

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

	Governmental Activities	Business-type Activities	Total
Assets			
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)

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
	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)	\$ 69,008	\$ (31,656)
Public safety	110,969	(5,838)	6,982	4,577	472	(93,100)	9,119	(93,100)
Highways and streets	20,364	(2,381)	23,108	229	1,224	6,578	(626)	6,578
Culture and recreation	26,353	(2,841)	7,002	1,411	1,650	(13,449)	1,830	(13,449)
Interest on long-term debt	15,885	-	-	-	-	(15,885)	122	(15,885)
Total governmental activities	232,031	-	63,087	16,140	5,292	(147,512)	81,356	(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)

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

**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	<u>\$623,892</u>

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

**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	<u>(17,273)</u>
	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	<u>182</u>
	(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		Actual Amounts	Variance with Final Budget
	Original	Final		
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
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	144,866	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	(9,280)
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

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

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

Assets	Business-type Activities - Enterprise Funds						Governmental Activities- Internal Service Funds
	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise 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)

Liabilities	Business-type Activities - Enterprise Funds					Governmental Activities- Internal Service Funds
	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise 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					Governmental Activities- Internal Service Funds
	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise 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	
Cash flows from operating activities:					
Cash received from customers and users	\$ 245,314	\$ 36,702	\$ 22,529	\$ 18,764	\$ 323,309
Cash paid to employees for services	(13,415)	(7,679)	(7,390)	(4,871)	(33,355)
Cash paid to other suppliers of goods or services	(150,200)	(20,287)	(12,404)	(12,057)	(194,948)
Other receipts (payments)	1,255	1,171	2,071	(4,283)	214
Canal abandonment	-	(1,147)	-	-	(1,147)
Net cash provided (used) by operating activities	82,954	8,760	4,806	(2,447)	94,073
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
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)
Cash flows from capital and related financing activities:					
Purchase of capital assets	(95,562)	(17,242)	(12,691)	(13,690)	(139,185)
Purchase of nuclear fuel	(984)	-	-	-	(984)
Proceeds from the sale of capital assets	274	999	1,014	5	2,292
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)
Cash flows from investing activities:					
Purchase of investments	(2,803)	(3)	-	-	(2,806)
Income from investments	4,939	543	1,460	274	7,216
Net cash provided by investing activities	2,136	540	1,460	274	4,410
Net increase (decrease) in cash and cash equivalents	(42,341)	(7,152)	(10,178)	1,448	(58,223)
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
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- Internal Service Funds	
	Electric	Water	Sewer	Other			Total Enterprise Funds
				Enterprise Funds	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 liability	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
Advance from other funds - pension obligation bonds	\$ 13,690
Canal abandonment	\$ -

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	<u>\$ 17,201</u>
Liabilities:	
Accounts payable	1
Due to other funds	6
Held for bond holders	17,194
Total liabilities	<u>\$ 17,201</u>

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

CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2005

(amounts expressed in thousands)

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

**CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2005**

(amounts expressed in thousands)

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.

**CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2005**

(amounts expressed in thousands)

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

**CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2005**

(amounts expressed in thousands)

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

**CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2005**

(amounts expressed in thousands)

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.

**CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
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	<u>225,685</u>
	638,879
Cash on hand and in transit	<u>6,536</u>
	<u>\$645,415</u>

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	<u>178,680</u>
Total per statement of net assets	628,428
Fiduciary fund and investments	<u>16,987</u>
	<u>\$645,415</u>

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.

**CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2005**

(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:

	<u>Max Maturity</u>	<u>Max % of Portfolio</u>
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:

<u>Investment Type</u>	<u>Remaining Maturity (in Months)</u>			
	<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More than 60 Months</u>
Money Market Funds	\$ 66,831	-	-	-
Federal Agency Securities	250,161	173,197	66,996	-
Corp Medium Term Notes	69,969	35,436	9,982	-
Municipal Securities	1,190	-	-	1,190
State Investment Pool	25,043	-	-	-
Held by Fiscal Agent				
Money Market Funds	9,473	-	-	-
Investment Contracts	100,230	403	40,308	29,095
State Investment Pool	42,732	-	-	-
Certificates of Deposit	5,528	-	200	-
Fed Agency Securities	67,722	21,597	26,968	19,157
Total	<u>\$638,879</u>	<u>\$266,025</u>	<u>\$136,643</u>	<u>\$30,285</u>

The City assumes that callable investments will not be called.

**CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
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:

Investment Type	Rating as of Year End				
	AAA	Aa	A	Unrated	
Money Market Funds	\$ 66,831	\$ -	\$ -	\$ 66,831	
Federal Agency Securities	250,161	-	-	-	
Corp Medium Term Notes	69,969	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	-	-	-	
Investment Contracts	100,230	868	-	-	
State Investment Pool	42,732	-	-	42,732	
Certificates of Deposit	5,528	-	-	-	
Fed Agency Securities	67,722	-	-	-	
Total	<u>\$638,879</u>	<u>\$18,832</u>	<u>\$11,545</u>	<u>\$135,796</u>	

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	<u>\$27,150</u>

**CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
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.

	Beginning Balance	Additions	Deletions/Transfers	Ending Balance
Governmental activities:				
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:				
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

	Beginning Balance	Additions	Deletions/Transfers	Ending Balance
Business type activities (cont.):				
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	<u>\$18,039</u>

Business type activities:

Electric	\$15,116
Water	6,314
Sewer	4,715
Refuse	664
Special Transportation	301
Airport	242
Public Parking	<u>68</u>
Total depreciation and amortization expense - business type activities	<u>\$27,420</u>

**CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
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	<u>(2,678)</u>	<u>-</u>	<u>(5,607)</u>	<u>(8,285)</u>
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	<u>(3,053)</u>	<u>-</u>	<u>(3,651)</u>	<u>(6,704)</u>
Unpaid claims, June 30, 2005	<u>\$11,147</u>	<u>\$ 76</u>	<u>\$ 6,326</u>	<u>\$17,549</u>

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	<u>\$349,417</u>	<u>\$98,762</u>	<u>\$29,506</u>	<u>\$418,673</u>	<u>\$20,844</u>

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	<u>\$453,514</u>	<u>-</u>	<u>\$22,067</u>	<u>\$431,447</u>	<u>\$23,037</u>

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.

**CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
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

\$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.

\$ 89,085

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

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
71,015

Subtotal

(4,121)
\$66,894

Less: Unamortized bond discount

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
258

Add: Unamortized bond premium

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:

**CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2005**

(amounts expressed in thousands)

Fiscal Year	Electric Utility Fund		Water Utility Fund		Principal Outstanding
	Principal	Interest	Principal	Interest	
2006	\$ 15,015	\$ 13,353	\$ 4,075	\$ 2,565	\$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
2007	18,215	12,728	4,115	2,530	
2008	18,935	11,983	4,155	2,492	
2009	19,795	11,133	4,190	2,451	
2010	20,725	10,197	4,245	2,407	
2011-2015	98,580	35,840	23,370	9,777	
2016-2020	49,935	17,536	10,245	5,021	
2021-2025	37,460	8,814	6,955	3,320	
2026-2030	32,450	2,701	7,265	1,427	
2031-2035	-	-	2,400	122	
Premium (Discount)	10,049	-	(4,121)	-	5,575
Total	<u>\$321,159</u>	<u>\$124,285</u>	<u>\$66,894</u>	<u>\$32,109</u>	

Fiscal Year	Sewer Utility Fund		Principal Outstanding	
	Principal	Interest		
2006	\$ 3,120	\$ 1,780	\$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.	
2007	3,285	1,584		
2008	3,515	1,346		
2009	3,760	1,092		
2010	4,020	819		
2011-2015	13,570	1,040		
Premium	258	-		
Total	<u>\$31,528</u>	<u>\$7,661</u>		17,965

Fiscal Year	Sewer Utility Fund		Principal Outstanding	
	Principal	Interest		
2006	\$ 4,900	\$ 4,900	\$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	
2007	4,869	4,869		
2008	4,861	4,861		
2009	4,852	4,852		
2010	4,839	4,839		
2011-2015	14,610	14,610		
Premium	258	-		
Total	<u>\$39,189</u>	<u>\$39,189</u>		4,550

Redevelopment Agency Bonds:		Principal Outstanding
Principal	Interest	
\$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)		2,975
\$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		
\$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		
	\$ 200	15,550

**CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2005**

(amounts expressed in thousands)

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	<u>280</u>
Total General Obligation Bonds	<u>\$20,280</u>

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:	Total
Fiscal Year	Interest
2006	\$ 886
2007	873
2008	857
2009	840
20010	819
2011-2015	3,674
2016-2020	2,698
2021-2025	1,097
Premium	<u>280</u>
Total	<u>\$11,744</u>

General Obligation Bonds:	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	<u>141,075</u>
Add: Unamortized bond premium	<u>2,949</u>
Total Redevelopment Agency Bonds	<u>\$144,024</u>

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	<u>2,949</u>	<u>-</u>	<u>2,949</u>
Total	<u>\$144,024</u>	<u>\$91,212</u>	<u>\$235,236</u>

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

**CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2005**

(amounts expressed in thousands)

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	<u>\$57,336</u>	<u>\$43,582</u>	<u>\$100,918</u>

Principal
Outstanding

\$1,015

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.
Total Pension Obligation Bonds

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	<u>\$148,280</u>	<u>\$103,978</u>	<u>\$252,258</u>

Principal
Outstanding

\$ 3,550

Certificates of Participation:

\$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

\$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

Subtotal
Add: Unamortized bond premium
Total Certificates of Participation

52,430
55,980
1,356
\$57,336

Contracts – Enterprise Funds:

Water stock acquisition rights payable on demand to various water companies, renewable through 2004

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

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

2,988

3,075

CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2005

(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:

<u>Fiscal Year</u>	<u>Redevelopment Agency</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
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	<u>1,279</u>	<u>430</u>	<u>1,709</u>
Total	<u>\$10,645</u>	<u>\$9,158</u>	<u>\$19,803</u>

Principal
Outstanding

Notes payable – Sewer Fund:

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

Principal
Outstanding

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:

<u>Fiscal Year</u>	<u>Sewer Fund</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
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	<u>333</u>	<u>7</u>	<u>339</u>
Total	<u>\$10,459</u>	<u>\$1,656</u>	<u>\$12,115</u>

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:

**CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2005**

(amounts expressed in thousands)

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>
<u>Asset</u>	\$8,660	\$868
Buildings	<u>5,825</u>	<u>868</u>
Equipment	14,485	
Subtotal	1,658	(109)
Less: Accumulated Depreciation	<u>\$12,827</u>	<u>\$759</u>
Total		

The future minimum lease obligations as of June 30, 2005 were as follows:

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

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:

<u>General long-term obligations:</u>	
Redevelopment Agency	\$ 7,032
Certificates of Participation	<u>4,148</u>
Total	<u>\$11,180</u>
<u>Enterprise funds:</u>	
Electric	\$20,443
Water	4,907
Sewer	<u>-</u>
Total	<u>\$25,350</u>

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.

	<u>Minimum Debt Service Ratio Required</u>
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.

**CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
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:

<u>Reserved for:</u>	<u>General Fund</u>	<u>Redevelopment Debt Service Fund</u>
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	<u>\$44,487</u>	<u>\$13,499</u>

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:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$2,001
	Nonmajor enterprise funds	941
	Central stores *	3,979
Electric	General	<u>50</u>
Total		<u>\$6,971</u>

* 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:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
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

Electric

Water

Sewer

Nonmajor governmental funds

Workers' compensation *

Total

* Internal service funds

228

3

48

968

8,000

1,760

232

667

1,839

\$47,460

**CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
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:

<u>Transfer In Fund</u>	<u>Transfer Out Fund</u>	<u>Amount</u>
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	<u>6,456</u>
Total		<u>\$57,085</u>

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 effect 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.

**CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2005**

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

**CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2005**

(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 Up-rating	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.

Fiscal Year	SCPPA					Total
	IPA Inter-mountain Power Project	Palo Verde Nuclear Generating Project	Transmission System Project	Hoover Dam Up-rating	Mead-Phoenix Transmission	
2006	\$ 22,532	\$ 830	\$ 6,968	\$ 708	\$ 1,388	\$ 32,558
2007	22,361	825	7,192	704	2,816	34,157
2008	22,847	825	6,693	704	2,819	34,148
2009	22,087	825	6,575	704	2,814	33,264
2010	23,026	688	6,329	703	2,818	33,823
Thereafter	269,997	4,812	100,586	5,569	30,744	414,579
Total	<u>\$382,850</u>	<u>\$8,805</u>	<u>\$134,343</u>	<u>\$9,092</u>	<u>\$4,040</u>	<u>\$582,529</u>

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 Up-rating	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 Desert 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.

CITY OF RIVERSIDE
 NOTES TO BASIC FINANCIAL STATEMENTS
 Fiscal Year Ended June 30, 2005

(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	<u>1,810</u>	<u>-</u>	<u>1,810</u>
	<u>\$6,478</u>	<u>\$1,839</u>	<u>\$8,317</u>

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 megawatts, 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	<u>9,619</u>
Total		<u>27.1MW</u>		<u>\$11,804</u>

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.

**CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2005**

(amounts expressed in thousands)

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

**CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2005**

(amounts expressed in thousands)

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.

**CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2005**

(amounts expressed in thousands)

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.