property tax by a corresponding amount.

However, it should be noted that certain features and consequences of this redirection could impact the availability of revenues to pay Lease Payments. First, there may be a timing issue associated with the "backfill" of redirected sales and use taxes with property tax revenue: while sales and uses taxes are distributed by the State Board of Equalization on a monthly basis, the County would only backfill with property taxes on a semi-annual basis. This timing issue would not only impact the City's cash flow, but would cause the City to lose investment earnings on the sales and uses taxes it otherwise would have received on a monthly basis.

Second, it is possible that the fees charged by the County for property tax administration, which are subtracted from property tax revenue collected by the County before it is allocated to the City, could increase as a result of the various tasks required of the County by the redirection. In addition, the State Board of Equalization administration fee is likely to increase as a percentage of local sales and use tax received by the City unless the State Board of Equalization reduces its fee, which it is unlikely to do because the cost of collecting the sales and use taxes on a per-transaction basis will not go down.

Third, the redirection of sale and use taxes by the State reflects the vulnerability of local government to the State budget process. If, in the future, the State elects to further reallocate sales and use taxes or property tax revenue, or any other source of revenue used by the City to make Lease Payments, the City may not know the exact amount of revenue available to pay Lease Payments

Limitations on Remedies Available; Bankruptcy

The enforceability of the rights and remedies of the Owners and the obligations of the City may become subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equitable principles which may limit the specific enforcement under state law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of servicing a significant and legitimate public purpose.

The opinions of counsel, including Special Counsel, delivered in connection with the execution and delivery of the Certificates will be so qualified. Bankruptcy proceedings, or the exercising of powers by the federal or state government, if initiated, could subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

In addition, failure by large property owners to pay property taxes when due may have an adverse impact on revenues available to pay Lease Payments.

State Law Limitations on Appropriations

Article XIIIB of the California Constitution limits the amount that local governments can appropriate annually. The ability of the City to make Lease Payments may be affected if the City should exceed its appropriations limit. The State may increase the appropriation limit of cities in the State by decreasing the State's own appropriation limit. The City does not anticipate exceeding its appropriations limit. See " CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS - Article XIIIB of the State Constitution" below.

Change in Law

No assurance can be given that the State or the City electorate will not at some future time adopt initiatives, or that the State Legislature will not enact legislation that will amend the laws of the State, or that the City Council (with voter approval) will not enact amendments to the City's Charter, in a manner that could result in a reduction of the City's revenues and therefore a reduction of the funds legally available to the City to make Lease Payments. See, for example, "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Article XIIIC and Article XIIID of the State Constitution."

Loss of Tax Exemption

As discussed under "CONCLUDING INFORMATION - Tax Matters" herein, the interest represented by the Certificates could become includable in gross income for purposes of federal income taxation retroactive to the date such Certificates were issued, as a result of future acts or omissions of the City in violation of its covenants in the Trust Agreement and the Lease Agreement. Should such an event of taxability occur, the Certificates are not subject to early prepayment and will remain outstanding until maturity or until prepaid under one of the prepayment provisions contained in the Trust Agreement.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIIIA of the State Constitution

Article XIIIA of the State Constitution, known as Proposition 13, was approved by the voters in June 1978 and has been amended on occasions, including most recently on November 7, 2000 to reduce the voting percentage required for the passage of school bonds. Section I(a) of Article XIIIA limits the maximum *ad valorem* tax on real property to 1% of "full cash value," and provides that such tax shall be collected by the counties and apportioned according to State statutes. Section I(b) of Article XIIIA provides that the 1% limitation does not apply to *ad valorem* taxes levied to pay interest or redemption charges on any (1) indebtedness approved by the voters prior to July 1, 1978, (2) bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition and (3) bonded indebtedness incurred by a school district, community college district or county office of education for the construction, reconstruction, rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities or the acquisition or lease of real property for school facilities, approved by 55 percent of the voters voting on the proposition.

Section 2 of Article XIIIA defines "**full cash value**" to mean the county assessor's valuation of real property as shown on the 1975-76 Fiscal Year tax bill, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. See "Litigation Relating to Two Percent Limitation" below. Legislation implementing Article XIIIA provides that, notwithstanding any other law, local agencies may not levy any *ad valorem* property tax except to pay debt service on indebtedness approved by the voters as described above. Such legislation further provides that each county will levy the maximum tax permitted by Article XIIIA, which is $1.00 per $100 of assessed market value.

Since its adoption, Article XIIIA has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be reassessed when it is purchased, newly constructed or undergoes a change in ownership. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain improvements to accommodate disabled persons and for seismic upgrades to property. These amendments have resulted in marginal reductions in the property tax revenues of the City.

Both the State Supreme Court and the United States Supreme Court have upheld the validity of Article XIIIA.

Article XIIIB of the State Constitution

In addition to the limits Article XIIIA imposes on property taxes that may be collected by local governments, certain other revenues of the State and most local governments are subject to an annual "**appropriations limit**" imposed by Article XIIIB which effectively limits the amount of such revenues those entities are permitted to spend. Article XIIIB, approved by the voters in July 1979, was modified substantially by Proposition 111 in 1990. The appropriations limit of each government entity applies to "**proceeds of taxes**," which consist of tax revenues, State subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed "the cost reasonably borne by such entity in providing the regulation, product or service." "Proceeds of taxes" excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on the appropriation of funds which are not "proceeds of taxes," such as reasonable user charges or fees, and certain other non-tax funds. Article XIIIB also does not limit appropriation of local revenues to pay debt service on bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriation by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. The appropriations limit may also be exceeded in case of emergency; however, the appropriations limit for the next three years following such emergency appropriation must be reduced to the extent by which it was exceeded, unless the emergency arises from civil disturbance or natural disaster declared by the Governor, and the expenditure is approved by two-thirds of the legislative body of the local government.

The State and each local government entity has its own appropriations limit. Each year, the limit is adjusted to allow for changes, if any, in the cost of living, the population of the jurisdiction, and any transfer to or from another government entity of financial responsibility for providing services.

Proposition 111 requires that each agency's actual appropriations be tested against its limit every two years. If the aggregate "proceeds of taxes" for the preceding two-year period exceeds the aggregate limit, the excess must be returned to the agency's taxpayers through tax rate or fee reductions over the following two years.

For Fiscal Year 2004-05 the City's appropriations limit was $186,031,946, and its actual appropriations in Fiscal Year 2004-05 were approximately $149,898,818. The City's appropriations limit for Fiscal Year 2005-06 is approximately $201,843,969. The City is subject to and is operating in conformity with Article XIIIB.

Article XIIIC and XIIID of the State Constitution

On November 5, 1996, the voters of the State approved Proposition 218, known as the "Right to Vote on Taxes Act." Proposition 218 adds Articles XIIIC and XIIID to the California Constitution and contains a number of interrelated provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges. The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed below, and it is not possible at this time to predict with certainty the outcome of such determination.

Article XIIIC requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes, even if deposited in the City's General Fund, require a two-thirds vote. The voter approval requirements of Proposition 218 reduce the flexibility of the City to raise revenues for the General Fund, and no assurance can be given that the City will be able to impose, extend or increase such taxes in the future to meet increased expenditure needs.

Article XIIID also adds several provisions making it generally more difficult for local agencies to levy and maintain property-related fees, charges, and assessments for municipal services and programs. These provisions include, among other things, (i) a prohibition against assessments which exceed the reasonable cost of the proportional special benefit conferred on a parcel, (ii) a requirement that assessments must confer a "special benefit," as defined in Article XIIID, over and above any general benefits conferred, (iii) a majority protest procedure for assessments which involves the mailing of notice and a ballot to the record owner of each affected parcel, a public hearing and the tabulation of ballots weighted according to the proportional financial obligation of the affected party, and (iv) a prohibition against fees and charges which are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners.

With the exception of assessments levied in Street Lighting District No. 1 of the City (see "APPENDIX A – CITY OF RIVERSIDE GENERAL DEMOGRAPHIC AND FINANCIAL INFORMATION-Special Assessments"), none of the property-related fees or assessments currently collected by the City are deposited in the General Fund. If the City is unable to continue to collect these revenues, the services and programs funded with these revenues would have to be curtailed and/or the City General Fund might have to be used to support them. The City is unable to predict whether or not in the future it will be able to continue all existing services and programs funded by the fees, charges and assessments in light of Proposition 218 or, if these services and programs are continued, which amounts (if any) would be used from the City's General Fund to continue to support these activities.

Article XIIIC also removes limitations on the initiative power in matters of reducing or repealing local taxes, assessments, fees or charges. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of the City's General Fund. If such repeal or reduction occurs, the City's ability to pay Lease Payments under the Project Lease could be adversely affected.

Future Initiatives

Article XIIIA, Article XIIIB, XIIIC and XIIID were each adopted as measures that qualified for the ballot through California's initiative process. From time to time other initiative measures could be adopted, further affecting the City's revenues.

CONCLUDING INFORMATION

Underwriting

The Underwriter has agreed, subject to certain conditions, to purchase the Certificates from the City at a purchase price of $20,011,975.35 (being the principal amount of the Certificates, *less* an Underwriter's discount in the amount of $151,802.00, *plus* a net original issue premium of $218,777.35). The obligations of the Underwriter are subject to certain conditions precedent, and it will be obligated to purchase all such Certificates if any Certificates are purchased. The Underwriter intends to offer the Certificates to the public initially at the prices and/or yields set forth on the cover page of this Official Statement, which prices or yields may subsequently change without any requirement of prior notice.

The Underwriter reserves the right to join with dealers and other underwriters in offering the Certificates to the public. The Underwriter may offer and sell Certificates to certain dealers (including dealers depositing Certificates into investment trusts) at prices lower than the public offering prices, and such dealers may reallow any such discounts on sales to other dealers. In reoffering Certificates to the public, the Underwriter may overallocate or effect transactions which stabilize or maintain the market prices for Certificates at levels above those which might otherwise prevail. Such stabilization, if commenced, may be discontinued at any time.

Legal Opinion

Best Best & Krieger LLP, Riverside, California, Special Counsel, will render an opinion substantially in the form of APPENDIX D hereto with respect to the validity and enforceability of the City's obligations under the Lease Agreement and the validity of the Certificates. Special Counsel undertakes no responsibility for the accuracy, completeness or fairness of the Official Statement.

Certain matters will passed upon for the City and the Corporation by the City Attorney, and for the Underwriter by its counsel, Jones Hall, A Professional Law Corporation, California.

Fees payable to Special Counsel and Underwriter's Counsel are contingent upon execution and delivery of the Certificates.

Tax Matters

The delivery of the Certificates is subject to delivery of the opinion of Best Best & Krieger LLP, Riverside, California, Special Counsel to the District ("**Special Counsel**"), to the effect that interest with respect to the Certificates for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income, as defined in Section 61 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Certificates (the "**Code**"), of the owners thereof pursuant to Section 103 of the Code, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. The delivery of the Certificates is also subject to the delivery of the opinion of Special Counsel, based upon existing provisions of the laws of the State of California that interest with respect to the Certificates is exempt from personal income taxes of the State of California. A form of Special Counsel's anticipated opinion is included as APPENDIX D. The statutes, regulations, rulings, and court decisions on which such opinions will be based are subject to change.

Interest on all tax-exempt obligations, including the Certificates, owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a financial asset securitization investment trust, a real estate investment trust (REIT), or a real estate mortgage investment conduit (REMIC). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code.

In rendering the foregoing opinions, Special Counsel will rely upon the representations and certifications of the City made in a certificate of even date with the initial delivery of the Certificates pertaining to the use, expenditure, and investment of the proceeds of the Certificates and will assume continuing compliance with the provisions of the Lease Agreement by the City subsequent to the issuance of the Certificates. The Lease Agreement contains covenants by the City with respect to, among other matters, the use of the proceeds of the Certificates and the facilities and equipment financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Certificates are to be invested, if required, the calculation and payment to the United States Treasury of any "arbitrage profits" and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest with respect to the Certificates to be includable in the gross income of the owners thereof from the date of the delivery of the Certificates.

Except as described above, Special Counsel will express no other opinion with respect to any other federal, State or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. Prospective purchasers of the Certificates should be aware that the ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Special Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the "**IRS**") or the State of California with respect to the matters addressed in the opinion of Special Counsel, and Special Counsel's opinion is not binding on the IRS or the State of California. The IRS has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Certificates is commenced, under current procedures, the IRS is likely to treat the City as the "taxpayer," and the owners of the Certificates would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest with respect to the Certificates, the City may have different or conflicting interests from the owners of the Certificates. Public awareness of any future audit of the Certificates could adversely affect the value and liquidity of the Certificates during the pendency of the audit, regardless of its ultimate outcome.

A copy of the proposed opinion of Special Counsel is set forth in APPENDIX D hereto.

Litigation

The City is not aware of any pending or threatened litigation concerning the validity of the Certificates or the Lease Agreement or challenging any action taken by the City or the Corporation with respect to the Certificates or the Lease Agreement. Furthermore, the City is not aware of any pending or threatened litigation to restrain, enjoin, question or otherwise affect the Lease Agreement or the Trust Agreement or in any way contesting or affecting the validity or enforceability of any of the foregoing or any proceedings of the City taken with respect to any of the foregoing. Although there are a number of lawsuits and claims pending and threatened against the City, it is the opinion of the City that such litigation, claims and threatened litigation will not materially affect the City's finances or impair its ability to make Lease Payments or otherwise meet its obligations under the Lease Agreement.

Ratings

Standard & Poor’s Credit Ratings Services, a division of The McGraw-Hill Companies, Inc. (“**S&P**”) and Fitch Ratings ("**Fitch**") have assigned the Certificates a rating of "AAA" and "AAA", respectively, upon the understanding that the Insurer will issue the Policy simultaneously with the issuance and delivery of the Certificates. They have also assigned an underlying rating to the Certificates of "A+” and "A+", respectively.

These ratings reflect only the views of the rating agencies referred to in the previous paragraph. Explanations of the significance of such ratings must be obtained from the rating agencies. There is no assurance that such ratings will continue for any given period of time or will not be revised downward or withdrawn entirely by such rating agency, if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Certificates.

Miscellaneous

All of the descriptions of applicable law, the Lease Agreement, the Trust Agreement, the Leased Premises, the City, the Corporation, agreements and other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the City for further information in connection therewith.

This Official Statement does not constitute a contract with the purchasers of the Certificates. Any statements made in this Official Statement involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will realize.

The execution and delivery of this Official Statement has been duly authorized by the City Council of the City.

CITY OF RIVERSIDE, CALIFORNIA

By: /s/ Bradley J. Hudson
City Manager

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX A

CITY OF RIVERSIDE GENERAL DEMOGRAPHIC AND FINANCIAL INFORMATION

The following information regarding the City and the surrounding area *of Riverside County is presented* as *general background data. The Certificates are payable solely from the* sources *described herein* (see *"SECURITY FOR THE CERTIFICATES”). None of the taxing power of the City of Riverside, the County of Riverside, the* State *of California or any political subdivision thereof is pledged to the payment of the Certificates*

General

The City is the county seat of Riverside County (the "**County**") and is located in the western portion of the County about 60 miles east of downtown Los Angeles and approximately 90 miles north of San Diego. Within 10 miles of the City are the cities of San Bernardino, Loma Linda, Corona, Norco, Fontana, Ontario, Rialto, Colton, Moreno Valley and Redlands, among others. These cities and the City are located in the Counties of Riverside and San Bernardino and comprise the Riverside-San Bernardino Primary Metropolitan Statistical Area (the "**PMSA**"). The PMSA represents an important economic area of the State and of Southern California. It lays to the west and south respectively of the strategic San Gorgonio and Cajon Passes, from which three transcontinental railroads and interstate highways converge to connect the Los Angeles area with the other areas of the nation. The City is situated in close proximity to the metropolitan centers of Los Angeles and Orange Counties.

Riverside and San Bernardino Counties cover 27,400 square miles, a land area larger than the State of Virginia. As of January 1, 2006, Riverside County had a population of approximately 1,953,330 and San Bernardino County had a population of approximately 1,991,829. With a population of over 3.9 million, the PMSA ranks as one of the largest Metropolitan Statistical Areas ("**MSAs**") in the United States. Riverside County alone is larger than the State of New Jersey. The PMSA, though small geographically in relation to the bi-county area, contains most of the two counties' population.

Municipal Government

The City was incorporated in 1883 and covers 80.1 square miles. The City is a charter city and has a council-manager form of government with a seven-member council being elected by ward for four-year overlapping terms. The mayor is elected at large for a four-year term and is the presiding officer of the council, but does not have a vote except in case of a tie. The position of City Manager is filled by appointment of the council to serve as administrator of the staff and to carry out the policies of the council.

Functions of the City government are carried out by approximately 2,489 full and part-time personnel. The City operates and maintains a sewer, water and electrical system. Other City services include diversified recreation programs, police, fire, airport, parks, a museum and libraries

Services and Facilities

Public Safety and Welfare. The City provides law enforcement and fire protection services. The Police Department currently employs 392 sworn officers and the Fire Department employs 206 sworn fire fighters operating out of 13 fire stations. Other services provided by the City include emergency medical aid, traffic safety maintenance, and building safety regulation and inspection.

Public Services. The City provides electric, water, sewer, refuse and transportation service to the City residents through municipal enterprises. The City also owns and operates a general aviation airport.

Public Works. Additional services include parkway and median maintenance improvements, refuse management, sewer and storm drain maintenance, zoning and development administration, environmental review, code enforcement and street tree maintenance.

Leisure and Community Services. Among the City's cultural institutions and activities are a convention center, the Riverside Art Museum, a metropolitan museum, a number of libraries, an auditorium, the opera society and the symphony society. There are three major hospitals in the City: Parkview Community; Riverside Community; and Kaiser Permanente.

Population

As of January 1, 2006 the population of the City was estimated to be 287,820, an increase of approximately 0.2% percent over the estimated population of the City in 2005. The following table presents population data for both the City and County.

Table 1
POPULATION

Year	City of Riverside	Riverside County
1950	46,764	170,046
1960	84,332	306,191
1970	140,089	459,074
1980	165,087	663,923
1990	226,505	1,170,413
2000	255,166	1,545,387
2001	262,264	1,590,186
2002	270,944	1,653,847
2003	277,459	1,726,321
2004	281,775	1,807,624
2005	287,321	1,888,311
2006	287,820	1,953,330

Sources: 1950-2000 U.S. Census; 2001-2006 California Department of Finance (Demographic Research Unit)

Accounting Policies and Financial Reporting

The accounts of the City are organized into separate funds to account for different activities. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which the spending activities are controlled. The City's general fund and other governmental fund types use the modified accrual basis of accounting. All of the City's other funds, including proprietary fund types and fiduciary fund types use the accrual basis of accounting. The basis of accounting for all funds is more fully explained in the "Notes to the Basic Financial Statements" contained in APPENDIX C hereto.

The City Council employs, at the beginning of each fiscal year, an independent certified public accountant who, at such time or times as specified by the City Council, at least annually, and at such other times as he or she shall determine, examines the combined financial statements of the City in accordance with generally accepted auditing standards, including such tests of the accounting records and such other auditing procedures as such accountant considers necessary. As soon as practicable after the end of the fiscal year, a final audit and report is submitted by such accountant to the City Council and a copy of the financial statements as of the close of the fiscal year is published.

The City's current auditor (the "**Auditor**") is the firm of Mayer Hoffman McCann PC, Irvine California. The audited financial statements of the City for Fiscal Year 2004-05 are attached hereto as APPENDIX C. *The City's financial statements are public documents and are included within this Official Statement without the prior approval of the Auditor. Accordingly, the Auditor has not performed any post-audit of the financial condition of the City*.

The City General Fund finances the legally authorized activities of the City not provided for in other restricted funds. General fund revenues are derived from such sources as taxes; licenses and permits, fines, forfeits and penalties; use of money and property; aid from other governmental agencies; charges for current services; and other revenue. General Fund expenditures are classified by the functions of general government, public safety, highways and streets, culture and recreation and community development.

City Financial Data

The following tables provide a five-year history of the City's Comparative Balance Sheet, General Fund revenues, expenditures, transfers, and ending fund balances. See also "City Budget" below for budgeted revenues and expenses for Fiscal Years 2005-06 and 2006-07.

Table 2
CITY OF RIVERSIDE
GENERAL FUND BALANCE SHEET (As of June 30)
(Amounts Expressed in Thousands)

	2001	2002	2003	2004	2005
ASSETS:					
Cash and Investments	$72,995	$86,007	$85,232	$103,622	$78,366
Cash and investments at fiscal agent (2)	0	0	0	43,937	63,165
Receivables (net)					
Interest	1,312	1,015	975	961	922
Property taxes	7,637	7,907	8,139	8,018	8,436
Sales taxes	7,211	7,200	8,011	9,162	9,103
Utilities billed	449	532	492	525	552
Accounts	4,579	2,985	3,304	7,880	3,110
Intergovernmental	2,776	3,350	2,416	4,838	5,066
Notes	92	64	33	30	70
Prepaid items	137	129	190	216	176
Due from other funds	5,414	4,832	8,860	9,970	6,921
Interfund receivable (1)	4,110	3,762	3,715	3,519	33,715
Total Assets	106,712	117,783	121,367	192,678	209,602
LIABILITIES:					
Accounts Payable	4,282	4,131	2,726	4,294	4,234
Accrued payroll	3,739	4,415	5,652	4,942	7,908
Retainage payable	82	60	169	91	382
Intergovermental	105	117	128	219	138
Deferred revenue	7,794	7,884	9,991	16,899	12,427
Deposits	14,539	17,049	18,012	20,468	28,564
Due to other funds	250	250	50	8,799	50
Interfund Receivable	0	3,357	2,901	2,439	2,146
Total Liabilities	30,791	37,223	36,629	58,151	55,849
FUND BALANCE:					
Reserved:					
Reserved for:					
Encumbrances	4,817	7,014	10,424	13,503	8,918
Interfund receivable	4,110	3,762	3,715	3,519	33,715
Prepaid items	137	107	190	216	176
Notes receivable	25	64	33	30	70
Police Asset Forfeiture	0	0	0	0	523
Fire Bond	0	0	0	0	1,085
Unreserved, designated for economic contingencies	19,700	21,400	22,500	23,500	27,000
Unreserved, designated for future operations	35,487	36,559	25,434	71,666 (2)	59,593 (2)
Unreserved, designated for insurance	0	0	6,400	6,400	6,400
Unreserved, undesignated: General Fund	11,645	11,654	13,042	15,693	16,273
Total fund balances	75,921	80,560	81,738	134,527	153,753
Total Liabilities and Fund Balances	$106,712	$117,783	$121,367	$192,678	$209,602

(1) Increase in this item in fiscal year 2004-05 is attributable to the issuance of a pension obligation bond on behalf of Miscellaneous employees. The portion of the proceeds that was not applicable to the general fund was treated as advanced to other City funds, which will repay the advance in connection with payment of debt service on the pension obligation bonds.
(2) Proceeds of outstanding certificates of participation that are designated for specific purposes. See "-Long-Term Obligations".
Source: City Audited Financial Statements (except as noted).

Table 3
CITY OF RIVERSIDE
STATEMENT OF GENERAL FUND
REVENUES, EXPENDITURES AND FUND BALANCES
(Fiscal Year Ending June 30)
(Amounts Expressed in Thousands)

	2001	2002	2003	2004	2005
Revenues:					
Taxes	$ 72,503	$ 76,455	$82,062	$ 91,343	$ 116,018
Licenses and permits	6,871	6,094	7,243	6,538	7,374
Intergovernmental	19,799	22,782	19,897	17,691	15,366
Charges for services	7,872	7,854	8,872	10,035	11,291
Fines and forfeitures	2,153	2,164	1,903	1,982	1,783
Special assessments	3,646	3,633	3,906	4,101	4,118
Rental and Investment Income	10,618	4,489	3,478	1,713	4,251
Miscellaneous	2,455	2,024	1,926	2,221	4,749
Total Revenues	125,917	125,495	129,287	135,624	164,950
Expenditures					
Current:					
General Government	20,449	16,087	15,555	28,147[(1)]	21,351
Public safety	84,134	91,245	96,487	107,637	119,036
Highways and streets	9,979	10,551	12,034	12,124	13,446
Culture and recreation	15,912	18,111	21,087	18,969	26,198
Debt service; principal	0	0	0	0	3,522 [(4)]
Debt service; interest	0	0	0	0	8,337 [(4)]
Bond issuance costs	0	0	0	0	487 [(4)]
Total Expenditures	130,474	135,994	145,163	166,877	192,377
Revenues over (under) expenditures	(4,557)	(10,499)	(15,876)	(31,253)	(27,427)
Other Financing Sources (Uses)					
Transfers in	31,866	18,304	20,215	19,529	22,846
Transfers out	(3,049)	(3,354)	(3,466)	(15,905)	(8,076)
Proceeds from issuance of long-term debt [(2)]	0	0	0	168,574	60,000
Sales of capital assets	100	188	1,311	144	92
Advances from other funds	1,588	0	0	0	0
Total other financing sources (uses)	30,505	15,138	18,060	172,342	74,862
Special item-pension contribution [(3)]	0	0	0	(88,300)	(28,213)
Net change in fund balances	25,948	4,639	2,184	52,789	19,222
Fund balances, July 1	49,973	75,921	79,554	81,738	134,527
Fund balances, June 30	$75,921	$84,560	$81,738	$134,527	$153,749

(1) Increase in fiscal year 2003-04 reflects expenditure of a portion of proceeds of certificates of participation.
(2) Proceeds of outstanding certificates of participation, general obligation bonds and pension obligation bonds that are designated for specific purposes. See "-Long-Term Obligations".
(3) City's pension bonds deposited with CalPERS. See "-Long-Term Obligations".
(4) Increases in fiscal year 2004-05 reflect a revised presentation of the General Fund's debt service costs. In previous years, amounts were less material and were combined within the functional category of "General Government."

Source: Annual City Audits.

Budgetary Process and Administration

The City uses the following procedures when establishing the budgetary data reflected in its financial statements:

During the period December through February of each fiscal year, department heads prepare estimates of required appropriations for the following fiscal year. These estimates are compiled into a proposed operating budget which includes a summary of proposed revenue and expenditures and historical data for the two preceding fiscal years. The operating budget is presented by the City Manager to the City Council for review. Public hearings are conducted to obtain citizen comments. The City Council generally adopts the budget during one of its June meetings. The City Manager is legally authorized to transfer budgeted amounts between divisions and accounts within the same department. Transfer of appropriations between departments or funds and increased appropriations must be authorized by the City Council. Expenditures may not legally exceed budgeted appropriations at the departmental level within a fund. Budgets for the funds are adopted on a basis consistent with generally accepted accounting principles.

See Table 5 below regarding the City's fiscal year 2005-06 and 2006-07 budgets.

Table 4 summarizes budget and actual results of the General Fund of the City for fiscal year 2004-05 and Table 5 reflects the final fiscal year 2005-06 and the initially adopted 2006-07 General Fund budgets.

Table 4
CITY OF RIVERSIDE
GENERAL FUND BUDGET
(Fiscal Year 2004-05)
(000's Omitted)

	2004-05 Final Budget	2004-05 Actual	Variance
Revenues			
Taxes	$ 110,594	$ 116,018	$ 5,424
Licenses and permits	6,735	7,374	639
Intergovernmental (1)	22,102	15,366	(6,736)
Charges for services	8,191	11,291	3,100
Fines and forfeitures	2,045	1,783	(262)
Special assessments	3,755	4,118	363
Rental and investment income	3,057	4,251	1,194
Miscellaneous	5,264	4,749	(515)
Total revenues	161,743	164,950	3,207
Expenditures			
General government (2)	78,019	48,738	29,281
Allocated expenditures	(26,986)	(27,387)	401
Public Safety (2)	163,908	119,036	44,872
Highways and streets	15,247	13,446	1,801
Culture and recreation (2)	36,116	26,198	9,918
Debt service: Principal	1,538	3,522	(1,984)
Debt service: Interest	2,528	8,337	(5,809)
Bond issuance costs	0	487	(487)
Total expenditures	270,370	192,377	77,993
Deficiency of revenue under expenditures	(108,627)	(27,427)	81,200
Other financing sources (uses):			
Transfers in	26,328	22,846	(3,482)
Transfers out	(5,798)	(8,076)	(2,278)
Proceeds from issuance of long-term debt (3)	0	60,000	60,000
Sales of capital assets	100	92	(8)
Total other financing sources (uses)	20,630	74,862	54,232
Special Item- pension contribution (4)	0	(28,213)	(28,213)
Net change in fund balances	(87,997)	19,222	107,219
Fund balance, beginning	134,527	134,527	0
Fund balance, ending	$ 46,530	$153,749	$107,219

(1) The Variance occurs because the Budget represents the total of approved multi-year grants, whereas the Actual represents only the amount received during the current year.
(2) The Variance occurs primarily because Budget represents the total of multi-year capital project costs (to be paid by bond proceeds or working capital), whereas the Actual represents only the amount expended during the current year.
(3) Includes proceeds of pension obligation bonds deposited with CalPERS.
(4) Proceeds of pension obligation bonds deposited with CalPERS. See "-Long-Term Obligations".
Source: City of Riverside

Table 5
CITY OF RIVERSIDE
SUMMARY OF GENERAL FUND BUDGETS
(Fiscal Years 2005-06 and 2006-07)
(000's omitted)

	2005-06	2006-07
Revenues:		
Taxes	$126,751	$141,156
Transfers from Other Funds	25,576	32,066
Intergovernmental	2,391	2,606
Charges for Services	11,777	10,704
Misc. Revenues	6,935	6,982
Licenses and Permits	8,274	8,600
Fines and Forfeitures	2,130	2,263
Total Revenues	183,834	204,377
Expenditures:		
City Management Services (1)	25,174	27,117
General Services (1)	16,360	12,166
Community Development (1)	13,081	14,247
Police	77,785	82,969
Fire	37,142	39,747
Public Works	15,078	17,826
Park and recreation	21,120	21,346
Museum	2,398	2,036
Transfers Out	9,746	6,491
Finance (1)	7,610	7,533
Human Resources (1)	4,537	4,329
Information Systems (1)	11,816	13,168
Allocated Expenditures (2)	(42,978)	(38,807)
Managed Savings	(5,500)	(5,791)
Total Expenditures	193,369	204,377
Revenues Less Expenditures	(9,535)	0
Opening Reserves	55,650	46,115
Ending Reserves	$46,115	$46,115

(1) The "General Government" expenditure line item in Table 4 is not shown in Table 5 because the budgeted "General Government" expenditures for fiscal years 2005-06 and 2006-07 are detailed in the line items "Finance", "Information Systems", "Community Development", "City Management Services", "Human Resources", and "General Services".
(2) This line item subtracts certain Expenditures (e.g., Human Resources, Finance, Information Systems and General Services) that are already reflected in other line items of Expenditures to avoid double-counting.
Source: City of Riverside.

The City's total General Fund revenue increased between fiscal year 2003-04 and 2004-05 by approximately 21%. Revenues are projected to increase by 11% per year for the two subsequent fiscal years. These increases are principally attributable to significant development activity and the related sales and property taxes.

The fiscal year 2005-06 final budget projects a $9.5 million deficit. A significant amount of the deficit spending addressed one-time capital items.

As anticipated, the fiscal year 2006-07 budget was approved by the City Council as balanced, driven largely by the continued strong growth in revenues. The City is able to continue to meet its policy of maintaining a 15% level of contingency reserves, and actually has a 23% level of available reserves to address unplanned adjustments to its revenues.

General Fund Reserves

The following chart illustrates the general fund reserves of the City for Fiscal Years 1992-93 through 2005-06.

Table 6
CITY OF RIVERSIDE
GENERAL FUND RESERVES
(As of June 30)

Fiscal Year	(000's Omitted) Ending Fund Balance	Percent Change
1992-93	$11,522	
1993-94	12,634	9.7%
1994-95	17,626	39.5
1995-96	14,768	(16.2)
1996-97	16,436	11.3
1997-98	20,769	26.4
1998-99	19,882	(4.2)
1999-00	24,130	21.4
2000-01	32,469	34.5
2001-02	45,170	39.2
2002-03	53,700	18.9
2003-04	50,503	(6.0)
2004-05	55,650	10.2
2005-06	46,115(1)	(17.1)

(1) The projected available fund balance of $46,115 at June 30, 2006 includes the following: “Unreserved, designated for economic contingencies” ($30,000), “Unreserved, designated for insurance” ($400,000) and “Unreserved : General Fund” ($15,715,000).

Source: City of Riverside annual budgets.

Taxes and Other Revenue

The City receives the following local taxes and revenue. In the following sections, each of these sources of local tax revenue is described in greater detail.

Table 7
CITY OF RIVERSIDE
OTHER TAX REVENUES BY SOURCE
(000'S omitted)

	Fiscal Year				
	2000-01	2001-02	2002-03	2003-04	2004-05
Sales & Use Tax	$35,850	$39,271	$ 41,915	$ 47,608	$54,483
Property Taxes	24,973	27,685	31,561	34,250	54,252
Property Transfer Tax	1,213	1,568	2,024	2,424	3,279
Utility Users Tax	19,613	18,510	19,928	21,362	22,135
Street Light Excise Tax	382	36	99	43	9
Franchises	3746	4,070	3,811	4,261	4,480
Transient Occupancy Tax	2,344	2,739	2,868	3,170	3,418
Special Assessments Levied	5,258	5,420	6,323	6,023	6,272
Total Taxes	$68,406	$71,614	$ 76,968	$119,141	$148,328

Source: City of Riverside Annual Financial Reports.

Sales Taxes

Sales and use taxes represent the largest source of general fund tax revenue to the City. This section describes the current system for levying, collecting and distributing sales and use tax revenues in the State. However, the State budget situation has resulted in a temporary redirection of sales tax revenues from the City to the State (see " – Impact of State Budget" below).

Sales Tax Rates. The City's sales tax revenue represents the City's one percent share of the sales and use tax imposed on taxable transactions occurring within the City's boundaries. The sales tax is governed by the Bradley-Burns Uniform Local Sales and Use Tax Law (the "**Sales Tax Law**").

Currently, taxable transactions in the City are subject to the following sales and use tax, of which the City's share is only a portion. The State collects and administers the tax, and makes distributions on taxes collected within the City, as follows:

Table 8
CITY OF RIVERSIDE
Sales Tax Rates
Fiscal Year 2003-04

State (General Fund)	5.00%
State (Local Revenue Fund)	0.50
State (Local Public Safety Fund)	0.50
State (City and County Operations)	1.00
State (County transportation funds)	0.25
Total State-wide Tax	7.25%
Riverside County Transportation Commission	0.50%
Total	7.75%

The State's actual administrative costs with respect to the portion of sales taxes allocable to the City are deducted before distribution and are determined on a quarterly basis.

Sales and use taxes are complementary taxes; when one applies, the other does not. In general, the statewide sales tax applies to gross receipts of retailers from the sale of tangible personal property in the State. The use tax is imposed on the purchase, for storage, use or other consumption in the State of tangible personal property from any retailer. The use tax generally applies to purchases of personal property from a retailer outside the State where the use will occur within the State. The Sales Tax is imposed upon the same transactions and items as the statewide sales tax and the statewide use tax.

Certain transactions are exempt from the State sales tax, including sales of the following products:

- food products for home consumption;
- prescription medicine;
- newspapers and periodicals;
- edible livestock and their feed;
- seed and fertilizer used in raising food for human consumption; and
- gas, electricity and water when delivered to consumers through mains, lines and pipes.

This is not an exhaustive list of exempt transactions. A comprehensive list can be found in the State Board of Equalization's May 2003 publication entitled "Sales and Use Taxes: Exemptions and Exclusions," which can be found on the State Board of Equalization's website at http://www.boe.ca.gov/. See also "RISK FACTORS – Sales Taxes."

Sales Tax Collection Procedures. Collection of the sales and use tax is administered by the California State Board of Equalization. According to the State Board of Equalization, it distributes quarterly tax revenues to cities, counties and special districts using the following method:

Using the prior year's like quarterly tax allocation as a starting point, the Board first eliminates nonrecurring transactions such as fund transfers, audit payments and refunds, and then adjusts for growth, in order to establish the estimated base amount. The State Board of Equalization disburses 90% to each local jurisdiction in three monthly installments (advances) prior to the final computation of the quarter's actual receipts. Ten percent is withheld as a reserve against unexpected occurrences that can affect tax collections (such as earthquakes, fire or other natural disaster) or distributions of revenue such as unusually large refunds or negative fund transfers. The first and second advances each represent 30% of the 90% distribution, while the third advance represents 40%. One advance payment is made each month, and the quarterly reconciliation payment (clean-up) is distributed in conjunction with the first advance for the subsequent quarter. Statements showing total collections, administrative costs, prior advances and the current advance are provided with each quarterly clean-up payment.

Under the Sales and Use Tax Law, all sales and use taxes collected by the State Board of Equalization under a contract with any city, city and county, redevelopment agency, or county are required to be transmitted by the Board of Equalization to such city, city and county, redevelopment agency, or county periodically as promptly as feasible. These transmittals are required to be made at least twice in each calendar quarter.

Under its procedures, the State Board of Equalization projects receipts of the sales and use tax on a quarterly basis and remits an advance of the receipts of the sales and use tax to the City on a monthly basis. The amount of each monthly advance is based upon the State Board of Equalization's quarterly projection. During the last month of each quarter, the State Board of Equalization adjusts the amount remitted to reflect the actual receipts of the sales and use tax for the previous quarter.

The Board of Equalization receives an administrative fee based on the cost of services provided by the Board to the City in administering the City’s sales tax, which is deducted from revenue generated by the sales and use tax before it is distributed to the City.

Impact of State Budget. The State will temporarily redirect local sales and use taxes to the State, including 0.25% that would otherwise be available to the City, to pay debt service on its "economic recovery" bonds; the State will increase local governments’ share of local property tax by a like amount.

However, it should be noted that certain features and consequences of this redirection could impact the availability of revenues to pay Lease Payments. First, there may be a timing issue associated with the "backfill" of redirected sales and use taxes with property tax revenue: while sales and uses taxes are distributed by the State Board of Equalization on a monthly basis, the County would only backfill with property taxes on a semi-annual basis. This timing issue would not only impact the City's cash flow, but would cause the City to lose investment earnings on the sales and uses taxes it otherwise would have received on a monthly basis.

Second, it is possible that the fees charged by the County for property tax administration, which are subtracted from property tax revenue collected by the County before it is allocated to the City, could increase as a result of the various tasks required of the County by the redirection. In addition, the State Board of Equalization administration fee is likely to increase as a percentage of local sales and use tax received by the City unless the State Board of Equalization reduces its fee, which it is unlikely to do because the cost of collecting the sales and use taxes on a per-transaction basis will not go down.

Third, the redirection of sale and use taxes by the State reflects the vulnerability of local government to the State budget process. If, in the future, the State elects to further reallocate sales and use taxes or property tax revenue, or any other source of revenue used by the City to make Lease Payments, the City may not know the exact amount of revenue available to pay Lease Payments

History of Taxable Transactions. A summary of historic taxable sales within the City for calendar years 2000 through 2004 is shown in the following table.

Table 9
CITY OF RIVERSIDE
TAXABLE TRANSACTIONS
For Calendar Years 2000 Through 2004
(Dollars in thousands)

	2000	2001	2002	2003	2004
Apparel stores	$ 92,241	$ 98,859	$ 105,476	$124,223	$145,023
General merchandise stores	465,490	485,571	510,038	536,795	597,030
Food stores	133,363	134,502	136,076	145,308	154,562
Eating & drinking places	223,253	239,811	257,711	276,757	300,858
Home furnishings & appliances	77,552	75,754	81,844	93,977	102,243
Building materials & farm implements	290,734	326,627	346,277	395,175	517,865
Auto dealers and auto supplies	698,147	780,641	864,486	987,372	1,172,792
Service stations	200,155	199,159	192,914	222,575	266,658
Other retail stores	341,252	351,055	396,808	427,978	461,968
Retail Stores Totals	2,522,187	2,691,979	2,891,630	3,210,160	3,718,999
All other outlets	697,707	715,273	769,277	764,423	884,770
Total all outlets	$3,219,894	$3,407,252	3,660,907	3,974,583	4,603,769

Source: California State Board of Equalization.

Ad Valorem Property Taxes

This section describes property tax levy and collection procedures and certain information regarding historical assessed values and major property tax payers in the City.

General. In California, property which is subject to ad valorem taxes is classified as "secured" or "unsecured." Secured and unsecured property are entered on separate parts of the assessment roll maintained by the county assessor. The secured classification includes property on which any property tax levied by the County becomes a lien on that property sufficient, in the opinion of the County assessor, to secure payment of the taxes. Every tax which becomes a lien on secured property has priority over other liens (except certain federal claims) on the secured property, regardless of the time of the creation of other liens. A tax levied on unsecured property does not become a lien against the taxes on unsecured property, but may become a lien on certain other property owned by the taxpayer.

Property taxes on the secured roll are due in two installments, on November 1 and March 1. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. If such taxes remain unpaid as of June 30 of the fiscal year in which the taxes are levied, the property securing the taxes may only be redeemed by a payment of the delinquent taxes and the delinquency penalty, plus costs and a redemption penalty of 1-1/2% per month from the original June 30th date to the time of redemption. If taxes are unpaid for a period of five years or more, the tax-defaulted properties are thereafter subject to sale by the county tax collector as provided by law.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent if unpaid by August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1-1/2% per month begins to accrue on November 1. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing of a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the county recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) secure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

Historic Secured Property Tax Revenues. Section 4701 through Section 4717 of the California Revenue and Taxation Code permit counties to use a method of apportioning taxes (commonly referred to as the "**Teeter Plan**") whereby local agencies receive from the County 100% of their respective shares of the amount of secured ad valorem taxes levied, without regard to actual collections of taxes. Due to this allocation method, the cities in the County receive no adjustments for redemption payments on delinquent collections. The unsecured taxes are allocated based on actual unsecured tax collections.

The County of Riverside adopted this method of distributing taxes; *however, the City has elected not to participate in the Teeter Plan*. Consequently, property tax collections allocated to the City reflect actual collections.

The following tables illustrate the secured property tax revenues of the City for Fiscal Years 1995-96 through 2004-05:

Table 10
CITY OF RIVERSIDE
HISTORICAL SECURED PROPERTY TAX REVENUES[(1)]
(As of June 30)
(000's omitted)

Fiscal Year	Total Tax Levy	Current Tax Collections	% of Current Taxes Collected	Delinquent Tax Collections	Total Tax Collections	Ratio of Total Tax Collections to Total Tax Levy	Outstanding Delinquent Taxes[(2)]
1995-96	$23,086	$21,787	94.4%	$535	$22,322	96.7%	$8,135
1996-97	22,202	20,750	93.5	569	21,319	96.0	9,019
1997-98	22,429	21,055	93.9	584	21,639	96.5	9,810
1998-99	23,113	21,888	94.7	537	22,425	97.0	10,497
1999-00	24,241	23,431	96.7	626	24,057	99.2	9,994
2000-01	25,205	24,436	96.9	370	24,806	98.4	11,081
2001-02	25,237	23,098	91.5	513	23,611	93.6	12,707
2002-03	26,050	25,168	96.7	503	25,789	99.0	11,715
2003-04	31,954	31,092	97.3	966	32,058	100.3	11,612
2004-05	37,144	36,004	96.9	706	36,710	98.8	12,046

(1) Includes collection of property tax revenue allocated to the City's Redevelopment Agency.
(2) Includes late fees and penalties.
Source: Riverside County Auditor Controller's Office.

Taxable Property and Assessed Valuation. Set forth in the tables below are assessed valuation for secured and unsecured property within the City for the ten most recent fiscal years.

Table 11
CITY OF RIVERSIDE
GROSS ASSESSED VALUE OF ALL TAXABLE PROPERTY
(in thousands)

Fiscal Year	Secured	Unsecured	Total
1996-97	$10,135,216	$548,897	$10,684,113
1997-98	10,188,885	540,358	10,729,243
1998-99	10,158,747	576,029	10,734,776
1999-00	10,557,523	632,940	11,190,463
2000-01	11,269,877	686,215	11,956,092
2001-02	12,103,179	799,322	12,902,501
2002-03	13,071,415	980,529	14,051,945
2003-04	14,188,658	845,858	15,034,516
2004-05	15,540,982	951,211	16,479,039
2005-06	17,556,580	1,058,995	18,615,575

Source: County of Riverside Assessor's Office.

The California Community Redevelopment Law authorizes the redevelopment agency of any city or county to receive an allocation of tax revenues resulting from increases in assessed values of properties within designated redevelopment project areas (the "incremental value") occurring after the year the project area is formed. In effect, local taxing authorities, such as the City, realize tax revenues only on the assessed value of such property at the time the redevelopment project is created for the duration of such redevelopment project. Six redevelopment project areas have been formed in the City. The following table sets forth total assessed valuations, homeowners' and other miscellaneous exemptions and redevelopment agency incremental values for the nine most recent fiscal years.

Table 12
CITY OF RIVERSIDE
TOTAL AND NET PROPERTY TAX VALUATIONS
(In thousands)

Fiscal Year	Gross Assessed Value	Homeowners' and Other Exemptions (1)	Redevelopment Agency Incremental Value	Net Value
1997-98	$10,729,243	$791,907	$1,051,914	$ 8,887,422
1998-99	10,734,776	705,831	1,113,258	8,915,687
1999-00	11,190,463	710,971	1,188,654	9,290,838
2000-01	11,956,092	753,859	1,263,684	9,938,459
2001-02	12,902,501	704,049	1,429,054	10,769,398
2002-03	14,051,945	776,077	1,638,530	11,637,338
2003-04	15,034,516	830,326	1,706,664	12,497,926
2004-05	16,492,193	850,869	1,900,975	13,740,349
2005-06	18,615,575	916,570	3,072,623	14,626,382

(1) Includes homeowner, governmental and non-profit exemptions.
Source: City of Riverside.

Largest Taxpayers. The 10 largest secured property taxpayers for fiscal year 2005-06 are as follows:

Table 13
CITY OF RIVERSIDE
LARGEST SECURED TAXPAYERS FOR FISCAL YEAR 2005-06
(000s)

Taxpayer	Land Use	Assessed Valuation	Percent of Total
Tyler Mall Limited Partnership	Regional shopping center	$144,601	0.8%
Riverside Healthcare Systems	Healthcare	101,878	0.6
State Street Bank (1)	Realty Investment	78,581	0.4
BRE Prop. Inc.	Realty Investment	66,543	0.4
Calif. State Teachers' Retire System	Realty Investment	56,482	0.3
Pepsi Bottling Group	Manufacturer	50,607	0.3
Press Enterprise	Newspaper	47,893	0.3
Rohr/Goodrich	Manufacturer	47,007	0.3
Mission Grove Park Apts.	Apartments	45,051	0.3
Ralph's Grocery Company	Grocery	41,064	0.2
		$679,707	3.8%

(1) State Street Bank owns 81.22 acres of land featuring a grocery warehouse, distribution center and creamery consisting of more than one million square feet which was constructed in 1995 and leased to Smith's Foods. The property is subleased to Ralph's Grocery Company, which along with Smith's Foods, operates more than 800 stores, mostly in the western United States. Ralph's Foods added an additional 100,000 square feet to the facility in 1999.
Source: County of Riverside Assessor's Office.

State Legislative Shift of Property Tax Allocation. See "RISK FACTORS — Impact of State Budget" herein for a discussion of circumstances which will adversely impact certain of the City's receipts. Briefly, however, the State of California faces severe budget issues for fiscal year 2004-05 and possibly beyond. In connection with its approval of former budgets, the State Legislature enacted legislation, that among other things, reallocated a portion of funds from redevelopment agencies to school districts by shifting each agency's tax increment, net of amounts due to other taxing agencies, to school districts ("ERAF" shifts).

The fiscal year 2004-05 and 2005-06 State Budgets included a transfer by California cities to the applicable ERAFs. The City's share of the ERAF shift for Fiscal Years 2004-05 and 2005-06 is approximately $2.7 million in each fiscal year. The State's electorate adopted a proposition at the November 2004 election that purports to limit future transfers of this type after fiscal year 2005-06, subject to certain exceptions. The fiscal year 2006-07 State Budget does not include an ERAF transfer. See "RISK FACTORS – Impact of State Budget".

Other Taxes

Franchise Taxes. The City levies a franchise tax on its cable television, trash collection, utility franchises, taxi cabs, natural gas piping and ambulance service.

Business License Taxes. The City levies a business license tax based principally on gross receipts and on number of employees.

Transient Occupancy Taxes. The City levies a 11% transient occupancy tax on hotel and motel bills.

Utility Users Taxes. The City levies a tax equal to 6% of utility bills, which is collected by the companies providing the services and remitted monthly to the City.

Property Transfer Taxes. A documentary stamp tax is assessed for recordation of real property transfers.

Special Assessments

On an annual basis, the City deposits into the General Fund assessments levied and collected in Street Lighting District No. 1. Street Lighting District No. 1 was formed in 1988 for installation, construction and maintenance of public lighting and related facilities. The City uses the assessments to pay for a portion of the costs incurred by the City for the authorized public lighting and related facilities.

In-Lieu Payments

Historically, a significant revenue source of the City has been State of California payments and other payments in-lieu of taxes. The City receives a portion of Department of Motor Vehicles fees collected statewide. Payment of State assistance depends on the adoption by the State of its budget, including the appropriations therein providing for local assistance. These revenues are shown in Table 3 and in the accompanying financial statements (see "APPENDIX C") as "intergovernmental revenues."

Table 14
CITY OF RIVERSIDE
IN-LIEU PAYMENTS (VEHICLE LICENSE FEES)
(Fiscal Year)

Fiscal Year	In-Lieu Payment
1999-00	$12,422,389
2000-01	13,772,065
2001-02	14,848,312
2002-03	15,533,453
2003-04	12,527,520
2004-05	1,795,358
2005-06(1)	1,800,000

(1) Estimated.
Source: City of Riverside.

The decline in in-lieu payments for fiscal years 2004-05 and 2005-06 is primarily due to the State's swapping of property tax revenue for vehicle license fees.

Short-Term Obligations

The City currently has no outstanding short-term obligations.

Long-Term Obligations

Set forth below is a summary of the City's outstanding general obligation bonds and general fund obligations.

General Obligation Debt. On November 4, 2003, the voters in the City approved the issuance of up to $20 million principal amount of general obligation bonds to finance fire facilities. As of June 30, 2005, the outstanding obligation with respect to the general obligation bonds was $20,280,000 (including $280,000 of unamortized initial issue premium).

Pension Obligation Bonds. In fiscal year 2003-04, the City issued Pension Obligation Bonds in the amount of $89,540,000 to fund the unfunded actuarial accrued liability for public safety employees (which, as of June 30, 2004, was $88,300,000). Proceeds from the bonds were deposited with CalPERS and are reflected as a net pension asset of $88,300,000 for governmental activities in the Government-wide Statement of Net Assets in the City's audited financial statements for fiscal year 2004-05 (see "APPENDIX C"). As of June 30, 2005, the City had $88,280,000 principal amount of Pension Obligation Bonds outstanding.

In fiscal year 2004-05, the City issued Pension Obligation Bonds in the amount of $60,000,000 to partially fund unfunded actuarial accrued liabilities for non-safety employees (which as of June 30, 2005 was $73,400,000). Proceeds from the bonds in the amount of $59,434,000 were deposited with CalPERS and are reflected as a net pension asset in the Government-wide Statement of Net Assets in the City's audited financial statements for fiscal year 2004-05.

A total of $147,842,000 of net pension assets (including the Pension Obligation Bonds issued in fiscal year 2003-04) are included as a deferred charge in the Government-wide Statement of Net Assets. The deferred charge relating to the net pension assets will be amortized over 19 years in accordance with the method used by CalPERS for calculating actuarial gains and losses.

Certificates of Participation. The City has made use of various lease arrangements with the Riverside Parking Authority, the Riverside Civic Center Authority and the Riverside Municipal Improvements Corporation to finance capital projects through the issuance of certificates of participation and lease revenue bonds.

As of June 30, 2005, the outstanding certificates of participation and their outstanding principal balance were as set forth in the following table:

Table 15
SUMMARY OF LONG-TERM GENERAL FUND OBLIGATIONS

	Original Issue	Outstanding Principal
1999 Certificates of Participation	$ 6,360,000	$ 3,550,000
2003 Certificates of Participation	53,185,000	52,430,000
Subtotal		55,980,000
Plus unamortized 2003 COPs Premium		1,356,000
Total		$57,336,000

The City also leases various equipment through capital leasing arrangements payable from the general fund or enterprise funds. The future minimum lease obligations as of June 30, 2005 were as follows (dollars are in thousands):

Years Ending June 30	Governmental Activities	Business-type Activity
2006	$1,955	$86
2007	1,883	73
2008	1,723	92
2009	1,469	75
2010	535	51
2011-2012	517	51
Total minimum lease payments	8,082	428
Less: Amount representing interest (rates ranging from 2.5% to 9%)	(651)	(36)
Total capital lease payable	$7,431	$392

Capital Lease Obligations. The City leases various equipment through capital leasing arrangements. The minimum lease obligations payable by the City as of June 30, 2005 are identified in Note 7 to the City's June 30, 2005 audited financial statements. See Appendix C.

Direct and Overlapping Bonded Debt

The ability of land owners within the City to pay property tax installments as they come due could be affected by the existence of other taxes and assessments imposed upon the land.

The statement of direct and overlapping debt (the "**Debt Report**") set forth below was prepared by California Municipal Statistics, Inc. as of June 1, 2006. The Debt Report includes only such information as has been reported to California Municipal Statistics, Inc. by the issuers of the debt described therein and by others. The Debt Report is included for general information purposes only. The City takes no responsibility for its completeness or accuracy.

Table 16
Direct and Overlapping Bonded Debt
(As of July 1, 2006)

2005-06 Assessed Valuation:	$18,016,372,043
Redevelopment Incremental Valuation:	3,131,985,255
Adjusted Assessed Valuation:	$14,884,386,788

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 7/1/06	
Metropolitan Water District	1.017%	$ 3,961,876	
Riverside City Community College District	30.102	20,149,108	
Alvord Unified School District	67.749	32,282,399	
Riverside Unified School District	84.037	99,239,293	
Corona-Norco Unified School District	0.002	1,090	
Jurupa Unified School District	0.001	561	
Moreno Valley Unified School District	4.005	2,002,498	
City of Riverside	**100.**	**19,590,000**	
Riverside Unified School District Community Facilities Districts	96.650 -100.	94,426,090	
City of Riverside Community Facilities Districts	100.	54,223,000	
City of Riverside 1915 Act Bonds	100.	43,220,000	
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$369,095,915	
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
Riverside County General Fund Obligations	12.065%	$ 76,072,910	
Riverside County Pension Obligations	12.065	47,879,349	
Riverside County Board of Education Certificates of Participation	12.065	1,356,106	
Alvord Unified School District Certificates of Participation	67.748	16,350,980	
Corona Norco Unified School District Certificates of Participation	0.002	1,668	
Jurupa Unified School District Certificates of Participation	0.001	80	
Moreno Valley Unified School District Certificates of Participation	4.005	1,072,739	
Riverside Unified School District General Fund Obligations	84.037	22,122,740	
City of Riverside General Fund Obligations	**100.**	**55,315,000**	(1)
City of Riverside Pension Obligations	**100.**	**146,470,000**	
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		$366,641,572	
Less: Riverside County self-supporting obligations		2,363,665	
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		$364,277,907	
GROSS COMBINED TOTAL DEBT		$735,737,487	(2)
NET COMBINED TOTAL DEBT		$733,373,822	

(1) Excludes certificates of participation to be sold.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2005-06 Assessed Valuation:
Direct Debt ($19,590,000).. 0.11%
Total Direct and Overlapping Tax and Assessment Debt..... 2.05%

Ratios to Adjusted Assessed Valuation:
Combined Direct Debt ($221,375,000) 1.49%
Gross Combined Total Debt.. 4.94%
Net Combined Total Debt.. 4.93%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/06: $0

Source: California Municipal Statistics, Inc.

Retirement Programs

The City contributes to the California Public Employee's Retirement System ("Cal**PERS**"), an agent multiple-employer public employee retirement system that acts as a common investment and, administrative agent for participating public entities within the State of California.

All permanent and temporary employees who work more than 1,000 hours are eligible to participate in the CalPERS. Benefits vest after 5 years of service. Benefits for employees vary based upon final yearly compensation, safety or non-safety status, length of service and age at retirement. CalPERS also provides death and disability benefits.

City employees' contribution rates are 8% (9% for public safety employees) of their monthly earnings. The City currently pays the employees' contribution to CalPERS for both miscellaneous and safety employees. The employer CalPERS contribution rates for fiscal year 2004-05 were 12.340% for miscellaneous employees and 31.248% for safety employees. The City is required to contribute amounts necessary to fund the benefits for its members using the actuarial basis recommended by CalPERS. The contribution to CalPERS for Fiscal Year 2004-05 was approximately $28,948,000 (equal to its required contributions of $29,056,000 less the effect of amortization of the net pension asset of $108,000). The City has budgeted a contribution of $49,781,000 for Fiscal Year 2005-06 (including the supplemental appropriation) from the General Fund and other revenue sources.

Three-year trend information for CalPERS funding is set forth in the following table (in thousands of dollars):

Fiscal Year Ending June 30,	**Actual Pension Cost (APC)**	**Percentage of APC Contributed**	**Net Pension Obligation (Asset)**
2003	$ 12,196	100%	$ 0
2004	20,051	540	(88,300)
2005	28,948	305	(147,842)

The City is amortizing its CalPERS unfunded actuarial accrued liability, as set forth in the following table, as a level percentage of projected payroll on a closed basis over 19 years. The following table, excerpted from the City's audited financial statements for fiscal year 2003-04, describes the schedule of funding for CalPERS (unaudited):

Plan	Actuarial Valuation Date	Entry Age Normal Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Unfunded/ (Overfunded) Actuarial Accrued Liability (UAAL)	% Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
Misc.	6/30/02	$498,057	$507,610	$(9,553)	101.9%	$72,257	(13.2%)
Safety	6/30/02	381,311	328,395	52,916	86.1	41,038	128.9
Misc.	6/30/03	568,712	511,281	57,431	89.9	75,838	75.7
Safety	6/30/03	413,125	329,673	83,451	79.8	44,611	187.1
Misc.	6/30/04	611,841	537,352	74,488	87.8	77,960	95.5
Safety	6/30/04	454,795	440,172	14,623	96.8	48,635	30.1

See " – Long Term Obligations" for a discussion of the issuance of pension obligation bonds by the City, the use of the bond proceeds and the reflection of the proceeds in the City's audited financial statements.

Employee Relations and Collective Bargaining

City employees are represented by nine labor union associations, the principal one being the Service Employees International Union, which represents approximately 33% of City full-time employees. Currently 59% all City employees are covered by negotiated agreements. Negotiated agreements have the following expiration dates:

Table 17
CITY OF RIVERSIDE
NEGOTIATED EMPLOYEE AGREEMENTS
(As of July 1, 2006)

Bargaining Unit	Contract Expiration Date	Number of Employees
Service Employees International Union [(1)]	6/30/06	854
Riverside Police Officers Assoc.	6/30/06	310
Riverside Police Officers Association - Supervisory	6/30/06	55
Riverside Police Administrators Association	6/30/06	28
International Brotherhood of Electrical Workers	9/30/06	170
International Brotherhood of Electrical Workers - Supervisory	9/30/06	25
Riverside City Firefighters Assoc.	6/30/06	188
Riverside City Fire Management	6/30/06	11
Service Employees Int. Union -- Refuse	6/30/07	37

(1) Negotiations for a new contract have concluded, with a new expiration date of June 20, 2010. The new contract has been ratified by the Union, but has not yet been officially approved by the City Council.

Source: City of Riverside.

Since 1979 the City has not had an employee work stoppage.

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. Internal service funds have been established to account for and finance the uninsured risks of loss of public liability claims and worker's compensation.

Property insurance coverage has a limit of $100 million, with a $50,000 deductible. Earthquake and flood insurance currently have a $15 million limit, with a deductible of 5% for earthquake and 2% for flood. Workers' compensation insurance coverage has a limit of $25 million with a deductible of $4 million per occurrence. On July 1, 2006, the City carried commercial insurance up to $23 million for general and auto liability claims greater than $3 million per occurrence. There were no claims settled during fiscal years 2000 through 2005 above the covered amount.

The following tables summarize the reserved balances in the Self-Insurance Fund for fiscal years 2000-01 through 2004-05.

Table 18
CITY OF RIVERSIDE
SELF-INSURANCE FUND
(in thousands)

Fund	2000-01	2001-02	2002-03	2003-04	2004-05
Worker's Compensation	$10,708	$12,578	$13,801	$11,117	11,147
Public Liability	7,351	7,388	6,899	6,091	6,326

Source: City of Riverside.

City Investment Policy and Portfolio

The City administers a pooled investment program, except for those funds which are managed separately by trustees appointed under bond indentures. This program enables the City to combine available cash from all funds and to invest cash that exceeds current needs. The most recently revised Investment Policy for the City was adopted in January, 2006 by the City Council.

In accordance with the Government Code, the City requires certain collateralization for public deposits in banks and savings and loans, and has long-established safekeeping and custody procedures. The City Treasurer submits a monthly report to the City Council that contains a statement that the City's portfolio is invested in conformance with state law and the Investment Policy, and that there is sufficient liquidity to meet estimated expenditures.

The City's pooled investment portfolio as of May 31, 2006, had a market value of $421,498,619. The following table illustrates the investments as of May 31, 2006:

Table 19
CITY OF RIVERSIDE
INVESTMENT PORTFOLIO
(As of May 31, 2006)

Type	Market Value	Cost Basis	% of Portfolio(2)
Money Market Accounts(1)	$ 47,160,044	$ 47,160,044	11.2%
Bonds, Debentures and Notes	374,283,575	380,780,265	88.8
Cash	55,000	55,000	0.1
Total	$421,498,619	$427,995,309	100.00(3)

(1) Includes $5,500,000 in the State of California Local Agency Investment Fund.
(2) Based on market value as of May 31, 2006.
(3) Numbers do not add because of rounding.
Source: City of Riverside.

As of May 31, 2006, the average life of the City's investment portfolio was 684.36 days.

Personal Income

The following table is based on effective buying income, as reported in the annual publication "Survey of Buying Power," published by Sales and Marketing Management. Effective buying income is defined as personal income less personal taxes and non-tax payments. Personal income includes wages and salaries, other labor-related income, proprietor's income, rental income, dividends, personal interest income and transfer payments. Deductions are then made for federal, state and local taxes, non-tax payments (such as fines and penalties) and personal contributions for social insurance. The following items are not included in the definition of effective buying income: (1) employer contributions to private pension funds, supplemental unemployment insurance funds and privately administered workers' compensation programs; (2) imputed personal income, which includes the imputed value of services provided by depository institutions and income earned by life insurance carriers and private noninsured pension funds on the principal amounts contributed by policy holders and pension beneficiaries; and (3) imputed rental income of owner-occupied nonfamily dwellings.

Between 2000 and 2004 the City's median household effective buying power increased approximately 11.7%, while at the same time, the County's increased approximately 11.9%, the State's increased approximately 8.7% and there was growth of approximately 2.6% for the United States. The table below summarizes the total effective buying income and the median household effective buying income for the City, the County, the State and the United States from 2000 through 2004.

Table 20
PERSONAL INCOME
For Calendar Years 2000 Through 2004

Year and Area	Total Effective Buying Income ($ in thousands)	Median Household Effective Buying Income
2000		
City of Riverside	$ 3,735,911	$37,395
County of Riverside	25,144,120	39,293
State of California	652,190,282	44,464
United States	5,230,824,904	39,129
2001		
City of Riverside	$ 3,636,701	$37,231
County of Riverside	23,617,301	37,480
State of California	650,521,407	43,532
United States	5,303,481,498	38,365
2002		
City of Riverside	$ 3,874,905	$37,406
County of Riverside	25,180,040	38,691
State of California	647,879,427	42,861
United States	5,340,682,818	38,035
2003		
City of Riverside	$ 4,135,550	$37,794
County of Riverside	27,623,743	39,321
State of California	674,721,020	42,924
United States	5,466,880,008	38,201
2004		
City of Riverside	$ 4,303,175	$38,787
County of Riverside	29,468,208	40,275
State of California	705,108,410	43,915
United States	5,692,909,567	39,324

Source: Sales and Marketing Management, Survey of Buying Power.

A comparison of effective buying income groupings per household for 2004 is shown in the following table:

Table 21
INCOME GROUPINGS FOR 2004

Percent of Households by EBI Group	City of Riverside	Riverside County	State of California
$ 20,000-34,999	23.1%	22.3%	20.0%
$ 35,000-49,999	19.9	20.1	18.8
$ 50,000 and over	35.4	37.1	42.5

Source: Sales and Marketing Management, Survey of Buying Power.

Education

The City is included within the boundaries of the Riverside Unified School District and the Alvord Unified School District, which also serves the County area southwest of the City. These two districts include 61 elementary and middle schools and high schools. There are also about 48 private or parochial schools for kindergarten through twelfth grade. Higher education is available at four institutions: Riverside Community College, University of California at Riverside, California Baptist University and La Sierra University at Riverside. Also located in the City are the California School for the Deaf and the Sherman Institute, a federally-run school for Indians.

Employment

The following table presents the annual average distribution of persons in various wage and salary employment categories for Riverside-San Bernardino Primary Metropolitan Statistical Area ("PMSA") for calendar years 2001 through 2005.

Table 22
RIVERSIDE-SAN BERNARDINO PRIMARY METROPOLITAN STATISTICAL AREA
ANNUAL AVERAGE EMPLOYMENT COMPARISON

	2001	2002	2003	2004	2005
Civilian Labor Force (1)	1,575,100	1,638,800	1,587,700	1,655,600	1,712,200
Employment	1,496,100	1,542,500	1,488,100	1,561,100	1,625,900
Unemployment	79,000	96,300	99,600	94,500	86,300
Unemployment Rate	5.0%	5.9%	6.3%	5.7%	5.0%
Wage and Salary Employment (2)					
Agriculture	20,900	20,300	20,300	18,700	18,200
Natural Resources and Mining	1,200	1,200	1,200	1,200	1,300
Construction	88,400	90,900	99,000	111,800	122,200
Manufacturing	118,600	115,400	116,100	120,100	120,200
Wholesale Trade	41,600	41,900	43,500	45,600	49,200
Retail Trade	132,200	137,500	142,700	153,800	165,000
Trans., Warehousing and Utilities	45,600	46,800	50,100	55,500	59,700
Information	14,600	14,100	13,900	14,000	14,400
Finance and Insurance	22,900	23,500	25,700	28,000	29,900
Real Estate and Rental and Leasing	15,300	15,900	16,900	17,700	18,700
Professional and Business Services	101,700	106,800	115,400	125,500	132,500
Educational and Health Services	106,000	112,400	115,800	118,400	120,000
Leisure and Hospitality	104,400	107,200	109,000	116,700	122,400
Other Services	37,100	38,100	38,400	39,300	41,200
Federal Government	16,900	16,900	17,000	17,300	18,600
State Government	25,800	26,600	26,600	26,500	27,000
Local Government	157,600	169,300	167,900	168,700	174,800
Total, All Industries	1,050,700	1,084,800	1,119,400	1,178,700	1,235,400

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
Source: State of California Employment Development Department.

The 25 largest employers in the County are shown below.

Table 23
COUNTY OF RIVERSIDE
LARGEST EMPLOYERS
(As of January 1, 2006)

Employer Name	Location	Industry
C A State Transportation	Lake Elsinore	Government Offices-State
Casino Morongo	Cabazon	Tourist Attractions
Chase Manhattan Mortgage Corp	Moreno Valley	Real Estate Loans
Crossroads Truck Dismantling	Mira Loma	Automobile Dismantling/Recycling (Whol)
Desert Regional Medical Ctr	Palm Springs	Hospitals
Eisenhower Medical Ctr	Rancho Mirage	Clinics
Guidant Corp	Temecula	Physicians & Surgeons Equip & Supls-Mfrs
Jw Marriott Desert Springs Rst	Palm Desert	Hotels & Motels
La Quinta Resort & Club	La Quinta	Hotels & Motels
Labtechniques	Rancho Mirage	Laboratories-Medical
Mountain & Dunes Golf Courses	La Quinta	Golf Courses-Private
Oasis Distributing	Thermal	Fruits & Vegetables-Growers & Shippers
Parkview Community Hospital	Riverside	Hospitals
Pechanga Resort & Casino	Temecula	Casinos
Riverside Community College	Riverside	Schools-Universities & Colleges Academic
Riverside Community Hospital	Riverside	Hospitals
Riverside County Regional Med	Moreno Valley	Hospitals
Signatures	Perris	Mail Order & Catalog Shopping
Spa Resort Casino	Palm Springs	Casinos
Starcrest	Perris	Mail Order & Catalog Shopping
Starcrest Products Of Ca	Perris	Mail Order & Catalog Shopping
Sun World Intl Inc	Coachella	Fruits & Vegetables-Growers & Shippers
University Of California	Riverside	Schools-Universities & Colleges Academic
Valley Health System	Hemet	Hospitals
Watson Pharmaceuticals Inc	Corona	Drug Millers

Source: California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database.

Construction Activity

The following table provides a summary of residential building permit valuations and nonresidential building permit valuations, and the total number of all building permit valuations in the City during the past five years, including calendar year 2005.

Table 24
CITY OF RIVERSIDE BUILDING PERMIT ACTIVITY
For Calendar Years 2001 Through 2005

	2001	2002	2003	2004	2005
Permit Valuation					
New Single-family	$254,494.2	$218,696.1	$140,055.6	$205,436.7	$333,223.8
New Multi-family	2,719.0	0.0	93,711.0	23,610.9	44,23.8
Res. Alterations/Additions	11,064.2	12,584.7	19,772.5	22,225.7	22,817.8
Total Residential	268,277.3	231,280.8	253,539.1	251,273.3	400,265.4
New Commercial	41,602.5	53,790.8	62,900.5	161,598.7	107,106.2
New Industrial	13,086.4	6,190.8	14,973.6	14,593.8	26,909.5
New Other	9,977.0	17,948.3	18,816.8	32,324.4	35,436.2
Com. Alterations/Additions	31,886.2	32,820.6	45,913.7	40,374.2	56,320.9
Total Nonresidential	96,552.0	110,750.4	142,604.6	248,891.2	225,772.7
New Dwelling Units					
Single Family	1,237	1,113	689	820	1,442
Multiple Family	40	0	1,377	282	521
TOTAL	1,277	1,113	2,066	1,102	1,963

Source: Construction Industry Research Board, *Building Permit Summary*

Transportation

The City is served by a variety of land and air transportation facilities. Light rail commuter service is provided by Metrolink to Los Angeles and Orange Counties. Interstate bus service is available via Greyhound, and local bus service is provided by the Riverside Transit Agency. Most major trucking firms serve the City in addition to numerous local carriers. Overnight delivery can be scheduled to San Francisco, Los Angeles, San Diego and Sacramento.

Freight rail service to the City is provided by two major transcontinental railroads: the Santa Fe and Union Pacific. Amtrak-operated passenger train service is available at San Bernardino, approximately 15 miles north of the City.

Scheduled air transportation is available from the Ontario International Airport, approximately 18 miles to the west. The City-operated Riverside Municipal Airport is a general aviation facility.

The City is served by the Riverside Freeway (State Route 91), which provides access to Orange County; Interstate 215, which connects the City to San Diego, San Bernardino and points beyond; and the Pomona Freeway (U.S. Highway 60), an east-west route.

To support transportation improvements, in November 1988 Riverside County voters approved Measure A, a one-half cent sales tax increase. Measure A was to expire in 2009, but in 2002, Riverside County voters approved extending Measure A until 2039. Measure A is expected to generate $4.6 billion between 2009 and 2039. In 1990, voters of the adjacent San Bernardino County approved a similar program, and that sales tax was similarly increased by a vote of the electorate in November 2003.

APPENDIX B

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of certain provisions of the Lease and Right of Entry Agreement, the Lease Agreement, the Assignment Agreement and the Trust Agreement prepared for Certificates. The following also includes definitions of certain terms used therein and in this Official Statement. Such summary is not intended to be definitive. Reference is directed to said documents for the complete text thereof. Except as otherwise defined in this summary, the terms previously defined in this Official Statement have been respective meanings previously given. Copies of said documents are available from the City and from the Trustee.

DEFINITIONS

"Additional Payments" means additional payments required to be paid by the City pursuant to Section 4.7 of the Lease Agreement.

"Agency Agreement" means the Agency Agreement between the Corporation and the City dated as of September 1, 2006.

"Assignment Agreement" means the Assignment Agreement between the Corporation and the Trustee dated as of September 1, 2006.

"Certificates of Participation" or "Certificates" means the $19,945,000 aggregate principal amount of City of Riverside 2006 Lease Revenue Certificates of Participation (Galleria at Tyler Public Improvements) to be executed and delivered pursuant to the Trust Agreement.

"Certificate Year" means the period commencing as of the Closing Date and ending September 1, 2007, and for each year thereafter the period commencing September 2 and ending on the next succeeding September 1.

"City" means the City of Riverside, a city and municipal corporation, duly organized and existing under its charter and the Constitution and laws of the State of California.

"City Representative" means the City Manager and the Chief Financial Officer of the City or a person authorized by the City Council to act on behalf of the City under or with respect to the Trust Agreement.

"Closing Date" means the day when the Certificates, duly executed by the Trustee, are delivered to the Original Purchaser thereof.

"Continuing Disclosure Agreement" means the Continuing Disclosure Agreement of the City, named therein given in favor of the Owners of the Certificates in connection with the sale of the Certificates to the Original Purchaser.

"Corporation" means the City of Riverside Municipal Improvements Corporation, a California nonprofit public benefit corporation duly organized and existing under the laws of the State of California, its successors and assigns.

"Corporation Representative" means the President of the Corporation, the Treasurer of the Corporation or any person authorized to act on behalf of the Corporation under or with respect to the Trust Agreement as evidenced by a resolution conferring such authorization adopted by the Board of the Corporation.

"Delivery Costs" means all items of expense directly or indirectly payable by or reimbursable to the City or the Corporation relating to the execution, sale and delivery of the Lease Agreement or the Certificates, including but not limited to filing and recording costs, settlement costs, printing costs, reproduction and binding costs, initial fees and charges of the Trustee (including legal fees), financing discounts, legal fees and charges, insurance fees and charges, financial and other professional consultant fees, costs of rating agencies or credit ratings, costs of municipal certificate insurance, fees for execution, transportation and safekeeping of the Certificates, and charges and fees in connection with the foregoing.

"Delivery Costs Fund" means the fund by that name established pursuant to the Trust Agreement.

"Defeasance Obligations" means cash, direct non-callable obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, to which direct obligation or guarantee the full faith and credit of the United States of America has been pledged, Refcorp interest strips, CATS, TIGRS, STRPS, or defeased municipal bonds rated AAA by S&P or Aaa by Moody's (or any combination of the foregoing).

"Event of Default" means an event of default under the Lease Agreement.

"Existing Parking Structure" means that certain existing parking structure leased from the Corporation to the City under the 1999 Lease Agreement.

"Fiscal Year" means the twelve-month period commencing on July 1 in any year and ending on June 30 of the following year.

"Independent Counsel" means an attorney duly admitted to the practice of law before the highest court of the state in which such attorney maintains an office and who is not an employee of the Corporation, the Trustee or the City.

"Information Services" means Financial Information, Inc.'s "Daily Called Bond Service", 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services' "Called Bond Service," 65 Broadway, 16th Floor, New York, New York 10004; Mergent "Municipal and Government," 5250 77 Center Drive, Suite 150, Charlotte, North Carolina 28217, Attention: Called Bonds Dept.; Standard & Poor's Corporation "Called Bond Record," 65 Broadway, 16th Floor, New York, New York 10004; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other information services providing information with respect to called bonds as the City may designate in a Written Certificate of the City delivered to the Trustee.

"Insurance and Condemnation Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"Insurance Policy" or "Municipal Certificate Insurance Policy" means the municipal bond new issue insurance policy issued by the Insurer that guarantees the payment of the principal of and interest when due with respect to the Certificates.

"Insurer" means Financial Guaranty Insurance Company, a New York Stock Insurance Company doing business in California as FGIC Insurance Company, its successor and assigns.

"Interest Payment Date" means each of the dates specified in the Trust Agreement on which interest is due and payable with respect to the Certificates.

"Land Leases" means (i) that certain Land and Parking Structure Lease Agreement dated as of September 1, 2006, by and between Tyler Mall Limited Partnership and the City; and (ii) that certain

Land Lease Agreement dated as of August 1, 2006, by and between J.C. Penney Properties, Inc. and the City.

"Lease and Right of Entry Agreement" means the Lease and Right of Entry Agreement, dated as of September 1, 2006, by and between the City and the Corporation, together with any duly authorized and executed amendment thereto.

"Lease Agreement" means the Lease Agreement, dated as of September 1, 2006, by and between the City and the Corporation, together with any duly authorized and executed amendment thereto.

"Lease Payment" means any payment required to be made by the City pursuant to the Lease Agreement, as set forth in an exhibit to the Lease Agreement.

"Lease Payment Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"Leased Premises" has the meaning set forth in the Lease Agreement.

"Net Proceeds" means any insurance proceeds or condemnation award in excess of $50,000, paid with respect to the Leased Premises and Site, remaining after payment therefrom of all expenses incurred in the collection thereof.

"1999 Lease Agreement" means that certain Facilities Lease (Tyler Mall Parking Project) dated as of April 1, 1990 by and between the Corporation and the City, as amended by Amendment Number One to Facilities Lease (Tyler Mall Parking Project) dated as of September 1, 1999 by and between the Corporation and the City and relating to the Exiting Parking Structure.

"Original Purchaser" means Stone & Youngberg LLC, as original purchaser of the Certificates.

"Outstanding," when used as of any particular time with respect to Certificates, means (subject to the provisions of the Trust Agreement) all Certificates theretofore executed and delivered by the Trustee under the Trust Agreement except:

(1) Certificates theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;

(2) Certificates for the payment or prepayment of which funds or Federal Securities in the necessary amount shall have theretofore been deposited with the Trustee (whether upon or prior to the maturity or prepayment date of such Certificates), provided that, if such Certificates are to be prepaid prior to maturity, notice of such prepayment shall have been given as provided in the Trust Agreement or provision satisfactory to the Trustee shall have been made for the giving of such notice; and

(3) Certificates in lieu of or in exchange for which other Certificates shall have been executed and delivered by the Trustee pursuant to the Trust Agreement.

Notwithstanding anything in the Trust Agreement to the contrary, in the event that the principal and/or interest due with respect to the Certificates shall be paid by the Insurer pursuant to the Insurance Policy, the Certificates shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the City, and the assignment and pledge of the Trust Estate and all covenants, agreements and other obligations of the City to the registered owners shall continue to exist and shall run to the benefit of the Insurer, and the Insurer shall be subrogated to the rights of such registered owners.

"Owner" or "Certificate Owner" or "Owner of a Certificate" or any similar term, when used with respect to a Certificate, means the person in whose name such Certificate shall be registered.

"Permitted Encumbrances" means, as of any particular time: (i) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the City may, pursuant to provisions of the Lease Agreement, permit to remain unpaid; (ii) the Site & Second Parking Structure Lease; (iii) the Lease Agreement; (iv) the Lease and Right of Entry Agreement; (v) the Land Leases; (vi) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law and which are contested in good faith by the City; (vii) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the Closing Date and which the City certifies in writing will not materially impair the use of the Site or the Leased Premises, and (viii) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the date of recordation of the Lease Agreement and to which the Corporation and the City consent in writing which will not impair or impede the construction and operation of the Leased Premises.

"Permitted Investments" means any of the following which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein (The Trustee entitled to reply upon the investment direction of the City as a certification that such investment is a legal investment):

(1) Direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America ("U.S. Government Securities").

(2) Direct obligations* of the following federal agencies which are fully guaranteed by the full faith and credit of the United States of America:

(a) Export-Import Bank of the United States – Direct obligations and fully guaranteed certificates of beneficial interest

(b) Federal Housing Administration – debentures

(c) General Services Administration – participation certificates

(d) Government National Mortgage Association ("GNMAs") – guaranteed mortgage-backed securities and guaranteed participation certificates

(e) Small Business Administration – guaranteed participation certificates and guaranteed pool certificates

(f) U.S. Department of Housing & Urban Development – local authority bonds

(g) U.S. Maritime Administration – guaranteed Title XI financings

* The following are explicitly excluded from the securities enumerated in (2) and (3):

(i) All derivative obligations, including without limitation inverse floaters, residuals, interest-only, principal-only and range notes;

(ii) Obligations that have a possibility of returning a zero or negative yield if held to maturity;

(iii) Obligations that do not have a fixed par value or those whose terms do not promise a fixed dollar amount at maturity or call date; and

(iv) Collateralized Mortgage-Backed Obligations ("CMOs").

(h) Washington Metropolitan Area Transit Authority – guaranteed transit bonds

(3) Direct obligations* of the following federal agencies which are not fully guaranteed by the faith and credit of the United States of America:

(a) Federal National Mortgage Association ("FNMAs") – senior debt obligations rated Aaa by Moody's Investors Service ("Moody's") and AAA by Standard & Poor's Ratings Services ("S&P")

(b) Federal Home Loan Mortgage Corporation ("FHLMCs") – participation certificates and senior debt obligations rated Aaa by Moody's and AAA by S&P

(c) Federal Home Loan Banks – consolidated debt obligations

(d) Student Loan Marketing Association – debt obligations

(e) Resolution Funding Corporation – debt obligations

(4) Direct, general obligations of any state of the United States of America or any subdivision or agency thereof whose uninsured and unguaranteed general obligation debt is rated, at the time of purchase, A2 or better by Moody's and A or better by S&P, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose uninsured and unguaranteed general obligation debt is rated, at the time of purchase, A2 or better by Moody's and A or better by S&P.

(5) Commercial paper (having original maturities of not more than 270 days) rated, at the time of purchase, P-1 by Moody's and A-1 or better by S&P.

(6) Certificates of deposit, savings accounts, deposit accounts or money market deposits in amounts that are continuously and fully insured by the Federal Deposit Insurance Corporation ("FDIC"), including the Bank Insurance Fund and the Savings Association Insurance Fund.

(7) Certificates of deposit, deposit accounts, federal funds or bankers' acceptances (in each case having maturities of not more than 365 days following the date of purchase) of any domestic commercial bank or United States branch office of a foreign bank, provided that such bank's short-term certificates of deposit are rated P-1 by Moody's and A-1 or better by S&P (not considering holding company ratings).

(8) Investments in money-market funds rated AAAm or AAAm-G by S&P.

(9) State-sponsored investment pools rated AA- or better by S&P.

(10) Repurchase agreements that meet the following criteria:

(a) A master repurchase agreement or specific written repurchase agreement, substantially similar in form and substance to the Public Securities Association or Bond Market Association master repurchase agreement, governs the transaction.

(b) Acceptable providers shall consist of (i) registered broker/dealers subject to Securities Investors' Protection Corporation ("SIPC") jurisdiction or commercial banks insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed rating of A3/P-1 or better by Moody's and A-/A-1 or better by S&P, or

(ii) domestic structured investment companies approved by the Insurer and rated Aaa by Moody's and AAA by S&P.

(c) The repurchase agreement shall require termination thereof if the counterparty's ratings are suspended, withdrawn or fall below A3 or P-1 from Moody's, or A- or A-1 from S&P. Within ten (10) days, the counterparty shall repay the principal amount plus any accrued and unpaid interest on the investments.

(d) The repurchase agreement shall limit acceptable securities to U.S. Government Securities and to the obligations of GNMA, FNMA or FHLMC described in 2(d), 3(a) and 3(b) above. The fair market value of the securities in relation to the amount of the repurchase obligation, including principal and accrued interest, is equal to a collateral level of at least 104% for U.S. Government Securities and 105% for GNMAs, FNMAs or FHLMCs. The repurchase agreement shall require (i) the Trustee or the Agent to value the collateral securities no less frequently than weekly, (ii) the delivery of additional securities if the fair market value of the securities is below the required level on any valuation date, and (iii) liquidation of the repurchase securities if any deficiency in the required percentage is not restored within two (2) business days of such valuation.

(e) The repurchase securities shall be delivered free and clear of any lien to the bond trustee (herein, the "Trustee") or to an independent third party acting solely as agent ("Agent") for the Trustee, and such Agent is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the FDIC and which has combined capital, surplus and undivided profits or, if appropriate, a net worth, of not less than $50 million, and the Trustee shall have received written confirmation from such third party that such third party holds such securities, free and clear of any lien, as agent for the Trustee.

(f) A perfected first security interest in the repurchase securities shall be created for the benefit of the Trustee, and the issuer and the Trustee shall receive an opinion of counsel as to the perfection of the security interest in such repurchase securities and any proceeds thereof.

(g) The repurchase agreement shall have a term of one year or less, or shall be due on demand.

(h) The repurchase agreement shall establish the following as events of default, the occurrence of any of which shall require the immediate liquidation of the repurchase securities, unless Financial Guaranty directs otherwise:

(i) insolvency of the broker/dealer or commercial bank serving as the counterparty under the repurchase agreement;

(ii) failure by the counterparty to remedy any deficiency in the required collateral level or to satisfy the margin maintenance call under item 10(d) above; or

(iii) failure by the counterparty to repurchase the repurchase securities on the specified date for repurchase.

(11) Investment agreements (also referred to as guaranteed investment contracts) that meet the following criteria:

(a) A master agreement or specific written investment agreement governs the transaction.

(b) Acceptable providers of uncollateralized investment agreements shall consist of (i) domestic FDIC-insured commercial banks, or U.S. branches of foreign banks, rated at least Aa2 by Moody's and AA by S&P; (ii) domestic insurance companies rated Aaa by Moody's and AAA by S&P; and (iii) domestic structured investment companies approved by Financial Guaranty and rated Aaa by Moody's and AAA by S&P.

(c) Acceptable providers of collateralized investment agreements shall consist of (i) registered broker/dealers subject to SIPC jurisdiction, if such broker/dealer has an uninsured, unsecured and unguaranteed rating of A1 or better by Moody's and A+ or better by S&P; (ii) domestic FDIC-insured commercial banks, or U.S. branches of foreign banks, rated at least A1 by Moody's and A+ by S&P; (iii) domestic insurance companies rated at least A1 by Moody's and A+ by S&P; and (iv) domestic structured investment companies approved by Financial Guaranty and rated Aaa by Moody's and AAA by S&P. Required collateral levels shall be as set forth in 11(f) below.

(d) The investment agreement shall provide that if the provider's ratings fall below Aa3 by Moody's or AA- by S&P, the provider shall within ten (10) days either (i) repay the principal amount plus any accrued and interest on the investment; or (ii) deliver Permitted Collateral as provided below.

(e) The investment agreement must provide for termination thereof if the provider's ratings are suspended, withdrawn or fall below A3 from Moody's or A- from S&P. Within ten (10) days, the provider shall repay the principal amount plus any accrued interest on the agreement, without penalty.

(f) The investment agreement shall provide for the delivery of collateral described in (i) or (ii) below ("Permitted Collateral") which shall be maintained at the following collateralization levels at each valuation date:

(i) U.S. Government Securities at 104% of principal plus accrued interest; or

(ii) Obligations of GNMA, FNMA or FHLMC (described in 2(d), 3(a) and 3(b) above) at 105% of principal and accrued interest.

(g) The investment agreement shall require the Trustee or Agent to determine the market value of the Permitted Collateral not less than weekly and notify the investment agreement provider on the valuation day of any deficiency. Permitted Collateral may be released by the Trustee to the provider only to the extent that there are excess amounts over the required levels. Market value, with respect to collateral, may be determined by any of the following methods:

(i) the last quoted "bid" price as shown in Bloomberg, Interactive Data Systems, Inc., The Wall Street Journal or Reuters;

(ii) valuation as performed by a nationally recognized pricing service, whereby the valuation method is based on a composite average of various bid prices; or

(iii) the lower of two bid prices by nationally recognized dealers. Such dealers or their parent holding companies shall be rated investment grade and shall be market makers in the securities being valued.

(h) Securities held as Permitted Collateral shall be free and clear of all liens and claims of third parties, held in a separate custodial account and registered in the name of the Trustee or the Agent.

(i) The provider shall grant the Trustee or the Agent a perfected first security interest in any collateral delivered under an investment agreement. For investment agreements collateralized initially and in connection with the delivery of Permitted Collateral under (11)(f) above, the Trustee and Financial Guaranty shall receive an opinion of counsel as to the perfection of the security interest in the collateral.

(j) The investment agreement shall provide that moneys invested under the agreement must be payable and putable at par to the Trustee without condition, breakage fee or other penalty, upon not more than two (2) business days' notice, or immediately on demand for any reason for which the funds invested may be withdrawn from the applicable fund or account established under the authorizing document, as well as the following:

(i) In the event of a deficiency in the debt service account;

(ii) Upon acceleration after an event of default;

(iii) Upon refunding of the bonds in whole or in part;

(iv) Reduction of the debt service reserve requirement for the bonds; or

(v) If a determination is later made by a nationally recognized bond counsel that investments must be yield-restricted.

Notwithstanding the foregoing, the agreement may provide for a breakage fee or other penalty that is payable in arrears and not as a condition of a draw by the Trustee if the issuer's obligation to pay such fee or penalty is subordinate to its obligation to pay debt service on the bonds and to make deposits to the debt service reserve fund.

(k) The investment agreement shall establish the following as events of default, the occurrence of any of which shall require the immediate liquidation of the investment securities, unless:

(i) Failure of the provider or the guarantor (if any) to make a payment when due or to deliver Permitted Collateral of the character, at the times or in the amounts described above;

(ii) Insolvency of the provider or the guarantor (if any) under the investment agreement;

(iii) Failure by the provider to remedy any deficiency with respect to required Permitted Collateral;

(iv) Failure by the provider to make a payment or observe any covenant under the agreement;

(v) The guaranty (if any) is terminated, repudiated or challenged; or

(vi) Any representation of warranty furnished to the Trustee or the issuer in connection with the agreement is false or misleading.

(l) The investment agreement must incorporate the following general criteria:

(i) "Cure periods" for payment default shall not exceed two (2) business days;

(ii) The agreement shall provide that the provider shall remain liable for any deficiency after application of the proceeds of the sale of any collateral, including costs and expenses incurred by the Trustee or Financial Guaranty;

(iii) Neither the agreement or guaranty agreement, if applicable, may be assigned (except to a provider that would otherwise be acceptable under these guidelines) or amended without the prior consent of Financial Guaranty;

(iv) If the investment agreement is for a debt service reserve fund, reinvestments of funds shall be required to bear interest at a rate at least equal to the original contract rate.

(v) The provider shall be required to immediately notify Financial Guaranty and the Trustee of any event of default or any suspension, withdrawal or downgrade of the provider's ratings;

(vi) The agreement shall be unconditional and shall expressly disclaim any right of set-off or counterclaim;

(vii) The agreement shall require the provider to submit information reasonably requested by Financial Guaranty, including balance invested with the provider, type and market value of collateral and other pertinent information.

(12) Forward delivery agreements in which the securities delivered mature on or before each interest payment date (for debt service or debt service reserve funds) or draw down date (construction funds) that meet the following criteria:

(a) A specific written investment agreement governs the transaction.

(b) Acceptable providers shall be limited to (i) any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated A3/P-1 or better by Moody's and A-/A-1 or better by S&P; (ii) any commercial bank insured by the FDIC, if such bank has an uninsured, unsecured and unguaranteed obligation rated A3/P-1 or better by Moody's and A-/A-1 or better by S&P; and (iii) domestic structured investment companies approved by Financial Guaranty and rated Aaa by Moody's and AAA by S&P.

(c) The forward delivery agreement shall provide for termination or assignment (to a qualified provider hereunder) of the agreement if the provider's ratings are suspended, withdrawn or fall below A3 or P-1 from Moody's or A- or A-1 from S&P. Within ten (10) days, the provider shall fulfill any obligations it may have with respect to shortfalls in market value. There shall be no breakage fee payable to the provider in such event.

(d) Permitted securities shall include the investments listed in 1, 2 and 3 above.

(e) The forward delivery agreement shall include the following provisions:

(i) The permitted securities must mature at least one (1) business day before a debt service payment date or scheduled draw. The maturity amount of the permitted securities must equal or exceed the amount required to be in the applicable fund on the applicable valuation date.

(ii) The agreement shall include market standard termination provisions, including the right to terminate for the provider's failure to deliver qualifying securities or otherwise to perform under the agreement. There shall be no breakage fee or penalty payable to the provider in such event.

(iii) Any breakage fees shall be payable only on debt service payment dates and shall be subordinated to the payment of debt service and debt service reserve fund replenishments.

(iv) The provider must submit at closing a bankruptcy opinion to the effect that upon any bankruptcy, insolvency or receivership of the provider, the securities will not be considered to be a part of the provider's estate, and otherwise acceptable to Financial Guaranty.

(v) The agreement may not be assigned (except to a provider that would otherwise be acceptable under these guidelines) or amended without the prior written consent of the Insurer.

(13) Forward delivery agreements in which the securities delivered mature after the funds may be required but provide for the right of the issuer or the Trustee to put the securities back to the provider under a put, guaranty or other hedging arrangement, only with the prior written consent of the Insurer.

(14) The Local Agency Investment Fund in the State Treasury of the State of California as permitted by the State Treasurer pursuant to Section 16429.1 of the California Government Code or any similar pooled investment fund administered by the State, to the extent such investment is held in the name and to the credit of the Trustee).

(15) Other forms of investments, including repurchase agreements, investment contracts, forward delivery agreements and other types of investments described in clauses (1) through (14) which do not satisfy the applicable criteria set forth for such types of investments in said clauses, if such investments are approved in writing by the Insurer.

(16) Maturity of investments shall be governed by the following:

(a) Investments of monies (other than reserve funds) shall be in securities and obligations maturing not later than the dates on which such monies will be needed to make payments.

(b) Investments shall be considered as maturing on the first date on which they are redeemable without penalty at the option of the holder or the date on which the Trustee may require their repurchase pursuant to repurchase agreements.

(c) Investments of monies in reserve funds not payable upon demand shall be restricted to maturities of five years or less.

(d) Permitted Investments shall be valued by the Trustee as frequently as deemed necessary by the Insurer, but not less often than quarterly, at the market value thereof, exclusive of accrued interest.

"Prepayment" means any payment applied towards the prepayment of Lease Payments, in whole or in part, pursuant to the Lease Agreement as a prepayment of the Lease Payments.

"Prepayment Date" means any date on which the City may exercise its option to prepay all or a portion of the remaining Lease Payments, as set forth in the Lease Agreement.

"Prepayment Price" means the price to be paid by the City to exercise its option to prepay all or a portion of the remaining Lease Payments, on any prepayment Date, as set forth in the Lease Agreement.

"Principal Corporate Trust Office" means the principal corporate trust office of the Trustee at 633 West Fifth Street, 24th Floor, Los Angeles, California 90071.

"Project " has the meaning set forth in the Lease Agreement.

"Project Costs" means all costs of payment of, or reimbursement for, acquisition, construction and financing of the Project, including but not limited to, architect and engineering fees, construction contractor payments, costs of feasibility and other reports, inspection costs, permit fees, filing and recording costs, printing costs, reproduction and binding costs, fees and charges of the Trustee, legal fees and charges, financial and other professional consultant fees in connection with the foregoing.

"Project Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"Regular Record Date" means the close of business on the fifteenth day of the month preceding each Interest Payment Date, whether or not such fifteenth day is a business day.

"Reserve Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"Reserve Fund Credit Facility" means a letter of credit, a bond insurance policy, any other comparable credit facility or any combination thereof meeting the requirements of, and deposited with the Trustee pursuant to the Trust Agreement.

"Reserve Requirement" means as of any date of calculation an amount equal to the least of (i) 10 percent of the proceeds of the Certificates, (ii) maximum aggregate Lease Payments required to be paid in any Certificate Year, or (iii) 125 percent of the average annual Lease Payment.

"Securities Depositories" means The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the Corporation may designate in a Written Certificate of the Corporation delivered to the Trustee.

"Site and Second Parking Structure Lease Agreement" means the Site and Second Parking Structure Lease Agreement, dated as of September 1, 2006, by and between the City and the Corporation, together with any duly authorized and executed amendment thereto.

"Site" has the meaning set forth in the Lease Agreement.

"State" means the State of California.

"Tax Code" means the Internal Revenue Code of 1986, as amended.

"Tax Regulations" means temporary and permanent regulations promulgated under or with respect to Sections 103 and 141 through 150, inclusive, of the Tax Code.

"Term of the Lease Agreement" means the time during which the Lease Agreement is in effect, as provided in the Lease Agreement.

"Trust Agreement" or "Agreement" means the Trust Agreement dated as of September 1, 2006 by and among the City, the Corporation and the Trustee, together with any permitted amendments or supplements thereto.

"Trustee" means U.S. Bank National Association, or any successor thereto acting as Trustee pursuant to the Trust Agreement.

"Written Certificate", "Written Request" and "Written Requisition" of the Corporation or the City mean, respectively, a written certificate, request or requisition signed in the name of the Corporation by a Corporation Representative or the City by a City Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

LEASE AND RIGHT OF ENTRY AGREEMENT

The Lease and Right of Entry Agreement is entered into between the City and the Corporation. To the extent it is fee owner thereof, the City leases to the Corporation and the Corporation leases from the City, the streets under the Lease and Right of Entry Agreement. To the extent it is the owner of a right other than a fee interest, the City grants to the Corporation and the Corporation accepts from the City, a right of entry upon the streets.

LEASE AGREEMENT

Deposit of Moneys

On the Closing Date, the Corporation shall cause to be deposited with the Trustee the proceeds of sale of the Certificates. Capitalized interest received with respect to the Certificates shall be deposited with the Trustee in the Lease Payment Fund, amounts estimated to be required to pay Delivery Costs shall be deposited in the Delivery Costs Fund, an amount equal to the Reserve Requirement shall be deposited in the Reserve Fund and the remaining balance of said amount required to pay Project Costs shall be deposited in the Project Fund.

Lease Payments; Abatement

The City is required under the Lease Agreement to make Lease Payments on each Lease Payment Date for use and possession of the Leased Premises and the Site. The obligation of the City to make Lease Payments (other than to the extent that funds to make Lease Payments are available in the Lease Payment Fund, Insurance and Condemnation Fund and the Reserve Fund) may be abated in whole or in part if the City does not have full use and possession of the Leased Premises and the Site.

The Lease Payments for the Leased Premises and Site for each rental payment period during the Term of the Lease Agreement shall constitute the total rental for the Leased Premises and Site, if any, for such rental payment period, and shall be paid by the City in each rental payment period for and in consideration of the right of the use and occupancy of, and the continued quiet use and enjoyment of the Leased Premises and Site during each such period for which said rental is to be paid. The parties have agreed and determined that the total Lease Payments for the Leased Premises and Site represent the fair rental value of the Leased Premises and Site. In making such determination, consideration has been given to the cost of preparation of the Site and the costs of acquiring, improving, constructing, installing and financing the Leased Premises and the Site, other obligations of the parties under the Lease Agreement, the uses and purposes which may be served by the Leased Premises, and the benefits therefrom which will accrue to the City and the general public. The parties have further agreed and determined that the total Lease Payments, if applied as lease payments just for the Streets, represents the fair rental value of the Streets.

The City and the Corporation understand and intend that the obligation of the City to pay Lease Payments, Additional Payments and other payments under the Lease Agreement constitutes a current expense of the City and shall not in any way be construed to be a debt of the City in contravention of any applicable constitutional or statutory limitation or requirement concerning the creation of indebtedness by the City, nor shall anything contained in the Lease Agreement constitute a pledge of the general tax revenues, funds or moneys of the City. Lease Payments and Additional Payments shall be payable only from current funds which are budgeted and appropriated, or otherwise legally available, for the purpose of paying Lease Payments, Additional Payments or other payments due under the Lease Agreement as consideration for use of the Leased Premises during the fiscal year of the City for which such funds were budgeted and appropriated or otherwise made legally available for such purpose.

The City covenants in the Lease Agreement to take such action as may be necessary to include all Lease Payments (other than the first Lease Payments of advance rental for the period from the Closing Date to March 1, 2008 which are funded with capitalized interest) and Additional Payments in its annual budgets and to make the necessary annual appropriations for all such Lease Payments and Additional Payments. During the Term of the Lease Agreement, the City will furnish to the Trustee a certificate annually on or before the date which is sixty (60) days after the budget is approved by the City Council that it has complied with these requirements. The covenants on the part of the City shall be deemed to be and shall be construed to be duties imposed by law, and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Lease Agreement agreed to be carried out and performed by the City.

The amount of the Lease Payments and Additional Payments relating to structures on the Leased Premises shall be abated during any period in which by reason of damage or destruction (other than by eminent domain which is separately provided for) there is substantial interference with the use and occupancy of the structures on the Leased Premises by the City. The amount of such abatement shall be determined by the City such that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of the Leased Premises and Site not damaged or destroyed. Such abatement shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Lease Agreement shall continue in full force and effect and the City waives any right to terminate the Lease Agreement by virtue of any such damage or destruction. Notwithstanding the foregoing, there shall be no abatement of Lease Payments in the event and to the extent that the Net Proceeds of rental interruption insurance are available for such purpose and to the extent that amounts in the Reserve Fund are available to pay Lease Payments which would otherwise be abated.

<u>Substitution or Release of Leased Premises</u>. The City shall have the option at any time and from time to time during the Term of the Lease Agreement, to substitute other land, facilities or improvements (the "Substitute Leased Premises") for the Leased Premises and Site or any portion thereof (the "Former Leased Premises") or to release a portion of the Leased Premises and Site (the "Released Premises") from the lien of the Lease Agreement, provided that the City shall satisfy all of the following requirements which are declared to be conditions precedent to such substitution or release:

(a) The City shall provide written notification of such substitution or release to the Insurer, which notice shall contain the certification that all conditions set forth in the Lease Agreement are met with respect to such substitution or release, and the Insurer shall have consented to such substitution in writing;

(b) The City shall take all actions and shall execute all documents required to subject the Substitute Leased Premises to the terms and provisions of the Lease Agreement, including the filing with the Corporation, the Insurer and the Trustee an amended Exhibit C which adds thereto a description of the Substitute Leased Premises and deletes therefrom the description of the Former Leased Premises or the Released Premises, as applicable;

(c) (i) In the case of a substitution, the City shall determine and certify to the Corporation, the Insurer and the Trustee that the fair rental value of the Substitute Leased Premises is at least equal to the fair rental value of the Former Leased Premises;

(ii) In the case of a release, the City shall determine and certify to the Corporation, the Insurer and the Trustee that the fair rental value of the remaining Leased Premises after removal of the Released Premises is at least equal to the then remaining Lease Payments;

(d) In the case of a substitution, the City shall certify in writing to the Corporation, the Insurer and the Trustee that the Substitute Leased Premises serve the public purposes of the City and constitute property which the City is permitted to lease under the laws of the State;

(e) In the case of a substitution, the City shall certify in writing to the Corporation, the Insurer and the Trustee that the estimated useful life of the Substitute Leased Premises at least extends to the date on which the final Lease Payment becomes due and payable under the Lease Agreement;

(f) In the case of a substitution other than with respect to the Streets portion of the Leased Premises, the City shall obtain a CLTA policy of title insurance meeting the requirements of the Lease Agreement with respect to any real property portion of the Substitute Leased Premises;

(g) In the case of a substitution, the substitution of the Substitute Leased Premises shall not cause the City to violate any of its covenants, representations and warranties made in the Lease Agreement; and

(h) The City shall obtain and cause to be filed with the Trustee, the Insurer and the Corporation an opinion of nationally-organized bond counsel stating that such substitution or release is permitted under the Lease Agreement and does not cause the interest component of the Lease Payments to become includable in gross income for federal income tax purposes or subject to State of California personal income taxes.

From and after the date on which all of the foregoing conditions precedent to such substitution or release are satisfied, the Term of the Lease Agreement shall cease with respect to the Former Leased Premises or Released Premises, as applicable, and shall be continued with respect to the Substitute Leased Premises and the remaining Leased Premises and all references to the Former Leased Premises shall apply with full force and effect to the Substitute Leased Premises. The City shall not be entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of such substitution or release.

Insurance; Eminent Domain

The City agrees to maintain or cause to be maintained with respect to the Leased Property and the Site the following insurance against risk of physical damage to the Leased Premises and the Site:

<u>Public Liability and Property Damage Insurance and Workers Compensation Insurance</u>. The City shall maintain or cause to be maintained, throughout the term of the Lease Agreement, a standard

comprehensive general liability insurance policy or policies in protection of the City, the Corporation and their members, officers, agents and employees, and the Trustee. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the construction or operation of the Leased Premises. Said policy or policies shall provide coverage in the minimum liability limits of $1,000,000 for personal injury or death of each person and $3,000,000 for personal injury or deaths of two or more persons in a single accident or event, and in a minimum amount of $250,000 for damage to property (subject to a deductible clause of not to exceed $200,000) resulting from a single accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of $3,000,000 covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried or required to be carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City. The Net Proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the Net Proceeds of such insurance shall have been paid.

The City will procure and maintain with responsible workers' compensation insurance against liability for compensation under the Workers Compensation Insurance and Safety Act of California or any act amendatory thereof or supplemental thereto, which insurance shall cover all persons employed in connection with the Leased Premises and the Site.

Fire and Extended Coverage Insurance. The City shall procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease Agreement, insurance against loss or damage to any structures constituting any part of the Leased Premises by fire and lightning, with extended coverage and vandalism and malicious mischief insurance. Said extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance shall be in an amount equal to one hundred percent (100%) of the replacement cost of such structures on the Leased Premises, or the aggregate coverage of all such policies on the Leased Premises shall at least equal the principal amount of the outstanding Certificates, whichever is greater (except that such insurance may be subject to deductible clauses of not to exceed $100,000 for any one loss). Such insurance may be maintained as part of or in conjunction with any other fire and extended coverage insurance carried or required to be carried by the City and may not be maintained in whole or in part in the form of self-insurance by the City.

Rental Interruption or Use and Occupancy Insurance. The City shall procure, and maintain throughout the Term of the Lease Agreement from and after the date when it takes possession of the Leased Premises rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of any structures constituting any part of Leased Premises as a result of any of the hazards covered in the insurance required by the Lease Agreement, in an amount sufficient to pay the maximum Lease Payments with respect thereto payable in any twenty-four month period. The Net Proceeds of such insurance shall be paid to the Trustee and deposited in the Lease Payment Fund, and shall be credited towards the payment of the Lease Payments in the order in which such Lease Payments come due and payable.

Title Insurance. Upon the execution and delivery of the Certificates the City will provide, at its own expense, one or more CLTA leasehold title insurance policies in the aggregate amount of not less than $19,945,000 with respect to the City's leasehold interest in the Site. Said policy or policies shall insure the City's leasehold estate in the Site, subject only to Permitted Encumbrances. All Net Proceeds received under said policy or policies shall be deposited with the Trustee in the Lease Payment Fund and shall be credited towards the prepayment of the remaining Lease Payments.

Insurance Proceeds. Each policy of insurance shall provide that all proceeds thereunder shall be payable to the Trustee for the benefit of the Certificate Owners. The City shall pay or cause to be paid when due the premiums for all insurance policies required by the Lease Agreement, and shall promptly furnish or cause to be furnished evidence of such payments to the Trustee. All such policies shall provide that the Trustee shall be given thirty (30) days' notice of each expiration, any intended cancellation thereof or reduction of the coverage provided thereby. The Trustee shall not be responsible for the sufficiency of any insurance herein required and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the Trustee. The City shall cause to be delivered to the Trustee annually a certificate signed by a City Representative stating that each of the insurance policies required by the Lease Agreement are in full force and effect.

Use of Proceeds From Insurance Award. The Net Proceeds of any insurance award resulting from any damage to or destruction of any structure on the Leased Premises by fire or other casualty shall be deposited in the Insurance and Condemnation Fund by the Trustee promptly upon receipt thereof and, if the City determines that the replacement, repair, restoration, modification or improvement of such Leased Premises is not economically feasible or in the best interest of the City, the City shall so certify to the Trustee and then such Net Proceeds shall be promptly transferred by the Trustee to the Lease Payment Fund and applied to prepay Lease Payments; provided, however, that in the event of damage or destruction of the Leased Premises in full, such Net Proceeds may be transferred to the Lease Payment Fund only if sufficient, together with other moneys available therefor, to cause the prepayment of all outstanding Certificates. All Net Proceeds deposited in the Insurance and Condemnation Fund and not so transferred to the Lease Payment Fund shall be applied to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed Leased Premises by the City, upon receipt of a requisition signed by the City Representative stating with respect to each payment to be made (i) the requisition number, (ii) the name and address of the person, firm or corporation to whom payment is due, (iii) the amount to be paid, and (iv) that each obligation mentioned therein has been properly incurred, is a proper charge against the Insurance and Condemnation Fund, has not been the basis of any previous withdrawal, and specifying in reasonable detail the nature of the obligation. Any balance of the Net Proceeds remaining after such work has been completed shall be paid to the City.

Eminent Domain. If all of the Leased Premises and Site shall be taken permanently under the power of eminent domain, the term of the Lease Agreement shall cease as of the day possession shall be so taken. If less than all of the Leased Premises and Site shall be taken permanently, or if all of the Leased Premises and Site or any part thereof shall be taken temporarily, under the power of eminent domain, (1) the Lease Agreement shall continue in full force and effect and shall not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary, and (2) there shall be a partial abatement of Lease Payments as a result of the application of the Net Proceeds of any eminent domain award to the prepayment of the Lease Payments, but in no event shall the resulting Lease Payments be less than the amount required for the payment of the principal and interest with respect to outstanding Certificates as the same become due and payable.

Use of Proceeds From Eminent Domain Award. The Net Proceeds of any eminent domain award shall be deposited in the Insurance and Condemnation Award Fund to be held and applied by the Trustee under the Trust Agreement as follows:

(a) (1) If the City determines (i) that such eminent domain proceedings have not materially affected the operation of the Leased Premises and Site or the ability of the City to meet any of its obligations under the Lease Agreement, and (ii) that such proceeds are not needed for repair or rehabilitation of the Leased Premises and Site, the Trustee upon the written direction of the City shall transfer such proceeds to the Lease Payment Fund to be credited towards the Prepayment required to be paid pursuant to the Lease Agreement and applied to the prepayment of Certificates.

(2) If the City determines (i) that such eminent domain proceedings have not materially affected the operation of the Leased Premises and Site or the ability of the City to meet any of its obligations under the Lease Agreement, and (ii) that such proceeds are

needed for repair or rehabilitation of the Leased Premises and Site, the Trustee upon the written direction of the City shall pay to the City, or to its order, from said proceeds such amounts as the City may expend for such repair or rehabilitation, upon the filing of requisitions of the City Representative.

(b) If (1) less than all of the Leased Premises and Site shall have been taken in such eminent domain proceedings, and if the City determines and certifies to the Trustee that such eminent domain proceedings have materially affected the operation of the Leased Premises and Site or the ability of the City to meet any of its obligations under the Lease Agreement or (2) all of the Leased Premises and Site shall have been taken in such eminent domain proceedings, then the Trustee shall transfer such proceeds to the Lease Payment Fund to be credited toward the Prepayment required to be paid pursuant to the Lease Agreement and applied to the prepayment of Certificates in the manner provided in the Trust Agreement.

(c) In making any such determination, the City may obtain, but shall not be required to obtain, the report of an independent engineer or other independent professional consultant. Any such determination by the City shall be final.

Other Provisions

Throughout the Term of the Lease Agreement, as part of the consideration for the rental of the Leased Premises and Site, all improvement, repair and maintenance of the Leased Premises and the Site shall be the responsibility of the City, and the City shall pay for or otherwise arrange for the payment of all utility services supplied to the Leased Premises and the Site, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Leased Premises resulting from ordinary wear and tear or want of care on the part of the City or any assignee or sublessee thereof. In exchange for the Lease Payments, the Corporation agrees to provide only the Leased Premises and the Site, and to cause to be constructed, acquired and installed the Project as provided in the Agency Agreement. The City waives the benefits of subsections 1 and 2 of Section 1932 of the California Civil Code, but such waiver shall not limit any of the rights of the City under the terms of the Lease Agreement.

The City shall also pay or cause to be paid all taxes and assessments of any type or nature charged to the Corporation or affecting the Leased Premises and the Site or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are required to be paid during the Term of the Lease Agreement as and when the same become due.

The City or any sublessee may, at the City's or such sublessee's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Corporation or the Trustee shall notify the City or such sublessee that, in the opinion of Independent Counsel, by nonpayment of any such items, the interest of the Corporation in the Leased Premises and the Site will be materially endangered or the Leased Premises and the Site, or any part thereof, will be subject to loss or forfeiture, in which event the City or such sublessee shall promptly pay such taxes, assessments or charges or provide the Corporation with full security against any loss which may result from nonpayment, in form satisfactory to the Corporation and the Trustee.

The City and any sublessee shall, at its own expense, have the right to remodel the Leased Premises or to make additions, modifications and improvements to the Leased Premises and Site. All such additions, modifications and improvements shall thereafter comprise part of the Leased Premises and the Site and be subject to the provisions of the Lease Agreement. Such additions, modifications and improvements shall not in any way damage the Leased Premises or cause it to be used for purposes other than those authorized under the provisions of state and federal law; and the Leased Premises, upon completion of any additions, modifications and improvements made pursuant to the Lease Agreement, shall be of a value which is at least equal to the fair rental value of the Leased Premises immediately prior to the making of such additions, modifications and improvements. The City will not permit any mechanic's or other lien to be established or remain against the Leased Premises or Site for labor or materials furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements made by the City or any sublessee or assignee pursuant to the Lease Agreement; provided that if any such lien is established and the City shall first notify or cause to be notified the Corporation of the City's or any sublessee's intention to do so, the City or any sublessee may in good faith contest any lien filed or established against the Leased Premises or the Site, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom, and shall provide the Corporation with full security against any loss or forfeiture which might arise from the nonpayment of any such item, in form satisfactory to the Corporation. The Corporation will cooperate fully in any such contest, upon the request and at the expense of the City or such sublessee.

The Corporation makes no warranty or representation, either express or implied, as to the value, design, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the City of the Leased Premises or the Site or any item thereof, or any other representation or warranty with respect to the Leased Premises or the Site or any item thereof. In no event shall the Corporation be liable for incidental, indirect, special or consequential damages, in connection with or arising out of the Lease Agreement, the Site and Facilities Lease Agreement, the Lease and Right of Entry Agreement or the Trust Agreement, or for the existence, furnishing or functioning of, or the City's use of the Leased Premises or the Site.

The City agrees that the Corporation and any Corporation Representative, and the Corporation's successors or assigns, shall have the right at all reasonable times to enter upon and to examine and inspect the Leased Premises and the Site. The City further agrees that the Corporation, any such Representative, and the Corporation's successors or assigns shall have such rights of access to the Leased Premises and the Site as may be reasonably necessary to cause the proper maintenance of the Leased Premises and the Site in the event of failure by the City to perform its obligations under the Lease Agreement; provided, however, that the Corporation's assigns shall have no obligation to cause such proper maintenance.

The Lease Agreement may not be assigned by the City except as set forth in the Assignment Agreement. The Leased Premises and the Site may not be subleased in whole or in part by the City without the written consent of the Corporation and the Insurer. Any such sublease shall be subject to all of the following conditions:

(i) The Lease Agreement and the obligation of the City to make Lease Payments shall remain obligations of the City; and

(ii) The City shall, within thirty (30) days after the delivery thereof, furnish or cause to be furnished to the Corporation, the Trustee, and Insurer a true and complete copy of such sublease; and

(iii) No such sublease by the City shall cause the Leased Premises or the Site to be used for a purpose other than a governmental or proprietary function authorized under the provisions of the Constitution and laws of the State of California; and

(iv) The City shall furnish the Corporation, the Trustee and the Insurer with a written opinion of nationally-recognized bond counsel, with respect to any such sublease, stating that such sublease shall not cause the interest component of the Lease Payments to become includable in gross income for federal income tax purposes or to become subject to State of California personal income taxes.

Tax Covenants

(a) Private Activity Bond Limitation. The City and the Corporation shall assure that the proceeds of the Certificates are not so used as to cause the Bonds to satisfy the private business tests of Section 141(b) of the Tax Code or the private loan financing test of Section 141(c) of the Tax Code.

(b) Federal Guarantee Prohibition. The City and the Corporation shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the Certificates to be "federally guaranteed" within the meaning of Section 149(b) of the Tax Code.

(c) No Arbitrage. The City and the Corporation shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Certificates which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date would have caused the Certificates to be "arbitrage bonds" within the meaning of Section 148 of the Tax Code.

(d) Maintenance of Tax Exemption. The City and the Corporation shall take all actions necessary to assure the exclusion of interest with respect to the Certificates from the gross income of the Owners of the Certificates to the same extent as such interest is permitted to be excluded from gross income under the Tax Code as in effect on the Closing Date.

(e) Payment of Rebatable Amounts. The City agrees to furnish all information to, and cooperate fully with, the Trustee and their respective officers, employees, agents and attorneys, in order to assure compliance with the provisions of the Trust Agreement. In the event that the Trustee shall determine, pursuant to the Trust Agreement, that any amounts are due and payable to the United States of America thereunder and that the Trustee does not have on deposit an amount of available moneys (excluding moneys on deposit in the funds and accounts established for the payment of the principal of or interest or redemption premium, if any, with respect to the Certificates) to make such payment, the Trustee shall promptly notify the City of such fact. Upon receipt of any such notice, the City shall promptly pay the amounts determined by the Trustee to be due and payable to the United States of America, such payments to be made in accordance with the applicable provisions of the Tax Code.

(f) Change in Use; Prepayment. The City covenants in the Loan Agreement that in the event any portion of the Leased Premises and Site financed with proceeds of the Certificates is for any reason no longer in public use by the City while the Certificates are Outstanding, the City shall promptly prepay on the next date on which a prepayment can be timely made under the Lease Agreement and under the Trust Agreement, that portion of the Certificates corresponding to the portion of the proceeds of the Certificates used to finance such portion of the Leased Premises and Site (the "Change in Use Prepayment") or confirm that the Change in Use Prepayment has previously been prepaid or otherwise take such action as the City may determine to be necessary to preserve the exemption from gross income for federal income tax purposes of interest with respect to the Certificates.

Default and Remedies

The following constitute "events of default" under the Lease Agreement:

(i) Failure by the City to pay any Lease Payment or other payment required to be paid under the Lease Agreement at the time specified therein.

(ii) Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in clause (i) above, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Corporation, the Trustee, or the Owners of not less than five percent (5%) in aggregate principal amount of Certificates then outstanding; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Corporation, the Trustee and such Owners shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the City within the applicable period and diligently pursued until the default is corrected.

(iii) The filing by the City of a voluntary petition in bankruptcy, or failure by the City promptly to lift any execution, garnishment or attachment, or adjudication of the City as a bankrupt, or assignment by the City for the benefit of creditors, or the entry by the City into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the City in any proceedings instituted under the provisions of the Federal Bankruptcy Statute, as amended, or under any similar acts which may hereafter be enacted.

Whenever any Event of Default shall have happened and be continuing, it shall be lawful for the Corporation to exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement; provided, however, that notwithstanding anything therein or in the Trust Agreement to the contrary, there shall be no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable. Each and every covenant in the Lease Agreement to be kept and performed by the City is expressly made a condition of the Lease Agreement and upon the breach thereof the Corporation may exercise any and all rights of entry and re-entry upon the Site and the Leased Premises, and also, at its option, with or without such entry, may terminate the Lease Agreement; provided, that no such termination shall be effected either by operation of law or acts of the parties to the Lease Agreement, except only in the manner herein expressly provided. In the event of such default and notwithstanding any re-entry by the Corporation, the City shall, as therein expressly provided, continue to remain liable for the payment of the Lease Payments and/or damages for breach of the Lease Agreement and the performance of all conditions herein contained and, in any event such rent and/or damages shall be payable to the Corporation at the time and in the manner as therein provided, to wit:

(a) In the event the Corporation does not elect to terminate the Lease Agreement in the manner herein provided for in subparagraph (b) above, the City agrees to and shall remain liable for the payment of all Lease Payments and the performance of all conditions therein contained and shall reimburse the Corporation for any deficiency arising out of the re-letting of the Site and the Leased Premises, or, in the event the Corporation is unable to re-let the Site and the Leased Premises, then for the full amount of all Lease Payments to the end of the Term of the Lease Agreement, but said Lease Payments and/or deficiency shall be payable only at the same time and in the same manner as provided for the payment of Lease Payments, notwithstanding such entry or re-entry by the Corporation or any suit in unlawful detainer, or otherwise, brought by the Corporation for the purpose of effecting such re-entry or obtaining possession of the Site and the Leased Premises or the exercise of any other remedy by the Corporation. The City irrevocably appoints the Corporation as the agent and attorney-in-fact of the City to enter upon and re-let the Site and the Leased Premises in the event of default by the City in the performance of any covenants contained in the Lease Agreement to be performed by the City and to remove all personal property whatsoever situated upon the Site and the Leased Premises and to place such property in storage or other suitable place in the County of Riverside, State of California, for the account of and at the expense of the City, and the City exempts and agrees to save harmless the Corporation from any costs, loss or damage whatsoever arising or occasioned by any such entry upon and re-letting of the Site and the Leased Premises and the removal and storage of such property by the Corporation or its duly authorized agents in accordance with the provisions contained in the Lease Agreement. The City waives any and all claims for damages caused or which may be caused by the Corporation in re-entering and taking possession of the Site and the Leased Premises as provided in the Lease Agreement and all claims for damages that may result from the destruction of or injury to the Site or the Leased Premises and all claims for damages to or loss of any property belonging to the City that may be in or upon the Site and the Leased Premises. The City agrees that the terms of the Lease Agreement constitute full and sufficient notice of the right of the Corporation to re-rent the Site and the Leased Premises in the event of such re-entry without effecting a surrender of the Lease Agreement, and further agrees that no acts of the Corporation in effecting such re-renting or re-leasing shall constitute a surrender or termination of the Lease Agreement irrespective of the term for which such re-leasing or re-renting is made or the terms and conditions of such re-leasing or re-renting, or otherwise, but that, on the contrary, in the event of such default by the City the right to terminate the Lease Agreement shall vest in the Corporation to be effected in the sole and exclusive manner hereinafter provided for in subparagraph (b) above. The City further waives the right to any rental obtained by the Corporation in excess of the Lease Payments and conveys and releases such excess to the Corporation as compensation to the Corporation for its services in re-leasing the Site and the Leased Premises.

(b) In an Event of Default by the City, the Corporation at its option may terminate the Lease Agreement and re-rent or re-lease all or any portion of the Leased Premises and Site. In the event of the termination of the Lease Agreement by the Corporation at its option and in the manner hereinafter provided on account of default by the City (and notwithstanding any reentry upon the Site or the Leased Premises by the Corporation in any manner whatsoever or the re-renting or re-leasing of the Leased Premises or the Site), the City nevertheless agrees to pay to the Corporation all costs, loss or damages howsoever arising or occurring, payable at the same time and in the same manner as is provided in the case of payment of Lease Payments. Any surplus received by the Corporation from such re-renting or re-leasing shall be the absolute property of the Corporation and the City shall have no right thereto, nor shall the City be entitled to any credit in the event of a deficiency in the rentals received by the Corporation from the Site or the Leased Premises. Neither notice to pay rent or to deliver up possession of the premises given pursuant to law nor any proceeding in unlawful detainer taken by the Corporation shall of itself operate to terminate the Lease Agreement, and no termination of the Lease Agreement on account of default by the City shall be or become effective by operation of law, or otherwise, unless and until the Corporation shall have given written notice to the City of the election on the part of the Corporation to terminate the Lease Agreement. The City covenants and agrees that no surrender of the Site and the Leased Premises for the remainder of the Term of the Lease Agreement or any termination of the Lease Agreement shall be valid in any manner or for any purpose whatsoever unless stated or accepted by the Corporation by such written notice.

Security Deposit

Notwithstanding any other provision of the Lease Agreement, the City may on any date secure the payment of Lease Payments by a deposit with the Trustee of: (i) cash in an amount which, together with amounts on deposit in the Lease Payment Fund and the Reserve Fund, is sufficient to pay all unpaid Lease Payments, including the principal and interest components thereof, in accordance with the Lease Payment Schedule set forth in the Lease Agreement, or (ii) Defeasance Obligations together with cash, if required, in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon and, if required, all or a portion of moneys, Defeasance Obligations then on deposit in the Lease Payment Fund and Reserve Fund, be fully sufficient to pay all unpaid Lease Payments on their respective Lease Payment Dates or by prepayment thereof, as the City shall instruct at the time of said deposit. In the event of such a deposit, all obligations of the City under the Lease Agreement, and all security provided by the Lease Agreement for said obligations, shall cease and terminate, excepting only the obligation of the City to make, or cause to be made, Lease Payments from the deposit made by the City pursuant to the Lease Agreement, and title to the Leased Premises and the Site shall vest in the City on the date of said deposit automatically and without further action by the City or the Corporation. Said deposit shall be deemed to be and shall constitute a special fund for the payment of Lease Payments in accordance with the provisions of the Lease Agreement.

Term; Termination

The Term of the Lease Agreement shall commence as of September __, 2006 and, unless sooner terminated as hereinafter provided, shall terminate on September 1, 2036, unless, on September 1, 2036, any Certificates are Outstanding, the Lease Agreement shall continue in full force and effect until 10 days after payment in full of all of the Certificates.

The Term of the Lease Agreement shall terminate upon the earliest of any of the following events:

(a) the exercise by the City of its option to purchase the Leased Premises and Site, on any Prepayment Date, by paying the applicable Prepayment Price as provided in the Lease Agreement;

(b) an Event of Default and the Corporation's election to terminate the Lease Agreement pursuant to the terms thereof; or

(c) the arrival of the last day of the Term of the Lease Agreement and payment of all Lease Payments and all other payments due thereunder.

ASSIGNMENT AGREEMENT

The Assignment Agreement is entered into between the Corporation and the Trustee, pursuant to which the Corporation assigns and transfers to the Trustee for the benefit of the Owners, the rights of the Corporation under the Lease Agreement, including the right to receive Lease Payments under the Lease Agreement and the rights and remedies of the Corporation under the Lease Agreement to enforce payment of Lease Payments or otherwise to protect and enforce the Lease Agreement in the event of default by the City. Certain rights of the Corporation to payment of advances, indemnification and attorneys' fees and expenses are not assigned.

TRUST AGREEMENT

The Trustee is appointed pursuant to the Trust Agreement to act as a depository of amounts held thereunder. The Trust Agreement authorizes the Trustee to prepare, execute and deliver the Certificates. Transfers of the Certificates are to be registered in a register maintained by the Trustee.

Funds

The Trust Agreement creates several funds to be maintained by the Trustee for the benefit of the Authority and the City.

<u>Project Fund</u>. A portion of the proceeds from the sale of the Certificates will be deposited with the Trustee in a Project Fund and shall be applied to pay Project Costs upon the instructions of a City Representative. Any funds remaining in such fund after all such Project Costs have been transferred to the Lease Payment Fund.

<u>Delivery Costs Fund</u>. A portion of the proceeds from the sale of the Certificates will be deposited with the Trustee in a Delivery Costs Fund and shall be applied to pay costs of the execution, delivery and sale of the Certificates upon the instructions of a City Representative. Any funds remaining in such fund after the date of initial delivery of the Certificates, whichever occurs first, will be transferred to the Project Fund.

<u>Lease Payment Fund</u>. The Trustee will deposit in the Lease Payment Fund all Lease Payments received from the City and any other amounts required by the Lease Agreement or the Trust Agreement.

From proceeds of the Certificates, the Trustee will deposit in the Lease Payment Fund amounts to be used for payment of a portion of the interest portion of the Lease Payment obligation, including capitalized interest on the Certificates through March 1, 2008.

In the event that on a Lease Payment Date there is not on deposit in the Lease Payment Fund an amount equal to the Lease Payment obligation payable by the City on such Lease Payment Date then the Trustee shall immediately transfer from the Reserve Fund to the Lease Payment Fund an amount necessary to increase the balance of the Lease Payment Fund to an amount equal to the Lease Payment obligation.

The Trustee will withdraw from the Lease Payment Fund on each Interest Payment Date an amount equal to the Lease Payments due from the City on the Lease Payment Date preceding such Interest Payment Date for payment to the Owners of the Certificates.

On the date of receipt of any delinquent Lease Payments, the Trustee shall transfer to the Reserve Fund the amount needed to increase the amount on deposit therein to the Reserve Requirement.

Reserve Fund. Moneys in the Reserve Fund shall be held in trust as a reserve for the payment when due of the Lease Payments.

The Trustee shall, on or before each March 1 and September 1, transfer any moneys in the Reserve Fund then in excess of the Reserve Requirement to the Lease Payment Fund, to be credited to the Lease Payments next coming due and payable.

If on any Interest Payment Date the moneys available in the Lease Payment Fund do not equal the amount of the principal and interest and prepayment premiums (if any) with respect to the Certificates then coming due and payable, the Trustee shall apply the moneys available in the Reserve Fund to make delinquent Lease Payments on behalf of the City by transferring the amount necessary for such purpose to the Lease Payment Fund. If after such a transfer, a deficiency remains in the Lease Payment Fund, the Trustee shall apply the amount, if any, on deposit in the Lease Payment Fund first to the payment of interest past due with respect to all Certificates on a pro rata basis, and second to the payment of the unpaid principal balance with respect to each Certificate which is then past due on a pro rata basis.

If on any Interest Payment Date the moneys on deposit in the Reserve Fund and the Lease Payment Fund (excluding amounts required for payment of past due principal or interest with respect to Certificates not presented for payment) are sufficient to pay all Outstanding Certificates, including all principal, interest and prepayment premiums (if any), the Trustee shall, upon the written direction of the City Representative, transfer all amounts then on deposit in the Reserve Fund to the Lease Payment Fund to be applied to the payment of the Lease Payments or Prepayments on behalf of the City, and such moneys shall be paid to the Owners of Certificates in accordance with the Trust Agreement. Any amounts remaining in the Reserve Fund upon payment in full of all Outstanding Certificates, or upon provision for such payment as provided in the Trust Agreement, shall after payment of amounts due the Trustee thereunder be withdrawn by the Trustee and paid to the City.

The Reserve Requirement may be satisfied by crediting to the Reserve Fund the Reserve Fund Credit Facility which makes funds available in the Reserve Fund in an amount equal to the Reserve Requirement. The Trustee shall draw on the Reserve Fund Credit Facility in accordance with its terms when and if moneys are needed pursuant to the provisions of the Trust Agreement.

Insurance and Condemnation Fund. In the event the Trustee receives net proceeds of insurance in connection with damage or destruction of the Property or net proceeds from eminent domain proceedings, such proceeds will be deposited in the Insurance and Condemnation Fund and will be applied by the Trustee as described under the heading “LEASE AGREEMENT –Insurance; Eminent Domain” above.

Investment of Moneys; Allocation of Earnings

Moneys held by the Trustee under the Trust Agreement, upon written order of the City Representative shall be invested and reinvested by the Trustee in specific Permitted Investments. Such investments, if registrable, shall be registered in the name of the Trustee for the benefit of the Certificate Owners and held by the Trustee. The Trustee may purchase from or sell to itself or any affiliate, as principal or agent, investments authorized by the Trust Agreement. Such investments and reinvestments shall be made, giving full consideration to the time at which funds are required to be available. The Trustee may act as purchaser or agent in the making or disposing of any investment. The Trustee may sell at the best price obtainable, or present for prepayment, any Permitted Investment so purchased by the Trustee whenever it shall be necessary in order to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investment is credited, and the Trustee shall not be liable or responsible for any loss resulting from such investment.

In the absence of investment direction from the City, the Trustee shall invest solely in Permitted Investments specified in (8) of the definition thereof.

Any income, profit or loss on such investments shall be deposited in or charged to the respective funds from which such investments were made, and any interest on any deposit of funds shall be deposited in the fund from which such deposit was made, except as otherwise provided in the Trust Agreement.

For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued at the lesser of cost or market value. Subject to the provisions set forth in the definition of Permitted Investments, the market value of any Permitted Investments shall be determined as follows:

(a) as to Permitted Investments the bid and asked prices of which are published on a regular basis in The Wall Street Journal (or, if not there, then in The New York Times), the value of such Permitted Investments shall be the average of the bid and asked prices for such investments so published on or most recently prior to the time of such determination.

(b) as to Permitted Investments the bid and asked prices of which are not published on a regular basis in The Wall Street Journal or The New York Times, the value of such Permitted Investments shall be the average bid price at the time of such determination for such investments by any two nationally recognized government securities dealers (selected by the Trustee in its absolute discretion) at the time of making a market in such investments;

(c) as to Permitted Investments consisting of certificates of deposit and bankers acceptances, the value of such Permitted Investments shall be the face amount thereof, plus accrued interest; and

(d) as to any other Permitted Investments not specified above, the value of such Permitted Investments shall be the value thereof established by prior agreement between the City and the Trustee.

If more than one of the above provisions shall apply at any time to any particular investment, the value thereof at such time shall be determined in accordance with the provision establishing the lowest value for such investment.

Certificates

The Trustee is directed by the Trust Agreement, upon written request of the Authority, to prepare, execute and deliver to the Original Purchaser, the Certificates in their aggregate principal amount.

The Trust Agreement contains procedures and regulations with respect to exchanges and transfers of Certificates, for conditions of delivery of temporary Certificates, for procedures for Certificates which are mutilated, lost, destroyed or stolen, for evidence of signatures of Certificate Owners and ownership of Certificates and for procedures with respect to payment of Certificates. The Trustee shall not be required to transfer or exchange any Certificate after the mailing of notice calling such Certificate or portion thereof for redemption, nor during the fifteen days preceding the giving of such notice of redemption.

The Trustee is appointed as a paying agent for the Certificates. Principal and premium, if any, with respect to the Certificates is payable at the principal office of the Trustee. Interest with respect to the Certificates is payable by check or draft of the Trustee mailed to the owner of record at the address shown on the certificate register required to be maintained by the Trustee as of the fifteenth day of the month preceding the interest payment date (provided, however, that at the option of any Owner of at least one million dollars in aggregate principal amount, interest will be wired to an account designated by such Owner).

Limitation of Liability

The Trust Agreement contains certain provisions limiting the liability of the parties thereto, including, but not limited to, the following provisions:

(a) Neither the Corporation nor the City shall have any obligation or liability to the Owners of the Certificates with respect to the performance by the Trustee of duties imposed upon it by the Trust Agreement;

(b) Except as provided in the Trust Agreement, neither the Corporation nor the Trustee shall have any obligation or liability to the Owners of the Certificates with respect to the payment of the Lease Payments by the City when due, or with respect to the performance by the City of any other covenant made by it in the Lease Agreement; and

(c) The Trustee shall not be responsible for the sufficiency or the validity of the Lease Agreement or for the sufficiency of the Trust Agreement or the Certificates; the assignment made to it of rights to receive moneys pursuant to the Lease Agreement; or the value of or title to the Leased Premises and the Site. The Trustee shall not be responsible for liable for any loss suffered in connection with any investment of funds made by it under the terms of and in accordance with the Trust Agreement.

The Trustee shall not be responsible for the sufficiency of any insurance required by the Lease Agreement, other than to check that the casualty insurance shall be in an amount at least equal to the principal amount of Certificates then outstanding (subject to the deductible), that the rental interruption insurance shall be in the amount required and that the certificate of the City regarding conformance with the insurance requirements of the Lease Agreement is filed annually with the Trustee in the form and substance required by the Lease Agreement, and the Trustee shall be fully protected in accepting payment on account of such insurance.

Modification or Amendment of Agreements

The Trust Agreement and the rights and obligations of the Owners of the Certificates and the Lease Agreement and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplemental agreement which shall become effective when the written consents of the Owners of sixty percent (60%) in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in the Trust Agreement and the written consent of the Insurer have been obtained and be filed with the Trustee. No such modification or amendment shall (1) extend or have the effect of extending the fixed maturity of any Certificate or reducing the interest rate with respect thereto or extending the time of payment of interest thereon, or reducing the amount of principal thereof or reducing any premium payable upon the prepayment thereof, without the express consent of the Owner of such Certificate or (2) reduce or have the effect or reducing the percentage of Certificates required for the affirmative vote or written consent to an amendment or modification of the Lease Agreement, or (3) modify any of the rights or obligations of the Trustee without its written assent thereto. Any such supplemental agreement shall become effective as provided in the Trust Agreement.

The Trust Agreement and the rights and obligations of the Owners of the Certificates and the Lease Agreement and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplemental agreement, with the written consent of the Insurer but without the consent of any such Owners, but only to the extent permitted by law and only (1) to add to the covenants and agreements of any party other covenants to be observed, or to surrender any right or power herein or therein reserved to the Corporation or the City, (2) to cure, correct or supplement any ambiguous or defective provision contained herein or therein, or (3) in regard to questions arising thereunder, as the parties thereto may deem necessary or desirable and which shall not adversely affect the interests of the Owners of the Certificates. Any such supplemental agreement shall become effective upon execution and delivery by the parties thereto.

Events of Default

The following shall be "Events of Default" under the Trust Agreement and the Lease Agreement and the terms "Event of Default" and "default" shall mean, whenever they are used in the Trust Agreement and the Lease Agreement, any one or more of the following events:

(i) Failure by the City to pay any Lease Payment or other payment required to be paid under the Lease Agreement at the time specified therein.

(ii) Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed in the Lease Agreement or herein, other than as referred to in clause (i) above, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Corporation, the Trustee, or the Owners of not less than five percent (5%) in aggregate principal amount of Certificates then outstanding; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Corporation, the Trustee and such Owners shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the City within the applicable period and diligently pursued until the default is corrected.

(iii) The filing by the City of a voluntary petition in bankruptcy, or failure by the City promptly to lift any execution, garnishment or attachment, or adjudication of the City as a bankrupt, or assignment by the City for the benefit of creditors, or the entry by the City into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the City in any proceedings instituted under the provisions of the Federal Bankruptcy Statute, as amended, or under any similar acts which may hereafter be enacted.

If an Event of Default shall happen, then and in each and every such case during the continuance of such Event of Default, the Trustee may exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement; provided, however, that notwithstanding anything herein or in the Lease Agreement to the contrary, there shall be no right under any circumstances to accelerate the maturities of the Certificates or otherwise to declare any Lease Payment not then in default to be immediately due and payable.

All moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Trust Agreement or the Lease Agreement, shall be applied by the Trustee in the order following upon presentation of the several Certificates, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid:

First, to the payment of the costs and expenses of the Trustee, and then of the Certificate Owners, in declaring the Event of Default, including reasonable compensation to its or their agents, attorneys and counsel;

Second, to the payment of the whole amount then owing and unpaid with respect to the Certificates for principal and interest, with interest on the overdue principal and installments of interest at the rate of twelve percent (12%) per annum (but such interest on overdue installments of interest shall be paid only to the extent funds are available therefor following payment of principal and interest and interest on overdue principal, as aforesaid), and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid with respect to the Certificates, then to the payment of such principal and interest, without preference or priority of principal over interest, or of interest over principal, or of any installments of interest over any other installment of interest, ratably to the aggregate of such principal and interest.

If one or more Events of Default shall happen and be continuing, the Trustee in its discretion may, and upon the written request of the Owners of a majority in principal amount of the Certificates then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of the Owners of Certificates by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights or duties under the Trust Agreement.

No Owner of any Certificate shall have the right to institute any suit, action or proceeding at law or in equity, with respect to any remedy under or upon the Trust Agreement, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of at least a majority in aggregate principal amount of all the Certificates then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or failed to comply with such request for a period of sixty (60) days after such written request shall have been received by, and such tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or failure are declared, in every case, to be conditions precedent to the exercise by any Owner of Certificates of any remedy under the Trust Agreement; it being understood and intended that no one or more Owners of Certificates shall have any right in any manner whatever by his or their action to enforce any right under the Trust Agreement, except in the manner herein provided, and that all proceedings at law or in equity with respect to an Event of Default shall be instituted, had and maintained in the manner herein provided and for the equal benefit of all Owners of the Outstanding Certificates.

The right of any Owner of any Certificate to receive payment of said Owner's proportionate interest in the Lease Payments as the same become due, or to institute suit for the enforcement of such payment, shall not be impaired or affected without the consent of such Owner, notwithstanding the foregoing provisions or any other provision of the Trust Agreement.

Anything in the Trust Agreement to the contrary notwithstanding, upon the occurrence and continuation of an Event of Default, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted under the Trust Agreement to the Owners of the Certificates, or to the Trustee for the benefit of the Owners of the Certificates, as if the Insurer were the registered owner of such Certificates, including, but not limited to, rights and remedies granted pursuant to the Trust Agreement following an Event of Default and including but not limited to the right to approve, in writing, all waivers of any Events of Default. The rights granted to the Insurer shall be deemed terminated and shall not be exercisable by the Insurer during any period during which the Insurer shall be in default under the Policy.

No waivers shall be granted under the Trust Agreement without the prior written consent of the Insurer.

Defeasance

If and when all Outstanding Certificates shall be paid and discharged in any one or more of the following ways:

(a) by well and truly paying or causing to be paid the principal of and interest and prepayment premiums (if any) with respect to all Certificates Outstanding, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money which, together with the amounts then on deposit in the Lease Payment Fund and the Reserve Fund, is fully sufficient to pay all Certificates Outstanding, including all principal and interest and premium, if any;

(c) by depositing with the Trustee, in trust, Defeasance Obligations in such amount as Trustee, based upon the report of an independent certified public accountant, shall determine will, together with the interest to accrue thereon, and moneys then on deposit in the Lease Payment Fund and the Reserve Fund, together with the interest to accrue thereon, be fully sufficient to pay and discharge all Certificates Outstanding (including all principal, interest and prepayment premiums, if any) at or before their respective maturity dates; or

(d) by depositing with the Trustee, under an escrow deposit and trust agreement, security for the payment of Lease Payments as more particularly described in the Lease Agreement, said security to be held by the Trustee as agent for the City to be applied by the Trustee to pay the Lease Payments as the same become due and payable and make a Prepayment in full on any Prepayment Date, pursuant to the Lease Agreement; notwithstanding that any Certificates shall not have been surrendered for payment, all obligations of the Corporation, the Trustee and the City with respect to all Outstanding Certificates shall cease and terminate and the Trust Agreement shall be discharged, except only the obligation of the Trustee to pay or cause to be paid, from Lease Payments paid by or on behalf of the City or from funds or securities deposited pursuant to paragraphs (b) through (d) above, to the Owners of the Certificates not so surrendered and paid all sums due with respect thereto, and in the event of deposits pursuant to paragraphs (b) through (d), the Certificates shall continue to represent direct and proportionate interests of the Owners thereof in Lease Payments under the Lease Agreement.

Any funds held by the Trustee, at the time of one of the events described in paragraphs (a) through (d) above, which are not required for the payment to be made to Owners of the Certificates, shall be paid over to the City.

Notwithstanding the foregoing, in the event that the principal and/or interest due with respect to the Certificates shall be paid by the Insurer pursuant to the Insurance Policy, the Certificates shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the City, and the assignment and pledge of the Trust Estate and all covenants, agreements and other obligations of the City to the registered owners shall continue to exist and shall run to the benefit of the Insurer, and the Insurer shall be subrogated to the rights of such registered owners.

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX C

AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR 2004-05

(THIS PAGE INTENTIONALLY LEFT BLANK)

CITY OF RIVERSIDE, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR FISCAL YEAR ENDED JUNE 30, 2005

Prepared by the Finance Department
Paul C. Sundeen, Chief Financial Officer

3900 Main Street, Riverside, California 92522 (951) 826-5660

This report was printed on recycled stock

CITY OF
RIVERSIDE

CITY OF RIVERSIDE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2005

TABLE OF CONTENTS

CITY OF RIVERSIDE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2005

TABLE OF CONTENTS

CITY OF RIVERSIDE

September 30, 2005

To the Honorable Mayor, Members of the City Council and Citizens of the City of Riverside:

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) of the City of Riverside (the City) for the fiscal year ended June 30, 2005.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with accounting principles generally accepted in the United States of America. Because the cost of internal controls should not outweigh their benefits, internal controls have been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by McGladrey & Pullen, LLP, a firm of certified public accountants. The independent auditor concluded, based on the audit, that there was a reasonable basis for rendering an unqualified opinion on the City's financial statements for the fiscal year ended June 30, 2005. The independent auditor's report is presented as the first component of the financial section of this CAFR.

The independent audit of the financial statements of the City was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on internal controls and compliance with legal requirements, with emphasis on those involving the administration of federal awards. These reports are available in the City's separately issued Single Audit Report.

Management has provided an overall analysis of the financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Profile of the City of Riverside

The City of Riverside, incorporated on October 11, 1883, is located in the western portion of Riverside County about 60 miles east of Los Angeles. The City currently occupies a land area of 85.6 square miles.

The City operates under the council-manager form of government, with a seven-member council elected by ward for four-year overlapping terms. The mayor is elected at large for a four-year term and is the presiding officer of the Council, but does not have a vote except in the case of a tie. The City Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring the City Manager, City Attorney and City Clerk. The City Manager is responsible for carrying out the policies and ordinances of the Council, for overseeing the day-to-day operations of the City, and for appointing the heads of various departments. The Council is elected on a non-partisan basis.

The City provides a full range of services which include general government, public safety (police, fire, disaster preparedness and building inspection), construction and maintenance of highways and streets, economic development, culture and recreation, electric, water, airport, refuse, sewer, and senior citizen/handicap transportation. In addition to general City activities, the Council is financially accountable for the Riverside Redevelopment Agency, Riverside Public Financing Authority and the Riverside Municipal Improvements Corporation; therefore, these entities are included as an integral part of the City's financial statements. Additional information on these legally separate entities can be found in Note 1.A in the notes to the financial statements.

The annual budget serves as the foundation for the City's financial planning and control. The City Manager presents the proposed budget to the City Council for review at least thirty-five calendar days prior to the beginning of each fiscal year. The Council is required to hold public hearings on the proposed budget and to adopt a final budget no later than June 30, which is the close of the City's fiscal year. The appropriated budget is prepared by fund and department. Department heads may make transfers of appropriations within a department. Transfers of appropriations between departments, however, require the approval of the Council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on page 25 as part of the basic financial statements for the governmental funds. For governmental funds other than the general fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which begins on page 63.

Local economy. The City is located in the Inland Empire, which consists of Riverside and San Bernardino Counties. The population of the Inland Empire at 3.66 million people is larger than 21 states. The City leads the Inland Empire in most measures of economic power, including population, income, employment, bank deposits, assessed valuations, office space and college enrollment. The population of the City is 285,537, which places the City as the seventh largest in Southern California behind the City of Bakersfield.

The Inland Empire has a very strong economic environment, as does the City. This area is expected to add about 30,000 jobs during calendar year 2005. The City owned electric utility gives it a competitive advantage at this time when energy costs and reliability are issues. Riverside's challenges include a lack of available space for manufacturing and industrial development within its current boundaries.

America's Most Livable Communities Award was conferred upon the City of Riverside in 2004. This award is conferred once each decade to those communities whose innovations have brought vitality and growth to their regions, a marked improvement in the quality of life, and are taking major strides to prepare for the new global economy.

Grubb and Ellis, a national real estate broker, ranked the Riverside metro area as one of the top five in all four national markets (retail, office, industrial and apartment) in their 2003 Global Forecast: U.S. Market Strength Forecast 2002-2007.

Priorities for the future: A Citywide Strategic Planning document has been developed through a series of meetings, workshops, and surveys with the community, elected officials, and City employees. The plan, as updated, sets forth four goals as follows:

- **Economic Development**
- **Growth and Annexation**
- **Transportation**
- **Liveable Communities and Neighborhoods**

Long-term financial planning. Annually, the City updates a six (6) year capital improvement program; planned capital expenditures during fiscal years 2004/2005 through 2009/2010 (except for the Park and Recreation Department which only plans projects as funds become available) total $402 million, a 6% decrease over the prior 6 year plan. Electric, Water and Sewer fund projects make up 63% of the $402 million, while transportation-related projects (traffic signal and streets) comprise 19 percent. Major inputs to the CIP include a new power generation plant (the second for the City), the major and minor street rehabilitation and construction program, recurring and system improvements to the electric program, water and main replacements, sewer plant primary system upgrade, and Agricultural Park cleanup.

Cash management policies and practices. Cash temporarily idle during the year was invested principally in federal agency securities and the State of California Local Agency Investment Fund. The maturities of the investments do not exceed five (5) years, with the average maturity not exceeding three (3) years. All securities are held in third party safekeeping by Union Bank of California as agent for the City. The money market sweep account is held by Bank of America. All transactions originated and authorized by the City are transacted on a delivery versus payment (DVP) basis in order to perfect delivery. The average yield on the investments was 2.77% for the fiscal year.

Risk management. Risk exposures to the assets of the City are managed through a combination of self-insured retention and insurance coverage. The City believes they have current assets adequate to cover the actuarially determined liability for general liability and workers' compensation claims, including estimated claims incurred but not reported. The City maintains excess liability insurance to provide coverage beyond a self-insured retention of $3,000,000 per occurrence for general liability and $4,000,000 for workers' compensation.

Pension benefits. The City provides pension benefits for all employees through a statewide plan managed by the California Public Employees Retirement System (CalPERS). The City has no obligation in connection with employee benefits offered through this plan beyond its annual contractual payment to CalPERS. Additional information on the plan can be found in Note 13 in the notes to the financial statements.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Riverside for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2004. This was the eighteenth consecutive year that the City has received this prestigious award. The City received this award for publishing an easily readable and efficiently organized CAFR that satisfied both GAAP and applicable legal requirements.

This award is valid for a period of one year only. We believe that our current CAFR continues to meet the Program's requirements and we are submitting it to the GFOA again this year.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department, particularly the leadership of Brent Mason, Assistant Finance Director and Laura Nomura, Controller. We would like to express our appreciation to all members of the Department who assisted and contributed to its preparation. Credit also must be given to the Mayor and the City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City's finances.

Respectfully submitted,

Bradley J. Hudson
City Manager

Paul C. Sundeen
Assistant City Manager/CFO/Treasurer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Riverside, California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

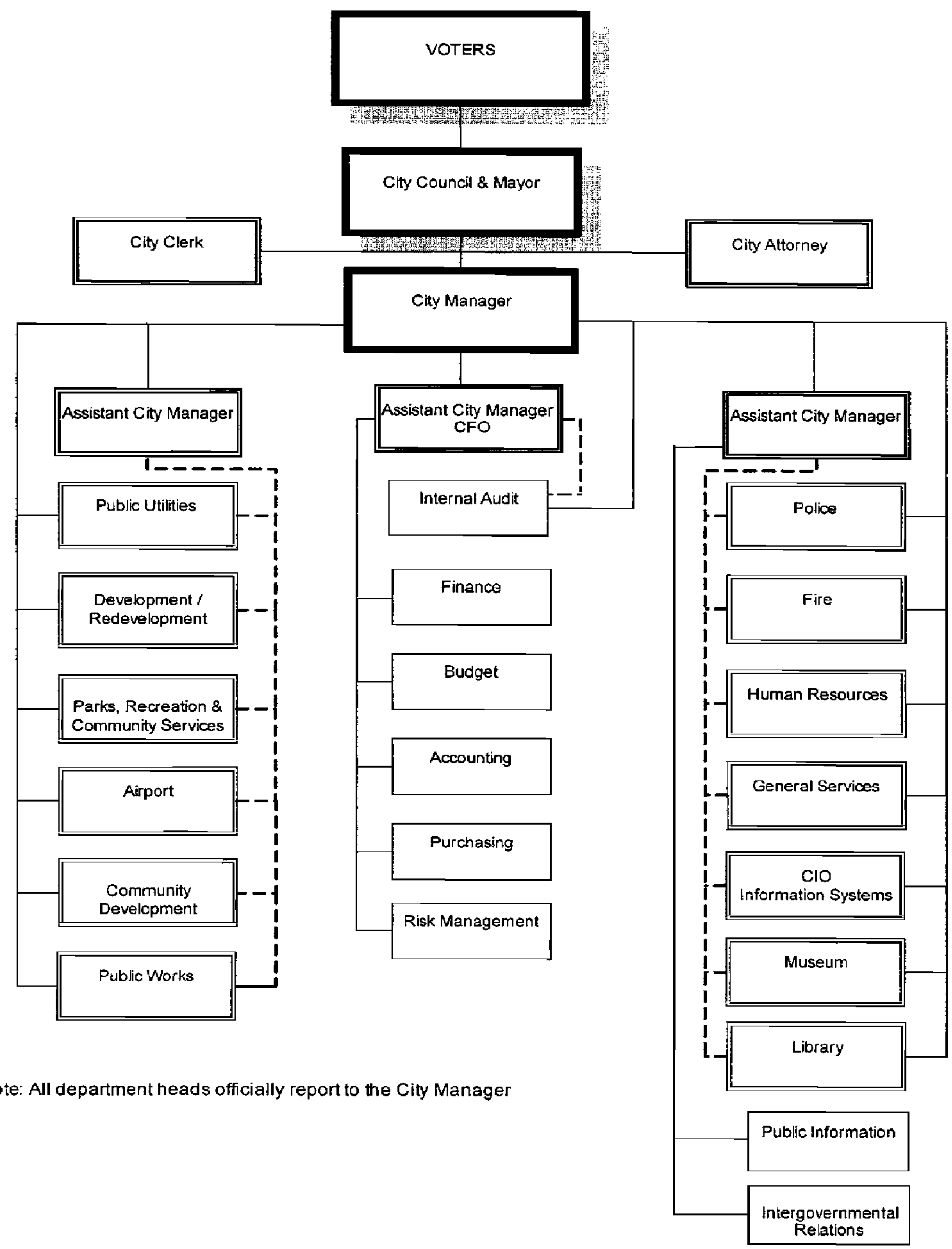
Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Riverside for our Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

ORGANIZATION CHART



Note: All department heads officially report to the City Manager

LEGISLATIVE OFFICIALS

Ronald O. Loveridge..Mayor
Dom Betro...............................Councilmember – Ward 1
Ameal Moore...........................Councilmember – Ward 2
Art Gage.................................Councilmember – Ward 3
Frank Schiavone.................. ...Councilmember – Ward 4
Ed Adkison..............................Councilmember – Ward 5
Nancy Hart..............................Councilmember – Ward 6
Steve Adams...........................Councilmember – Ward 7

CITY OFFICIALS

Bradley J. Hudson.................................. City Manager*
Michael Beck..............................Assistant City Manager
Tom DeSantis.............................Assistant City Manager
Paul C. Sundeen..................Assistant City Manager/CFO

Colleen J. Nicol..City Clerk*
Gregory P. Priamos..................................City Attorney*
Tom Boyd...City Engineer
Russ Leach..Chief of Police
Steve Reneker..........................Chief Information Officer
Scott Barber................Community Development Director
Belinda Graham............................Development Director
Tedd Laycock...Fire Chief
Kris Martinez................Interim General Services Director
Rhonda Strout............Interim Human Resources Director
Judith Auth.......................................Library Director
Vince Moses.....................................Museum Director
Ralph Nuñez.......................Park and Recreation Director
David Wright..............................Public Utilities Director
Siobhan Foster..................Interim Public Works Director

*Appointed by City Council

CITY OF
RIVERSIDE

McGladrey & Pullen
Certified Public Accountants

Independent Auditor's Report

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

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, 2005, 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, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2005 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.

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.

McGladrey & Pullen, LLP

Riverside, California
September 30, 2005

Management's Discussion and Analysis

As management of the City of Riverside (the City), we offer this narrative overview and analysis of financial activities for the fiscal year ended June 30, 2005. 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, compromised 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 it's 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.C. 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 19-20 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental, proprietary, and fiduciary.

Governmental funds. *Governmental funds* are used to account for the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources* as well as on balances of spendable resources available at the end of the fiscal year.

It is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. Reconciliations to facilitate this comparison are provided for both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances. The major reconciling items relate to capital assets and debt. In the Governmental Funds, acquisitions of capital assets are treated as "expenditures" because upon purchase of a capital asset, cash used for the acquisition is no longer available for other purposes. The issuance of debt provides cash, which is now available for specified purposes. Accordingly, at the end of the fiscal year, the unreserved fund balances of the Governmental Funds reflect spendable resources available for appropriation by the City Council. Spendable balances are not presented on the face of the government-wide financial statements.

The City maintains seventeen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Redevelopment Agency Debt Service Fund, both of which are major funds. Data from the other fifteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* and can be found on pages 57-66 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 basic financial statements can be found on pages 19-55 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 67-71 in this report.

The basic proprietary fund financial statements can be found on pages 26-30 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 31 of this report.

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 32 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	
	2005	2004	2005	2004	2005	2004
Current and other assets	$ 571,535	$483,015	$ 396,346	$ 453,186	$ 967,881	$ 936,201
Capital assets, net	543,970	507,243	809,277	693,448	1,353,247	1,200,691
Total assets	1,115,505	990,258	1,205,623	1,146,634	2,321,128	2,136,892
Current liabilities	72,940	60,284	87,797	85,075	160,737	145,359
Long-term liabilities	418,673	349,417	431,447	453,514	850,120	802,931
Total liabilities	491,613	409,701	519,244	538,589	1,010,857	948,290
Net assets:						
Invested in capital assets, net of related debt	515,354	484,784	402,377	341,041	917,731	825,825
Restricted	154,957	137,126	54,540	49,242	209,497	186,368
Unrestricted	(46,419)	(41,353)	229,462	217,762	183,043	176,409
Total net assets	$623,892	$580,557	$686,379	$608,045	$1,310,271	$1,188,602

The City's assets exceeded liabilities by $1,310,271 at June 30, 2005, an increase of $121,669 from June 30, 2004.

By far the largest portion of the City's net assets (70 percent) reflects its investment in capital assets (i.e., land, buildings, machinery, equipment and infrastructure), net of any related debt that is still outstanding used to acquire those assets and net of unspent bond proceeds and cash held in bond reserve accounts. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending.

An additional portion of the City's net assets (16 percent) represents resources that are subject to external restrictions on how they may be used. The remaining unrestricted net assets (14 percent) may be used to meet the government's ongoing obligations to citizens and creditors. Of this amount, $229,462 is held by the business type activities; the governmental activities reflect a negative $46,419. The Riverside Redevelopment Agency (the Agency), a blended component unit of the City, represents $116,932 of negative unrestricted net assets for 2005 and was a negative $108,865 in the prior year. The remaining governmental activities of the City have positive unrestricted net assets of $70,513 in 2005 and $67,512 in 2004, mostly attributable to the City's General Fund.

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

The government's total net assets increased by $121,669 during the current fiscal year, which reflects the growth in both the governmental ($43,335) and business type ($78,334) activities. This is primarily due to continued investment by the City in its infrastructure, which is largely funded by grants and dedicated revenue sources. Lastly, business type unrestricted assets grew based on municipal service charges for service exceeding the current years operating expenditures.

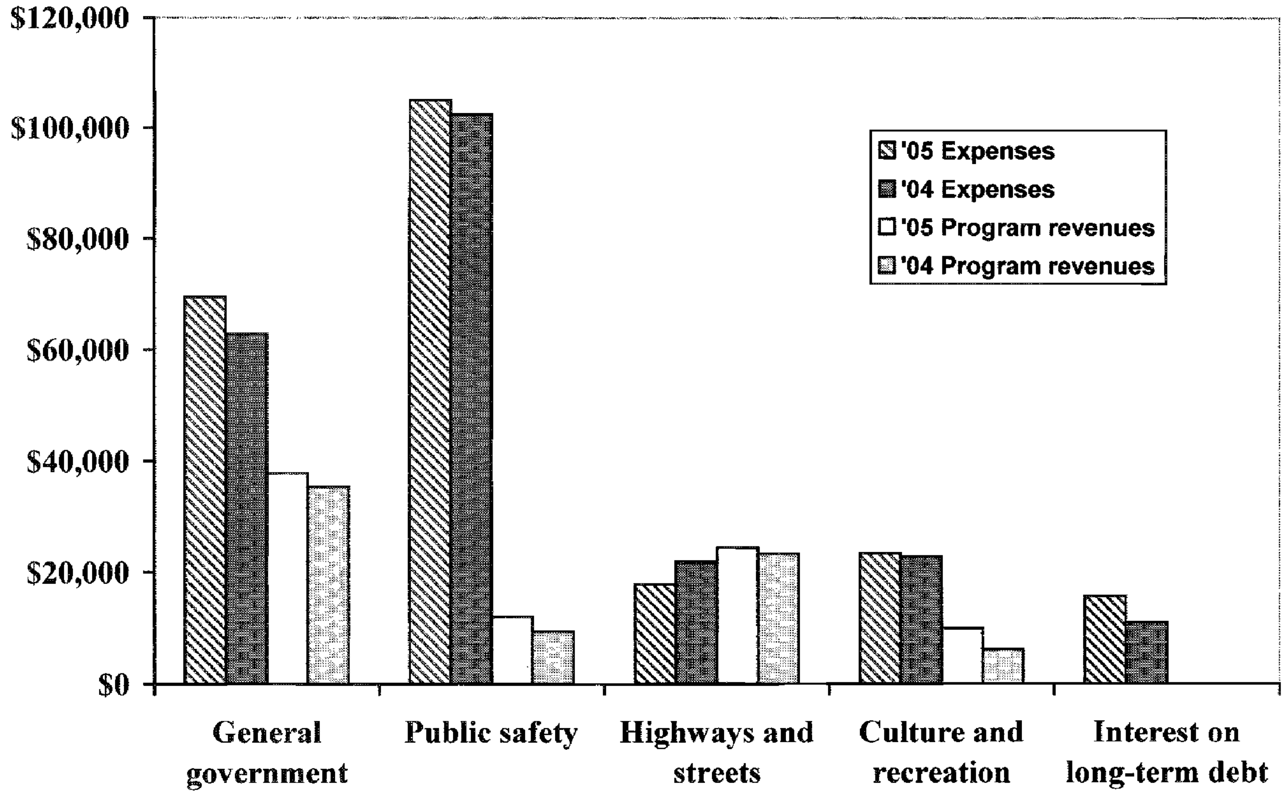
The following condensed summary of activities of the City's governmental and business type operations for the period ended June 30, 2005 shows total net assets increasing by $121,669. The prior fiscal year is also presented for comparative purposes. Also included in the following analysis are revenue and expense graphs to aid the reader in their understanding of the results of the current year's activities.

	Governmental Activities		Business Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program Revenues:						
Charges for services	$ 63,087	$ 57,001	$327,032	$304,911	$ 390,119	$ 361,912
Operating Grants and Contributions	16,140	12,935	2,261	1,723	18,401	14,658
Capital Grants and Contributions	5,292	1,136	32,317	26,390	37,609	27,526
General Revenues:						
Sales taxes	53,348	46,624	-	-	53,348	46,624
Property taxes	61,553	39,211	-	-	61,553	39,211
Other taxes and fees	32,237	41,364	-	-	32,237	41,364
Grants and contributions not restricted to specific programs	15,220	18,710	-	-	15,220	18,710
Other	13,571	6,760	14,910	9,569	28,481	16,329
Total revenues	260,448	223,741	376,520	342,593	636,968	566,334
Expenses:						
General government	69,520	63,000	-	-	69,520	63,000
Public safety	105,131	102,500	-	-	105,131	102,500
Highways and streets	17,983	22,017	-	-	17,983	22,017
Culture and recreation	23,512	22,988	-	-	23,512	22,988
Interest on long-term debt	15,885	10,996	-	-	15,885	10,996
Electric	-	-	200,030	196,727	200,030	196,727
Water	-	-	36,709	33,921	36,709	33,921
Sewer	-	-	26,108	23,273	26,108	23,273
Refuse	-	-	12,841	11,510	12,841	11,510
Airport	-	-	1,185	1,088	1,185	1,088
Transportation	-	-	2,557	2,286	2,557	2,286
Public Parking	-	-	824	1,389	824	1,389
Total expenses	232,031	221,501	280,254	270,194	512,285	491,695
Increase in net assets before Special item and Transfers	28,417	2,240	96,266	72,399	124,683	74,639
Special item – canal abandonment	-	-	(3,014)	-	(3,014)	-
Transfers	14,918	10,302	(14,918)	(10,302)	-	-
Increase in net assets	43,335	12,542	78,334	62,097	121,669	74,639
Net assets – beginning	580,557	568,015	608,045	545,948	1,188,602	1,113,963
Net assets – ending	$623,892	$580,557	$686,379	$608,045	$1,310,271	$1,188,602

Governmental activities. Governmental activities increased the City's net assets by $43,335, accounting for 36 percent of the total growth in net assets. The net assets in the prior fiscal year increased by $12,542. Key elements of this year's activity in relation to the prior year are as follows:

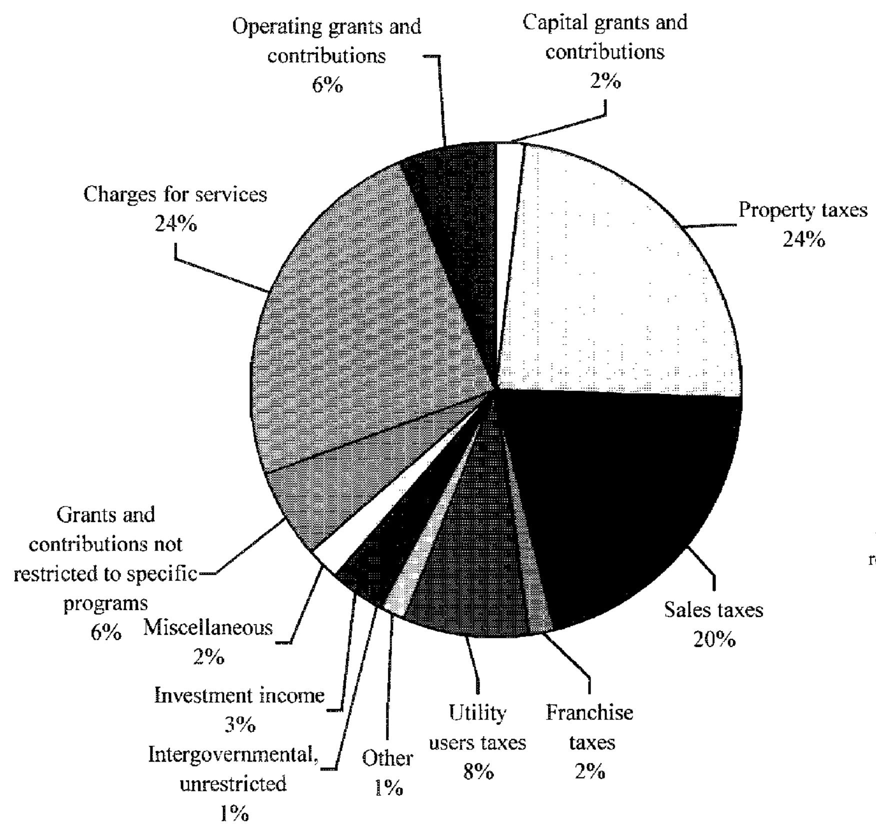
- Charges for services increased by approximately $6,000 primarily as a result of increased revenues from building and related fees from new development within the City.
- Operating and capital grants and contributions increased approximately $7,400 in 2005 primarily due to increased grant funding for capital projects, public safety items, and housing projects.
- Sales and property taxes increased approximately $29,000 in 2005, principally because of the strong local economy and the expansion of redevelopment project areas and activities, plus the reclassification of vehicle licenses fees, as described below.
- Other taxes and fees decreased about $9,000 because the majority of vehicle license fee revenue is now received in the form of property taxes.
- Other revenues increased approximately $6,800 mainly due to an increase in investment income resulting from an unrealized market value adjustment required for financial statement reporting purposes.
- While significant variances between years exist for the various expense functions, the total net increase was approximately $11 million. The more significant items are: (1) increased salaries and benefits, coupled with costs associated with substantial technological improvements and increased training for police officers; (2) increased interest expense arising from the issuance of $75,400 of new debt (net of debt refinancing and bond premiums) during 2005; and (3) increased costs associated with capital projects and development activities. These increases are partially offset by a decrease in depreciation expense in the current year in the highways and streets category due to an adjustment in fiscal year 2004 associated with a new accounting pronouncement.
- Transfers to governmental funds increased $4,616 primarily due to increased operating revenue realized by the Electric and Water funds (transfers are a percentage of gross revenues, as defined).

Expenses and Programs Revenues – Governmental Activities – Fiscal Year Comparison 2005 vs. 2004

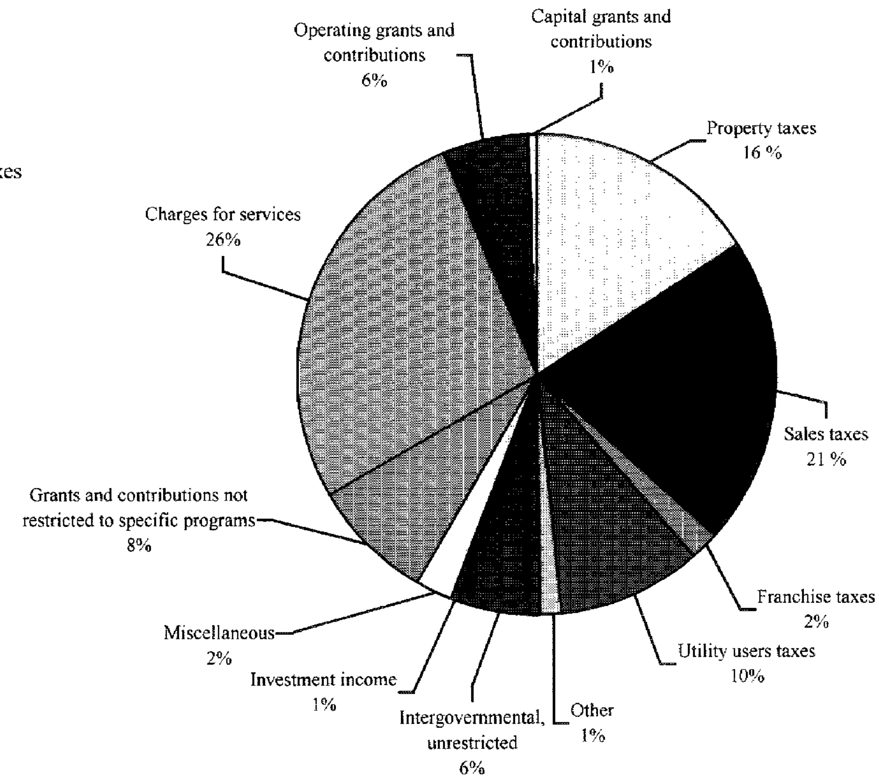


Revenues by Source – Governmental Activities – Fiscal Year Comparison

2005



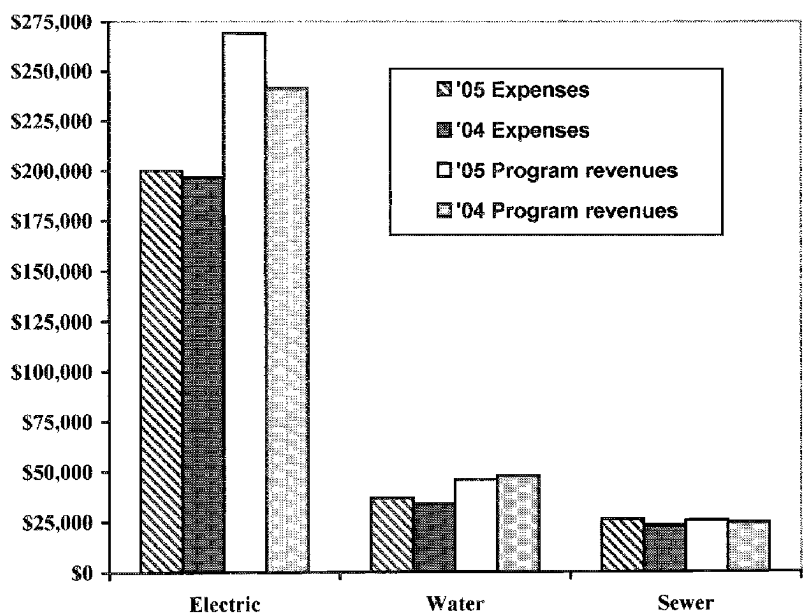
2004

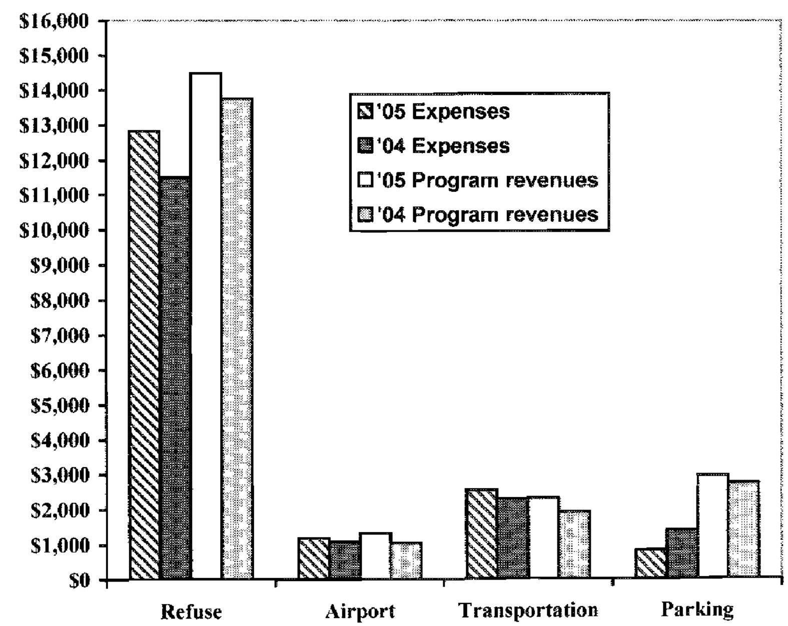


Business type activities. Business type activities increased the City's net assets by $78,334, accounting for 65 percent of the total growth in net assets. The change in net assets of business type activities increased from the prior fiscal period by $16,237. Key elements of this year's increase in relation to the prior year are as follows:

- In 2005, charges for services increased $22,121 to $327,032 from $304,911 in 2004 primarily due to an increase in the volume of electric and water sales, in conjunction with a 2.2% electric rate increase and an 8.5% water rate increase.
- Capital grants and contributions increased $5,927 in the current year to $32,317 from $26,390 in the prior year. The increase is mainly due to contributions in aid related to a CALTRANS project.
- Other general revenues increased due to an increase in investment income due to an unrealized market value adjustment required for financial statement reporting purposes and the sale of surplus land.
- Although operating revenues in the Water fund increased, capital grants and contributions decreased, leading to an overall decrease in program revenues in this fund.
- The total net increase in expenses in Business type activities was approximately $10 million. Significant items include: increases in personnel and public benefits expenses in the Electric fund; increased maintenance and repair of the City's water mains, and; increased personnel and operational costs associated with the Sewer and Refuse funds.

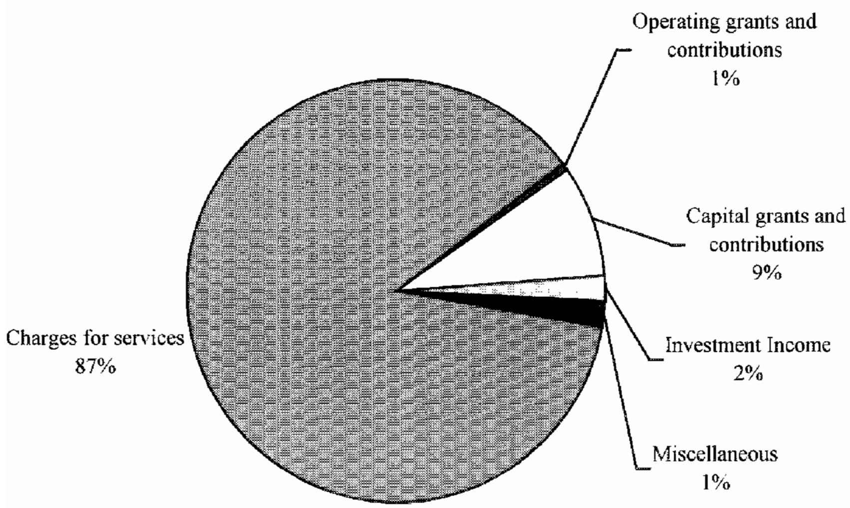
Expenses and Program Revenues – Business Type Activities – Fiscal Year Comparison 2005 vs. 2004



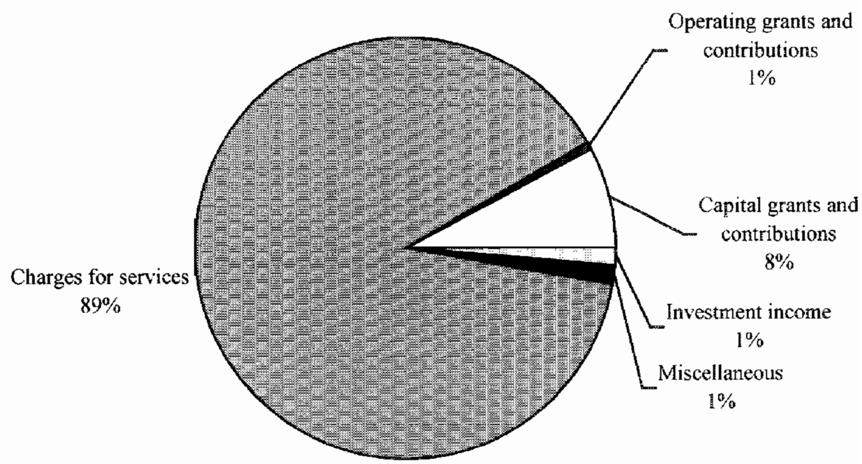


Revenues by Source – Business Type Activities – Fiscal Year Comparison

2005



2004



Financial Analysis of the City's Funds

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

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

	General Fund		Redevelopment Debt Service		Total Governmental Funds	
	2005	2004	2005	2004	2005	2004
Total assets	$209,602	$192,678	$41,110	$39,656	$442,408	$397,438
Total liabilities	$ 55,849	$ 58,151	$27,611	$28,139	$126,757	$117,833
Fund balances						
Reserved	44,487	17,268	13,499	11,517	92,164	52,445
Unreserved	109,266	117,259	-	-	223,487	227,160
Total	153,753	134,527	13,499	11,517	315,651	279,605
Total liabilities and fund balances	$209,602	$ 192,678	$41,110	$39,656	$442,408	$397,438

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $315,651, an increase of $36,046 in comparison with the prior year. About 29% of this amount ($92,164) 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, $184,348 has been designated for specific capital projects and economic contingencies, leaving $39,139 without a commitment; at June 30, 2004 the comparable amount was $40,728. The decrease in uncommitted, unreserved fund balance is due principally to an increase in the amount designated for specific capital projects.

The General Fund is the principal operating fund of the City. At the end of the current fiscal year, the unreserved fund balance was $109,266, of which $92,993 was designated for future operations, economic contingencies and liability insurance, leaving $16,273 unreserved and undesignated; at June 30, 2004 the comparable number was $15,693. The General Fund realized higher than anticipated taxes and permit fees due to continued significant development within the City, which resulted in the General Fund not having an operating deficit, exclusive of capital expenditures, as originally anticipated. The total fund balance reached $153,753, an increase of $19,226 over the prior year.

The Redevelopment debt service fund has a total fund balance of $13,499, all of which is reserved for the payment of debt service. A net increase in the fund balance occurred during the current year ($1,982) mainly due to the issuance of new bonds.

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 $118,880, $15,870, and $69,795, respectively. The total growth in net assets for these funds was $57,454, $5,141 and $3,478, respectively, demonstrating the adequacy of the current rate structure for these funds.

General Fund Budgetary Highlights

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

Total budgeted expenditures increased from $238,648 to $270,370 or $31,722. The increases can be generally summarized as follows:

- The General Services department added appropriations of $4,900 for construction of the Magnolia Street Police Precinct and other City-wide capital improvement projects.
- The Police department added appropriations of $13,000 primarily for grant funded operational charges as well as negotiated salary and benefit increases.
- The Fire department added appropriations of $5,400 primarily for grant funded operational charges as well as negotiated salary and benefit increases.
- The Park and Recreation department added appropriations of $3,900 primarily for grant funded improvement projects.
- Other miscellaneous appropriations were added in other departments throughout the year of approximately $4,500.

Actual amounts differed from those budgeted as follows:

- Actual total revenues were more than the amount budgeted principally as a result of greater than anticipated development activity and sales and property taxes associated therewith.

- Budgeted expenditures exceeded actual amounts by $78,000. As in prior years, the principal reason is associated with capital projects not completed at year-end. Such projects and related amounts are continued to the next fiscal year.

- Other financing sources (uses) exceeded the final amount budgeted by $54,232. The major event causing this variance is the issuance of $60 million of pension obligation bonds to fund the unfunded actuarial accrued liability (UAAL) associated with the City's miscellaneous employees.

- The net effect of all of the above was a favorable variance from the amounts budgeted of 107,219.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business type activities as of June 30, 2005 amounted to $1,353,247 (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 $152,556 ($36,727 for governmental activities including internal service funds and $115,829 for business type activities).

Major capital improvements during the current fiscal year included: new infrastructure, consisting primarily of street improvements ($27,462); Riverside Canal ($8,415); replacement of the water transmission main at the 60/215 interchange ($4,160); Sewer department upgrades ($12,456), Electric Utility upgrades ($32,464); and Water Utility system upgrades ($20,446).

Construction in progress totaled $172,136 at June 30, 2005. Some of the major projects in process are the Riverside Energy Resource Center, the downtown power upgrade project, the water system expansion, an upgrade to the electric distribution system, the Magnolia Street Police Precinct, the Janet Goeske Center and the Airport Fire Station. Depreciation expense during the fiscal year was $18,039 for governmental activities and $27,420 for business type activities.

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

	Governmental Activities		Business Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	$124,475	$116,925	$ 31,262	$ 32,725	$ 155,737	$ 149,650
Buildings	42,933	52,826	140,513	135,062	183,446	187,888
Improvements other than Buildings	20,303	20,675	492,804	449,683	513,107	470,358
Machinery and equipment	12,176	12,883	11,833	9,074	24,009	21,957
Infrastructure	304,812	286,789	-	-	304,812	286,789
Construction in progress	39,271	17,145	132,865	66,904	172,136	84,049
Total	$543,970	$507,243	$809,277	$693,448	$1,353,247	$1,200,691

Additional information on the City's capital assets can be found in note 5 on page 40 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of $850,120, which includes bonded debt of $789,501.

City of Riverside's Long-Term Debt

	Governmental Activities		Business Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Lease/Revenue Bonds	$144,024	$131,590	$419,581	$440,970	$563,605	$572,560
General Obligation Bonds	20,280	20,285	-	-	20,280	20,285
Pension Obligation Bonds	148,280	89,540	-	-	148,280	89,540
Certificates of Participation	57,336	58,706	-	-	57,336	58,706
Notes Payable	10,645	11,057	10,459	11,066	21,104	22,123
Capital Leases	7,431	8,938	392	439	7,823	9,377
Compensated Absences	30,677	29,301	-	-	30,677	29,301
Water Acquisition Rights	-	-	1,015	1,039	1,015	1,039
Total	$418,673	$349,417	$431,447	$453,514	$850,120	$802,931

The City's total debt increased by $47,189 (6 percent) during the current fiscal year due to the issuance of $60,000 in Pension Obligation bonds and $25,693 in Redevelopment Agency debt; these were offset by scheduled debt service payments.

The City's Electric and Water Utilities maintain an "A+" and "AA-", respectively, from Standard & Poors and Fitch for their revenue bonds. The City's general obligation bond ratings are "AA-" and "AA".

State statutes limit the amount of general obligation debt a governmental entity may issue to 15 percent of its total assessed valuation. The legal debt margin for the City is $1,880,200, after deducting the general obligation debt of $220,710.

Additional information on the City's long-term debt can be found in note 7 beginning on page 41 of this report.

Economic Factors and Next Year's Budget and Rates

- ❑ The assessment roll for the City increased 9.8% between fiscal year 2004 and fiscal year 2005.
- ❑ Property taxes increased between fiscal year 2004 and 2005 by 58.4% primarily as a result of the State's swapping of Property Tax revenue for Vehicle License fees as well as new development and the expansion of redevelopment activity.
- ❑ Employment in Riverside County is 3.4% over the prior year and unemployment is down to 5.9% as compared to 6.2% for 2004.
- ❑ 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, 2006 as follows:
    - Miscellaneous Plan – 22.80% to 22.89%
    - Safety Plan – 27.41% to 30.54%

At the time of budget preparation for fiscal year 2006, the economic outlook for the City was considered to be very good. The General Fund Budget for fiscal year 2006 of $192 million contemplates the use of approximately $7 million of the beginning fund balance.

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.

City of Riverside
Statement of Net Assets
June 30, 2005
(amounts expressed in thousands)

Assets	**Governmental Activities**	**Business-type Activities**	**Total**
Cash and investments	$ 218,094	$ 170,199	$ 388,293
Receivables, net	55,546	47,699	103,245
Inventory	4,743	-	4,743
Nuclear material inventory	-	1,311	1,311
Prepaid items	4,535	6,631	11,166
Deferred charges	126,310	58,536	184,846
Internal balances	18,752	(18,752)	-
Land and improvements held for resale	6,386	-	6,386
Restricted assets:			
Cash and cash equivalents	-	61,455	61,455
Cash and investments at fiscal agent	110,019	68,661	178,680
Other	-	606	606
Capital leases receivable	27,150	-	27,150
Land and other capital assets not being depreciated	163,746	164,127	327,873
Capital assets (net of accumulated depreciation)	380,224	645,150	1,025,374
Total assets	1,115,505	1,205,623	2,321,128
Liabilities			
Accounts payable and other current liabilities	21,165	31,406	52,571
Accrued interest payable	4,059	-	4,059
Unearned revenue	1,540	502	2,042
Deposits	28,627	3,964	32,591
Current liabilities payable from restricted assets	-	4,172	4,172
Claims and judgments payable	17,549	-	17,549
Decommissioning liability	-	44,030	44,030
Landfill capping	-	3,723	3,723
Noncurrent liabilities:			
Due within one year	20,844	23,037	43,881
Due in more than one year	397,829	408,410	806,239
Total liabilities	491,613	519,244	1,010,857
Net Assets			
Invested in capital assets, net of related debt	515,354	402,377	917,731
Restricted for:			
Capital projects	118,309	-	118,309
Debt service	8,442	46,459	54,901
Other purposes	28,206	3,217	31,423
Programs	-	4,864	4,864
Unrestricted	(46,419)	229,462	183,043
Total net assets	$ 623,892	$ 686,379	$ 1,310,271

The notes to the financial statements are an integral part of this statement.

City of Riverside
Statement of Activities
For the fiscal year ended June 30,2005
(amounts expressed in thousands)

			Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Functions/Programs	**Expenses**	**Indirect Expenses Allocation**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business type Activities**	**Total**
Governmental activities:								
General government	$ 58,460	$ 11,060	$ 25,995	$ 9,923	$ 1,946	$ (31,656)		$ (31,656)
Public safety	110,969	(5,838)	6,982	4,577	472	(93,100)		(93,100)
Highways and streets	20,364	(2,381)	23,108	229	1,224	6,578		6,578
Culture and recreation	26,353	(2,841)	7,002	1,411	1,650	(13,449)		(13,449)
Interest on long-term debt	15,885		-	-	-	(15,885)		(15,885)
Total governmental activities	232,031	-	63,087	16,140	5,292	(147,512)		(147,512)
Business type activities:								
Electric	200,030		252,322	-	16,716		$ 69,008	69,008
Water	36,709		34,002	-	11,826		9,119	9,119
Sewer	26,108		21,967	-	3,515		(626)	(626)
Refuse	12,841		14,492	-	179		1,830	1,830
Airport	1,185		1,088	182	37		122	122
Transportation	2,557		200	2,079	44		(234)	(234)
Public parking	824		2,961	-	-		2,137	2,137
Total business type activities	280,254		327,032	2,261	32,317		81,356	81,356
Total	$ 512,285		$ 390,119	$ 18,401	$ 37,609	(147,512)	81,356	(66,156)

	Governmental Activities	Business type Activities	Total
General revenues:			
Taxes:			
Sales	53,348	-	53,348
Property	61,553	-	61,553
Utility users	22,133	-	22,133
Franchise	4,481	-	4,481
Other	3,828	-	3,828
Intergovernmental, unrestricted	1,795	-	1,795
Grants and contributions not restricted to specific programs	15,220	-	15,220
Investment income	7,815	7,548	15,363
Miscellaneous	5,756	7,362	13,118
Subtotal	175,929	14,910	190,839
Special item - canal abandonment	-	(3,014)	(3,014)
Transfers, net	14,918	(14,918)	-
Total general revenues, special items, and transfers	190,847	(3,022)	187,825
Change in net assets	43,335	78,334	121,669
Net assets - beginning	580,557	608,045	1,188,602
Net assets - ending	$ 623,892	$ 686,379	$ 1,310,271

The notes to the financial statements are an integral part of this statement.

City of Riverside
Balance Sheet
Governmental Funds
June 30, 2005
(amounts expressed in thousands)

Assets	**General Fund**	**Redevelopment Debt Service**	**Other Governmental Funds**	**Total Governmental Funds**
Cash and investments	$ 78,366	$ 5,982	$ 113,610	$ 197,958
Cash and investments at fiscal agent	63,165	7,430	39,424	110,019
Receivables (net of allowance for uncollectibles):				
Interest	922	59	1,096	2,077
Property taxes	8,436	-	362	8,798
Sales tax	9,103	-	-	9,103
Utility billed	552	-	-	552
Accounts	3,110	261	173	3,544
Intergovernmental	5,066	-	8,937	14,003
Notes	70	-	17,124	17,194
Capital lease receivable	-	27,150	-	27,150
Prepaid items	176	-	4,352	4,528
Due from other funds	6,921	-	-	6,921
Advances to other funds	33,715	228	232	34,175
Land & improvements held for resale	-	-	6,386	6,386
Total assets	$ 209,602	$ 41,110	$ 191,696	$ 442,408
Liabilities and fund balances				
Liabilities:				
Accounts payable	$ 4,234	$ 432	$ 6,144	$ 10,810
Accrued payroll	7,908	-	-	7,908
Retainage payable	382	-	1,484	1,866
Intergovernmental	138	-	-	138
Unearned revenue	12,427	27,179	18,622	58,228
Deposits	28,564	-	44	28,608
Due to other funds	50	-	2,001	2,051
Advances from other funds	2,146	-	15,002	17,148
Total liabilities	55,849	27,611	43,297	126,757
Fund balances:				
Reserved	44,487	13,499	34,178	92,164
Unreserved, designated for economic contingencies	27,000	-	-	27,000
Unreserved, designated for liability insurance	6,400	-	-	6,400
Unreserved, designated for future operations:				
General fund	59,593	-	-	59,593
Special revenue funds	-	-	19,544	19,544
Capital project funds	-	-	71,684	71,684
Permanent fund	-	-	127	127
Unreserved, undesignated:				
General fund	16,273	-	-	16,273
Special revenue funds	-	-	5,447	5,447
Capital project funds	-	-	17,419	17,419
Total fund balances	153,753	13,499	148,399	315,651
Total liabilities and fund balances	$ 209,602	$ 41,110	$ 191,696	$ 442,408

The notes to the financial statements are an integral part of this statement.

CITY OF RIVERSIDE
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2005
(amounts expressed in thousands)

Total fund balances - governmental funds		$315,651
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets net of accumulated depreciation used in governmental activities that are not current financial resources and, therefore, are not reported in the funds.		540,383
Issuance costs from issuing debt are expenditures at the fund level but are deferred and subject to capitalization and amortization in the Statement of Net Assets.		4,105
Special item, pension contribution, is a use of current financial resources and an expenditure at the fund level, is deferred and recognized as a deferred charge on the Statement of Net Assets.		120,548
Revenues that do not meet the "availability" criteria for revenue recognition and therefore, are deferred in the funds.		56,688
Long-term liabilities, as listed below, are not due and payable in the current period and therefore are not reported in the funds.		
Bonds Payable	$ (307,999)	
Accrued Interest Payable	(4,059)	
Certificates of Participation Payable	(57,336)	
Notes Payable	(10,645)	
Capital Leases Payable	(7,431)	
Bond Premiums	(4,585)	
Compensated Absences	(30,052)	
		(422,107)
Internal service funds are used by management to charge the costs of insurance, centralized purchasing and fleet management to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets.		8,624
Net assets of governmental activities		$623,892

The notes to the financial statements are an integral part of this statement.

City of Riverside
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the fiscal year ended June 30, 2005
(amounts expressed in thousands)

	General Fund	Redevelopment Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	$ 116,018	$ 16,994	$ 9,044	$ 142,056
Licenses and permits	7,374	-	7,015	14,389
Intergovernmental	15,366	200	27,002	42,568
Charges for services	11,291	-	8	11,299
Fines and forfeitures	1,783	-	223	2,006
Special assessments	4,118	-	2,154	6,272
Rental and investment income	4,251	2,486	4,178	10,915
Miscellaneous	4,749	591	4,656	9,996
Total revenues	164,950	20,271	54,280	239,501
Expenditures				
Current:				
General government	21,351	261	7,188	28,800
Public safety	119,036	-	-	119,036
Highways and streets	13,446	-	-	13,446
Culture and recreation	26,198	-	7,982	34,180
Capital outlay	-	-	48,366	48,366
Debt service:				
Principal	3,522	13,674	570	17,766
Interest	8,337	6,377	311	15,025
Bond issuance costs	487	1,051	-	1,538
Total expenditures	192,377	21,363	64,417	278,157
Deficiency of revenues under expenditures	(27,427)	(1,092)	(10,137)	(38,656)
Other financing sources (uses):				
Transfers in	22,846	8,575	18,523	49,944
Transfers out	(8,076)	(17,068)	(9,882)	(35,026)
Proceeds from issuance of long term obligations	60,000	11,454	14,124	85,578
Premiums on bonds issued	-	113	-	113
Sale of capital assets	92	-	6,138	6,230
Total other financing sources before special item	74,862	3,074	28,903	106,839
Special Item - pension contribution	(28,213)	-	(3,928)	(32,141)
Net change in fund balances	19,222	1,982	14,838	36,042
Fund balances - beginning	134,527	11,517	133,561	279,605
Fund balances - ending	$ 153,749	$ 13,499	$ 148,399	$ 315,647

The notes to the financial statements are an integral part of this statement.

CITY OF RIVERSIDE
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005
(amounts expressed in thousands)

Net change in fund balances-total governmental funds		$36,042
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period, as listed below:		
Capital Outlay	$ 53,797	
Depreciation Expense	(17,273)	36,524
Revenues in the statement of activities that do not meet the "availability" criteria for revenue recognition and therefore are not reported as revenue in the funds.		4,085
Special Item, Pension Contribution that is deferred and amortized in the statement of activities.		32,141
The issuance of long-term debt (e.g., bonds, leases, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of long-term debt and related items is listed below:		
Principal repayments	17,634	
Deferred Charges	1,251	
Compensated Absences	(1,211)	
Interest	(910)	
Proceeds from LTD	(85,693)	
Other	182	(68,747)
Internal service funds are used by management to charge the costs of insurance, centralized purchasing and fleet management to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.		3,290
Change in net assets of governmental activities		$ 43,335

The notes to the financial statements are an integral part of this statement.

City of Riverside
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
General Fund
For the year ended June 30, 2005
(amounts expressed in thousands)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Revenues				
Taxes	$ 110,594	$ 110,594	$ 116,018	$ 5,424
Licenses and permits	6,735	6,735	7,374	639
Intergovernmental	15,943	22,102	15,366	(6,736)
Charges for services	8,129	8,191	11,291	3,100
Fines and forfeitures	2,045	2,045	1,783	(262)
Special assessments	3,755	3,755	4,118	363
Rental and investment income	3,015	3,057	4,251	1,194
Miscellaneous	2,155	5,264	4,749	(515)
Total revenues	152,371	161,743	164,950	3,207
Expenditures				
General government:				
Mayor	536	653	498	155
Council	78	143	97	46
Manager	769	1,031	767	264
Attorney	179	391	98	293
Clerk	208	284	195	89
Planning	5,058	5,663	4,990	673
Human Resources	3,928	4,292	3,587	705
General Services	26,007	30,907	13,561	17,346
Finance	6,633	6,106	3,103	3,003
Information System	13,580	13,486	11,114	2,372
Non-departmental	14,946	15,063	10,728	4,335
Subtotal	71,922	78,019	48,738	29,281
Allocated expenditures	(26,986)	(26,986)	(27,387)	401
Total general government	44,936	51,033	21,351	29,682

continued

The notes to the financial statements are an integral part of this statement.

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Public safety:				
Police	74,685	87,816	75,974	11,842
Fire	61,381	66,839	34,688	32,151
Animal regulation	2,870	2,870	2,119	751
Building and zoning inspection	2,061	2,524	2,433	91
Street lighting	3,859	3,859	3,822	37
Total public safety	144,856	163,908	119,036	44,872
Highways and streets	13,442	15,247	13,446	1,801
Culture and recreation	32,248	36,116	26,198	9,918
Debt service:				
Principal	750	1,538	3,522	(1,984)
Interest	2,416	2,528	8,337	(5,809)
Bond issuance costs			487	(487)
Total debt service	3,166	4,066	12,346	(8,280)
Total expenditures	238,648	270,370	192,377	77,993
Deficiency of revenue under expenditures	(86,277)	(108,627)	(27,427)	81,200
Other financing sources (uses)				
Transfers in	23,522	26,328	22,846	(3,482)
Transfers out	(3,450)	(5,798)	(8,076)	(2,278)
Proceeds from issuance of long-term debt	0	0	60,000	60,000
Sale of capital assets	100	100	92	(8)
Total other financing sources before special item	20,172	20,630	74,862	54,232
Special item - pension contribution	0	0	(28,213)	(28,213)
Net change in fund balances	(66,105)	(87,997)	19,222	107,219
Fund balance, beginning	134,527	134,527	134,527	0
Fund balance, ending	$ 68,422	$ 46,530	$ 153,749	$ 107,219

City of Riverside
Statement of Net Assets
Proprietary Funds
June 30, 2005
(amounts expressed in thousands)

Assets	Business-type Activities - Enterprise Funds: Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities- Internal Service Funds
Current assets:						
Cash and investments	$ 88,292	$ 15,911	$ 58,794	$ 7,202	$ 170,199	$ 20,136
Receivables (net of allowances for uncollectibles)						
Interest	941	217	720	98	1,976	213
Utility billed	11,332	1,591	568	428	13,919	-
Utility unbilled	10,813	2,152	782	596	14,343	-
Accounts	8,637	1,713	690	271	11,311	6
Intergovernmental	3,133	396	491	2,130	6,150	56
Nuclear materials inventory	1,311	-	-	-	1,311	-
Inventory	-	-	-	-	-	4,743
Prepaid items	6,628	1	1	1	6,631	7
Due from other funds	50	-	-	-	50	-
Restricted assets:						
Cash and cash equivalents	50,003	4,339	3,896	3,217	61,455	-
Cash and investments at fiscal agent	64,474	4,187	-	-	68,661	-
Public benefit programs receivable	595	-	-	-	595	-
Conservation & reclamation programs receivable	-	11	-	-	11	-
Total current assets	246,209	30,518	65,942	13,943	356,612	25,161
Non-current assets:						
Advances to other funds	3	48	10,728	-	10,779	2,506
Deferred charges	40,015	7,135	3,922	7,464	58,536	1,657
Capital assets:						
Land	6,848	12,552	2,698	9,164	31,262	-
Buildings	12,243	14,787	173,947	4,509	205,486	1,488
Accumulated depreciation-buildings	(3,051)	(2,280)	(57,173)	(2,469)	(64,973)	(32)
Improvements other than buildings	473,765	293,244	37,471	7,178	811,658	-
Accumulated depreciation-improvements other than buildings	(215,853)	(92,356)	(7,628)	(3,017)	(318,854)	-
Machinery and equipment	14,609	8,672	6,126	10,676	40,083	9,335
Accumulated depreciation-machinery and equipment	(11,423)	(5,576)	(4,269)	(6,982)	(28,250)	(7,204)
Construction in progress	98,385	12,656	257	21,567	132,865	-
Total non-current assets	415,541	248,882	166,079	48,090	878,592	7,750
Total assets	661,750	279,400	232,021	62,033	1,235,204	32,911

continued

City of Riverside
Statement of Net Assets
Proprietary Funds
June 30, 2005
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds					
Liabilities	**Electric**	**Water**	**Sewer**	**Other Enterprise Funds**	**Total Enterprise Funds**	**Governmental Activities-Internal Service Funds**
Current liabilities:						
Accounts payable	16,260	1,383	1,238	1,740	20,621	397
Accrued payroll	4,708	2,027	1,158	905	8,798	624
Retainage payable	1,273	645	26	-	1,944	47
Intergovernmental	43	-	-	-	43	-
Claims and judgments	-	-	-	-	-	17,549
Unearned revenue	-	87	196	219	502	-
Deposits	2,599	1,365	-	-	3,964	19
Due to other funds	-	-	-	941	941	3,979
Capital leases-current	-	-	42	17	59	-
Water stock acquisitions-current	-	150	-	-	150	-
Current liabilities payable from restricted assets:						
Revenue bonds	15,015	4,075	3,120	-	22,210	-
Accrued interest	2,678	610	775	-	4,063	-
Other payables	108	1	618	-	727	-
Total current liabilities	42,684	10,343	7,173	3,822	64,022	22,615
Non-current liabilities:						
Revenue bonds	306,144	62,819	28,408	-	397,371	-
Notes payable	-	-	9,841	-	9,841	-
Capital leases	-	-	116	217	333	-
Advances from other funds	13,690	5,890	3,768	5,292	28,640	1,672
Decommissioning liability	44,030	-	-	-	44,030	-
Water stock acquisitions	-	865	-	-	865	-
Landfill capping	-	-	-	3,723	3,723	-
Total non-current liabilities	363,864	69,574	42,133	9,232	484,803	1,672
Total liabilities	406,548	79,917	49,306	13,054	548,825	24,287
Net Assets						
Invested in capital assets, net of related debt	97,207	175,041	109,284	20,845	402,377	3,587
Restricted for debt service	34,383	8,440	3,636	-	46,459	-
Restricted for other purposes	-	-	-	3,217	3,217	-
Restricted for programs	4,732	132	-	-	4,864	-
Unrestricted	118,880	15,870	69,795	24,917	229,462	5,037
Total net assets	$ 255,202	$ 199,483	$ 182,715	$ 48,979	$ 686,379	$ 8,624

The notes to the financial statements are an integral part of this statement.

City of Riverside
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the fiscal year ended June 30, 2005
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds					
	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities-Internal Service Funds
Operating revenues:						
Charges for services	$ 252,322	$ 34,002	$ 21,967	$ 18,741	$ 327,032	$ 17,373
Operating expenses:						
Personal services	13,274	7,543	7,169	4,815	32,801	2,966
Contractual services	2,849	2,105	837	3,663	9,454	62
Maintenance and operation	145,820	7,948	6,451	4,807	165,026	1,324
General	10,165	7,937	3,435	1,509	23,046	1,606
Materials and supplies	454	422	1,394	815	3,085	129
Insurance	834	628	378	436	2,276	7,738
Depreciation and amortization	15,116	6,314	4,715	1,275	27,420	767
Total operating expenses	188,512	32,897	24,379	17,320	263,108	14,592
Operating income (loss)	63,810	1,105	(2,412)	1,421	63,924	2,781
Nonoperating revenues (expenses):						
Operating grants	-	-	-	2,261	2,261	-
Interest income	5,183	582	1,496	287	7,548	688
Other	1,255	1,171	1,809	1,998	6,233	(279)
Gain (loss) on retirement of capital assets	217	620	627	(335)	1,129	89
Capital improvement fees	-	-	3,494	-	3,494	-
Interest expense and fiscal charges	(11,518)	(3,812)	(1,729)	(87)	(17,146)	(15)
Total nonoperating revenues (expenses)	(4,863)	(1,439)	5,697	4,124	3,519	483
Income (loss) before capital contributions, transfers and special item	58,947	(334)	3,285	5,545	67,443	3,264
Capital contributions	16,716	11,826	21	260	28,823	26
Transfers in	363	150	172	6,456	7,141	-
Transfers out	(18,572)	(3,487)	-	-	(22,059)	-
Total before special item	57,454	8,155	3,478	12,261	81,348	3,290
Special Item - canal abandonment	-	(3,014)	-	-	(3,014)	-
Change in net assets	57,454	5,141	3,478	12,261	78,334	3,290
Total net assets -- beginning	197,748	194,342	179,237	36,718	608,045	5,334
Total net assets -- ending	$ 255,202	$ 199,483	$ 182,715	$ 48,979	$ 686,379	$ 8,624

The notes to the financial statements are an integral part of this statement.

City of Riverside
Proprietary Funds
Statement of Cash Flows
For the fiscal year ended June 30, 2005
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds					Governmental Activities- Internal Service Funds
	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise Funds	
Cash flows from operating activities:						
Cash received from customers and users	$ 245,314	$ 36,702	$ 22,529	$ 18,764	$ 323,309	$ 17,768
Cash paid to employees for services	(13,415)	(7,679)	(7,390)	(4,871)	(33,355)	(3,149)
Cash paid to other suppliers of goods or services	(150,200)	(20,287)	(12,404)	(12,057)	(194,948)	(12,465)
Other receipts (payments)	1,255	1,171	2,071	(4,283)	214	(280)
Canal abandonment	-	(1,147)	-	-	(1,147)	-
Net cash provided (used) by operating activities	82,954	8,760	4,806	(2,447)	94,073	1,874
Cash flows from noncapital financing activities:						
Transfers in	363	150	172	6,456	7,141	-
Transfers out	(18,572)	(3,487)	-	-	(22,059)	-
Operating grants	-	-	-	1,965	1,965	-
Advances from interfund receivables	-	-	-	8,749	8,749	-
Payments on interfund receivables	-	24	-	1,000	1,024	560
Advances to other funds	-	-	(2,997)	(839)	(3,836)	-
Net cash provided (used) by noncapital financing activities	(18,209)	(3,313)	(2,825)	17,331	(7,016)	560
Cash flows from capital and related financing activities:						
Purchase of capital assets	(95,562)	(17,242)	(12,691)	(13,690)	(139,185)	(930)
Purchase of nuclear fuel	(984)	-	-	-	(984)	-
Proceeds from the sale of capital assets	274	999	1,014	5	2,292	76
Principal paid on long-term obligations	(14,555)	(4,069)	(3,619)	(4)	(22,247)	-
Interest paid on long-term obligations	(11,259)	(2,548)	(1,817)	(65)	(15,689)	-
Capital improvement fees	-	-	3,494	-	3,494	-
Capital contributions	12,864	9,721	-	44	22,629	-
Net cash used for capital and related financing activities	(109,222)	(13,139)	(13,619)	(13,710)	(149,690)	(854)
Cash flows from investing activities:						
Purchase of investments	(2,803)	(3)	-	-	(2,806)	-
Income from investments	4,939	543	1,460	274	7,216	653
Net cash provided by investing activities	2,136	540	1,460	274	4,410	653
Net increase (decrease) in cash and cash equivalents	(42,341)	(7,152)	(10,178)	1,448	(58,223)	2,233
Cash and cash equivalents, beginning (including $110,029 for Electric, $10,100 for Water, $3,809 for Sewer and $3,333 for other enterprise funds in restricted accounts)	180,636	27,402	72,868	8,971	289,877	17,903
Cash and cash equivalents, ending (including $50,003 for Electric, $4,339 for Water, $3,896 for Sewer and $3,217 for other enterprise funds in restricted accounts)	$ 138,295	$ 20,250	$ 62,690	$ 10,419	$ 231,654	$ 20,136

continued

City of Riverside
Proprietary Funds
Statement of Cash Flows
For the fiscal year ended June 30, 2005
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds					Governmental Activities-
	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating Income (loss)	$ 63,810	$ 1,105	$ (2,412)	$ 1,421	$ 63,924	$ 2,781
Other receipts (payments)	1,255	1,171	1,809	1,998	6,233	(280)
Canal abandonment	-	(1,147)	-	-	(1,147)	-
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation and amortization	15,116	6,314	4,715	1,275	27,420	767
Amortization of nuclear fuel	4,331	-	-	-	4,331	-
(Increase) decrease in utility billed receivables	(651)	105	53	23	(470)	-
Decrease (increase) in utility unbilled receivables	(855)	(283)	5	(24)	(1,157)	-
(Increase) decrease in accounts receivable	267	440	738	29	1,474	(6)
(Increase) decrease in intergovernmental receivables	(1,832)	1,467	(230)	(1,661)	(2,256)	391
Decrease in notes receivable	-	-	337	-	337	-
(Increase) decrease in prepaid items	(2,044)	-	11	(1)	(2,034)	-
Decrease in nuclear materials inventory	(82)	-	-	-	(82)	-
(Increase) in inventory	-	-	-	-	-	(1,849)
Increase (decrease) in accounts payable	688	(992)	72	(656)	(888)	(283)
(Decrease) in accrued payroll	(142)	(136)	(221)	(56)	(555)	(15)
Increase (decrease) in retainage payable	1,088	(77)	4	-	1,015	-
Decrease in intergovernmental receivables	27	-	-	-	27	-
(Decrease) in unearned revenue	(683)	(178)	(75)	(18)	(954)	(34)
Increase (decrease) in deposits	(212)	971	-	-	759	-
Increase (decrease) in due to other funds	-	-	-	(4,378)	(4,378)	137
Increase in claims and judgments	-	-	-	-	-	265
Increase in decommissioning liabilitity	2,873	-	-	-	2,873	-
Decrease in landfill capping	-	-	-	(399)	(399)	-
Net cash provided (used) by operating activities	$ 82,954	$ 8,760	$ 4,806	$ (2,447)	$ 94,073	$ 1,874
Noncash financing and investing activities:						
Capital contributions	$ 3,852	$ 2,105	$ 21	$ 216	$ 6,194	$ 26
Advance from other funds - pension obligation bonds	$ 13,690	$ 5,890	$ 3,768	$ 2,532	$ 25,880	$ 1,672
Canal abandonment	$ -	$ (1,867)	$ -	$ -	$ (1,867)	$ -

The notes to the financial statements are an integral part of this statement.

City of Riverside
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2005
(amounts expressed in thousands)

	Agency Funds
Assets:	
Cash and investments	$ 2,991
Cash and investments at fiscal agent	13,996
Interest receivable	48
Property tax receivables	166
Total assets	$ 17,201
Liabilities:	
Accounts payable	$ 1
Due to other funds	6
Held for bond holders	17,194
Total liabilities	$ 17,201

The notes to the financial statements are an integral part of this statement

1. Summary of Significant Accounting Policies

The City of Riverside (City) was incorporated on October 11, 1883 as a Charter City and operates under a Council-Manager form of Government. The more significant accounting policies reflected in the financial statements are summarized as follows:

A. Reporting Entity

These financial statements present the City and its component units, entities for which the City is financially accountable. Blended component units are legally separate entities, but in substance are part of the City's operations and their data is combined with that of the City's. The City has no component units that meet the criteria for discrete presentation. All of the City's component units have a June 30 year end.

Blended Component Units

Riverside Redevelopment Agency (Redevelopment Agency) was established in 1971 by the City. The Redevelopment Agency's primary purpose is to eliminate blighted areas in the City by encouraging commercial development. City Council members serve as the Redevelopment Agency's directors and have full accountability for fiscal matters.

Riverside Public Financing Authority (Public Financing Authority) was organized in December 1987 by the City and the Redevelopment Agency. The purpose of the Public Financing Authority is to provide financing for public capital improvements to the City or the Redevelopment Agency. City Council members serve as the Public Financing Authority's directors and have full accountability for fiscal matters.

Riverside Municipal Improvements Corporation (Municipal Improvements Corporation) was created in 1978 and operates under provisions of the Nonprofit Public Benefit Corporation Law of the State of California. The Municipal Improvements Corporation's primary purpose is to provide financing assistance by obtaining land, property and equipment on behalf of the City. Three members of the City Council serve as the Municipal Improvements Corporation's directors and have full accountability for fiscal matters.

Complete financial statements for each of the individual component units except the Riverside Municipal Improvement Corporation (which does not generate a financial statement) may be obtained from the City's Finance Department, 3900 Main Street, Riverside, California, 92522.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City and its component units. Interfund activity has been removed from these statements except for utility charges, as this would distort the presentation of function costs and program revenues. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Indirect expenses are allocated to the various functions based on a proportionate utilization of the services rendered. Such allocations consist of charges for accounting, human resources, information technology and other similar support services.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied on the property. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. An allowance for doubtful accounts is maintained for the utility and other miscellaneous receivables. Agency funds report only assets and liabilities, therefore have no measurement focus.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for sales tax revenue which is seven (7) months, as described below. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Effective with the current fiscal year, the State temporarily began to exchange 25% of sales taxes for an equal amount of property taxes to securitize a short-term State bond issue. The State bond issue will remain outstanding for an uncertain number of years, but is currently estimated not to exceed eight (8) years. These in-lieu sales taxes will be paid to the City by the State on a different calendar than sales taxes, which are paid monthly, three months in arrears. The vast majority of the in-lieu amount will be paid during the applicable fiscal year; however, the final payment of the in-lieu sales taxes will not be paid until the January following the end of the applicable fiscal year. The City has budgeted this final payment in the current fiscal year and will continue this practice during this temporary period, effectively extending the availability period to seven (7) months for the in-lieu sales taxes and thus provide consistency in the reporting of sales tax revenue.

Property taxes, special assessments, sales taxes, franchise taxes, licenses, charges for services, amounts due from other governments and interest associated with the current fiscal period are all considered to be susceptible to accrual. Other revenue items such as fines and permits are considered to be measurable and available only when the government receives cash, and are therefore not susceptible to accrual.
The government reports the following major governmental funds:

The General fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Redevelopment Agency's debt service fund accounts for the resources accumulated and payments made for principal and interest on long-term obligation debt of the Redevelopment Agency.

The government reports the following major proprietary funds:

The Electric fund accounts for the activities of the City's electric distribution operations.

The Water fund accounts for the activities of the City's water distribution operations.

The Sewer fund accounts for the activities of the City's sewer systems.

Additionally, the government reports the following fund types:

Internal service funds account for the central stores, central garage, and the three self-insured risks of workers compensation, unemployment and public liability on a cost reimbursement basis.

The agency fund is used to account for special assessments that service no-commitment debt.

The permanent fund is a fiduciary fund that is used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's Library programs.

Pronouncements regarding accounting and financial reporting issued by the Financial Accounting Standards Board prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Significant interfund activity has been eliminated from the government-wide financial statements with the exception of charges between the City's electric, water, sewer and refuse functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The sewer fund also recognizes as operating revenue the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Cash and Investments

The City values its cash and investments in accordance with the provisions of Government Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools (GASB 31)," which requires governmental entities, including governmental external investment pools, to report certain investments at fair value in the statement of net assets/balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. Fair value is determined using published market prices.

Cash accounts of all funds are pooled for investment purposes to enhance safety and liquidity while maximizing interest earnings. Investments are stated at fair value. All highly liquid investments (including restricted assets) with a maturity of 90 days or less when purchased are considered cash equivalents. Cash and investments held on behalf of proprietary funds by the City Treasurer are considered highly liquid and are classified as cash equivalents for the purpose of presentation in the Statement of Cash Flows.

E. Restricted Cash and Investments

Certain proceeds of Enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants. Additionally, unspent proceeds received from the City's landfill capping surcharge are also recorded as restricted assets.

F. Land and Improvements Held for Resale

Land and improvements held for resale are generally acquired under Developer Disposition Agreements in the normal course of Redevelopment Agency activity. The Developer Disposition Agreements provide for transfer of property to developers after certain redevelopment obligations have been fulfilled. This property is carried at cost until an event occurs to indicate a lower net realizable value.

G. Inventory

Supplies are valued at cost using the average-cost method. Costs are charged to user departments when consumed rather than when purchased.

H. Prepaid Items

Payments to vendors for services benefiting future periods are recorded as prepaid items and expenditures are recognized when items are consumed.

I. Capital Assets and Nuclear Fuel

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, right of way, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than five thousand dollars and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Costs include: labor; materials; interest during construction; allocated indirect charges such as engineering, construction and transportation equipment, retirement plan contributions and other fringe benefits. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets other than land are depreciated using the straight-line method.

Nuclear Fuel

The Electric Utility amortizes the cost of nuclear fuel to expense using the "as burned" method. In accordance with the Nuclear Waste Disposal Act of 1982, the Electric Utility is charged one dollar per megawatt-hour of energy generated by the City's share of San Onofre Nuclear Generating Station's Units 2 and 3 to provide for estimated future storage and disposal of spent fuel. The Electric Utility pays this fee to its operating agent, Southern California Edison Company, on a quarterly basis.

J. Compensated Absences

City employees receive 10 to 25 vacation days a year based upon length of service. A maximum of two years' vacation accrual may be accumulated and unused vacation is paid in cash upon separation.

City employees generally receive one day of sick leave for each month of employment with unlimited accumulation. Upon retirement or death, certain employees or their estates receive a percentage of unused sick leave paid in a lump sum based on longevity. The General, Library, Redevelopment Agency Capital Projects and the Housing and Community Development Special Revenue funds have been used to liquidate such balances.

The liability associated with these benefits is reported in the government-wide statements. Vacation and sick leave of proprietary funds is recorded as an expense and as a liability of those funds as the benefits accrue to employees.

K. Long-Term Obligations

Long-Term Debt

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are classified as deferred charges and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, government fund types recognize bond issuance costs as expenditures during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses.

Decommissioning

Federal regulations require the Electric Utility to provide for the future decommissioning of its ownership share of the nuclear units at San Onofre. The Electric Utility established a trust account to accumulate resources for the decommissioning of the nuclear power plant and restoration of the beachfront at San Onofre. Each year the Electric Utility recognizes an expense in the amount of the contribution to the trust account. The funding will occur over the useful life of the generating plant.

Amounts held in the trust account are classified as restricted assets in the accompanying balance sheet. To date, the Electric Utility has set aside $44,030 in cash and investments with the trustee as Riverside's estimated share of the decommissioning cost of San Onofre. Based on a cost estimate completed by Southern California Edison and approved by the California Public Utilities Commission, the Electric Utility plans to set aside approximately $1,600 per year to fund this obligation. Decommissioning is expected to commence around the year 2014.

L. Claims and Judgments Payable

Claims and judgments payable are recognized when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Such claims, including an estimate for claims incurred but not reported at year end, are recorded as liabilities in the appropriate internal service fund.

M. Fund Equity

In the fund financial statements, reserves represent those portions of fund equity not available for appropriation or legally segregated for a specific future use. Designated fund balances represent amounts identified by management or the governing board for the future use of financial resources.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted resources are used first to fund appropriations.

O. Interfund Transactions

Interfund transactions are accounted for as revenues and expenditures or expenses. Transactions, which constitute reimbursements, are eliminated in the reimbursed fund and accounted for as expenditures or expenses in the fund to which the transaction is applicable.

During the year, transactions occur between individual funds for goods provided or services rendered. Related receivables and payables are classified as "due from/to other funds" on the accompanying fund level statements. The noncurrent portion of long-term interfund loans receivable are reported as interfund receivables/payables and, for governmental fund types, are equally offset by a fund balance reserve to indicate that the receivable does not constitute available expendable financial resources. Interfund payables also include accrued interest, which has been offset by deferred revenue.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

P. Unearned Revenues

Governmental and proprietary funds report unearned revenue on the statement of net assets. Unearned revenues arise in governmental funds when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to meeting all eligibility requirements. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenue is recognized. The majority of the City's governmental fund unearned revenue for June 30, 2005 relates to unearned revenue on a capital lease. See Note 4.

Q. Property Tax Calendar

Under California law, general property taxes are assessed for up to 1% of the property's assessed value. General property taxes are collected by the counties along with other special district taxes and assessments and voter approved debt. General property tax revenues are collected and pooled by the county throughout the fiscal year and then allocated and paid to the county, cities and school districts based on complex formulas prescribed by State statutes.

Property taxes are calculated on assessed values as of January 1 for the ensuing fiscal year. On July 1 of the fiscal year the levy is placed and a lien is attached to the property. Property taxes are due in two installments. The first installment is due November 1 and is delinquent on December 10. The second installment is due February 1 and is delinquent on April 10. Property taxes receivable represent current and prior years' uncollected tax levies, adjusted for uncollectable amounts.

R. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures. Specifically, the City has made certain estimates and assumptions relating to the collectability of its receivables, the valuation of property held for resale, the useful lives of capital assets and the ultimate outcome of claims and judgments. Actual results may differ from those estimates and assumptions.

Fiscal Year Ended June 30, 2005 (amounts expressed in thousands)

S. Implementation of new accounting principles

The City adopted Governmental Accounting Standards Board (GASB) Statement No. 46, Net Assets Restricted by Legislation- an amendment of GASB Statement No. 34. GASB 34 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. GASB 46 clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government – such as citizens, public interest groups, or the judiciary – can compel a government to honor. Statement 46 further requires that legal enforceability of an enabling legislation restriction be reevaluated if any of the resources raised by the enabling legislation are used for a purposes not specified by the enabling legislation or if a government has other cause for reconsideration. This statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation. Accordingly, net assets restricted by legislation have been reported to conform to the provisions of GASB Statement No. 46. Currently, the City has no such restrictions.

GASB has issued several pronouncements prior to June 30, 2005 (for years ending after June 30, 2005) that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statement of the City of Riverside.

- GASB Statement Number 42, "Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries.
- GASB Statement Number 44, "Economic Condition Reporting: The Statistical Section" which amends portions of previous guidance related to the preparation of a statistical section when presented as a required part of a comprehensive annual financial report (CAFR).

2. Legal Compliance - Budgets

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all departments within the general, special revenue and capital project funds. Formal budgets are not employed for debt service funds because debt indenture provisions specify payments. The permanent fund is not budgeted.

During the period December through February of each fiscal year, department heads prepare estimates of required appropriations for the following fiscal year. These estimates are compiled into a proposed operating budget that includes a summary of proposed expenditures and financial resources and historical data for the preceding fiscal year. The operating budget is presented by the City Manager to the City Council for review. Public hearings are conducted to obtain citizen comments. The City Council generally adopts the budget during one of its June meetings.
The City Manager is legally authorized to transfer budgeted amounts between divisions and accounts within the same department. Transfer of appropriations between departments or funds and increased appropriations must be authorized by the City Council. Expenditures may not legally exceed budgeted appropriations at the departmental level within a fund.

3. Cash and Investments

Cash and investments at fiscal year end consist of the following:

Investments	$413,194
Cash and investments at fiscal agent	225,685
	638,879
Cash on hand and in transit	6,536
	$645,415

The amounts are reflected in the government-wide statement of net assets:

Cash and investments	$388,293
Restricted cash and cash equivalents	61,455
Restricted cash and investments at fiscal agent	178,680
Total per statement of net assets	628,428
Fiduciary fund and investments	16,987
	$645,415

The City follows the practice of pooling cash and investments of all funds except for funds required to be held by outside fiscal agents under the provisions of bond indentures, which are administered by outside agencies.

Interest income earned on pooled cash and investments is allocated monthly to funds based on the beginning and month-end balances. Interest income from cash and investments held at fiscal agents is credited directly to the related account. Bank deposits are covered by federal depository insurance for the first $100 or by collateral held in the pledging bank's trust department in the name of the City.

(amounts expressed in thousands)

Authorized Investments

Under provisions of the City's investment policy, and in accordance with California Government Code Section 53601, the City Treasurer may invest or deposit in the following types of investments:

	Max Maturity	Max % of Portfolio
Securities of the U.S. Gov't. and its sponsored agencies	5 Years	100%
Repurchase Agreements	1 Year	100%
Reverse Repurchase Agreements	90 Days	20%
Negotiable Certificates of Deposit	5 Years	30%
Bankers Acceptances	180 Days	40%
Commercial Paper of "prime" quality	270 Days	25%
Local Agency Investment Fund (State Pool)	N/A	100%
Mutual Funds	N/A	20%
Medium-Term Corporate Notes	5 Years	30%

Investments in Medium Term Corporate Notes may be invested in securities rated A or better by Moody's or Standard and Poor's rating services and no more than 15% of the market value of the portfolio may be invested in one corporation.

The City's investment policy provides two exceptions to the above; one is for investments authorized by debt agreements (described below) and the other for funds reserved in the San Onofre Nuclear Generating Station Decommissioning Account for which the five-year maturity limitation may be extended to the term of the operating license.

Investments Authorized by Debt Agreements

Provisions of debt agreements, rather than the general provisions of the California Government Code or the City's investment policy, govern investments of debt proceeds held by bond fiscal agents. Permitted investments are specified in related trust agreements and include the following:

Securities of the U.S. Government and its sponsored agencies
Bankers' Acceptances rated in the single highest classification
Commercial Paper rated in the single highest classification
Investments in money market funds rated in the single highest classification
Municipal obligations rated Aaa/AAA or general obligations of states with ratings of at least A2/A or higher by both Moody's and S&P
Investment Agreements

No maximum percentage of the related debt issue or maximum investment in one issuer is specified.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City's investment policy requires that the interest rate risk exposure be managed by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments (including investments held by fiscal agent) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

		Remaining Maturity (in Months)			
Investment Type		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Money Market Funds	$ 66,831	$66,831	$ -	$ -	$ -
Federal Agency Securities	250,161	9,968	173,197	66,996	-
Corp Medium Term Notes	69,969	24,551	35,436	9,982	-
Municipal Securities	1,190	-	-	-	1,190
State Investment Pool	25,043	25,043	-	-	-
Held by Fiscal Agent					
Money Market Funds	9,473	9,473	-	-	-
Investment Contracts	100,230	403	30,424	40,308	29,095
State Investment Pool	42,732	42,732	-	-	-
Certificates of Deposit	5,528	5,328	-	200	-
Fed Agency Securities	67,722	21,597	26,968	19,157	-
Total	$638,879	$205,926	$266,025	$136,643	$30,285

The City assumes that callable investments will not be called.

Fiscal Year Ended June 30, 2005 (amounts expressed in thousands)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of year-end for each investment type:

		Rating as of Year End			
Investment Type		AAA	Aa	A	Unrated
Money Market Funds	$ 66,831	$ -	$ -	$ -	$ 66,831
Federal Agency Securities	250,161	250,161	-	-	-
Corp Medium Term Notes	69,969	40,460	17,964	11,545	-
Municipal Securities	1,190	-	-	-	1,190
State Investment Pool	25,043	-	-	-	25,043
Held by Fiscal Agent					
Money Market Funds	9,473	9,473	-	-	-
Investment Contracts	100,230	99,362	868	-	-
State Investment Pool	42,732				42,732
Certificates of Deposit	5,528	5,528	-	-	-
Fed Agency Securities	67,722	67,722	-	-	-
Total	$638,879	$472,706	$18,832	$11,545	$135,796

Concentration on Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stated above. Investments in any one issuer that represent 5% or more of total City investments are as follows:

Issuer	Investment Type	Reported Amount
FHLB	Federal Agency Securities	$183,654
FHLMC	Federal Agency Securities	39,060
FNMA	Federal Agency Securities	57,785

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City's investment policy requires that a third party bank trust department hold all securities owned by the City. All trades are settled on a delivery vs. payment basis through the City's safekeeping agent. The City has no deposits with financial institutions; bank balances are swept daily into a money market account.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

4. Capital Lease Receivable

The Redevelopment Agency has a direct financing lease arrangement with the State of California (the State) for a twelve-story office building. The lease term is for thirty years and the State takes ownership of the facility at the conclusion of that term. The lease calls for semi-annual payments not less than the debt service owed by the Redevelopment Agency on the lease revenue bonds issued for the purchase and renovation of the building. The future minimum lease payments to be received are as follows:

2006	$ 2,249
2007	2,273
2008	2,298
2009	2,324
2010	2,355
Thereafter	38,990
Total Due	50,489
Less: amount applicable to interest	(23,339)
Total capital lease receivable	$27,150

Fiscal Year Ended June 30, 2005 (amounts expressed in thousands)

5. Capital Assets

The following is a summary of changes in the capital assets during the fiscal year ended June 30, 2005.

Governmental activities:	Beginning Balance	Additions	Deletions/ Transfers	Ending Balance
Capital assets, not being depreciated:				
Land	$116,925	$ 7,617	$ (67)	$124,475
Construction in progress	17,145	24,760	(2,634)	39,271
Total capital assets not being depreciated	134,070	32,377	(2,701)	163,746
Capital assets being depreciated:				
Buildings	77,813	-	(8,422)	69,391
Improvements other than Buildings	45,088	1,410	-	46,498
Machinery and Equipment	54,020	3,683	(2,902)	54,801
Infrastructure	438,800	28,454	(5,897)	461,357
Total capital assets being depreciated	615,721	33,547	(17,221)	632,047
Less accumulated depreciation for:				
Buildings	(24,987)	(1,599)	128	(26,458)
Improvements other than Buildings	(24,413)	(1,782)	-	(26,195)
Machinery and Equipment	(41,137)	(4,227)	2,739	(42,625)
Infrastructure	(152,011)	(10,431)	5,897	(156,545)
Total accumulated depreciation	(242,548)	(18,039)	8,764	(251,823)
Total capital assets being depreciated, net	373,173	15,508	(8,457)	380,224
Governmental activities capital assets, net	$507,243	$47,885	$(11,158)	$543,970

Business type activities:	Beginning Balance	Additions	Deletions/ Transfers	Ending Balance
Capital assets, not being depreciated:				
Land	$ 32,725	$ 1,051	$ (2,514)	$ 31,262
Construction in progress	66,904	150,679	(84,718)	132,865
Total capital assets not being depreciated	99,629	151,730	(87,232)	164,127
Capital assets being depreciated:				
Buildings	195,466	10,020	-	205,486
Improvements other than Buildings	748,035	63,866	(243)	811,658
Machinery and Equipment	37,450	5,160	(2,527)	40,083
Total capital assets being depreciated	980,951	79,046	(2,770)	1,057,227

Business type activities (cont.):	Beginning Balance	Additions	Deletions/ Transfers	Ending Balance
Less accumulated depreciation for:				
Buildings	(60,404)	(4,569)	-	(64,973)
Improvements other than Buildings	(298,352)	(20,677)	175	(318,854)
Machinery and Equipment	(28,376)	(1,974)	2,100	(28,250)
Total accumulated depreciation	(387,132)	(27,220)	2,275	(412,077)
Total capital assets being depreciated, net	593,819	51,826	(495)	645,150
Business type activities capital assets, net	$693,448	$203,556	$(87,727)	$809,277

Estimated useful lives used to compute depreciation are as follows:

Buildings and Improvements	30-50 years
Improvements other than Buildings	20-99 years
Machinery and Equipment	3-15 years
Infrastructure	20-100 years

Depreciation expense was charged to functions of the government as follows:

Governmental activities:	
General government	$ 790
Public safety	2,780
Highways and streets, including depreciation of general infrastructure assets	11,806
Culture and recreation	2,663
Total depreciation expense – governmental activities	$18,039
Business type activities:	
Electric	$15,116
Water	6,314
Sewer	4,715
Refuse	664
Special Transportation	301
Airport	242
Public Parking	68
Total depreciation and amortization expense - business type activities	$27,420

Fiscal Year Ended June 30, 2005 (amounts expressed in thousands)

6. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Property insurance coverage has a limit of $100,000, with a deductible of $50. Earthquake and flood insurance coverage has a limit of $15,000, with a deductible of 5% for earthquake and 2% for flood. Workers' compensation insurance coverage has a limit of $25,000, with a deductible of $4,000 per occurrence. The City carries commercial insurance up to $23,000 for general and auto liability claims greater than $3,000 per occurrence. There were no claims settled in the last three fiscal years that exceed insurance coverage. Internal service funds have been established to account for and finance the uninsured risks of loss.

All funds of the City participate in the Risk Management program and make payments to the Internal Service Funds based on actuarial estimates of the amounts needed to fund prior and current year claims and incidents that have been incurred but not reported. Interfund premiums are accounted for as quasi - external transactions and are therefore recorded as revenues of the Internal Service funds in the fund financial statements.

Changes in the funds' claims liability amounts are:

	Workers' Compensation	Unemployment Compensation	Public Liability	Total
Unpaid Claims, June 30, 2003	$10,353	$ 76	$7,936	$18,365
Incurred claims	3,442	-	3,762	7,204
Claim payments	(2,678)	-	(5,607)	(8,285)
Unpaid Claims, June 30, 2004	$11,117	$ 76	$6,091	$17,284
Incurred claims (including IBNR's)	3,083	-	3,886	6,969
Claim payments	(3,053)	-	(3,651)	(6,704)
Unpaid claims, June 30, 2005	$11,147	$ 76	$ 6,326	$17,549

7. Long-Term Obligations

Changes in Long-Term Obligations: The following is a summary of changes in long-term obligations during the fiscal year:
Governmental Activities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Redevelopment Agency bonds	$131,590	$25,693	$13,259	$144,024	$ 3,695
General Obligation Bonds	20,285	-	5	20,280	410
Pension Obligation Bonds	89,540	60,000	1,260	148,280	1,810
Certificates of Participation	58,706	-	1,370	57,336	1,715
Capital leases	8,938	133	1,640	7,431	1,764
Notes Payable	11,057	-	412	10,645	458
Compensated Absences	29,301	12,936	11,560	30,677	10,992
Total	$349,417	$98,762	$29,506	$418,673	$20,844

Business type activities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	$440,970	-	$21,389	$419,581	$22,210
Notes Payable	11,066	-	607	10,459	618
Capital Leases	439	-	47	392	59
Water Stock Acquisition Rights	1,039	-	24	1,015	150
Total	$453,514	-	$22,067	$431,447	$23,037

Current Refunding:

On November 30, 2004, the City of Riverside Redevelopment Agency sold $24,115 of Housing Set-Aside Tax Allocation and Refunding Bonds with a true interest cost of 4.65% to provide project funds and to refund $10,200 of previously outstanding Housing Set-Aside Tax Allocation Bonds. The Agency completed the current refunding to reduce aggregate debt service payments over the next 20 years by $3,276 and to obtain an economic gain (difference between present value of the old and new debt service payments) of $1,493.

Fiscal Year Ended June 30, 2005 (amounts expressed in thousands)

In prior years the City defeased certain Revenue and Tax Allocation Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At fiscal year end $2,385 of bonds outstanding are considered defeased.

Long-Term Obligations at June 30, 2005:

Revenue Bonds:	Principal Outstanding
Electric	
$98,730 1998 Electric Revenue Bonds (partial refunding issue); $63,165 serial bonds, 4.25% to 5.38%, due in annual installments from $4,650 to $7,085 through October 1, 2013; $35,565 term bonds, 5%, due October 1, 2022	$ 89,085
$47,215 2001 Electric Revenue Bonds; 2.9% to 5.25%, due in annual installments from $2,855 to $4,750 through October 1, 2016.	44,360
$75,405 2003 Electric Revenue Bonds; 2.0% to 5.0%, due in annual installments from $1,035 to $8,535 through October 1, 2013.	67,665
$27,500 2004 Electric Revenue Bonds; Series A fixed rate bonds, 4.0% to 5.25%, due in annual installments from $2,615 to $3,695 through October 1, 2014.	27,500
$82,500 2004 Electric Revenue Bonds; Series B Auction Rate Securities, variable rate subject to weekly repricing (rate at June 30, 2005 was 2.0%), due in annual installments from $1,250 to $7,000 through October 1, 2029.	82,500
Subtotal	311,110
Add: Unamortized bond premium	10,049
	$321,159

	Principal Outstanding
Water	
$69,840 1991 Water Revenue Bonds; $25,050 serial bonds, 4.25% to 9.0%, due in annual installments from $675 to $3,100 through October 1, 2002; $25,900 Capital Appreciation Bonds, due in annual installments from $3,235 to $3,240 from October 1, 2003 to October 1, 2010; (partially advance refunded in 1998)	$ 19,425
$4,710 1994 Water Revenue Bonds (FARECAL Pool); $2,420 serial bonds, 4.75% to 5.90%, due in annual installments from $135 to $255 through June 1, 2010; $2,290 term bonds, 6.0%, due June 1, 2017	3,425
$30,965 1998 Water Revenue Bonds (partial refunding issue); $15,055 serial bonds, 4.0% to 5.38%, due in annual installments from $205 to $4,055 through October 1, 2013; $15,910 term bonds, 5%, due October 1, 2027	29,230
$20,000 2001 Water Revenue Bonds; 2.6% to 5.0%, due in annual installments from $345 to $1,230 through October 1, 2031	18,935
Subtotal	71,015
Less: Unamortized bond discount	(4,121)
	$66,894
Sewer	
$49,145 1993 Sewer Revenue Refunding Serial Bonds; 4.0% to 7.0%, due in annual installments from $335 to $4,745 through August 1, 2012	$ 31,270
Add: Unamortized bond premium	258
	31,528
Total Revenue Bonds	$419,581

Remaining revenue bond debt service payments will be made from revenues of the Electric, Water, and Sewer Utility Enterprise funds. Annual debt service requirements to maturity are as follows:

(amounts expressed in thousands)

	Electric Utility Fund			Water Utility Fund		
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total
2006	$ 15,015	$ 13,353	$ 28,368	$ 4,075	$ 2,565	$ 6,640
2007	18,215	12,728	30,943	4,115	2,530	6,645
2008	18,935	11,983	30,918	4,155	2,492	6,647
2009	19,795	11,133	30,928	4,190	2,451	6,641
2010	20,725	10,197	30,922	4,245	2,407	6,652
2011-2015	98,580	35,840	134,420	23,370	9,777	33,147
2016-2020	49,935	17,536	67,471	10,245	5,021	15,266
2021-2025	37,460	8,814	46,274	6,955	3,320	10,275
2026-2030	32,450	2,701	35,151	7,265	1,427	8,692
2031-2035	-	-	-	2,400	122	2,522
Premium (Discount)	10,049	-	10,049	(4,121)	-	(4,121)
Total	$321,159	$124,285	$445,444	$66,894	$32,109	$99,003

	Sewer Utility Fund		
Fiscal Year	Principal	Interest	Total
2006	$ 3,120	$1,780	$ 4,900
2007	3,285	1,584	4,869
2008	3,515	1,346	4,861
2009	3,760	1,092	4,852
2010	4,020	819	4,839
2011-2015	13,570	1,040	14,610
Premium	258	-	258
Total	$31,528	$7,661	$39,189

Redevelopment Agency Bonds:	Principal Outstanding
$13,285 1991 Public Financing Authority Revenue Bonds, Series A, Multiple Project Areas; $1,470 serial revenue bonds 7.15% to 7.6%, due in annual installments from $100 to $145 through February 1, 2003; and $4,175 term bonds, 8.0%, due in annual installments from $155 to $450 through February 1, 2018 (portion not refunded)	$ 200
$17,025 1999 University Corridor/Sycamore Canyon Merged Project Area, Tax Allocation Bonds, Series A; $6,205 serial bonds, 3.4% to 4.7% due in annual installments from $40 to $570 through August 1, 2014; $4,810 term bonds at 4.75% due August 1, 2021; and $6,010 term bonds at 5.0% due August 1, 2027	15,550
$6,055 1999 University Corridor/Sycamore Canyon Merged Project Area, Subordinate Tax Allocation Bonds, Series B; $1,900 serial bonds, 4.5% to 5.5% due in annual installments from $35 to $190 through September 1, 2013; $1,135 term bonds at 5.5% due September 1, 2018; and $3,020 term bonds at 5.625% due September 1, 2027	5,575
$20,395 1999 Casa Blanca Project Area, Tax Allocation Bonds, Series A; $8,925 serial bonds, 3.4% to 4.7% due in annual installments from $455 to $780 through August 1, 2014; $2,565 term bonds at 4.75% due August 1, 2017; $4,035 term bonds at 4.75% due August 1,2021; and $4,870 term bonds at 5.0% due August 1, 2025.	17,965
$4,550 Arlington Redevelopment Project, 2004 Tax Allocation Bonds, Series A; $420 term bonds at 3.8% due August 1, 2014; $615 term bonds at 4.6% due August 1, 2024; and $3,515 term bonds at 4.7% due August 1, 2034	4,550
$2,975 Arlington Redevelopment Project, 2004 Tax Allocation Bonds; Series B: 5.5% due in annual installments from $85 to $235 through August 1, 2024	2,975
$26,255 State of California Department of General Services Project, 2003 Lease Revenue Refunding Bonds, Series A; 2.0% to 5.0% due in annual installments from $545 to $2,230 through October 1, 2024	24,965
$4,810 State of California Department of General Services Project, 2003 Lease Revenue Refunding Bonds, Series B; $310 serial bonds 1.20% to 1.42% through October 1, 2004; $620 term bonds at 3.090% due Oct. 1, 2008; $1,110 term bonds at 4.340% due Oct. 1, 2014 and $2,770 term bonds at 5.480% due Oct. 1, 2024	4,500

(amounts expressed in thousands)

	Principal Outstanding
$40,435 Merged Project Area, 2003 Tax Allocation and Refunding Bonds; $32,720 serial bonds 2.0% to 5.25% due in annual installments from $1,220 to $1,955 through August 1, 2023; and $7,715 term bonds at 5.0% due in annual installments from $195 to $2,060 through August 2034	39,215
$24,115 2005 Housing Set-Aside Tax Allocation Bonds; $17,025 serial bonds 3.0% to 4.625% due in annual installments from $505 to $1,165 through August 1, 2025; $2,425 term bonds at 5.0% due August 1, 2028; and $4,665 term bonds at 4.85% due August 1, 2034	24,115
$1,465 California Statewide Communities Development Authority 2005 Taxable Revenue Bonds, Series A (CRA/ERAF Loan Program); 3.87% to 5.01% due in annual installments of $105 to $180 through August 1, 2015	1,465
Subtotal	141,075
Add: Unamortized bond premium	2,949
Total Redevelopment Agency Bonds	$144,024

Remaining debt service will be paid by the Redevelopment Agency Debt Service Funds from future property tax revenues. Annual debt service requirements to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2006	$ 3,695	$ 6,514	$ 10,209
2007	3,970	6,233	10,203
2008	4,145	6,102	10,247
2009	4,305	5,961	10,266
2010	4,485	5,807	10,292
2011-2015	25,740	26,079	51,819
2016-2020	31,905	19,724	51,629
2021-2025	39,830	10,765	50,595
2026-2030	16,025	3,282	19,307
2031-2035	6,975	745	7,720
Premium	2,949	-	2,949
Total	$144,024	$91,212	$235,236

General Obligation Bonds:	Principal Outstanding
$20,000 Fire Facility Projects, Election of 2003 General Obligation Bond; 3.0% to 5.5%, due in annual installments from $410 to $1,740 through August 1, 2024	$20,000
Add; Unamortized bond premium	280
Total General Obligation Bonds	$20,280

Remaining general obligation bond debt service payments will be made from unrestricted revenues of the General fund. Annual debt service requirements to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2006	$ 410	$ 886	$ 1,296
2007	515	873	1,388
2008	545	857	1,402
2009	590	840	1,430
20010	625	819	1,444
2011-2015	3,920	3,674	7,594
2016-2020	5,600	2,698	8,298
2021-2025	7,795	1,097	8,892
Premium	280	-	280
Total	$20,280	$11,744	$32,024

Pension Obligation Bonds:	Principal Outstanding
$89,540 California Statewide Community Development Authority (Public Safety) 2004 Taxable Pension Obligation Bond; 2.65% to 5.896%, due in annual installments from $1,125 to $10,715 through June 1, 2023	$88,280
$30,000 2005 Taxable Pension Obligation Bonds Series A; 3.85% to 4.78%, due in annual installments $630 to $3,860 through June 1,2020	30,000

Fiscal Year Ended June 30, 2005 (amounts expressed in thousands)

	Principal Outstanding
$30,000 2005 Taxable Pension Obligation Bonds Series B (Auction Rate Securities); variable rate subject to weekly repricing (rate at June 30, 2005 was 2.0%), due in annual installments from $1,475 to $6,750 through June 1, 2025.	30,000
Total Pension Obligation Bonds	$148,280

Remaining pension obligation bond debt service payments will be made from unrestricted revenues of the General fund. Annual debt service requirements to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2006	$ 1,810	$ 7,553	$ 9,363
2007	2,020	7,719	9,739
2008	2,480	7,642	10,122
2009	2,985	7,539	10,524
2010	3,535	7,406	10,941
2011-2015	27,665	33,825	61,490
2016-2020	50,000	24,353	74,353
2021-2025	57,785	7,941	65,726
Total	$148,280	$103,978	$252,258

Certificates of Participation:	Principal Outstanding
$6,360 1999 Municipal Improvements Corporation Certificates of Participation; 6.0% to 7.6%, due in annual installments from $310 to $815 through April 1, 2010	$ 3,550
$53,185 2003 Riverside Public Financing Authority Certificates of Participation; 2.0% to 5.0%, due in annual installments from $755 to $2,830 through September 1,2033	52,430
Subtotal	55,980
Add: Unamortized bond premium	1,356
Total Certificates of Participation	$57,336

Remaining certificates of participation debt service payments will be made from unrestricted revenues of the Debt Service funds. Annual debt service requirements to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2006	$1,715	$ 2,658	$ 4,373
2007	1,785	2,585	4,370
2008	1,870	2,505	4,375
2009	1,950	2,419	4,369
2010	2,045	2,319	4,364
2011-2015	6,840	10,567	17,407
2016-2020	8,460	8,879	17,339
2021-2025	10,190	6,554	16,744
2026-2030	10,585	4,010	14,595
2031-2035	10,540	1,086	11,626
Premium	1,356	-	1,356
Total	$57,336	$43,582	$100,918

Contracts – Enterprise Funds:	Principal Outstanding
Water stock acquisition rights payable on demand to various water companies, renewable through 2004	$1,015

Notes Payable - Redevelopment Agency:

These notes payable have been issued to promote development and expansion within the City's redevelopment areas.

Pepsi Cola Bottling Company of Los Angeles, 10.5%, payable in net annual installments of $341, including principal and interest through June 2020	2,988
HUD Section 108 loan for University Village, 5.36% to 7.66%, payable in semi-annual installments beginning August 1, 1996 of $272 to $425 through August 1, 2015	3,075

(amounts expressed in thousands)

	Principal Outstanding
HUD Section 108 loan for Mission Village Project, 6.15% to 6.72%, payable in semi-annual installments beginning August 1, 1999 of $110 to $420 through August 1, 2018	3,965
Note payable to California Housing Finance Agency, interest at 3%, payable in annual installments of $88 through 2013, for housing projects.	617
Total notes payable – Redevelopment Agency	$10,645

Remaining notes payable debt service payments will be made from unrestricted revenues of the Redevelopment Agency. Annual debt service requirements to maturity are as follows:

	Redevelopment Agency		
Fiscal Year	Principal	Interest	Total
2006	$ 458	$ 798	$ 1,256
2007	488	769	1,257
2008	523	738	1,261
2009	559	704	1,263
2010	600	667	1,267
2011-2015	3,575	2,656	6,231
2016-2020	2,386	1,464	3,850
2021-2025	777	932	1,709
2026-2030	1,279	430	1,709
Total	$10,645	$9,158	$19,803

Notes payable – Sewer Fund:	Principal Outstanding
Sewer fund loan from State of California for Cogeneration project, 2.336%, payable in net annual installments of $339,474, beginning January 29, 2003 through January 29, 2022	$ 4,455
Sewer fund loan from State of California for Headworks project, 1.803%, payable in net annual installments of $477,387, beginning November 6, 1999 through November 6, 2018	6,004
Total notes payable – Sewer Fund	$10,459

Remaining notes payable debt service payments will be made from unrestricted revenues of the Sewer fund. Annual debt service requirements to maturity are as follows:

	Sewer Fund		
Fiscal Year	Principal	Interest	Total
2006	$ 618	$ 199	$ 817
2007	630	187	817
2008	642	175	817
2009	654	163	817
2010	666	151	817
2011-2015	3,524	560	4,084
2016-2020	3,392	214	3,607
2021-2023	333	7	339
Total	$10,459	$1,656	$12,115

Capital Leases:

The City leases various equipment through capital leasing arrangements in the governmental and proprietary fund types. These activities are recorded for both governmental and business-type activities in the government-wide financial statements. The assets and related obligations under leases in governmental funds are not recorded in the fund statements. For proprietary funds, the assets and their related liabilities are reported directly in the fund. Amortization applicable to proprietary assets acquired through capital lease arrangements is included with depreciation for financial statement presentation. The assets acquired through capital leases are as follows:

Fiscal Year Ended June 30, 2005 (amounts expressed in thousands)

Asset	Governmental Activities	Business-Type Activities
Buildings	$8,660	$868
Equipment	5,825	-
Subtotal	14,485	868
Less: Accumulated Depreciation	1,658)	(109)
Total	$12,827	$759

The future minimum lease obligations as of June 30, 2005 were as follows:

Years Ending June 30,	Governmental Activities	Business-type Activities
2006	$1,955	$ 86
2007	1,883	73
2008	1,723	92
2009	1,469	75
2010	535	51
2011-2012	517	51
Total Minimum lease payments	8,082	428
Less: Amount representing interest (rates ranging from 2.5% to 9%)	(651)	(36)
Total capital lease payable	$7,431	$392

The following are legally required debt service cash reserves. These amounts, at a minimum, are held by the City or fiscal agents at June 30, 2005:

General long-term obligations:	
Redevelopment Agency	$ 7,032
Certificates of Participation	4,148
Total	$11,180
Enterprise funds:	
Electric	$20,443
Water	4,907
Sewer	-
Total	$25,350

Following are required debt service ratios for the year ended June 30, 2005. The ratio measures operating income in relation to debt service. The City is in compliance with these ratios.

	Minimum Debt Service Ratio Required
Electric fund	1.10
Water fund	1.25
Sewer fund	1.25

There are also a number of limitations and restrictions contained in Assessment Bond indentures. The City believes they are in compliance with all significant limitations and restrictions.

8. Other Long-Term Obligations

Assessment Districts Bonds (Not obligations of the City)

As of June 30, 2005, the City has several series of Assessment District Bonds outstanding in the amount of $59,944. Bonds issued for improvements in certain special assessment districts, in accordance with the provisions of the Municipal Improvements Acts, are liabilities of the property owners and are secured by liens against the assessed property. The City Treasurer acts as an agent for the property owners in collecting the assessments, forwarding the collections to bondholders and initiating foreclosure proceedings, if applicable. Since the debt does not constitute an obligation of the City, it is not reflected as a long-term obligation of the City and is not reflected in the accompanying basic financial statements.

Conduit Debt Obligations

Mortgage Revenue Bonds outstanding of $15,785 and Industrial Development Revenue Bonds of $11,275 are not included in the accompanying financial statements. These bonds are special obligations of third parties and payable solely from and secured by a pledge of the receipts received from the acquired mortgage loans and certain other reserve funds and related monies. The bonds are not payable from any other revenues or assets of the City or Redevelopment Agency. Neither the faith and credit nor the taxing power of the City, the Redevelopment Agency, the State of California or any political subdivision thereof is pledged to the payment of the principal and interest on the bonds.

Fiscal Year Ended June 30, 2005 (amounts expressed in thousands)

9. Reserved Fund Balances:

Reserved fund balances at June 30, 2005 for the General Fund and the Redevelopment Debt Service Fund consist of the following:

Reserved for:	General Fund	Redevelopment Debt Service Fund
Encumbrances	$ 8,918	$ -
Interfund receivable	33,715	-
Debt service	-	13,499
Prepaid items	176	-
Notes receivable	70	-
Police Asset Forfeiture	523	-
Fire bond	1,085	-
Total reserved fund balance	$44,487	$13,499

10. Interfund Assets, Liabilities and Transfers

Due From/To Other Funds: These balances resulted from expenditures being incurred prior to receipt of the related revenue source.

The following table shows amounts receivable/payable between funds within the City at June 30, 2005:

Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental funds	$2,001
	Nonmajor enterprise funds	941
	Central stores *	3,979
Electric	General	50
Total		$6,971

* Internal service funds

Advances To/From Other Funds: These balances consist of advances used to fund capital projects in advance of related financing/assessments and for other long-term borrowing purposes.

The following table shows amounts advanced from funds within the City to other funds within the City at June 30, 2005:

Receivable Fund	Payable Fund	Amount
General	Electric	$13,690
	Water	5,890
	Sewer	3,768
	Nonmajor governmental funds	5,163
	Nonmajor enterprise funds	3,532
	Workers' compensation *	247
	Central stores *	259
	Central garage *	1,166
Redevelopment debt service	General	228
Electric	General	3
Water	General	48
Sewer	General	968
	Nonmajor governmental funds	8,000
	Nonmajor enterprise funds	1,760
Nonmajor govermental funds	General	232
Workers' compensation *	General	667
	Nonmajor governmental funds	1,839
Total		$47,460

* Internal service funds

Fiscal Year Ended June 30, 2005 (amounts expressed in thousands)

Transfers In/Out: Transfers are used to (1) move revenues to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, (3) move the remaining fund balances of closed funds to the General fund and (4) use unrestricted revenues collected in the General fund to finance various programs accounted for in the other funds in accordance with budgetary operations.

The following table shows amounts transferred to/from funds within the City as of June 30, 2005:

Transfer In Fund	Transfer Out Fund	Amount
General	Electric	$18,572
	Water	3,487
	Nonmajor governmental funds	787
Redevelopment debt Service	Nonmajor governmental funds	8,575
Electric	General	363
Water	General	150
Sewer	General	172
Nonmajor governmental funds	General	935
	Redevelopment debt service	17,068
	Nonmajor governmental funds	520
Nonmajor enterprise funds	General	6,456
Total		$57,085

11. Deficit Fund Balance

A deficit fund balance of $55 exists in the Library fund at fiscal year end. This deficit will be recovered through the normal course of business in the upcoming year

12. Litigation

The City is a defendant in various lawsuits arising in the normal course of operations. City management, based in part on the opinion of outside legal counsel, does not believe that the ultimate resolution of these matters will have a material affect on the financial position or results of operations of the City. Management also believes that adequate reserves exist in the internal service funds to cover outstanding lawsuits.

On January 1, 2003, the City became a Participating Transmission Owner with the California Independent System Operator (ISO), entitling the City to receive compensation for use of its transmission facilities committed to the ISO's operational control. The compensation is based upon the City's Transmission Revenue Requirement (TRR) as approved by the Federal Energy Regulatory Commission (FERC). The California Investor Owned Utilities (IOU's), the California Department of Water Resources (CDWR), and the CPUC, among others, objected to various aspects of the City's TRR at the FERC. The City and the objecting parties submitted a settlement agreement for filing. The settlement agreement disposes of all City TRR issues except for CDWR's and CPUC's contention that the City is not entitled to its TRR for the majority of the transmission facilities committed to the ISO's control. After trial on this issue, the FERC Administrative Law Judge rendered a decision in favor of the City in March 2005. The objecting parties are appealing this decision to the full Commission. It is unknown when the Commission will render its decision. If the objecting parties prevail upon appeal, the City may have to refund to the ISO up to $26,600 collected through June 30, 2005.

13. City Employees Retirement Plan

(A) Plan Description. The City of Riverside contributes to the California Public Employees Retirement System (CalPERS), an agent multiple employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. Copies of CalPERS annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

(amounts expressed in thousands)

(B) Funding Policy. Participants are required to contribute 8% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the fiscal year 2004-2005 rate was 12.340% for non-safety employees, and 31.248% for safety employees, of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

(C) Annual Pension Cost. For 2005, the City's annual pension cost of $28,948 for CalPERS was equal to it's annual required contribution of $29,056 less the effect of amortization of the net pension asset of $108. The required contribution was determined as part of the June 30, 2002 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected salary increases of 3.75% per year compounded annually, attributable to inflation, and (c) 3.5% expected long term inflation. The actuarial value of CalPERS assets was determined using techniques that smooth the affects of short-term volatility in the market value of investments over a four-year period (smoothed market value). CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over 20 years.

Three-year trend information for CalPERS:

Fiscal Year June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
2003	12,196	100%	$0
2004	20,051	540%	($88,300)
2005	28,948	305%	($147,842)

Schedule of funding for CalPERS (unaudited):

Plan	Actuarial Valuation Date	Entry Age Normal Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Unfunded/ (Overfunded) Actuarial Accrued Liability (UAAL)	% Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
Misc.	6/30/02	$498,057	507,610	(9,553)	101.9	72,257	(13.2)
Safety	6/30/02	381,311	328,395	52,916	86.1	41,038	128.9
Misc.	6/30/03	568,712	511,281	57,431	89.9	75,838	75.7
Safety	6/30/03	413,125	329,673	83,451	79.8	44,611	187.1
Misc.	6/30/04	611,841	537,352	74,488	87.8	77,960	95.5
Safety	6/30/04	454,795	440,172	14,623	96.8	48,635	30.1

During the year, the City issued Pension Obligation Bonds (POB) in the amount of $60,000 in order to partially fund the unfunded actuarial accrued liability (UUAL) for non-safety employees. The projected actuarial certified unfunded liability for non-safety employees at June 30, 2005 was $73,400. Proceeds from the bonds of $59,434 were deposited with CalPERS which is recorded as a special item in the Statements of Changes in Revenues, Expenditures and Changes in Fund Balances for the funds affected. A total of $147,842 of net pension assets, which includes the 2004 POB sourced deposit of $88,300, are included as a deferred charge in the Government-wide Statement of Net Assets. The deferred charge relating to the net pension assets will be amortized over 19 years in accordance with the method used by CalPERS for calculating actuarial gains and losses.

14. Commitments and Contingencies

A. Long-Term Electric Utility Commitments

Intermountain Power Agency

The City's Electric Utility has entered into a Power Purchases Contract with the Intermountain Power Agency (IPA) for delivery of electric power. The City's share of IPA power is equal to 7.6%, or approximately 137.1 megawatts, of the generation output of IPA's 1,800 megawatt coal-fueled generating station, located in Central Utah. The contract expires in 2027 and the debt fully matures in 2024.

(amounts expressed in thousands)

The contract constitutes an obligation of the Electric Utility to make payments solely from operating revenues and requires payment of certain minimum charges, which are based on debt service requirements. Such payments are considered a cost of production and are quantified below.

Southern California Public Power Authority

The Electric Utility is a member of the Southern California Public Power Authority (SCPPA), a joint powers agency. SCPPA provides for the financing and construction of electric generating and transmission projects for participation by some or all of its members. To the extent the Electric Utility participates in projects developed by SCPPA, the Electric Utility is obligated for its proportionate share of the project cost. The projects and the Electric Utility's proportionate share of SCPPA's obligations are as follows:

Project	Percent Share	Entitlement
Palo Verde Nuclear Generating Station	5.40%	11.7MW
Southern Transmission System	10.20%	195.0MW
Hoover Dam Uprating	31.91%	30.0MW
Mead – Phoenix Transmission	4.00%	12.0MW
Mead – Adelanto Transmission	13.50%	118.0MW

Terms of Take or Pay Commitments

As part of the take or pay commitments with IPA and SCPPA, the Electric Utility has agreed to pay its share of current and long-term obligations. Payment for these obligations will be made from operating revenues received during the year that payment is due. A long-term obligation has not been recorded on the accompanying financial statements for these commitments. Interest rates on the outstanding debt associated with the take or pay obligations range from 3.0% to 6.125%. The following schedule details the amount of principal and interest, which is due and payable by the Electric Utility for each project in the fiscal year indicated.

	IPA	SCPPA					
Fiscal Year	Inter-mountain Power Project	Palo Verde Nuclear Generating Project	Trans-mission System Project	Hoover Dam Uprating	Mead–Phoenix Trans-mission	Mead-Adelanto Trans-mission	Total
2006	$ 22,532	$ 830	$ 6,968	$ 708	$ 132	$ 1,388	$ 32,558
2007	22,361	825	7,192	704	259	2,816	34,157
2008	22,847	825	6,693	704	260	2,819	34,148
2009	22,087	825	6,575	704	259	2,814	33,264
2010	23,026	688	6,329	703	259	2,818	33,823
Thereafter	269,997	4,812	100,586	5,569	2,871	30,744	414,579
Total	$382,850	$8,805	$134,343	$9,092	$4,040	$43,399	$582,529

Take-or-pay commitments expire upon final maturity of outstanding bonds for each project. Final fiscal year maturities are as follows:

Project	Final Maturity Date
Intermountain Power Project	2024
Palo Verde Nuclear Generating System	2017
Southern Transmission System	2023
Hoover Dam Uprating	2017
Mead-Phoenix Transmission	2020
Mead-Adelanto Transmission	2020

In addition to debt service, Riverside's entitlement requires the payment for fuel costs, operating and maintenance, administrative and general and other miscellaneous costs associated with the generation and transmission facilities discussed above. These costs do not have a similar structured payment schedule as debt service and vary each year. The costs incurred for 2004 and 2005 fiscal years are as follows:

Fiscal Year	IPA	PV	STS	MAP	MPP	Hoover	Total
2005	21,362	1,906	1,714	212	43	90	25,327

B. Other Commitments

Power Purchase Agreements:

The City has executed five firm power purchase agreements for non-renewable power. The agreements are with Deseret Generation and Transmission Cooperative (Deseret) of Murray, Utah; CDWR; and Bonneville Power Administration (BPA). The minimum annual obligations under each of these contracts are shown in the table below.

(amounts expressed in thousands)

Minimum Obligations 2005-2006

Supplier	Capacity	Energy	Total
Deseret	$3,463	$1,839	$5,302
CDWR III	523	-	523
CDWR IV	682	-	682
BPA	1,810	-	1,810
	$6,478	$1,839	$8,317

The agreement with Deseret is for five megawatts of capacity and associated energy from January 1, 1992, through December 31, 1994, then increasing to 52 megawatts of capacity and associated energy through December 31, 2009. A notice of termination of the power purchase agreement was provided to Deseret effective March 31, 1998, resulting in litigation that was settled on July 31, 1999. Under the terms of the settlement agreement, the notice of termination was rescinded and the power purchase agreement was amended to reflect substantial price reductions after fiscal year 2002 through the term of the agreement in 2009. In exchange, the Electric Utility paid Deseret $25 million from reserves, which is reflected on the Statement of Net Assets as unamortized purchase power. On July 1, 2002, the Electric Utility began to amortize the related price reductions, and will continue to amortize the remaining balance over the term of the agreement using the straight-line method. As of June 30, 2005, unamortized purchased power was $15,034 and the Electric Utility had recorded amortization of $3,341.

There are two separate agreements with CDWR. The two agreements, CDWR III and IV are for the purchase of 23 and 30 megawatts of capacity and associated energy from May through October. CDWR III and CDWR IV are for a period of 15 years beginning June 1, 1996, subject to termination. In early 2005, CDWR and the City disagreed upon whether the Power Sale Agreements III and IV were still in effect as of December 31, 2004. While CDWR believed the agreements were terminated, the City contended that CDWR did not provide proper notification under the terms of the power sale agreements. During May and June, CDWR continued to provide power under the original terms of the contracts, pending staff's resolution of the dispute. On September 13, 2005, in order to maintain the City's long-term relationship with CDWR and to avoid costly litigation, City Council approved the contract amendments, effectively terminating the contract in 2007 and reducing the final two years of the contracts to a period of May through September.

An agreement with Bonneville Power Administration (BPA) is for a purchase of firm capacity and associated energy of 23 megawatts in the summer and 16 megawatts in the winter for a period of twenty years ending February 1, 2011. A second agreement with BPA was executed in 1996 and is for the purchase of firm capacity (50 megawatts during the summer months and 13 megawatts during the winter months) and associated energy beginning April 30, 1996 for twenty years. Effective May 1, 1998, these summer and winter capacity amounts increased to 60 and 15 magawatts, respectively, for the remainder of the second agreement.

On July 8, 2003, and June 6, 2003, the City Council and Public Utilities Board, respectively, adopted the Renewable Portfolio Standard to increase procurement of renewable resources to reach a target of 20 percent of the Utility's energy from renewable sources by 2015. The contracts in the following table were executed as part of compliance with this standard. The Electric Utility has agreements with Bonneville Power Administration for the purchase of energy credits that add to the total renewable portfolio. In the current year, renewable resources provided approximately 14 percent of the retail energy requirements, approximately 10 percent of the total power supply.

Long-term renewable power purchase agreements:

Supplier	Type	Maximum Contract	Contract Expiration	Estimated Annual Cost for 2006
Milliken Genco	Landfill Gas	2.3MW	12/31/2007	$ 825
Mid Valley Genco	Landfill Gas	2.3MW	12/31/2007	943
Riverside County (Badlands Landfill)	Landfill Gas	1.2MW	12/31/2008	255
Wintec	Wind	1.3MW	4/30/2018	162
Salton Sea	Geothermal	20.0MW	5/31/2013	9,619
Total		27.1MW		$11,804

Under the terms of the renewable power purchase agreements, Riverside's financial obligation is only for actual energy delivered.

On August 23, 2005, the City Council approved an amendment to the Power Sales Agreement between Salton Sea and the City. The agreement increases the amount of renewable energy available to the City from the current 20 MW to 46 MW effective June 1, 2009 through May 31, 2020, at the same price under the current contract until 2013, with escalation thereafter based on an inflationary type index. Similar to other renewable power purchase agreements, the City is only obligated for purchases of energy delivered to the City.

Construction Commitments:

As of June 30, 2005, the Electric Utility had major construction commitments of approximately $28,100 with respect to unfinished capital projects, of which $21,300 is for construction of an $85 million, 100 megawatt power plant. Of these commitments, $1,400 is expected to be funded by others, $24,600 funded by bonds and $2,100 funded by rates.

As of June 30, 2005, the Water Utility had major construction commitments of approximately $648 with respect to unfinished capital projects, which is expected to be funded by rates.

C. Jointly Governed Organizations

On November 1, 1980, the City of Riverside joined with the cities of Los Angeles, Anaheim, Vernon, Azusa, Banning, Colton, Burbank, Glendale, Pasadena, and Imperial Irrigation District to create the Southern California Public Power Authority (SCPPA) by a Joint Powers Agreement under the laws of the State of California. As of July 2001, the cities of Cerritos and San Marcos were admitted as members of SCPPA. In August 2003, the Authority rescinded the membership of the City of San Marcos, as the City no longer met the criteria for membership. The primary purpose of the Authority is to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. The Authority is governed by a Board of Directors, which consists of one representative for each of the members. During the 2005 fiscal year, the Electric Utility paid approximately $13,032 to SCPPA under various take-or-pay contracts, which are described in greater detail in Note 14A. These payments are reflected as a component of purchased power in the financial statements.

On July 1, 1990, the City of Riverside joined with the cities of Azusa, Banning and Colton to create the Power Agency of California (Agency) by a Joint Powers Agreement under the laws of the State of California. The City of Anaheim joined the Agency on July, 1 1996. The primary purpose of the Agency is to take advantage of economies of scale resulting from the five cities acting in concert. The Agency has the ability to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. The Agency is governed by a Board of Directors (the Board), which consists of one representative for each of the members. The term of the Joint Powers Agreement is fifty years. On April 5, 2001 the Board placed the Agency in an inactive status, effective June 30, 2001. It can only be reactivated with authorization from the Agency Board.

On July 1, 1993, the City of Riverside joined with the cities of Anaheim, Colton, Compton, Healdsburg, Los Angeles, Palo Alto, Pasadena, Redding, the North Marin Water District, the Northern California Power Agency, the Sacramento Municipal Utility District, and Turlock Irrigation District to create the Financing Authority for Resource Efficiency of California (FARECal). The City of Santa Cruz joined in 1994, Trinity Public Utility District joined in 1996, and the cities of Azusa and Victorville joined in 2002. The primary purpose of FARECal is to issue bonds and use the proceeds to promote, advance, encourage and participate in conservation, reclamation and other programs that are designed to utilize energy or water resources more efficiently. FARECal is administered by a Board of Directors currently represented by the cities of Anaheim, Colton, Palo Alto, Pasadena, Azusa, Riverside and Trinity Public Utility District.

D. Jointly-Owned Utility Project

Pursuant to the Settlement Agreement with Southern California Edison (SCE) dated August 4, 1972, the City was granted the right to acquire a 1.79% ownership interest in San Onofre Nuclear Generating Station (SONGS) Units 2 and 3. Pursuant to the Settlement Agreement, SCE agreed to provide the necessary transmission service to deliver the output of SONGS to Riverside. SCE and the City entered into the SONGS Participation Agreement which sets forth the terms and conditions under which the City, through the Electric Utility, participates in the ownership and output of SONGS. Other participants in this project include SCE, 75.05 percent; San Diego Gas and Electric Company, 20.00 percent; and the City of Anaheim, 3.16 percent. Maintenance and operation of SONGS remains the responsibility of SCE, as operating agent for the City.

SCE, as operating agent, has declared an "operating impairment" due to deterioration of the steam generators ("SGs"), which would likely result in permanent shutdown of the plant in the 2009-2010 timeframe. The estimated cost to replace the SGs is $680 million, of which approximately $12.2 million would represent the City's share. The replacement is expected to enable plant operations through at least 2022, and perhaps beyond if Nuclear Regulatory Commission approval is obtained. Although the City Council has approved participation in the replacement of the SGs, both the City of Anaheim and San Diego Gas and Electric Company have opted not to participate. As a result, upon replacement of the SGs, Riverside will retain its

1.79 percent share and SCE will assume the interest of those entities opting out, for a combined 98.21 percent interest in both units 1 and 2 at SONGS.

There are no separate financial statements for the jointly-owned utility plant since each participant's interest in the utility plant and operating expenses is included in their respective financial statements. The Electric Utility's share of the capitalized construction cost and operating expenses is included in the financial statements. As of June 30, 2005, Riverside's 1.79% share of the capitalized construction costs for SONGS totaled $132,912 with accumulated depreciation of $97,647. The Electric Utility made provisions during fiscal year 2005 for nuclear fuel burn of $991 and for future decommissioning cost of $1,581 (See Note 1). The Electric Utility's portion of current and long-term debt associated with SONGS is included in the accompanying financial statements.

As a participant in the SONGS, the Electric Utility could be subject to assessment of additional insurance premiums in the event of a nuclear incident at San Onofre or any other licensed reactor in the United States.

E. Contingencies

To comply with certain State and local regulations, the City is funding the costs of closure and "final capping" of the Tequesquite landfill located in the City. This area, comprised of approximately 120 acres, operated as a "Class II Sanitary Landfill" until its closure in 1985. During its operation, the landfill did not accept hazardous waste and no clean up and abatement or cease and desist orders have been issued to the City.

The estimated costs as determined by an independent consultant and updated by the City's Engineering Department are associated with flood control upgrades, remediation of possible ground water contamination and control of methane gas. There is the potential for these estimates to change due to inflation, deflation, technology, or change in application laws or regulations. To fund the cost, the City imposed a landfill capping surcharge on customers effective August 1, 1988. The minimum unamortized estimated cost of $4,955 is recorded as a deferred charge in the accompanying financial statements of the Refuse fund and is being amortized on a straight-line basis over the remaining post closure period, currently 26 years. The estimated cost of meeting the State's requirements was increased by 2.2 million during 2002 based on the engineer's annual review of closure and post-closure maintenance costs. Additionally, payments made during the year of $399 reduced that liability to its June 30, 2005 balance of $3,723 as reflected in the balance sheet of the Refuse fund.

15. Special Item

In 1984 the City Council adopted a report by and recommendations of the Riverside Canal Abandonment Task Force, which outlined abandoning those portions of the Riverside Canal ("canal") that do not serve any agricultural water conveyance purposes. One critical component of the abandonment required significant construction of new storm drain facilities to carry water that would otherwise be carried in the canal. During the current fiscal year, the required construction by the Water Fund has been completed. The remaining portions of the storm drain will be constructed in conjunction with a development project planned adjacent to the canal, and upon completion, the water fund will then abandon it's portions of the canal. These new facilities will be owned and operated by the Riverside County Flood Control District. As a result, the water fund has recorded a charge against operations in the current period of $3,014, comprising $1,147 in current period and $1,867 in prior period construction costs.

16. Subsequent Event

On September 13, 2005, the City Council authorized the issuance of up to $130,000 Electric ($65,000 Series A and $65,000 Series B) and $65,000 Water, variable rate, Revenue and Refunding bonds, in the form of Auction Rate Securities, to finance capital improvement programs and refund certain existing Electric and Water bonds. $60,000 of Electric and $30,000 of Water revenue bonds will be used to finance the costs of certain improvements to the City's Electric and Water System as part of the Capital Improvement Program. The remaining portion will be used to refund all the outstanding 1994 Farecal bond issue and a portion of the outstanding 1998 and 2001 Electric and Water bond issues.

The City Council also approved entering into synthetic interest rate swap agreements on the entire not-to-exceed $130,000 Electric and $65,000 Water issuances. Under the swap agreements, the City pays the counterparty a fixed rate of 3.201% on the Electric 2005 Series A, 3.204% on the Electric 2005 Series B, and 3.2% on the Water 2005 Revenue and Refunding bonds. In exchange the City receives a floating rate index equal to 62.68% of the London Interbank Offered Rate (LIBOR), plus 12 basis points.

Also on September 13, 2005, the City Council authorized a similarly structured synthetic rate swap agreement for the outstanding $82,500 Electric 2004 Series B, Auction Rate Securities. Under the swap agreement, the City pays the counterparty a fixed rate of 3.111% and in exchange the City receives a floating rate index equal to 62.68% of LIBOR, plus 12 basis points.

Although pricing has been determined, the actual issuance and closing for the 2005 Revenue and Refunding bonds will occur on October 6, 2005.

Various risks associated with these derivative instruments (including credit, counterparty, basis, and tax risk) have been identified and analyzed, and are considered acceptable by management, in order to hedge against rising interest rates and better manage the Electric and Water Utility's balance sheets.

CITY OF
RIVERSIDE

City of Riverside
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005
(amounts expressed in thousands)

	Special Revenue							
Assets	**Library**	**Gas Tax**	**Air Quality Improvement**	**Housing & Community Development**	**Redevelop-ment Agency**	**Special Designation**	**NPDES Storm Drain**	**Total**
Cash and investments	$ 2,568	$ 9,430	$ 439	$ 133	$ 4,243	$ 1,666	$ -	$ 18,479
Cash and investments at fiscal agent	-	-	-	6	12,702	-	-	12,708
Receivables (net of allowances								
for uncollectibles):								
Interest	-	101	4	-	31	16	-	152
Property taxes	362	-	-	-	-	-	-	362
Accounts	-	-	-	2	-	-	-	2
Intergovernmental	12	492	-	2,304	-	-	315	3,123
Notes	-	-	-	5,662	7,240	-	-	12,902
Land & improvements held for resale	-	-	-	-	106	-	-	106
Total assets	$ 2,942	$ 10,023	$ 443	$ 8,107	$ 24,322	$ 1,682	$ 315	$ 47,834
Liabilities and Fund Balances								
Liabilities								
Accounts payable	$ 141	$ 379	$ 3	$ 548	$ 16	$ -	$ 1	$ 1,088
Retainage payable	-	745	-	8	-	-	-	753
Unearned revenue	308	-	-	5,798	7,154	-	-	13,260
Deposits	-	-	-	-	10	-	-	10
Due to other funds	-	-	-	1,131	-	-	314	1,445
Advances from other funds	2,548	-	-	622	-	-	-	3,170
Total liabilities	2,997	1,124	3	8,107	7,180	-	315	19,726
Fund balances (deficits):								
Reserved for encumbrances	111	1,368	1	710	734	-	-	2,924
Reserved for notes receivable	-	-	-	-	87	-	-	87
Reserved for land and improvements								
held for resale	-	-	-	-	106	-	-	106
Unreserved, designated for future operations	1,565	3,861	134	-	13,984	-	-	19,544
Unreserved, undesignated	(1,731)	3,670	305	(710)	2,231	1,682	-	5,447
Total fund balances (deficits)	(55)	8,899	440	-	17,142	1,682	-	28,108
Total liabilities and fund balances	$ 2,942	$ 10,023	$ 443	$ 8,107	$ 24,322	$ 1,682	$ 315	$ 47,834

continued

City of Riverside
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005
(amounts expressed in thousands)

	Debt Service			Capital Projects			
Assets	Debt Service	Riverside Municipal Improvements Corporation	Total	Capital Outlay	Special Capital Improvement	Storm Drain	Transportation
Cash and investments	$ 47	$ 92	$ 139	$ 44,419	$ 22,100	$ 4,336	$ -
Cash and investments at fiscal agent	-	642	642	-	6,434	-	-
Receivables (net of allowances for uncollectibles):							
Interest	-	1	1	438	235	45	-
Accounts	-	-	-	52	-	13	-
Intergovernmental	-	-	-	5,026	165	-	118
Prepaid items	-	-	-	-	523	-	-
Advances to other funds	-	-	-	-	-	4	-
Land & improvements held for resale	-	-	-	-	-	-	-
Total assets:	$ 47	$ 735	$ 782	$ 49,935	$ 29,457	$ 4,398	$ 118
Liabilities and Fund Balances							
Liabilities							
Accounts payable	$ -	$ -	$ -	$ 1,261	$ 126	$ -	$ 2
Retainage payable	-	-	-	92	611	-	-
Unearned revenue	-	-	-	1,396	23	25	27
Due to other funds	-	-	-	-	507	-	49
Advances from other funds	-	-	-	5,000	-	-	-
Total liabilities	-	-	-	7,749	1,267	25	78
Fund balances							
Reserved for encumbrances	-	-	-	14,351	1,207	374	-
Reserved for interfund receivable	-	-	-	-	-	4	-
Reserved for debt service	47	735	782	-	-	-	-
Reserved for prepaid Items	-	-	-	-	523	-	-
Unreserved, designated for future operations	-	-	-	27,467	13,183	3,289	-
Unreserved, undesignated	-	-	-	368	13,277	706	40
Total fund balances	47	735	782	42,186	28,190	4,373	40
Total liabilities and fund balances	$ 47	$ 735	$ 782	$ 49,935	$ 29,457	$ 4,398	$ 118

continued

City of Riverside
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005
(amounts expressed in thousands)

	Capital Projects		Permanent Fund	
Assets	**Redevelopment Agency**	**Total**	**Library Special**	**Total Nonmajor Governmental Funds**
Cash and investments	$ 22,937	$ 93,792	$ 1,200	$ 113,610
Cash and investments at fiscal agent	19,640	26,074	-	39,424
Receivables (net of allowances for uncollectibles):				
Interest	225	943	-	1,096
Property Taxes	-	-	-	362
Accounts	106	171	-	173
Intergovernmental	505	5,814	-	8,937
Notes	4,222	4,222	-	17,124
Prepaid items	3,829	4,352	-	4,352
Advances to other funds	228	232	-	232
Land & improvements held for resale	6,280	6,280	-	6,386
Total assets:	$ 57,972	$ 141,880	$ 1,200	$ 191,696
Liabilities and Fund Balances				
Liabilities				
Accounts payable	$ 3,667	$ 5,056	$ -	$ 6,144
Retainage payable	28	731	-	1,484
Unearned revenue	3,891	5,362	-	18,622
Deposits	34	34	-	44
Due to other funds		556	-	2,001
Advances from other funds	6,832	11,832	-	15,002
Total liabilities	14,452	23,571	-	43,297
Fund balances				
Reserved for encumbrances	1,983	17,915	-	20,839
Reserved for interfund receivable	228	232	-	232
Reserved for debt service	-	-	-	782
Reserved for library services	-	-	1,073	1,073
Reserved for prepaid Items	3,829	4,352	-	4,352
Reserved for notes receivable	427	427	-	514
Reserved for land and improvements held for resale	6,280	6,280	-	6,386
Unreserved, designated for future operations	27,745	71,684	127	91,355
Unreserved, undesignated	3,028	17,419	-	22,866
Total fund balances	43,520	118,309	1,200	148,399
Total liabilities and fund balances	$ 57,972	$ 141,880	$ 1,200	$ 191,696

City of Riverside
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the fiscal year ended June 30, 2005
(amounts expressed in thousands)

	Special Revenue							
	Library	Gas Tax	Air Quality Improvement	Housing and Community Development	Redevelopment Agency	Special Designation	NPDES Storm Drain	Total
Revenues								
Taxes	$ 4,796	$ -	$ -	$ -	$ 4,248	$ -	$ -	$ 9,044
Intergovernmental	191	5,708	331	8,984	-	-	-	15,214
Charges for services	8	-	-	-	-	-	-	8
Fines and forfeitures	210	-	-	-	-	-	-	210
Special assessments	-	-	-	-	-	-	595	595
Rental and investment income	15	178	8	63	297	33	-	594
Miscellaneous	25	24	-	1,998	317	127	-	2,491
Total revenues	5,245	5,910	339	11,045	4,862	160	595	28,156
Expenditures								
Current:								
General government	-	1,168	167	953	860	-	200	3,348
Culture and recreation	7,820	-	-	-	-	-	-	7,820
Capital outlay	-	4,379	21	9,475	941	-	115	14,931
Total expenditures	7,820	5,547	188	10,428	1,801	-	315	26,099
Excess (deficiency) of revenues over (under) expenditures	(2,575)	363	151	617	3,061	160	280	2,057
Other financing sources (uses)								
Transfers in	735	-	-	-	200	-	-	935
Transfers out	-	-	-	-	(2,517)	(657)	-	(3,174)
Proceeds from issuance of long-term obligations	-	-	-	-	12,700	-	-	12,700
Sale of capital assets	497	-	-	-	(170)	-	-	327
Total other financing sources (uses) before special item	1,232	-	-	-	10,213	(657)	-	10,788
Special item - pension contribution	(2,524)	-	-	(617)	-	-	-	(3,141)
Net Change in fund balances	(3,867)	363	151	-	13,274	(497)	280	9,704
Fund balances (deficits) - beginning	3,812	8,536	289	-	3,868	2,179	(280)	18,404
Fund balances (deficits) - ending	$ (55)	$ 8,899	$ 440	-	$ 17,142	$ 1,682	-	$ 28,108

continued

City of Riverside
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the fiscal year ended June 30, 2005
(amounts expressed in thousands)

	Debt Service			Capital Projects			
	Debt Service	Riverside Municipal Improvements Corporation	Totals	Capital Outlay	Special Capital Improvement	Storm Drain	Transportation Projects
Revenues							
Taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Licenses and permits	-	-	-	-	5,961	1,054	-
Intergovernmental	-	-	-	10,519	-	-	352
Charges for services	-	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-	-
Special assessments	-	-	-	1,527	-	32	-
Rental and investment income	1	898	899	811	525	82	-
Miscellaneous	-	-	-	236	162	79	-
Total revenues	1	898	899	13,093	6,648	1,247	352
Expenditures							
Current:							
General government	-	7	7	56	38	-	-
Culture and recreation	-	-	-	-	-	-	-
Capital outlay	-	-	-	16,506	6,656	920	290
Debt service:							
Principal	-	570	570	-	-	-	-
Interest	-	311	311	-	-	-	-
Total expenditures	-	888	888	16,562	6,694	920	290
Excess (deficiency) of revenues over (under) expenditures	1	10	11	(3,469)	(46)	327	62
Other financing sources (uses)							
Transfers in	-	-	-	-	520	-	-
Transfers out	-	-	-	-	(130)	(520)	-
Proceeds from issuance of long-term obligations	-	-	-	-	-	-	-
Sale of capital assets	-	-	-	382	-	-	-
Total other financing sources (uses)	-	-	-	382	390	(520)	-
Net Change in fund balances	1	10	11	(3,087)	344	(193)	62
Fund balances (deficits) - beginning	46	725	771	45,273	27,846	4,566	(22)
Fund balances - ending	$ 47	$ 735	$ 782	$ 42,186	$ 28,190	$ 4,373	$ 40

continued

City of Riverside
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the fiscal year ended June 30, 2005
(amounts expressed in thousands)

	Capital Projects		Permanent Fund	
	Redevelopment Agency	Total	Library Special	Total Nonmajor Governmental Funds
Revenues				
Taxes	$ -	$ -	$ -	$ 9,044
Licenses and permits	-	7,015	-	7,015
Intergovernmental	917	11,788	-	27,002
Charges for services	-	-	-	8
Fines and forfeitures	13	13	-	223
Special assessments	-	1,559	-	2,154
Rental and investment income	1,240	2,658	27	4,178
Miscellaneous	1,572	2,049	116	4,656
Total revenues	3,742	25,082	143	54,280
Expenditures				
Current:				
General government	3,739	3,833	-	7,188
Culture and recreation	-	-	162	7,982
Capital outlay	9,063	33,435	-	48,366
Debt service:				
Principal	-	-	-	570
Interest	-	-	-	311
Total expenditures	12,802	37,268	162	64,417
Deficiency of revenues under expenditures	(9,060)	(12,186)	(19)	(10,137)
Other financing sources (uses)				
Transfers in	17,068	17,588	-	18,523
Transfers out	(6,058)	(6,708)	-	(9,882)
Proceeds from issuance of long-term obligations	1,424	1,424	-	14,124
Sale of capital assets	5,429	5,811	-	6,138
Total other financing sources before special item	17,863	18,115	-	28,903
Special Item - pension contribution	(787)	(787)	-	(3,928)
Net Change in fund balances	8,016	5,142	(19)	14,838
Fund balances - beginning	35,504	113,167	1,219	133,561
Fund balances - ending	$ 43,520	$ 118,309	$ 1,200	$ 148,399

City of Riverside
Schedule of Revenues, Expenditures and Changes in Fund Balances -Budget and Actual
Nonmajor Governmental Funds
For the fiscal year ended June 30, 2005
(amounts expressed in thousands)

	Special Revenue								
	Library			Gas Tax			Air Quality Improvement		
	Final Budget	Actual	Variance to Final Budget	Final Budget	Actual	Variance to Final Budget	Final Budget	Actual	Variance to Final Budget
Revenues									
Taxes	$ 4,468	$ 4,796	$ 328	$ -	$ -	$ -	$ -	$ -	$ -
Licenses and permits	-	-	-	-	-	-	-	-	-
Intergovernmental	276	191	(85)	5,050	5,708	658	473	331	(142)
Charges for services	9	8	(1)	-	-	-	-	-	-
Fines and forfeitures	200	210	10	-	-	-	-	-	-
Special assessments	-	-	-	-	-	-	-	-	-
Rental and investment income	14	15	1	250	178	(72)	-	8	8
Miscellaneous	115	25	(90)	-	24	24	-	-	-
Total revenues	5,082	5,245	163	5,300	5,910	610	473	339	(134)
Expenditures									
Current									
General government	-		-	1,179	1,168	11	289	167	122
Culture and recreation	9,606	7,820	1,786	-	-	-	-	-	-
Capital outlay	-	-	-	10,785	4,379	6,406	102	21	81
Total expenditures	9,606	7,820	1,786	11,964	5,547	6,417	391	188	203
Excess (deficiency) of revenues over (under) expenditures	(4,524)	(2,575)	1,949	(6,664)	363	7,027	82	151	69
Other financing sources (uses)									
Transfers in	735	735	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-
Sale of capital assets	-	497	497	-	-	-	-	-	-
Total other financing sources	735	1,232	497	-	-	-	-	-	-
Special item - pension contribution	-	(2,524)	(2,524)	-	-	-	-	-	-
Net change in fund balances	(3,789)	(3,867)	(78)	(6,664)	363	7,027	82	151	69
Fund balances, beginning	3,812	3,812	-	8,536	8,536	-	289	289	-
Fund balances, ending	$ 23	$ (55)	$ (78)	$ 1,872	$ 8,899	$ 7,027	$ 371	$ 440	$ 69

continued

City of Riverside
Schedule of Revenues, Expenditures and Changes in Fund Balances -Budget and Actual
Nonmajor Governmental Funds
For the fiscal year ended June 30, 2005
(amounts expressed in thousands)

	Special Revenue								
	Housing & Community Development			Redevelopment Agency			Special Designation		
	Final Budget	Actual	Variance to Final Budget	Final Budget	Actual	Variance to Final Budget	Final Budget	Actual	Variance to Final Budget
Revenues									
Taxes	$ -	$ -	$ -	$ 3,360	$ 4,248	$ 888	$ -	$ -	$ -
Licenses and permits	-	-	-	-	-	-	-	-	-
Intergovernmental	17,058	8,984	(8,074)	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-	-	-	-
Rental and investment income	19	63	44	57	297	240	35	33	(2)
Miscellaneous	2,044	1,998	(46)	65	317	252	-	127	127
Total revenues	19,121	11,045	(8,076)	3,482	4,862	1,380	35	160	125
Expenditures									
Current									
General government	1,072	953	119	988	860	128	-	-	-
Capital outlay	18,078	9,475	8,603	14,998	941	14,057	-	-	-
Total expenditures	19,150	10,428	8,722	15,986	1,801	14,185	-	-	-
Excess (deficiency) of revenues over (under) expenditures	(29)	617	646	(12,504)	3,061	15,565	35	160	125
Other financing sources (uses)									
Transfers in	-	-	-	200	200	-	-	-	-
Transfers out	-	-	-	(2,517)	(2,517)	-	(657)	(657)	-
Proceeds from issuance of long-term obligations	-	-	-	12,700	12,700	-	-	-	-
Sale of capital assets	-	-	-	-	(170)	(170)	-	-	-
Total other financing sources (uses) before special item	-	-	-	10,383	10,213	(170)	(657)	(657)	-
Special item - pension contribution	-	(617)	(617)	-	-	-	-	-	-
Net change in fund balances	(29)	-	29	(2,121)	13,274	15,395	(622)	(497)	125
Fund balances, beginning	-	-	-	3,868	3,868	-	2,179	2,179	-
Fund balances (deficits), ending	$ (29)	$ -	$ 29	$ 1,747	$ 17,142	$ 15,395	$ 1,557	$ 1,682	$ 125

City of Riverside
Schedule of Revenues, Expenditures and Changes in Fund Balances -Budget and Actual
Nonmajor Governmental Funds
For the fiscal year ended June 30, 2005
(amounts expressed in thousands)

	Special Revenue			Capital Projects					
	NPDES Storm Drain			Capital Outlay			Special Capital Improvements		
	Final Budget	Actual	Variance to Final Budget	Final Budget	Actual	Variance to Final Budget	Final Budget	Actual	Variance to Final Budget
Revenues									
Licenses and permits	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 5,961	$ 5,961
Intergovernmental	-	-	-	24,656	10,519	(14,137)	365	-	(365)
Special assessments	397	595	198	350	1,527	1,177	-	-	-
Rental and investment income	-	-	-	500	811	311	-	525	525
Miscellaneous	-	-	-	157	236	79	22	162	140
Total revenues	397	595	198	25,663	13,093	(12,570)	387	6,648	6,261
Expenditures									
Current									
General government	447	200	247	123	56	67	-	38	(38)
Capital outlay	93	115	(22)	66,306	16,506	49,800	21,120	6,656	14,464
Total expenditures	540	315	225	66,429	16,562	49,867	21,120	6,694	14,426
Excess (deficiency) of revenues over (under) expenditures	(143)	280	423	(40,766)	(3,469)	37,297	(20,733)	(46)	20,687
Other financing sources (uses)									
Transfers in	-	-	-	-	-	-	520	520	-
Transfers out	-	-	-	-	-	-	-	(130)	(130)
Sale of capital assets	-	-	-	-	382	382	-	-	-
Total other financing sources	-	-	-	-	382	382	520	390	(130)
Net change in fund balances	(143)	280	423	(40,766)	(3,087)	37,679	(20,213)	344	20,557
Fund balances (deficits), beginning	(280)	(280)	-	45,273	45,273	-	27,846	27,846	-
Fund balances (deficits), ending	$ (423)	$ -	$ 423	$ 4,507	$ 42,186	$ 37,679	$ 7,633	$ 28,190	$ 20,557

City of Riverside
Schedule of Revenues, Expenditures and Changes in Fund Balances -Budget and Actual
Nonmajor Governmental Funds
For the fiscal year ended June 30, 2005
(amounts expressed in thousands)

	Capital Projects								
	Storm Drain			Transportation			Redevelopment Agency		
	Final Budget	Actual	Variance to Final Budget	Final Budget	Actual	Variance to Final Budget	Final Budget	Actual	Variance to Final Budget
Revenues									
Licenses and permits	$ 150	$ 1,054	$ 904	$ -	$ -	$ -	$ -	$ -	$ -
Intergovernmental	-	-	-	322	352	30	1,268	917	(351)
Fines and forfeitures	-	-	-	-	-	-	-	13	13
Special assessments	70	32	(38)	-	-	-	-	-	-
Rental and investment income	38	82	44	-	-	-	1,149	1,240	91
Miscellaneous	-	79	79	-	-	-	114	1,572	1,458
Total revenues	258	1,247	989	322	352	30	2,531	3,742	1,211
Expenditures									
Current									
General government	-	-	-	-	-	-	4,977	3,739	1,238
Culture and recreation	-	-	-	-	-	-	-	-	-
Capital outlay	3,468	920	2,548	384	290	94	37,719	9,063	28,656
Total expenditures	3,468	920	2,548	384	290	94	42,696	12,802	29,894
Excess (deficiency) of revenues over (under) expenditures	(3,210)	327	3,537	(62)	62	124	(40,165)	(9,060)	31,105
Other financing sources (uses)									
Transfers in	-	-	-	-	-	-	10,418	17,068	6,650
Transfers out	(520)	(520)	-	-	-	-	(6,058)	(6,058)	-
Proceeds from issuance of long-term obligations	-	-	-	-	-	-	1,425	1,424	(1)
Sale of capital assets	-	-	-	-	-	-	-	5,429	5,429
Total other financing sources (uses) before special item	(520)	(520)	-	-	-	-	5,785	17,863	12,078
Special item - pension contribution	-	-	-	-	-	-	-	(787)	(787)
Net change in fund balances	(3,730)	(193)	3,537	(62)	62	124	(34,380)	8,016	42,396
Fund balances (deficits), beginning	4,566	4,566	-	(22)	(22)	-	35,504	35,504	-
Fund balances (deficits), ending	$ 836	$ 4,373	$ 3,537	$ (84)	$ 40	$ 124	$ 1,124	$ 43,520	$ 42,396

City of Riverside
Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2005
(amounts expressed in thousands)

Assets	**Airport**	**Refuse**	**Trans-portation**	**Public Parking**	**Total**
Current assets:					
Cash and investments	$ 123	$ 4,778	$ -	$ 2,301	$ 7,202
Receivables (net of allowances for uncollectibles)					
Interest	4	94	-	-	98
Utility billed	-	428	-	-	428
Utility unbilled	-	596	-	-	596
Accounts	43	67	-	161	271
Intergovernmental	1,664	-	466	-	2,130
Prepaid items	-	-	1	-	1
Restricted assets:					
Cash and cash equivalents	-	3,217	-	-	3,217
Total current assets	1,834	9,180	467	2,462	13,943
Non-current assets:					
Deferred charges	256	6,349	671	188	7,464
Capital assets:	-	-	-	-	-
Land	7,061	-	-	2,103	9,164
Buildings	2,114	-	22	2,373	4,509
Accumulated depreciation-buildings	(770)	-	(6)	(1,693)	(2,469)
Improvements other than buildings	6,853	-	-	325	7,178
Accumulated depreciation-improvements other than buildings	(2,692)	-	-	(325)	(3,017)
Machinery and equipment	276	8,325	1,653	422	10,676
Accumulated depreciation-machinery and equipment	(117)	(5,555)	(894)	(416)	(6,982)
Construction in progress	4,893	-	8	16,666	21,567
Total non-current assets	17,874	9,119	1,454	19,643	48,090
Total assets	19,708	18,299	1,921	22,105	62,033

continued

City of Riverside
Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30,2005
(amounts expressed in thousands)

Liabilities	**Airport**	**Refuse**	**Trans-portation**	**Public Parking**	**Total**
Current liabilities:					
Accounts payable	717	508	12	503	1,740
Accrued payroll	56	675	142	32	905
Unearned revenue	101	-	117	1	219
Due to other funds	-	-	284	657	941
Capital leases-current	17	-	-	-	17
Total current liabilities	891	1,183	555	1,193	3,822
Noncurrent liabilities:					
Capital leases	217	-	-	-	217
Advances from other funds	508	2,917	677	1,190	5,292
Landfill capping	-	3,723	-	-	3,723
Total noncurrent liabilities	725	6,640	677	1,190	9,232
Total liabilities	1,616	7,823	1,232	2,383	13,054
Net assets					
Invested in capital assets, net of related debt	14,221	1,261	783	4,580	20,845
Restricted for other purposes	-	3,217	-	-	3,217
Unrestricted	3,871	5,998	(94)	15,142	24,917
Total net assets	$ 18,092	$ 10,476	$ 689	$ 19,722	$ 48,979

City of Riverside
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Year Ended June 30, 2005
(amounts expressed in thousands)

	Airport	Refuse	Trans-Portation	Public Parking	Totals
Operating revenues:					
Charges for services	$ 1,088	$ 14,492	$ 200	$ 2,961	$ 18,741
Operating expenses:					
Personal services	447	2,686	1,360	322	4,815
Contractual services	23	2,944	24	672	3,663
Maintenance and operation	186	4,113	329	179	4,807
General	222	1,625	158	(496)	1,509
Materials and supplies	13	608	191	3	815
Insurance	27	147	188	74	436
Depreciation and amortization	242	664	301	68	1,275
Total operating expenses	1,160	12,787	2,551	822	17,320
Operating income (loss)	(72)	1,705	(2,351)	2,139	1,421
Nonoperating revenues (expenses):					
Operating grants	182	-	2,079	-	2,261
Interest income	-	150	-	137	287
Other	1,829	169	-	-	1,998
Loss on retirement of capital assets	(275)	-	(60)	-	(335)
Interest expenses and fiscal charges	(25)	(54)	(6)	(2)	(87)
Total nonoperating revenues	1,711	265	2,013	135	4,124
Income (loss) before capital contributions and transfers	1,639	1,970	(338)	2,274	5,545
Capital contributions	37	179	44	-	260
Transfers in	99	193	-	6,164	6,456
Change in net assets	1,775	2,342	(294)	8,438	12,261
Total net assets - beginning	16,317	8,134	983	11,284	36,718
Total net assets - ending	$ 18,092	$ 10,476	$ 689	$ 19,722	$ 48,979

City of Riverside
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the fiscal year ended June 30, 2005
(amounts expressed in thousands)

	Airport	Refuse	Trans-portation	Public Parking	Totals
Cash flows from operating activities:					
Cash received from customers and users	$ 1,107	$ 14,533	$ 200	$ 2,924	$ 18,764
Cash paid to employees for services	(437)	(2,697)	(1,412)	(325)	(4,871)
Cash paid to other suppliers of goods or services	(504)	(10,271)	(617)	(665)	(12,057)
Other receipts (payments)	(3,063)	169	-	(1,389)	(4,283)
Net cash provided (used) by operating activities	(2,897)	1,734	(1,829)	545	(2,447)
Cash flows from noncapital financing activities:					
Transfers in	99	193	-	6,164	6,456
Operating grants	182	-	1,783	-	1,965
Advances from interfund receivables	2,913	-	-	5,836	8,749
Payments on interfund receivables	-	-	-	1,000	1,000
Advances to other funds	(88)	(751)	-	-	(839)
Net cash provided (used) by noncapital financing activities	3,106	(558)	1,783	13,000	17,331
Cash flows from capital and related financing activities:					
Purchase of capital assets	(1,283)	(866)	(159)	(11,382)	(13,690)
Proceeds from the sale of capital assets	-	-	5	-	5
Principal paid on long-term obligations	(4)	-	-	-	(4)
Interest paid on long-term obligations	(24)	(41)	-	-	(65)
Capital contributions	-	-	44	-	44
Net cash used for capital and related financing activities	(1,311)	(907)	(110)	(11,382)	(13,710)
Cash flows from investing activities:					
Income from investments	-	136	-	138	274
Net cash provided by investing activities	-	136	-	138	274
Net increase (decrease) in cash and cash equivalents	(1,102)	405	(156)	2,301	1,448
Cash and cash equivalents, beginning	1,225	7,590	156	-	8,971
Cash and cash equivalents, ending	$ 123	$ 7,995	$ -	$ 2,301	$ 10,419

continued

City of Riverside
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the fiscal year ended June 30, 2005
(amounts expressed in thousands)

	Airport	Refuse	Trans-portation	Public Parking	Totals
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating Income (loss)	$ (72)	$ 1,705	$ (2,351)	$ 2,139	$ 1,421
Other receipts	1,829	169	-	-	1,998
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	242	664	301	68	1,275
Increase in utility billed receivable	-	23	-	-	23
Increase in utility unbilled receivable	-	(24)	-	-	(24)
(Increase) decrease in accounts receivable	19	47	-	(37)	29
Decrease in intergovernmental receivable	(1,661)	-	-	-	(1,661)
(Increase) in prepaid items	-	-	(1)	-	(1)
(Decrease) in accounts payable	(15)	(398)	(10)	(233)	(656)
Increase (decrease) in accrued payroll	10	(11)	(52)	(3)	(56)
Increase (decrease) in deferred revenue	24	(42)	-	-	(18)
Increase (decrease) in due to other funds	(3,273)	-	284	(1,389)	(4,378)
Decrease in landfill capping	-	(399)	-	-	(399)
Net cash provided (used) by operating activities	$ (2,897)	$ 1,734	$ (1,829)	$ 545	$ (2,447)
Noncash financing and investing activities:					
Capital contributions	$ 37	$ 179	$ -	$ -	$ 216
Advance from other funds - pension obligation bonds	258	1,407	677	190	2,532

CITY OF
RIVERSIDE

City of Riverside
Combining Statement of Net Assets
Internal Service Funds
June 30, 2005
(amounts expressed in thousands)

	Self Insurance					
Assets	**Workers' Compensation**	**Unemployment Compensation**	**Public Liability**	**Central Stores**	**Central Garage**	**Totals**
Current assets:						
Cash and investments	$ 8,683	$ 524	$ 9,419	$ -	$ 1,510	$ 20,136
Receivables (net of allowances for uncollectibles):						
Interest	90	6	103	-	14	213
Accounts	-	-	-	-	6	6
Intergovernmental	52	-	-	2	2	56
Inventory	-	-	-	4,369	374	4,743
Prepaid items	-	-	-	7	-	7
Total Current assets	8,825	530	9,522	4,378	1,906	25,161
Deferred charges	245	-	-	257	1,155	1,657
Advances to other funds	2,506	-	-	-	-	2,506
Capital assets:						
Buildings	-	-	-	-	1,488	1,488
Accumulated depreciation-buildings	-	-	-	-	(32)	(32)
Machinery and equipment	7	-	-	180	9,148	9,335
Accumulated depreciation-machinery and equipment	(7)	-	-	(134)	(7,063)	(7,204)
Capital assets (net of accumulated depreciation)	-	-	-	46	3,541	3,587
Total assets	11,576	530	9,522	4,681	6,602	32,911
Liabilities						
Current liabilities:						
Accounts payable	8 -	-	64	185	140	397
Accrued payroll	96 -	-	-	94	434	624
Retainage payable	- -	-	-	-	47	47
Claims and judgments	11,147	76	6,326	-	-	17,549
Deposits	19 -	-	-	-	-	19
Due to other funds	- -	-	-	3,979	-	3,979
Total current liabilities	11,270	76	6,390	4,258	621	22,615
Advances from other funds	247 -	-	-	259	1,166	1,672
Total liabilities	11,517	76	6,390	4,517	1,787	24,287
Net Assets						
Invested in capital assets, net of related debt	-	-	-	46	3,541	3,587
Unrestricted	59	454	3,132	118	1,274	5,037
Total net assets	$ 59	$ 454	$ 3,132	$ 164	$ 4,815	$ 8,624

City of Riverside
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
For the fiscal year ended June 30, 2005
(amounts expressed in thousands)

	Self Insured					
	Workers' Compensation	**Unemployment Compensation**	**Public Liability**	**Central Stores**	**Central Garage**	**Totals**
Operating revenues:						
Charges for services	$ 3,205	$ 64	$ 7,140	$ 2,484	$ 4,480	$ 17,373
Operating expenses:						
Personal services	446	-	-	487	2,033	2,966
Contractual services	50	-	6	-	6	62
Maintenance and operation	55	-	1	24	1,244	1,324
General	342	9	350	335	570	1,606
Materials and supplies	4	-	-	10	115	129
Insurance	3,256	92	4,333	12	45	7,738
Depreciation and amortization	4	-	-	14	749	767
Total operating expenses	4,157	101	4,690	882	4,762	14,592
Operating income (loss)	(952)	(37)	2,450	1,602	(282)	2,781
Nonoperating revenues (expenses):						
Interest income	371	18	251	-	48	688
Other	-	-	-	-	(279)	(279)
Gain (loss) on retirement of capital assets	(1)	-	-	-	90	89
Interest expense and fiscal charges	(2)	-	-	(2)	(11)	(15)
Total nonoperating revenues (expenses)	368	18	251	(2)	(152)	483
Income (loss) before capital contributions	(584) -	(19) -	2,701 -	1,600 -	(434)	3,264
Capital contributions	-	-	-	-	26	26
Change in net assets	(584)	(19)	2,701	1,600	(408)	3,290
Total net assets -- beginning	643	473	431	(1,436)	5,223	5,334
Total net assets -- ending	$ 59	$ 454	$ 3,132	$ 164	$ 4,815	$ 8,624

City of Riverside
Combining Statement of Cash Flows
Internal Service Funds
For the fiscal year ended June 30, 2005
(amounts expressed in thousands)

	Self Insured					
	Workers' Compensation	**Unemployment Compensation**	**Public Liability**	**Central Stores**	**Central Garage**	**Total**
Cash flows from operating activities:						
Cash received from customers and users	$ 3,175	$ 64	$ 7,140	$ 2,484	$ 4,905	$ 17,768
Cash paid to employees for services	(453)	-	-	(489)	(2,207)	(3,149)
Cash paid to other suppliers of goods or services	(3,760)	(101)	(4,571)	(1,994)	(2,039)	(12,465)
Other (payments)	-	-	-	(1)	(279)	(280)
Net cash provided (used) by operating activities	(1,038)	(37)	2,569	-	380	1,874
Cash flows from noncapital financing activities:						
Payments on interfund receivables	547	-	13	-	-	560
Net cash provided by noncapital financing activities	547	-	13	-	-	560
Cash flows from capital and related financing activities:						
Purchase of capital assets	-	-	-	-	(930)	(930)
Proceeds from the sale of capital assets	1	-	-	-	75	76
Net cash provided (used) for capital and related financing activities	1	-	-	-	(855)	(854)
Cash flows from investing activities:						
Income from investments	366	17	220	-	50	653
Net cash provided by investing activities	366	17	220	-	50	653
Net increase (decrease) in cash and cash equivalents	(124)	(20)	2,802	-	(425)	2,233
Cash and cash equivalents, beginning	8,807	544	6,617	-	1,935	17,903
Cash and cash equivalents, ending	$ 8,683	$ 524	$ 9,419	$ -	$ 1,510	$ 20,136

continued

City of Riverside
Combining Statement of Cash Flows
Internal Service Funds
For the fiscal year ended June 30, 2005
(amounts expressed in thousands)

	Self Insured					
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	**Workers' Compensation**	**Unemployment Compensation**	**Public Liability**	**Central Stores**	**Central Garage**	**Total**
Operating income (loss)	$ (952)	$ (37)	$ 2,450	$ 1,602	$ (282)	$ 2,781
Other (payments)	-	-	-	(1)	(279)	(280)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation and amortization	4	-	-	14	749	767
(Increase) in accounts receivable				-	(6)	(6)
(Increase) decrease in intergovernmental receivables	(30)	-	-	-	421	391
(Increase) in inventory	-	-	-	(1,786)	(63)	(1,849)
Increase (decrease) in accounts payable	(83)	-	(116)	36	(120)	(283)
(Decrease) in accrued payroll	(7)	-	-	(2)	(6)	(15)
(Decrease) in unearned revenue	-	-	-	-	(34)	(34)
Increase in due to other funds	-	-	-	137	-	137
Increase in claims and judgments	30	-	235	-	-	265
Net cash provided (used) by operating activities	$ (1,038)	$ (37)	$ 2,569	$ -	$ 380	$ 1,874
Noncash financing and investing activities:						
Capital contributions	$ -	$ -	$ -	$ -	$ 26	$ 26
Advance from other funds - pension obligation bond	247	-	-	259	1,166	1,672

City of Riverside
Fiduciary Fund - Agency Fund
Combining Statement of Changes in Assets and Liabilities
For the Fiscal Year Ended June 30, 2005
(amounts expressed in thousands)

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Assets:				
Cash and investments	$ 4,952	$ 9,930	$ 11,891	$ 2,991
Cash and investments at fiscal agent	9,395	11,520	6,919	13,996
Interest receivable	34	297	283	48
Property taxes receivable	205	166	205	166
Total assets	$ 14,586	$ 21,913	$ 19,298	$ 17,201
Liabilities:				
Accounts payable	$ 1	$ 134	$ 134	$ 1
Due to other funds	0	6	0	6
Held for bond holders	14,585	12,811	10,202	17,194
Total liabilities	$ 14,586	$ 12,951	$ 10,336	$ 17,201

CITY OF
RIVERSIDE

City of Riverside
Capital Assets Used in the Operation of Governmental Funds
Schedule By Source
June 30, 2005
(amounts expressed in thousands)

Governmental funds capital assets:		
Land	$	124,475
Buildings and improvements		69,391
Improvements other than buildings		46,497
Machinery and equipment		54,802
Infrastructure		461,357
Construction in progress		39,271
Total governmental funds capital assets	$	795,793
Investments in governmental funds capital assets by source:		
Certificates of participation	$	24,818
Gifts		32,707
Operating revenue		114,457
General obligation bonds		4,536
Revenue bonds		21,104
County contracts and grants		218
State grants		29,035
Asset forfeiture - state		264
Asset forfeiture - federal		657
Housing and community development grants		14,678
Other federal grants		14,987
Community facilities bonds		1,026
Assessment district bonds		397
Capital leases		9,616
RDA tax increment bonds		2,279
Capital projects funds		525,014
Total governmental funds capital assets	$	795,793

City of Riverside
Capital Assets Used in the Operation of Governmental Funds
Schedule By Function and Activity
June 30, 2005
(amount expressed in thousands)

	Land	Construction in Progress/ Buildings and Improvements	Construction in Progress/ Improvements Other than Buildings	Machinery and Equipment	Infrastructure	Total
General government	$ 2,829	$ 18,428	$ 2,978	$ 6,052	$ 0	$ 30,287
Public safety	1,913	27,334	2,441	29,760	0	61,448
Highways and streets	97,104	14,059	0	14,549	461,357	587,069
Recreation and culture	21,340	78,516	11,032	4,158	0	115,046
Community development	1,289	370	0	284	0	1,943
Total governmental funds capital assets	$ 124,475	$ 138,707	$ 16,451	$ 54,803	$ 461,357	$ 795,793

City of Riverside
Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes By Function and Activity
For the fiscal year ended June 30, 2005
(amount expressed in thousands)

	Governmental Funds Capital Assets July 1, 2004	Additions	Deductions and Transfers	Governmental Funds Capital Assets June 30, 2005
General government	$ 23,166	$ 8,242	$ 1,120	$ 30,288
Public safety	53,628	9,017	1,197	61,448
Highways and streets	556,499	37,537	6,968	587,068
Recreation and culture	106,140	11,482	2,576	115,046
Community development	10,358	7	8,422	1,943
Total governmental funds capital assets	$ 749,791	$ 66,285	$ 20,283	$ 795,793

CITY OF
RIVERSIDE

Table 1
City of Riverside
General Governmental Expenditures by Function
Last Ten Fiscal Years

(in thousands)

Fiscal Year	General Government	Public Safety	Highways & Streets	Culture & Recreation	Debt Service	Total
1996	$ 65,226	$ 69,545	$ 20,608	$ 29,369	$ 15,792	$ 200,540
1997	41,894	72,329	16,726	26,142	17,024	174,115
1998	37,579	70,116	15,389	17,472	32,575	173,131
1999	40,279	72,687	21,232	18,047	18,552	170,797
2000	47,934	76,386	16,261	20,775	23,296	184,652
2001	52,388	84,134	17,300	23,277	17,480	194,579
2002	46,028	91,245	20,517	36,647	13,959	208,396
2003	45,300	96,487	23,483	31,959	12,255	209,484
2004	56,574	107,637	27,433	28,009	71,974	291,627
2005	48,394	119,036	35,562	40,836	34,329	278,157

1. The table includes all general governmental types of expenditures from the General Fund, Special Revenue Funds, Debt Service Funds and Capital Projects Funds.

2. The table includes all component units.

3. Capital outlay expenditures and lease payments have been recorded in functions.

4. Source: City of Riverside Annual Financial Report.

Table 2
City of Riverside
General Governmental Revenues by Source
Last Ten Fiscal Years

(in thousands)

Fiscal Year	Taxes and Special Assessments	Licenses and Permits	Inter-governmental Revenue	Charges for Services	Fines and Forfeitures	Use of Money and Property	Miscellaneous Revenue	Total
1996	$ 72,570	$ 5,461	$ 38,097	$ 4,980	$ 886	$ 9,506	$ 5,505	$ 137,005
1997	72,657	6,062	39,858	4,986	964	9,289	10,418	144,234
1998	76,954	6,331	35,534	5,499	872	11,878	4,828	141,896
1999	81,677	7,854	44,055	6,922	1,702	11,856	4,503	158,569
2000	91,031	12,273	42,259	7,160	2,226	12,470	7,900	175,319
2001	93,379	13,232	48,960	7,879	2,330	22,329	6,325	194,434
2002	99,299	12,317	47,410	7,866	2,346	13,017	4,816	187,071
2003	108,610	14,394	43,829	8,878	2,095	11,255	5,042	194,103
2004	123,377	11,343	42,609	10,046	2,188	10,587	7,133	207,283
2005	148,328	14,389	42,568	11,299	2,006	10,915	9,996	239,501

1. The table includes all general governmental types of revenues from the General Fund, Special Revenue Funds, Debt Service Funds and Capital Projects Funds.

2. The table includes all component units.

3. Source: City of Riverside Annual Financial Report.

Table 3
City of Riverside
General Governmental Tax Revenues by Source
Last Ten Fiscal Years

(in thousands)

Fiscal Year	General Property Tax	Sales and Use Tax	Property Transfer Tax	Utility Users Tax	Street Light Excise Tax	Franchises	Transient Occupancy Tax	Special Assessments Levied	Total Taxes
1996	$ 22,322	$ 25,395	$ 508	$16,267	$ 221	$ 2,902	$ 1,359	$ 3,596	$ 72,570
1997	21,410	25,415	708	16,569	234	2,833	1,437	4,051	72,657
1998	21,743	28,101	694	17,392	269	3,085	1,652	4,018	76,954
1999	22,629	30,481	936	17,552	312	3,787	1,920	4,060	81,677
2000	24,444	34,571	1,087	18,479	336	3,464	2,064	6,586	91,031
2001	24,973	35,850	1,213	19,613	382	3,746	2,344	5,258	93,379
2002	27,685	39,271	1,568	18,510	36	4,070	2,739	5,420	99,299
2003	31,561	41,995	2,024	19,928	99	3,811	2,868	6,324	108,610
2004	34,250	47,608	2,424	21,362	43	4,261	3,170	6,023	119,141
2005	54,252	54,483	3,279	22,135	9	4,480	3,418	6,272	148,328

1. The table includes all component units.

2. Source: City of Riverside Annual Financial Report.

Table 4
City of Riverside
Property Tax Levies and Collections
Last Ten Fiscal Years

(in thousands)

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Current Taxes Collected	Delinquent Tax Collections	Total Tax Collections	Ratio of Total Tax Collections to Total Tax Levy	Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Total Tax Levy
1996	$ 23,086	$ 21,787	94.4%	$ 535	$ 22,322	96.7%	$ 8,135	35.2%
1997	22,202	20,750	93.5%	569	21,319	96.0%	9,019	40.6%
1998	22,429	21,055	93.9%	584	21,639	96.5%	9,810	43.7%
1999	23,113	21,888	94.7%	537	22,425	97.0%	10,497	45.4%
2000	24,241	23,431	96.7%	626	24,057	99.2%	9,994	41.2%
2001	25,205	24,436	96.9%	370	24,806	98.4%	11,081	44.0%
2002	25,237	23,098	91.5%	513	23,611	93.6%	12,707	50.4%
2003	26,050	25,186	96.7%	603	25,789	99.0%	11,715	45.0%
2004	31,954	31,092	97.3%	966	32,058	100.3%	11,612	36.3%
2005	37,144	36,004	96.9%	706	36,710	98.8%	12,046	32.4%

1. The table includes the City of Riverside Redevelopment Agency.

2. Source: Riverside County Auditor Controller's Office.

3. Total tax collections include supplemental tax levies not included in the total tax levy column.

Table 5
City of Riverside
Assessed and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

(in thousands)

Fiscal Year	Secured Roll	Unsecured Roll	Total Secured and Unsecured	Exemptions Veteran, Church, etc.	Total Assessed Value	Exemptions Homeowners	Net Total Assessed Value	Estimated Actual Value
1996	$ 10,347,384	$ 557,258	$ 10,904,642	$(1,634,835)	$ 9,269,807	$ (243,489)	$ 9,026,318	$ 9,269,807
1997	10,135,216	548,897	10,684,113	(1,574,851)	9,109,262	(242,473)	8,866,789	9,109,262
1998	10,188,885	540,358	10,729,243	(1,598,304)	9,130,939	(241,776)	8,889,163	9,130,939
1999	10,158,747	576,029	10,734,776	(1,580,501)	9,154,275	(238,588)	8,915,687	9,154,275
2000	10,557,523	632,940	11,190,463	(1,665,818)	9,524,645	(233,807)	9,290,828	9,524,645
2001	11,269,877	686,215	11,956,092	(1,784,167)	10,171,925	(233,376)	9,938,549	10,171,925
2002	12,103,179	799,323	12,902,502	(1,894,558)	11,007,944	(234,557)	10,773,387	11,007,944
2003	13,071,416	980,529	14,051,945	(2,166,760)	11,885,185	(240,201)	11,644,984	11,885,185
2004	14,188,658	845,858	15,034,516	(2,264,397)	12,770,119	(262,106)	12,508,013	12,770,119
2005	15,540,982	951,211	16,492,193	(2,486,126)	14,006,067	(265,718)	13,740,349	14,006,067

1. Assessed valuations are based on 100 percent of estimated actual value and do not include Riverside Redevelopment Agency.

2. Source: Riverside County Assessor's Office.

Table 6
City of Riverside
Property Tax Rates-Direct and Overlapping Governments
Last Ten Fiscal Years

Fiscal Year	Basic Levy	City	School Districts	County of Riverside	Other	Total
1996	1.00	0.00000	0.00000	0.00000	0.02262	1.02262
1997	1.00	0.00000	0.00000	0.00000	0.02306	1.02306
1998	1.00	0.00000	0.00000	0.00000	0.02179	1.02179
1999	1.00	0.00000	0.00000	0.00000	0.00890	1.00890
2000	1.00	0.00000	0.00000	0.00000	0.00890	1.00890
2001	1.00	0.00000	0.00000	0.00000	0.00890	1.00890
2002	1.00	0.00000	0.00000	0.00000	0.00770	1.00770
2003	1.00	0.00000	0.05000	0.00000	0.00670	1.05670
2004	1.00	0.00000	0.04993	0.00000	0.00610	1.05603
2005	1.00	0.01092	0.04048	0.00000	0.02380	1.07520

1. Information above is taken from the districts that exist within the City of Riverside.

2. If taxes become delinquent, the underlying property may be deeded to the state and sold by the county tax collector for taxes due plus I I/2% per month redemption fee after the third month of being delinquent.

3. All property taxes are collected by the County of Riverside with 1/4 of 1% of the assessment going to the County for collection fee.

4. Rates are based on $100 of assessed valuation.

Source: Riverside County Auditor-Controller's Office.

Table 7
City of Riverside
Computation of Direct and Overlapping General Obligation Debt
As of June 30, 2005

(in thousands)

	Total General Obligation Debt	Percentage Applicable to City of Riverside*	City of Riverside Share of Debt
Direct Debt:			
City of Riverside	$ 220,710	100.00%	$ 220,710
Overlapping Debt:			
School Districts:			
Riverside Unified	53,590	84.38%	45,221
Other Districts:			
Metropolitan Water District	419,390	1.03%	4,320
Total Overlapping Debt	472,980		49,541
Total Direct and Overlapping Debt	$ 693,690		$ 270,251

*Determined by ratio of assessed valuation of property subject to debt service taxation in overlapping agency to valuation of property subject to taxation in the City of Riverside.

Source: Riverside County Auditor-Controller's Office and Other District Offices.

Table 8
City of Riverside
Computation of Legal Debt Margin For City General Obligation Bonds
As of June 30, 2005

		(in thousands)
Total Assessed Value, June 30, 2005		$ 14,006,067
Debt limit: 15.00% of Total Assessed Value		$ 2,100,910
Amount of debt applicable to debt limit:		
Total bonded debt	$ 784,915	
Less amount available for repayment of general obligation bonds	0	
Other deductions allowed by law:		
Revenue bonds	449,245	
Redevelopment Agency tax allocation bonds	111,410	
Certificates of participation	3,550	
Total deductions	$ 564,205	
Total General Obligation Debt Applicable to Debt Limit		220,710
Legal Debt Margin		$ 1,880,200

Debt limit set by City Charter at 15% of total assessed value for general obligation bonds.

Source: Riverside County Assessor's Office and City of Riverside Annual Financial Report.

Table 9
City of Riverside
Ratio of Net General Obligation Bonded Debt to Assessed Value and Bonded Debt per Capita
Last Ten Fiscal Years

(in thousands)

Fiscal Year	Population	Assessed Value	Gross Bonded Debt	Less Debt Service Fund	Net Bonded Debt	Ratio of Net Bonded Debt To Assessed Value	Net Bonded Debt per Capita
1996	243	$9,269,807	$ -	$ -	$ -	0.00%	$ -
1997	242	9,109,262	-	-	-	0.00%	-
1998	251	9,130,939	-	-	-	0.00%	-
1999	254	9,154,275	-	-	-	0.00%	-
2000	260	9,524,645	-	-	-	0.00%	-
2001	262	10,171,925	-	-	-	0.00%	-
2002	266	11,007,944	-	-	-	0.00%	-
2003	274	11,885,185	-	-	-	0.00%	-
2004	277	12,770,119	162,725	-	162,725	1.27%	587.45
2005	285	14,006,067	220,710	-	220,710	1.58%	774.42

1. Population figures supplied by the State of California Finance Department.

2. Assessed value is from Table 5.

3. Gross bonded debt consists of general obligation bonds only.

4. Debt service fund is the amount available for repayment of general obligation bonds.

Table 10
City of Riverside
Ratio of Annual Debt Service Expenditures for General Obligation Bonded Debt
to Total General Governmental Expenditures
Last Ten Fiscal Years

(in thousands)

Fiscal Year	Principal	Interest	Total Debt Service	Total General Governmental Expenditures	Ratio of Debt Service to General Expenditures
1996	$ -	$ -	$ -	$ 200,540	0.00%
1997	-	-	-	174,115	0.00%
1998	-	-	-	173,131	0.00%
1999	-	-	-	170,797	0.00%
2000	-	-	-	184,652	0.00%
2001	-	-	-	194,579	0.00%
2002	-	-	-	208,396	0.00%
2003	-	-	-	209,484	0.00%
2004	-	-	-	291,627	0.00%
2005	2,015	7,594	9,609	278,157	3.45%

1. Table includes all component units.

2. Source: City of Riverside Annual Financial Report.

Table 11
City of Riverside
Revenue Bond Coverage
Last Ten Fiscal Years

(in thousands)

Fiscal Year	Gross Revenues	Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements: Principal	Debt Service Requirements: Interest	Debt Service Requirements: Total	Coverage
Electric							
1996	173,112	132,172	40,940	5,865	10,232	16,097	2.54
1997	183,932	137,964	45,968	6,190	9,891	16,081	2.86
1998	207,934	143,828	64,106	6,635	10,371	17,006	3.77
1999	180,171	145,402	34,769	6,555	10,701	17,256	2.01
2000	197,842	150,175	47,667	6,610	10,669	17,279	2.76
2001	271,828	227,081	44,747	6,930	10,350	17,280	2.59
2002	229,529	190,426	39,103	7,385	9,841	17,226	2.27
2003	211,553	157,450	54,103	7,840	10,966	18,806	2.88
2004	239,842	168,162	71,680	10,780	10,183	20,963	3.42
2005	271,987	169,064	102,923	14,555	12,143	26,698	3.86
Water							
1996	24,942	15,149	9,793	1,900	2,712	4,612	2.12
1997	26,643	15,013	11,630	2,015	2,599	4,614	2.52
1998	26,126	14,776	11,350	2,265	2,642	4,907	2.31
1999	30,739	15,659	15,080	2,780	2,667	5,447	2.77
2000	33,327	16,397	16,930	2,755	2,591	5,346	3.17
2001	36,259	18,643	17,616	2,955	2,364	5,319	3.31
2002	43,215	19,244	23,971	3,215	2,941	6,156	3.89
2003	36,837	19,928	16,909	3,845	2,720	6,565	2.58
2004	47,093	23,767	23,326	4,010	2,622	6,632	3.52
2005	45,626	26,583	19,043	4,045	2,591	6,636	2.87
Sewer							
1996	20,684	11,937	8,747	1,860	3,030	4,890	1.79
1997	21,315	11,894	9,421	1,960	2,917	4,877	1.93
1998	21,530	11,901	9,629	2,075	2,792	4,867	1.98
1999	21,322	12,117	9,205	2,200	2,662	4,862	1.89
2000	23,851	12,300	11,551	2,330	2,557	4,887	2.36
2001	25,056	12,451	12,605	2,435	2,729	5,164	2.44
2002	23,872	12,387	11,485	2,550	2,423	4,973	2.31
2003	24,297	13,433	10,864	2,665	2,165	4,830	2.25
2004	24,176	17,006	7,170	2,800	2,341	5,141	1.39
2005	25,444	19,163	6,281	2,970	2,061	5,031	1.25

1. Gross revenues include operating, interest, and other revenues. Gross revenues also include the cash portion of impact fees.

2. Operating expenses are net of depreciation. Operating expenses are also net of nuclear fuel burn in the Electric Fund. Beginning with 2003, operating expenses are also net of the Deseret amortization charge in the Electric Fund.

3. Debt service requirements are the principal and interest expense for the same period.

4. Source: City of Riverside Annual Financial Report.

Table 12
City of Riverside
Special Assessment Collections
Last Ten Fiscal Years

(in thousands)

Fiscal Year	Special Assessments Billed	Current Assessments Collected	Percentage of Collections to Amount Due	Total Outstanding Assessments
1996	120	117	97.5%	650
1997	124	130	104.8%	540
1998	107	111	103.7%	480
1999	107	73	68.2%	285
2000	75	74	98.7%	245
2001	76	76	100.0%	195
2002	78	83	106.4%	135
2003	0	0	0.00%	0
2004	0	0	0.00%	0
2005	0	0	0.00%	0

1. Street Light Assessment District collections are not included.

2. Source: City of Riverside Assessment Register and Annual Financial Report.

Table 13
City of Riverside
Principal Taxpayers
June 30, 2005

(in thousands)

Taxpayer	Type of Business	2005 Assessed Valuation	Percentage of Total Assessed Valuation
Tyler Mall LTD Partnership	Regional Shopping Center	$144,601	0.8%
Riverside Healthcare System	Healthcare	101,878	0.6%
State Street Bank & Trust Co. of California	Realty Investment	78,581	0.4%
BRE Prop Inc.	Realty Investment	66,543	0.4%
Calif State Teachers Retirement System	Realty Investment	56,482	0.3%
Pepsi Bottling Group	Manufacturer	50,607	0.3%
Press Enterprise	Newspaper	47,893	0.3%
Rohr/Goodrich	Manufacturer	47,007	0.3%
Mission Grove Park Apartments	Apartments	45,051	0.3%
Ralphs Grocery Company	Grocery	41,064	0.2%
		$679,707	3.8%

Source: Riverside County Assessor's Office.

Table 14
Miscellanous Statistical Data
June 30, 2005

Geographic Location - In Southern California approximately 50 miles east of Los Angeles and 90 miles north of San Diego, contiguous to desert and mountain regions.

Elevation - Varies from 800 to 1200 feet.

Area and Population:

Year	Area, Square Miles	Population
2005 (January)	79.65	285,537
2000	79.05	259,738
1990	77.04	218,499
1980	71.95	165,087
1970	71.52	140,089
1960	43.59	83,714
1950	39.20	46,399
1940	39.20	34,696
1930	39.20	30,645
1920	39.20	19,341
1910	39.20	15,212
1900	56.00	7,793
1890	56.00	4,683
1883	56.00	2,000 est.

2005 population per square mile = 3,585

Average Rainfall - 10.22 inches

Climate, Average Minimum and Maximum:

Spring	50-76 Degrees
Summer	62-92 Degrees
Fall	54-83 Degrees
Winter	43-69 Degrees

Date of Incorporation - 1883

Form of Government - Council/Manager

City Charter Adopted - 1952

Number of Budgeted Positions (full time equivalents):

General Government Departments	331.88
Police Department	568.83
Fire Department	221.11
Public Works Department	329.84
Library Department	97.06
Park and Recreation Department	184.92
Museum	18.94
Public Utilities Department	435.60
Airport Department	6.00
	2,194.18

Taxable Retail Sales:(in thousands)

2005	$5,293,347
2000	3,219,894
1990	2,148,399
1980	994,264
1970	307,378
1960	137,326

Miles of Streets - 836

Miles of Sewers - 755

Number of Street Lights - 28,581

Traffic Signals - 322

Municipal Services and Facilities (budgeted positions shown in full time equivalents);

Police	Budgeted positions	568.83
	Stations	7
	Substations	2
	Helicopters	4
Fire	Budgeted positions	221.11
	Stations	13
	Active apparatus	30
	Reserve apparatus	5
	Training Facilities	1
Library	Budgeted Positions	97.06
	Library branches	5
Museum	Budgeted positions	18.94
	Fixed exhibits	8
	Special exhibits	1
	Reference library volumes	5,224
Parks and Recreation	Budgeted positions	184.92
	Community centers	11
	Playgrounds	26
	Public swimming pools	7
	Softball and baseball diamonds	35
	Total parks acreage	2,534

Auditorium and Exhibit Hall	Municipal auditorium seating capacity	1,776
	Exhibit Hall	
	Meeting and showrooms (300 to 20,800 square feet each)	7
	Assembly capacity	40 to 2,000
Municipal Utilities	Budgeted positions - Electric	305.6
	- Water	130.0
	Number of Accounts - Electric	103,463
	- Water	62,492
	Miles of overhead distribution system	531.0
	Miles of underground system	622.0
	Annual consumption:	
	Electric (kwh)	1,962,000,000
	Water (ccf)	27,697,000
	Number of fire hydrants	6,926

Source of supply:
Electric - Intermountain Power Project
Palo Verde Nuclear Generating Station
San Onofre Nuclear Generating Station
Deseret Generation and Transmission
Hoover Power Plant
Southern California Edison and others

Water - City owned sources, supplemented as necessary by Metropolitan Water District of Southern California

Education - Riverside includes portions of Riverside Unified School District and Alvord Unified School District.

Riverside Unified School District:	
Senior High Schools	10
Enrollment	13,686
Middle School (7-8)	6
Enrollment	6,860
Elementary Schools (Kindergarten-6)	31
Enrollment	21,965
Alvord Unified School District:	
Senior High Schools	3
Enrollment	5,485
Middle School (6-8)	4
Enrollment	4,869
Elementary Schools (Kindergarten-5)	12
Enrollment	9,610
Riverside Community College District:	
Riverside City College	
Enrollment	31,081
State of California	
University of California, Riverside	
Enrollment	17,104
School for the Deaf	
Enrollment	470
United States	
Sherman Institute (Government School for Indians)	
Enrollment	633 (est.)
Other Schools	
California Baptist College	
Enrollment	2,718
La Sierra University, Riverside	
Enrollment	1,908
Private or Parochial Schools (Kindergarten-12)	50

Source: Various City Departments and School Districts.

Table 15
City of Riverside
Demographic Statistics
Last Ten Fiscal Years

Fiscal Year	Population (1)	Per Capita Income (2)	Median Age (3)	Unemployment Rate (4)
1996	243,421	12,497	31.3	9.1%
1997	241,630	12,567	31.6	7.8%
1998	250,799	13,481	31.8	7.0%
1999	254,300	14,093	32.0	6.2%
2000	259,738	13,825	32.2	5.3%
2001	262,335	14,241	32.4	5.2%
2002	265,700	13,687	31.6	6.5%
2003	274,100	14,137	32.1	6.8%
2004	277,030	14,928	30.0	6.2%
2005	285,537	15,070	29.7	5.9%

Sources:

1. State Department of Finance

2. Sales & Marketing Management - 2005 Survey of Buying Power

3. ESRIBIS Business Solutions

4. State of California, Employment Development Department

Table 16
City of Riverside
Construction, Bank Deposits, and Property Value
Last Ten Fiscal Years

(values in thousands)

	Commercial Construction (1)		Residential Construction (1)		Bank Deposits (2)	Property Values (3)	
Fiscal Year	Number of Units	Value	Number of Units	Value		Commercial	Residential
1996	1,804	70,448	2,417	69,378	1,448,021	4,237,613	5,844,620
1997	1,599	56,691	2,654	83,550	2,337,691	4,239,980	5,889,169
1998	1,621	44,194	3,053	100,611	2,700,352	4,139,302	5,948,479
1999	1,710	54,805	3,074	147,977	2,488,049	4,323,469	6,160,694
2000	1,573	47,835	3,694	278,035	2,634,597	3,939,530	6,665,754
2001	1,718	82,009	3,747	273,389	2,559,806	4,163,934	7,219,923
2002	1,899	91,027	4,099	264,995	2,702,018	4,799,848	7,960,167
2003	1,982	134,945	4,444	316,394	3,007,719	4,933,988	8,471,469
2004	2,153	262,704	4,145	189,004	3,475,359	5,195,623	9,336,641
2005	1,923	126,278	4,542	388,845	NA	5,281,154	10,667,343

Sources:

1. City Planning Department

2. Available from Federal Deposit Insurance Corporation after January 1, 2006.

3. County Land Use Statistical Recap Report

CITY OF
RIVERSIDE

APPENDIX D

FORM OF SPECIAL COUNSEL OPINION

City of Riverside
Riverside, California

Re: $19,945,000 City of Riverside 2006 Lease Revenue Certificates of Participation (Galleria at Tyler Public Improvements)

Members of the Redevelopment Agency:

We have acted as special counsel in connection with the execution and delivery of $19,945,000 aggregate principal amount of 2006 Lease Revenue Certificates of Participation (Galleria at Tyler Public Improvements) (the "Certificates"). The Certificates evidence the proportionate interests of the owners thereof in the Lease Agreement, dated as of September 1, 2006 (the "Lease") between the City of Riverside (the "City") and the City of Riverside Municipal Improvements Corporation (the "Corporation"), including the right to receive Lease Payments payable thereunder by the City. The Certificates have been executed and delivered pursuant to the Trust Agreement, dated as of September 1, 2006 (the "Trust Agreement"), among the City, the Corporation and U.S. Bank Trust National Association, as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Lease and the Trust Agreement.

In such connection, we have reviewed the Lease, the Trust Agreement, opinions of counsel to the City, the Trustee and the Corporation, certificates of the City, the Trustee, the Corporation and others and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

As to questions of fact material to our opinion, we have relied upon representations of the City contained in the Lease an the Trust Agreement and in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify such facts by independent investigation.

Based upon our examination, we are of the opinion, as of the date hereof, that:

1. The Lease and the Trust Agreement have been duly executed and delivered by, and constitute valid and binding obligations of the City.

2. The obligation of the City to make the Lease Payments during the term of the Lease constitutes a valid and binding obligation of the City, payable from funds of the City lawfully available therefor.

3. Assuming due authorization, execution and delivery of the Trust Agreement and the Certificates by the Trustee, the Certificates are entitled to the benefits of the Trust Agreement.

4. The Internal Revenue Code of 1986, as amended (the "Code"), sets forth certain investment, rebate and related requirements which must be met subsequent to the execution and delivery of the Certificates for the portion of each Lease Payment due pursuant to the Lease Agreement designated as and comprising interest and received by the owners of the Certificates (the "Interest Component") to be and remain excluded from gross income for purposes of federal income taxation. Noncompliance with such requirements could cause the Interest Component to be subject to federal income taxation retroactive to the date of delivery of the Certificates. Pursuant to the Trust Agreement and the Lease Agreement, the City has covenanted to comply with the requirements of the Code. We are of the opinion that, assuming compliance with the aforementioned covenants, the Interest Component is excluded from gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions. We are further of the opinion that the Interest Component is not a specific preference item for purposes of the alternative minimum tax provisions of the Code. However, the Interest Component received by corporations will be included in corporate adjusted current earnings, a portion of which may increase the alternative minimum taxable income of such corporations.

5. The Interest Component is exempt from personal income taxation imposed by the State of California.

Although the Interest Component is excluded from gross income for federal tax purposes, the accrual or receipt of Interest Component may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend on the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

In addition, we call attention to the fact that the rights and obligations under the Certificates, the Lease and the Trust Agreement and their enforceability are subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against cities in the State of California.

Respectfully submitted,

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

(THIS PAGE INTENTIONALLY LEFT BLANK)

CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT, date as of September 1, 2006 (the "**Disclosure Agreement**") is executed and delivered by and among the City of Riverside (the "**Issuer**") and U.S. Bank National Association, as Dissemination Agent hereunder (the "**Dissemination Agent**") in connection with the issuance of the $19,945,000 City of Riverside 2006 Lease Revenue Certificates of Participation (Galleria at Tyler Public Improvements) (the "**Certificates**").

The Certificates are being issued pursuant to a Trust Agreement dated as of September 1, 2006 (the "**Trust Agreement**") among the Issuer, the City of Riverside Municipal Improvements Corporation (the "**Corporation**") and U.S. Bank National Association, as trustee thereunder (the "**Trustee**").

The Issuer and the Dissemination Agent covenant and agree as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer for the benefit of the Owners of the Certificates and in order to assist the Participating Underwriters (as defined herein) in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Reports provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"CPO" means the Internet-based filing system currently located at www.DisclosureUSA.org, or such other similar filing system approved by the Securities and Exchange Commission for a similar purpose.

"Disclosure Representative" shall mean the Finance Director or Assistant Finance Director of the Issuer, or his or her designee, or such other officer or employee as the Issuer shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean U.S. Bank National Association, acting in its capacity as Dissemination Agent, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

"Fiscal Year" shall mean the twelve-month period beginning on July 1 of each year and ending on June 30 of the following year.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"National Repository" shall mean any Nationally Recognized Municipal Securities Repository for purposes of the Rule. The National Repositories currently recognized by the

Securities and Exchange Commission are set forth in the SEC website located at http://www.sec.gov/info/municipal/nrmsir.htm.

"Participating Underwriter" shall mean the original underwriter of the Certificates required to comply with the Rule in connection with the offering of the Certificates.

"Repository" shall mean each National Repository and each State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State Repository" shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule. As of the date of this Disclosure Agreement, there is no State Repository.

"Tax-exempt" shall mean that interest on the Certificates is excluded from gross income for federal income tax purposes, whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating any other tax liability, including any alternative minimum tax or environmental tax.

Section 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent to, not later than nine (9) months following the end of each Fiscal Year, commencing with the 2005-06 Fiscal Year, provide to each Repository and to the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than fifteen (15) Business Days prior to said date, the Issuer shall provide the Annual Report to the Dissemination Agent. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement. The information contained or incorporated in each Annual Report shall be for the Fiscal Year which ended on the preceding June 30. The Issuer shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certifications of the Issuer and shall have no liability, duty or obligation whatsoever to review any such Annual Report. Further, the Dissemination Agent shall have no liability for the contents of any such annual report.

(b) If the Issuer is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the Issuer shall, by written direction, cause the Dissemination Agent to provide to (i) each National Repository or the Municipal Securities Rulemaking Board and (ii) each appropriate State Repository (with a copy to the Trustee) a notice, in substantially the form attached as Exhibit A. In lieu of filing the notice with each Repository, the City or the Dissemination Agent may file such notice with the CPO.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and

(ii) provide notice to the Issuer that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

(d) In lieu of filing the Annual Report with each Repository in accordance with the preceding paragraph (c), the City or the Dissemination Agent may file such Annual Report solely with the CPO.

Section 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) Audited Financial Statements prepared in accordance with general accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Issuer's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not contained in the audited financial statements filed pursuant to the preceding clause (a), the Annual Report shall contain information showing the following:

(i) information concerning the actual revenues, expenditures and beginning and ending fund balances relating to the General Fund of the Issuer for the most recent completed Fiscal Year, including information showing tax revenue collections by source;

(ii) information showing the aggregate principal amount of long-term bonds, leases and other obligations of the Issuer which are payable out of the General Fund of the Issuer, as of the close of the most recent completed Fiscal Year;

(iii) information concerning the assessed valuation of properties within the Issuer from the most recently available County Assessor's Roll, showing the valuation for secured and unsecured property;

(iv) information showing the total secured property tax levy and actual amounts collected for the most recent completed Fiscal Year;

(v) information showing the balance sheet of the General Fund of the Issuer as of the close of the most recent completed Fiscal Year, including categorized assets, liabilities and reserved and unreserved fund balances.

(vi) until such time as construction is complete, information about the status of construction of each element of the Project constituting Leased Premises as of a date no later than 30 days prior to the date of the Annual Report; and

(vii) information about any change in ownership of Galleria at Tyler during the most recently completed Fiscal Year.

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the Issuer shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Issuer shall clearly identify each such other document so incorporated by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates, if material:

(i) Principal and interest payment delinquencies.
(ii) Non-payment related defaults.
(iii) Unscheduled draws on debt service reserves reflecting financial difficulties.
(iv) Unscheduled draws on credit enhancements reflecting financial difficulties.
(v) Substitution of credit or liquidity providers, or their failure to perform.
(vi) Adverse tax opinions or events affecting the tax-exempt status of the security.
(vii) Modifications to rights of Certificate holders.
(viii) Contingent or unscheduled redemption of Certificates.
(ix) Defeasances.
(x) Release, substitution, or sale of property securing repayment of the securities.
(xi) Rating changes.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, the Issuer shall as soon as possible determine if such event would be material under applicable Federal securities law.

(c) If the Issuer determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the Issuer shall, or by written direction cause the Dissemination Agent (if not the Issuer) to, promptly file a notice of such occurrence with (i) each National Repository or the Municipal Securities Rulemaking Board and (ii) each appropriate State Repository with a copy to the Trustee, together with written direction to the Trustee whether or not to notify the Certificate holders of the filing of such notice. In the absence of any such direction, the Trustee shall not send such notice to the Certificate holders. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Certificate owners under the Trust Agreement.

In lieu of filing the notice of Listed Event with each Repository in accordance with the preceding paragraph, the Issuer or the Dissemination Agent may file such notice of a Listed Event with the CPO.

Section 6. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the Certificates.

Section 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty (30) days written notice to the Issuer and the Trustee. If at any time there is no designated Dissemination Agent appointed by the Issuer, or if the Dissemination Agent so appointed is unwilling or unable to perform the duties of the Dissemination Agent hereunder, the Issuer shall be the Dissemination Agent and undertake or assume its obligations hereunder.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment requested by the Issuer, provided the Dissemination Agent shall not be obligated to enter into any amendment increasing or affecting its duties or obligations), and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities law, acceptable to the Issuer and the Dissemination Agent, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Issuer choose to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Issuer or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Dissemination Agent may, and, at the request of any Participating Underwriter or the Owners of at least 25% of the aggregate principal amount of the outstanding Certificates, shall (but only to the extent funds in any amount satisfactory to the Dissemination Agent have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges whatsoever related thereto, including without limitation, fees and expenses of its attorneys), or any Certificate owner may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an event of default under the Trust Agreement and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of the Dissemination Agent. The Trust Agreement is hereby made applicable to this Disclosure Agreement as if this Disclosure

Agreement were (solely for this purpose) contained in the Trust Agreement. The Dissemination Agent shall be entitled to the protections and limitations afforded to the Trustee under said Trust Agreement. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Issuer agree to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Issuer for its services provided hereunder in accordance with its schedule of fees as amended from time to time and shall be reimbursed by the Issuer all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. Neither the Dissemination Agent nor the Trustee shall have any duty or obligation to review any information provided to it hereunder or shall be deemed to be acting in any fiduciary capacity for the Issuer, the owners of the Certificates or any other party. The obligations of the Issuer under this section shall survive resignation or removal of the Dissemination Agent and payment of the Certificates. Any company succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any document or any further act.

Section 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriters and the Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

Section 13. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

CITY OF RIVERSIDE

By:____________________________________
Assistant City Manager/Chief Financial Officer

U.S. BANK NATIONAL ASSOCIATION

By:____________________________________
Authorized Signatory

ATTACHMENT A

NOTICE
OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	City of Riverside
Name of Certificate Issue:	City of Riverside 2006 Lease Revenue Certificates of Participation (Galleria at Tyler Public Improvements)
Date of Issuance:	September 27, 2006

NOTICE IS HEREBY GIVEN to [(i) each National Repository or the Municipal Securities Rulemaking Board and (ii) each appropriate State Repository] [the CPO and the Municipal Securities Rulemaking Board] that the City of Riverside has not provided an Annual Report with respect to the above-referenced Certificates as required by the Trust Agreement dated as of September 1, 2006 between the City of Riverside, the City of Riverside Municipal Improvements Corporation and U.S. Bank National Association, as Trustee. The City anticipates that the Annual Report will be filed by ____________.

Dated:_________________

U.S. BANK NATIONAL ASSOCIATION,
as Dissemination Agent

By:_________________________________
Signatory

cc: Issuer

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX F

BOOK ENTRY PROVISIONS

The following description of the Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the Certificates, payment of principal, interest and other payments on the Certificates to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Certificates and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Neither the issuer of the Certificates (the "Issuer") nor the trustee, fiscal agent or paying agent appointed with respect to the Certificates (the "Agent") take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Certificates, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Certificates, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Certificates, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Certificates"). The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for the Certificates, in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned

subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

3. Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

4. To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Certificates may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Certificates within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and interest payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from Issuer or Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as securities depository with respect to the Certificates at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor securities depository is not obtained, security certificates are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, security certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX G

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

(THIS PAGE INTENTIONALLY LEFT BLANK)

Exhibit A

FGIC

Financial Guaranty Insurance Company
Doing business in California as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Municipal Bond
New Issue Insurance Policy

Issuer:	**Policy Number:**
	Control Number: 0010001
Bonds:	**Premium:**

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all

FGIC

Financial Guaranty Insurance Company
Doing business in California as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Municipal Bond
New Issue Insurance Policy

---

principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

U.S. Bank Trust National Association, acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer

FGIC

Financial Guaranty Insurance Company
Doing business in California as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number:	**Control Number:** 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

FGIC

Financial Guaranty Insurance Company
Doing business in California as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Mandatory California State Amendatory Endorsement
To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

The insurance provided by this Policy is not covered by the California Insurance Guaranty Association (California Insurance Code, Article 14.2).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

FGIC

Financial Guaranty Insurance Company
Doing business in California as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Mandatory California State Amendatory Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

SPECIMEN

Notwithstanding the terms and conditions in this Policy, it is further understood that there shall be no acceleration of payment due under such Policy unless such acceleration is at the sole option of Financial Guaranty.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

FGIC

Financial Guaranty Insurance Company
Doing business in California as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the term "Bondholder" shall not include the ___________ [Conduit Obligor] (as such term is defined in the bond documentation).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent