

City of Richmond

Richmond, California

*Basic Financial Statements
and Independent Auditors' Report*

For the year ended June 30, 2004

C&L
Caporicci & Larson
Certified Public Accountants



City of Richmond

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of City Council
 of the City of Richmond
 Richmond, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Richmond, California (City), as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the following entity that is included in the accompanying basic financial statements:

	Total Assets	Total Operating Revenues
Richmond Housing Authority, Enterprise Fund	<u>\$ 50,265,163</u>	<u>\$ 2,234,580</u>

Those financial statements were audited by other auditors whose qualified reports have been furnished to us, and our opinion on the basic financial statements of the City, insofar as it relates to those amounts included for the Richmond Housing Authority, Enterprise Fund, in the accompanying basic financial statements of the City, is based on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The City has not maintained adequate internal control (and accounting records) for the year ended June 30, 2004. Generally accepted auditing standards define internal control as a process - effected by an entity's governing board, management, and other personnel - designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations. Internal control consists of five interrelated components:

- a. *Control environment* sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
- b. *Risk assessment* is the entity's identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how the risks should be managed.
- c. *Control activities* are the policies and procedures that help ensure that management directives are carried out.
- d. *Information and communication systems* support the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.
- e. *Monitoring* is a process that assesses the quality of internal control performance over time.

These internal control components listed above were not adequately maintained by the City for the year ended June 30, 2004. Because the City did not maintain adequate internal control (and accounting records), the accompanying basic financial statements may be materially misstated and may not present fairly the financial position and the respective changes in financial position and cash flows of the City for the year ended June 30, 2004.

The accompanying basic financial statements have been prepared assuming that the City will continue as a going concern. As disclosed in the basic financial statements, the City's significant operating losses raise substantial doubt about its ability to continue as a going concern. Management's discussion and plans regarding those matters are also described in Note titled "*City's Financial Condition*" in Notes to the Basic Financial Statements. The basic financials statements do not include any adjustments that might result from the outcome of this uncertainty.

Because of the inadequacy of the accounting records, we were not able to form an opinion regarding the amount of capital assets in the accompanying Statement of Net Assets and the related depreciation expense in the Statement of Activities. The capital assets in the amount of \$395,505,244, represent 71% of total assets.

In addition, the City's accounting records did not permit us to extend our auditing procedures sufficiently to satisfy ourselves about the following accounts listed in the basic financial statements:

	Amounts per Basic Financial Statements
Accounts Receivable	\$ 10,265,443
Deposits Payable	\$ 3,994,614
Long-Term Debt	\$ 257,685,194

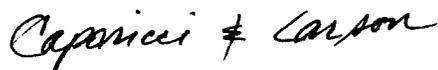
The City has classified its expenditures on the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances by type of expenditure. In our opinion, those expenditures should be classified by activity to conform to generally accepted accounting principles in the United States. If the financial statements were corrected for that departure from generally accepted accounting principles in the United States, there will be no effect on changes in fund balances for the year ended June 30, 2004.

To the Honorable Mayor and Members of City Council
of the City of Richmond
Richmond, California
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Because of the significance of the matters discussed in the preceding paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, opinions on the City's basic financial statements for the year ended June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report which identified findings of reportable conditions and material weaknesses, and in which we disclaimed to render an opinion, dated October 7, 2005 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Required Supplementary Information, such as budgetary comparison information and other information, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it. The City has not presented Management's Discussion and Analysis or the Schedule of Funding Progress for its Pension Plans that generally accepted accounting principles in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Oakland, California
October 7, 2005

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CITY OF RICHMOND
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$34,943,651	\$5,958,142	\$40,901,793
Restricted cash and investments	59,325,030	33,656,940	92,981,970
Receivables:			
Accounts, net	7,007,451	3,257,992	10,265,443
Interest	113,304	9,737	123,041
Grants	929,754	71,000	1,000,754
Loans	13,360,058		13,360,058
Internal balances	19,237,989	(19,237,989)	
Inventories	388,890	55,517	444,407
Deferred charges		1,176,367	1,176,367
Bond issuance cost, net of amortization		807,868	807,868
Prepays and other assets	171,225	321,883	493,108
Capital assets:			
Nondepreciable	35,346,670	45,926,336	81,273,006
Depreciable, net	219,523,653	94,708,585	314,232,238
Total Assets	390,347,675	166,712,378	557,060,053
LIABILITIES			
Accounts payable and accrued liabilities	5,228,914	4,193,055	9,421,969
Due to pension trust	2,751,843		2,751,843
Interest payable	2,633,689	932,516	3,566,205
Refundable deposits	3,125,814	868,800	3,994,614
Unearned revenue	317,766		317,766
Compensated absences:			
Due within one year		466,514	466,514
Due in more than one year	8,424,276	1,745,934	10,170,210
Claims liabilities	21,140,000		21,140,000
Long-term debt:			
Due within one year	7,175,459	3,766,178	10,941,637
Due in more than one year	151,353,615	95,389,942	246,743,557
Total Liabilities	202,151,376	107,362,939	309,514,315
NET ASSETS			
Invested in capital assets, net of related debt	123,741,262	75,917,317	199,658,579
Restricted for:			
Capital projects	12,268,014		12,268,014
Debt service	9,981,120		9,981,120
Housing and redevelopment	23,109,058	3,156,207	26,265,265
Total Restricted Net Assets	45,358,192	3,156,207	48,514,399
Unrestricted (deficit)	19,096,845	(19,724,085)	(627,240)
Total Net Assets	\$188,196,299	\$59,349,439	\$247,545,738

See accompanying notes to financial statements

CITY OF RICHMOND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	\$33,157,403	\$12,779,067	\$1,768,666		(\$18,609,670)		(\$18,609,670)
Public safety	55,122,382	22,300	973,896		(54,126,186)		(54,126,186)
Highways and streets	39,509,425	5,133,200	419,014	\$1,908,827	(32,048,384)		(32,048,384)
Community development	5,771,490	17	6,546,729		775,256		775,256
Cultural and recreational	11,426,024	234,308	435,011		(10,756,705)		(10,756,705)
Housing and redevelopment	9,610,845	26		500,602	(9,110,217)		(9,110,217)
Interest on long term debt	14,665,716				(14,665,716)		(14,665,716)
Total Governmental Activities	169,263,285	18,168,918	10,143,316	2,409,429	(138,541,622)		(138,541,622)
Business-type Activities:							
Richmond Housing Authority	27,920,939	2,234,580		31,463,900	\$5,777,541		5,777,541
RHA Properties	2,997,658	3,199,363		2,381,468	2,583,173		2,583,173
Port of Richmond	2,911,772	2,491,147			(420,625)		(420,625)
Richmond Marina	272,694	458,473			185,779		185,779
Municipal Sewer	10,047,198	10,008,499	9,498		(29,201)		(29,201)
Storm Sewer	2,461,223	1,478,790			(982,433)		(982,433)
Cable TV	699,809	911,227			211,418		211,418
Convention Center	291,078	202,246			(88,832)		(88,832)
Total Business-type Activities	47,602,371	20,984,325	9,498	33,845,368		7,236,820	7,236,820
Total	\$216,865,656	\$39,153,243	\$10,152,814	\$36,254,797	(138,541,622)	7,236,820	(131,304,802)
General revenues:							
Taxes:							
Property taxes					36,475,512		36,475,512
Sales taxes					12,352,198		12,352,198
Utility user taxes					29,322,850		29,322,850
Other taxes					9,421,142		9,421,142
Use of money and property					2,597,233	1,809,249	4,406,482
Unrestricted intergovernmental					4,157,098		4,157,098
Other					18,778,396		18,778,396
Transfers					49,486	(49,486)	
Total general revenues and transfers					113,153,915	1,759,763	114,913,678
Change in Net Assets					(25,387,707)	8,996,583	(16,391,124)
Net Assets-Beginning, as Restated					213,584,006	50,352,856	263,936,862
Net Assets-Ending					\$188,196,299	\$59,349,439	\$247,545,738

See accompanying notes to financial statements

CITY OF RICHMOND
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2004

	General	Redevelopment Agency	JPFA	General Capital Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments	\$10,978,625	\$7,281,167	\$1,012,772	\$3,434,758	\$8,861,933	\$31,569,255
Restricted cash and investments	1,254,352	28,335,081	10,556,783	15,858,218	3,320,596	59,325,030
Receivables:						
Accounts, net	5,409,622	259,326		59,381	1,279,122	7,007,451
Interest	34,372	22,552	3,247	9,807	32,506	102,484
Grants	30,000				899,754	929,754
Loans	997,031	7,213,186			5,149,841	13,360,058
Due from other funds	2,871,501	56,367				2,927,868
Advances to other funds	30,087,012	226,770				30,313,782
Inventories	386,767					386,767
Prepays and other assets	102,729	39,797		28,699		171,225
Total Assets	\$52,152,011	\$43,434,246	\$11,572,802	\$19,390,863	\$19,543,752	\$146,093,674
LIABILITIES						
Accounts payable and accrued liabilities	2,989,251	\$903,741	\$1,525	725,199	488,243	5,107,959
Refundable deposits	1,848,500	1,134,882			142,432	3,125,814
Due to pension trust	1,898,843					1,898,843
Due to other funds			34,358	773,368	22,009	829,735
Advances from other funds	111,770	13,062,156				13,173,926
Deferred revenue	9,528,635	6,935,068			6,468,194	22,931,897
Total Liabilities	16,376,999	22,035,847	35,883	1,498,567	7,120,878	47,068,174
FUND BALANCES						
Fund balance						
Reserved for:						
Encumbrances	1,526,167					1,526,167
Inventories	386,767					386,767
Debt service		2,225,885	11,536,919			13,762,804
Advances to other funds	21,421,635	226,770				21,648,405
Low and moderate income housing		4,412,891				4,412,891
Unreserved, Undesignated, Reported in:						
General Fund	12,440,443					12,440,443
Special Revenue Funds					7,730,927	7,730,927
Debt Service Funds					(1,555,799)	(1,555,799)
Capital Projects Funds		14,532,853		17,892,296	6,247,746	38,672,895
Total Fund Balances	35,775,012	21,398,399	11,536,919	17,892,296	12,422,874	99,025,500
Total Liabilities and Fund Balances	\$52,152,011	\$43,434,246	\$11,572,802	\$19,390,863	\$19,543,752	\$146,093,674

See accompanying notes to financial statements

CITY OF RICHMOND
 Reconciliation of the
 GOVERNMENTAL FUNDS -- BALANCE SHEET
 with the
 STATEMENT OF NET ASSETS
 JUNE 30, 2004

Total fund balances reported on the governmental funds balance sheet \$99,025,500

Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds above because of the following:

CAPITAL ASSETS

Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds. 254,870,323

ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS

Internal service funds are not governmental funds. However, they are used by management to charge the costs of certain activities, such as insurance and central services and maintenance to individual governmental funds. The net current assets of the Internal Service Funds are therefore included in Governmental Activities in the following line items in the Statement of Net Assets.

Cash and investments	3,374,396
Interest receivable	10,820
Inventories	2,123
Accounts payable and accrued liabilities	(120,955)
Compensated absences	(45,808)
Claims payable	(21,140,000)

ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES

Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities. 22,614,131

LONG TERM ASSETS AND LIABILITIES

The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:

Interest payable	(2,633,689)
Long-term debt	(158,529,074)
Non-current portion of net pension obligation	(853,000)
Non-current portion of compensated absences	(8,378,468)
	(8,378,468)

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$188,196,299

See accompanying notes to financial statements

CITY OF RICHMOND
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2004

	General	Redevelopment Agency	JPFA	General Capital Improvement	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes	\$23,640,305	\$12,835,207				\$36,475,512
Sales taxes	12,352,198					12,352,198
Utility user taxes	29,322,704	146				29,322,850
Other taxes	9,421,142					9,421,142
Licenses, permits and fees	3,024,816	26			\$5,389,826	8,414,668
Fines, forfeitures and penalties	399,505				35,552	435,057
Use of money and property	1,164,286	690,363	\$287,613	\$552,621	(66,317)	2,628,566
Intergovernmental	5,638,131	500,602		53,516	9,700,329	15,892,578
Charges for services	4,135,907			532,107	2,107,435	6,775,449
Lease income						
Contribution from other governments						
Other	10,142,510	982,896	2,901,562	2,718,622	6,407,342	23,152,932
Rent	2,453,613	79,840			27,534	2,560,987
Total Revenues	101,695,117	15,089,080	3,189,175	3,856,866	23,601,701	147,431,939
EXPENDITURES						
Current:						
Salaries and wages	68,640,913	2,718,969		285,636	14,595,018	86,240,536
General and administrative	16,572,865	8,885,630	65,926	10,390,001	4,971,729	40,886,151
Maintenance	1,450,993	48,273		564,437	118,678	2,182,381
Other	366,944	6,247		25,712	202,123	601,026
Capital outlay	98,047	11,140,207		1,319,738	12,479	12,570,471
Debt service:						
Principal		2,035,000			5,954,730	7,989,730
Interest and fiscal charges		3,585,049	4,144,727		4,372,658	12,102,434
Total Expenditures	87,129,762	28,419,375	4,210,653	12,585,524	30,227,415	162,572,729
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	14,565,355	(13,330,295)	(1,021,478)	(8,728,658)	(6,625,714)	(15,140,790)
OTHER FINANCING SOURCES (USES)						
Issuance of debt		565,759	28,580,000			29,145,759
Proceeds from sale of property	57,545	506,181			15,181	578,907
Transfers in	1,163,137	44,753,560	145,206	10,130,003	10,467,232	66,659,138
Transfers (out)	(12,511,781)	(20,250,577)	(23,880,797)	(10,007,125)	(2,959,372)	(69,609,652)
Total Other Financing Sources (Uses)	(11,291,099)	25,574,923	4,844,409	122,878	7,523,041	26,774,152
NET CHANGE IN FUND BALANCES	3,274,256	12,244,628	3,822,931	(8,605,780)	897,327	11,633,362
BEGINNING FUND BALANCES, AS RESTATED	32,500,756	9,153,771	7,713,988	26,498,076	11,525,547	87,392,138
ENDING FUND BALANCES	\$35,775,012	\$21,398,399	\$11,536,919	\$17,892,296	\$12,422,874	\$99,025,500

See accompanying notes to financial statements

CITY OF RICHMOND
 Reconciliation of the
 NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
 with the
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2004

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$11,633,362

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

Governmental Funds include capital outlays in departmental expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense. The capital outlay expenditures are therefore added back to fund balance 11,834,134

Depreciation expense is deducted from the fund balance (17,813,332)

Retirements of capital assets (net of Internal Service Fund retirements of \$35,316) are deducted from the fund balance (4,164,677)

Assets transferred from Proprietary Funds are added to fund balance 169,297

LONG TERM DEBT PROCEEDS AND PAYMENTS

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.

Proceeds from the issuance of debt are deducted from fund balance (29,145,759)

Repayment of debt principal is added back to fund balance 7,989,730

Capital appreciation bonds accretion is deducted from fund balance (2,542,389)

Interest accrued to principal is deducted from fund balance (20,893)

ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Deferred revenue 1,764,508

Compensated absences 2,734,147

Net pension obligation (853,000)

ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY

Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds. The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.

Change in Net Assets - All Internal Service Funds (6,972,835)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (\$25,387,707)

See accompanying notes to financial statements

CITY OF RICHMOND
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 JUNE 30, 2004

	Business-type Activities-Enterprise Funds					Totals	Governmental Activities- Internal Service Funds
	Richmond Housing Authority	RHA Properties	Port of Richmond	Municipal Sewer	Other Enterprise Funds		
ASSETS							
Current assets:							
Cash and investments	\$2,827,500	\$203,878	\$869,278		\$2,057,486	\$5,958,142	\$3,374,396
Restricted cash and investments		3,156,207	2,726,690	27,695,646	78,397	33,656,940	
Receivables:							
Accounts, net	2,435,343	8,004		411,094	403,551	3,257,992	
Interest			3,380		6,357	9,737	10,820
Grants			71,000			71,000	
Due from other funds							
Inventories	55,517					55,517	2,123
Deferred charges			339,241	837,126		1,176,367	
Bond issuance cost, net of amortization		807,868				807,868	
Prepays and other assets	214,605		107,278			321,883	
Total current assets	5,532,965	4,175,957	4,116,867	28,943,866	2,545,791	45,315,446	3,387,339
Noncurrent assets:							
Capital assets:							
Nondepreciable	10,529,694	7,282,800	16,316,765	10,124,582	1,672,495	45,926,336	
Depreciable, net	34,202,504	26,273,507	4,605,808	15,148,255	14,478,511	94,708,585	
Total noncurrent assets	44,732,198	33,556,307	20,922,573	25,272,837	16,151,006	140,634,921	
Total Assets	50,265,163	37,732,264	25,039,440	54,216,703	18,696,797	185,950,367	3,387,339
LIABILITIES							
Current liabilities:							
Cash overdraft							
Accounts payable and accrued liabilities	862,654	195,160	2,212,008	882,148	41,085	4,193,055	120,955
Interest payable			146,820	640,209	145,487	932,516	
Refundable deposits	112,430	233,931	315,098	66,070	141,271	868,800	
Due to other funds				2,098,133		2,098,133	
Compensated absences - due within one	381,161				85,353	466,514	
Current portion of long term debt		535,000	1,474,444	1,708,633	48,101	3,766,178	
Total current liabilities	1,356,245	964,091	4,148,370	5,395,193	461,297	12,325,196	120,955
Noncurrent liabilities:							
Advances from other funds			17,139,856			17,139,856	
Compensated absences	1,642,668		49,629	53,637		1,745,934	45,808
Claims payable							21,140,000
Long term debt, net		34,185,000	15,938,923	41,787,151	3,478,868	95,389,942	
Total noncurrent liabilities	1,642,668	34,185,000	33,128,408	41,840,788	3,478,868	114,275,732	21,185,808
Total Liabilities	2,998,913	35,149,091	37,276,778	47,235,981	3,940,165	126,600,928	21,306,763
NET ASSETS							
Invested in capital assets, net of related debt	44,732,198	1,992,514	6,235,896	9,472,699	13,484,010	75,917,317	
Restricted		3,156,207				3,156,207	
Unrestricted	2,534,052	(2,565,548)	(18,473,234)	(2,491,977)	1,272,622	(19,724,085)	(17,919,424)
Total Net Assets	\$47,266,250	\$2,583,173	(\$12,237,338)	\$6,980,722	\$14,756,632	\$59,349,439	(\$17,919,424)

See accompanying notes to financial statements

CITY OF RICHMOND
 PROPRIETARY FUNDS
 STATEMENT OF REVENUE, EXPENSES
 AND CHANGES IN FUND NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2004

	Business-type Activities-Enterprise Funds					Totals	Governmental Activities- Internal Service Funds
	Richmond Housing Authority	RHA Properties	Port of Richmond	Municipal Sewer	Other Enterprise Funds		
OPERATING REVENUES							
Property taxes				\$9,498		\$9,498	
Rental	\$1,531,066	\$2,943,399				4,474,465	
Marina berth rentals			\$268,368			268,368	
Service charges			2,051,026	9,058,399	\$2,397,674	13,507,099	\$3,070,018
Lease income			100,653			100,653	
Reimbursement from dredging					458,473	458,473	
Other	703,514	255,964	71,100	950,100	194,589	2,175,267	
Total Operating Revenues	2,234,580	3,199,363	2,491,147	10,017,997	3,050,736	20,993,823	3,070,018
OPERATING EXPENSES							
Salaries and wages	5,239,616	404,997	659,414	1,287,952	1,814,795	9,406,774	3,251,867
General and administrative	1,110,683	1,164,688	939,548	5,107,953	586,687	8,909,559	
Maintenance	1,584,160	563,302	17,685	51,182	77,239	2,293,568	
Depreciation	380,011	841,589	262,629	1,268,372	1,087,073	3,839,674	
Housing assistance	19,238,640					19,238,640	
Claims losses							9,759,653
Amortization of bond issuance costs		23,082				23,082	
Other	509,555				124	509,679	
Total Operating Expenses	28,062,665	2,997,658	1,879,276	7,715,459	3,565,918	44,220,976	13,011,520
Operating Income (Loss)	(25,828,085)	201,705	611,871	2,302,538	(515,182)	(23,227,153)	(9,941,502)
NONOPERATING REVENUES (EXPENSES)							
Interest income	26,309		(6,578)	1,807,421	(17,903)	1,809,249	(31,333)
Grants	31,463,900					31,463,900	
Interest (expense)			(1,032,496)	(2,324,291)	(158,886)	(3,515,673)	
Gain (loss) on sale of fixed assets	141,726			(7,448)		134,278	
Total Nonoperating Revenues (Expenses)	31,631,935		(1,039,074)	(524,318)	(176,789)	29,891,754	(31,333)
Income (Loss) Before Contributions and Transfers	5,803,850	201,705	(427,203)	1,778,220	(691,971)	6,664,601	(9,972,835)
Contributions		2,381,468				2,381,468	
Transfers in			4,803,929	5,749,423	233,702	10,787,054	3,000,000
Transfers (out)			(4,803,929)	(5,758,310)	(274,301)	(10,836,540)	
Net contributions and transfers		2,381,468		(8,887)	(40,599)	2,331,982	3,000,000
Change in net assets	5,803,850	2,583,173	(427,203)	1,769,333	(732,570)	8,996,583	(6,972,835)
BEGINNING NET ASSETS	41,462,400		(11,810,135)	5,211,389	15,489,202	50,352,856	(10,946,589)
ENDING NET ASSETS	\$47,266,250	\$2,583,173	(\$12,237,338)	\$6,980,722	\$14,756,632	\$59,349,439	(\$17,919,424)

See accompanying notes to financial statements

CITY OF RICHMOND
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2004

	Business-type Activities-Enterprise Funds					Totals	Governmental Activities- Internal Service Funds
	Richmond Housing Authority	RHA Properties	Port of Richmond	Municipal Sewer	Other Enterprise Funds		
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from customers	\$1,790,195	\$3,425,290	\$3,010,085	\$9,790,255	\$3,137,440	\$21,153,265	\$3,070,018
Payments to suppliers	(22,764,846)	(1,555,912)	(308,799)	(4,536,070)	(684,859)	(29,850,486)	
Payments to employees	(3,339,547)	(404,997)	(656,342)	(1,245,203)	(1,803,730)	(7,449,819)	(3,194,846)
Insurance premiums and claims paid							(5,753,776)
Cash Flows from Operating Activities	(24,314,198)	1,464,381	2,044,944	4,008,982	648,851	(16,147,040)	(5,878,604)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Interfund payments			301,862	2,098,133	(120,000)	2,279,995	
Receipts from other governments	31,463,900		(71,000)			31,392,900	
Transfers in			4,803,929	5,749,423	233,702	10,787,054	3,000,000
Transfers (out)			(4,803,929)	(5,758,310)	(274,301)	(10,836,540)	
Cash Flows from Noncapital Financing Activities	31,463,900		230,862	2,089,246	(160,599)	33,623,409	3,000,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Acquisition of capital assets, net of retirements	(6,122,701)	(32,016,428)	(8,079,823)	(3,753,244)	(110,242)	(50,082,438)	35,316
Proceeds from issuance of capital debt		35,000,000	5,424,178			40,424,178	
Bond issuance costs		(807,868)				(807,868)	
Principal payments on capital debt	(2,195,217)	(280,000)	(1,290,000)	(493,333)	(46,030)	(4,304,580)	
Interest paid			(1,035,347)	(1,701,797)	(160,785)	(2,897,929)	
Cash Flows from Capital and Related Financing Activities	(8,317,918)	1,895,704	(4,980,992)	(5,948,374)	(317,057)	(17,668,637)	35,316
CASH FLOWS FROM INVESTING ACTIVITIES							
Interest	26,309		201	1,813,289	(20,597)	1,819,202	(38,343)
Purchase of investments with fiscal agent		(3,156,207)	(2,701,538)			(5,857,745)	
Sale of investments with fiscal agent				2,417,490	148,412	2,565,902	
Cash Flows from Investing Activities	26,309	(3,156,207)	(2,701,337)	4,230,779	127,815	(1,472,641)	(38,343)
Net Cash Flows	(1,141,907)	203,878	(5,406,523)	4,380,633	299,010	(1,664,909)	(2,881,631)
Cash and investments at beginning of period	3,969,407		6,275,801	(4,380,633)	1,758,476	7,623,051	6,256,027
Cash and investments at end of period	<u>\$2,827,500</u>	<u>\$203,878</u>	<u>\$869,278</u>	<u>\$4,008,982</u>	<u>\$2,057,486</u>	<u>\$5,958,142</u>	<u>\$3,374,396</u>
Reconciliation of Operating Income (Loss) to Cash Flows from Operating Activities:							
Operating income (loss)	(\$25,828,085)	\$201,705	\$611,871	\$2,302,538	(\$515,182)	(\$23,227,153)	(\$9,941,502)
Adjustments to reconcile operating income to cash flows from operating activities:							
Depreciation	380,011	841,589	262,629	1,268,372	1,087,073	3,839,674	
Change in assets and liabilities:							
Receivables, net	(683,279)	(8,004)	261,938	(240,653)	(74,547)	(744,545)	
Other receivables	250,040			12,911	121,788	384,739	
Inventories	1,902					1,902	(2,123)
Deferred charges			(142,785)	30,909		(111,876)	
Other assets	(111,070)		(107,278)	50,000		(168,348)	
Accounts payable and accrued liabilities and oth	(212,640)	195,160	898,497	542,156	(20,809)	1,402,364	68,420
Refundable deposits	(11,146)	233,931	257,000		69,472	549,257	
Unearned revenue					(30,009)	(30,009)	
Compensated absences payable	1,900,069		3,072	42,749	11,065	1,956,955	(11,399)
Claims payable							4,008,000
Cash Flows from Operating Activities	(\$24,314,198)	\$1,464,381	\$2,044,944	\$4,008,982	\$648,851	(\$16,147,040)	(\$5,878,604)
Non cash transactions:							
Contributions of capital assets		<u>\$2,381,468</u>				<u>\$2,381,468</u>	
Capital asset additions in accounts payable			<u>\$882,013</u>			<u>\$882,013</u>	

See accompanying notes to financial statements

CITY OF RICHMOND
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2004

	Pension Trust Funds	Agency Funds
ASSETS		
Cash and investments	\$19,118,559	\$4,990,056
Restricted cash and investments	16,668,965	3,015,801
Investment in reassessment bonds		9,740,000
Receivable from the City	1,898,843	
Interest receivable	67,850	25,352
Total Assets	37,754,217	\$17,771,209
LIABILITIES		
Accounts payable and accrued liabilities	861	\$223,769
Deferred property tax override	22,799,687	
Refundable deposits payable		636,870
Due to assessment district bondholders		16,910,570
Net pension obligation (asset)	3,600,421	
Total Liabilities	26,400,969	\$17,771,209
NET ASSETS		
Restricted for employees' retirement benefits	\$11,353,248	

See accompanying notes to financial statements

CITY OF RICHMOND
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 JUNE 30, 2004

	<u>Pension Trust Funds</u>
ADDITIONS	
Investment earnings (loss)	\$462,750
Property taxes	3,825,777
Other	<u>997,774</u>
Total Additions	<u>5,286,301</u>
DEDUCTIONS	
Pension benefits	3,759,819
Other	<u>9,325,749</u>
Total Deductions	<u>13,085,568</u>
Net Increase (Decrease)	(7,799,267)
NET ASSETS, BEGINNING OF YEAR	<u>19,152,515</u>
NET ASSETS, END OF YEAR	<u><u>\$11,353,248</u></u>

See accompanying notes to financial statements

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

ORGANIZATION AND DEFINITION OF REPORTING ENTITY

The City was incorporated in 1905 under the laws of the State of California and adopted its charter in 1909. The City operates under a Council-Manager form of government and provides the following services to its citizens as authorized by its charter: police and fire protection, planning and community development, streets and roads, parks and recreation, sewage treatment, drainage and capital projects. In addition, the City has a port, marina, municipal and storm sewer enterprises, a housing authority, a redevelopment agency, a joint powers financing authority, and a parking authority.

As required by GAAP, these basic financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations and data from these units are combined with data of the City.

The City's component units and assessment districts are as follows: the Richmond Redevelopment Agency, the Richmond Housing Authority, RHA Properties, the Richmond Joint Powers Financing Authority, the Richmond Parking Authority, and the Hilltop F Refunding Series AF, Atlas Road West, Cutting/Canal and Atlas Interchange Special Assessment Districts.

Blended Component Units:

Richmond Redevelopment Agency (Redevelopment Agency) - Formed in October 1949 as a separate legal entity under the provisions of the Community Redevelopment Law (California Health and Safety Code, commencing with Section 33000). The Redevelopment Agency was established primarily to assist in the clearance and rehabilitation of areas determined to be in a blighted condition in the City. Since that time various Project Area Plans (Plans) have been developed to provide an improved physical, social, and economic environment in various Project Areas. The Redevelopment Agency is authorized to finance redevelopment through various sources, including assistance from the City, State, Federal governments, incremental property taxes, interest income, issuance of Redevelopment Agency notes and bonds, and sale and rental of real property acquired with these funds. Although the Redevelopment Agency is a separate legal entity from the City, it is an integral part of the City. The City exercises significant financial and management control over the Redevelopment Agency and members of the City Council serve as the governing board of the Redevelopment Agency. The Redevelopment Agency is presented as a major fund in the City's basic financial statements. Separate financial statements for the Redevelopment Agency may be obtained by contacting the Office of Finance, City of Richmond, 1401 Marina Way South, Richmond, California 94804.

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

Richmond Housing Authority (Housing Authority) - Formed in 1941 as a separate legal entity under the provisions of the Housing Act of 1937. The Housing Authority was established to use funds provided by the Department of Housing and Urban Development (HUD) to rehabilitate local deteriorated housing and to subsidize low-income families in obtaining decent, safe, and sanitary housing needs. Under State laws, the Housing Authority is subject to California Health and Safety Code Sections 34200 – 34606. Although the Housing Authority is a separate legal entity from the City, it is an integral part of the City. The City exercises significant financial and management control over the Housing Authority and members of City Council serve as the governing board of the Housing Authority. The financial statements of the Housing Authority are included in the basic financial statements as an enterprise fund. Separate financial statements for the Housing Authority may be obtained by contacting the Richmond Housing Authority, 330 24th, Richmond, California 94804.

Richmond Joint Powers Financing Authority (JPFA) - A joint exercise of powers authority formed on December 1, 1989, by and between the City and the Redevelopment Agency. The JPFA was created to assist the City, the Redevelopment Agency, and other local public agencies in financing and refinancing, through the issuance of bonds or other instruments of indebtedness, capital improvements and working capital pursuant to the Marks-Roos Local Bond Pooling Act of 1985. The JPFA is authorized to purchase at public or negotiated sale of any bonds, notes, commercial paper, lease-purchase agreement, certificates of participation, floating rate, and variable maturity securities of the City, Redevelopment Agency, and other local public agencies. Although the JPFA is a separate legal entity from the City, it is an integral part of the City. The City exercises significant financial and management control over the JPFA and members of the Board of Directors are appointed by City Council. The operations of the JPFA are included in the City's basic financial statements as a debt service fund. Separate financial statements for the JPFA may be obtained by contacting the Office of Finance, City of Richmond, 1401 Marina Way South, Richmond, California 94804.

Richmond Parking Authority (Parking Authority) - Formed in 1975 pursuant to the provisions of California statutes for the purpose of financing the construction of off-street parking facilities. One such facility has been built to date and has been leased to the City. Although the Parking Authority is a separate legal entity from the City, it is an integral part of the City. The City exercises significant financial and management control over the Parking Authority and members of the City Council serve as the governing board of the Parking Authority. The operations of the Parking Authority are included in the City's basic financial statements as a debt service fund. Separate financial statements for the Parking Authority are not required or issued.

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

RHA Properties is a joint powers agreement between the City and the Housing Authority formed in 2004 for the purpose of owning and managing the operations of an affordable housing residential complex known as The Hilltop at Westridge Apartments, located in the City of Richmond and dedicated to the needs of elderly persons. The City and the Housing Authority funded the acquisition of this complex. The City and Housing Authority exercise significant financial and management control over RHA and appoint members of the Board of Directors.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Richmond, California (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Boards (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Basis of Accounting and Measurement Focus

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. City resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Governmental-Wide Financial Statements - The City's Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental and Business-Type Activities for the City accompanied by a total column. Fiduciary Activities of the City are not included in these statements.

The financial statements are presented on an "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the City are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated. However, transactions between governmental and business-type activities have not been eliminated.

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, to the business type activities, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the committee on Accounting Procedure. The City applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

Governmental Fund Financial Statements - Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and nonmajor funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-Wide financial statements. The City has presented all major funds that met the qualifications for major fund reporting.

All governmental funds are accounted for on a spending or "*current financial resources*" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, taxpayer-assessed tax revenues (sales taxes, transient occupancy taxes, franchise taxes, etc.) and earnings on investments. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

Proprietary Fund Financial Statements - Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows for each major proprietary fund and nonmajor funds aggregated. A column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the Government-Wide Financial Statements.

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. In these funds, receivables have been recorded as revenue and provisions have been made for uncollectible amounts. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting*, the City applies all GASB pronouncements currently in effect as well as Financial Accounting Standard Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Fiduciary Fund Financial Statements and Statement of Changes in Net Assets - Fiduciary Fund Financial Statements include a Statement of Fiduciary Net Assets, and a Statement of Changes in Fiduciary Net Assets. The City's Fiduciary funds represent Pension Trust funds and Agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Pension trust funds are accounted for on an economic resources measurement focus and the accrual basis of accounting.

Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

Cash, Cash Equivalents and Investments

For purposes of reporting cash flows, the City considers each fund's share in the cash and investments pool to be cash and cash equivalents. With respect to cash and investments held by fiscal agents, the City considers investments with original maturities of three months or less to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The City participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF) which has invested a portion of the pool funds in Structured Notes and Asset-backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-backed Securities are subject to market risk as to change in interest rates.

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

Inventories

Inventories are valued at cost using the weighted average method. Inventories of the General Fund and special revenue funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure in the funds at the time individual inventory items are consumed rather than when purchased.

Capital Assets

Capital assets are valued at historical cost or, for donated fixed assets, at their estimated fair value on the date donated. Certain assets, for which actual historical costs are not available, have been valued using methods to approximate their historical costs. City policy has set the capitalization threshold for reporting capital assets at \$5,000. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Improvements other than buildings	20 years
Buildings and building improvements	50 years
Vehicles	5 – 10 years
Infrastructure	25 - 50 years
Machinery and equipment	5 – 20 years

The City defines infrastructure as the basic physical assets that allow the City to function. The assets include streets systems, parks and recreation lands and improvement systems, storm water collection system, and buildings combined with the site amenities such as parking and landscaped areas used by the City in the conduct of its business. Each major infrastructure system can be divided into subsystems. For example, the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights, traffic control devices (signs, signals and pavement markings), landscaping and land. These subsystems were not delineated in the Basic Financial Statements. The appropriate operating department maintains information regarding the subsystems.

Interest accrued during capital assets construction, if any, is capitalized for the business-type and proprietary funds as part of the asset cost.

Compensated Absences

Compensated absences are charged to operating expenditures when paid. Vacation and related benefits fully vest as earned and are paid in full upon termination. Vested vacation obligations are accrued when incurred in the government-wide financial statements and the proprietary fund financial statements. The liability for these amounts is reported in the governmental funds only if they have matured. The City is not liable for payment to employees for accrued sick leave and no related liability is recorded in the accompanying basic financial statements.

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

Property Tax Levy, Collection and Maximum Rates

The State of California Constitution Article XIII A provides that the combined maximum property tax rate on any given property may not exceed one percent of its assessed value except for voter approved incremental property taxes adopted prior to the passage of Article XIII A and any additional amount for general obligation debt approved by voters subsequent to the passage of Article XIII A. Assessed value is calculated at 100 percent of market value as defined by Article XIII A and may be adjusted by no more than two percent per year unless the property is modified, sold, or transferred. The State Legislature has determined the method of distribution of receipts from a one percent tax levy among the counties, cities, school districts, and other districts.

Contra Costa County assesses properties and bills for and collects property taxes as follows:

	Secured	Unsecured
Valuation/lien dates	January 1	March 1
Levied dates	July 1	July 1
Due dates	50% on November 1 50% on February 1	July 1
Delinquent as of	December 10 (for November) April 10 (for February)	August 31

The term “unsecured” refers to taxes on personal property other than land and buildings. These taxes are secured by liens on the property being taxed. Property taxes levied are recorded as revenue in the fiscal year of levy.

Long-Term Obligations

Government-Wide Financial Statements - Long-term debt and other financed obligations are reported as liabilities in the appropriate activities.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are reported as deferred charges.

Fund Financial Statements - The governmental fund financial statements do not present long-term debt but are shown in the Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets.

For governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized during the current period. Bond proceeds are reported as other financing sources net of the applicable premium or discount. Issuance costs, whether or not withheld from the actual net proceeds received, are reported as debt service expenditures.

Proprietary fund financial statements use the same principles as the government-wide financial statements.

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

Claims Liabilities

The City records a liability to reflect an actuarial estimate of ultimate uninsured losses for both general liability claims (including property damage claims) and workers' compensation claims. The estimated liability for workers' compensation claims and general liability claims includes "incurred but not reported" (IBNR) claims, and is recorded in the internal service funds.

Net Assets and Fund Equity

Government-Wide Financial Statements:

In the government-wide financial statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

Fund Financial Statements:

Reservations and designations of fund balances of governmental funds and restricted net assets of proprietary funds are created to either satisfy legal covenants, including State laws, that require a portion of the fund equity be segregated or identify the portion of the fund equity not available for future expenditures.

Descriptions of reserved amounts follow:

Reserved for Employees' Retirement Benefits - represents funds to cover future retirement benefit claims.

Reserved for Inventories - represents assets set aside as inventory and not available to be used to meet expenditures in the current period.

Reserved for Encumbrances - represents commitments for materials and services on purchase orders and contracts which are unperformed.

Reserved for Advances to Other Funds - represents amounts that are to be received from other funds on a long-term basis.

Reserved for Debt Service - represents amounts accumulated in accordance with a bond indenture or similar covenant.

Reserved for Program Obligations - represents funds set aside to fund specific program obligations.

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

Use of Estimates

In preparing basic financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of June 30, 2004, and the reported amount of revenues, expenditures and expenses during the year then ended. Actual results could differ from those estimates.

CASH AND INVESTMENTS

The City maintains a cash and investment pool, which includes cash balances and authorized investments of all funds, which the City Treasurer invests to enhance interest earnings. The pooled interest earned is allocated to the funds based on average month-end cash and investment balances in these funds.

Cash Deposits

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash and investments is allocated on an accounting period basis to the various funds based on the period-end cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

The California Government Code requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City's name.

The market value of pledged securities must equal at least 110% of the City's cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total cash deposits. The City may waive collateral requirements for cash deposits which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation. The City, however, has not waived the collateralization requirements.

Investments

Under the provisions of the City's Investment Policy, and in accordance with California Government Code, the following investments are authorized:

- Securities of the U.S. Government, or its agencies
- Certificates of Deposit
- Bankers' Acceptances
- Commercial Paper
- California Local Agency Investment Fund
- Passbook Savings Account Demand Deposits
- Repurchase Agreements
- Medium-Term Corporate Notes
- Mutual Funds

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

Fair Value of Investments

The City has complied with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for certain investments and for External Investments Pools*. No current adjustments have been made to the accompanying basic financial statements, because the City's investments were primarily in the State of California Local Agency Investment Fund and the fair value adjustment was immaterial.

The calculation of realized gains is independent of the calculation of the net decrease in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year.

Governmental Accounting Standards Board Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, requires that deposits and investments be classified by credit risk.

Classification of deposits and investments by credit risk

Deposits:

Category 1

Insured or collateralized with securities held by the entity or by its agent in the entity's name.

Category 2

Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Category 3

Deposits which are uninsured or uncollateralized.

Investments:

Category 1

Insured or registered or securities held by the entity or its agent in the entity's name.

Category 2

Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.

Category 3

Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the entity's name.

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

Investments Not Subject to Categorization

Investments in the California Local Agency Investment Fund (LAIF) are not categorized, as GASB No. 3 does not require categorization of investment pools managed by another government. Certain fiscal agent investments are not categorized because the underlying assets are open-ended mutual funds. Guaranteed investment contracts are not categorized because they are direct contractual investments and are not securities. All such investments are not required to be categorized under interpretive guidelines issued by the GASB.

Summary of cash and investments at June 30, 2004

Deposits and investments by category at June 30, 2004

	<u>Category</u> 1	<u>Not Subject to</u> <u>Categorization</u>	<u>Total</u> <u>Fair</u> <u>Value</u>
City Treasury:			
Demand deposits:			
Petty cash	\$ 5,197	\$ -	\$ 5,197
Cash deposit	<u>7,430,143</u>	<u>-</u>	<u>7,430,143</u>
Total demand deposits	<u>7,435,340</u>	<u>-</u>	<u>7,435,340</u>
Investments:			
Local Agency Investment Funds	<u>-</u>	<u>57,575,068</u>	<u>57,575,068</u>
Total investments	<u>-</u>	<u>57,575,068</u>	<u>57,575,068</u>
Total City Treasury	<u>7,435,340</u>	<u>57,575,068</u>	<u>65,010,408</u>
Cash and Investments			
With Fiscal Agents	<u>-</u>	<u>122,406,736</u>	<u>122,406,736</u>
Total cash and investments	<u>\$ 7,435,340</u>	<u>\$ 179,981,804</u>	<u>\$ 187,417,144</u>

The City had no Category 2 and 3 deposits and investments.

Investments with Local Agency Investment Funds (LAIF) at June 30, 2004

As of June 30, 2004, the City had \$57,575,068 invested in LAIF, which had invested 1.532 % of the pool investment funds in Structured Notes and Asset-Backed Securities. LAIF investments in Structured Notes and Asset-Backed Securities include the following:

Structured Notes

Debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or have embedded forwards or options.

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

Asset-Backed Securities

The bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMOs) or credit card receivables.

Investments held in the City Treasury grouped by maturity date at June 30, 2004

Maturity	
Current to one year	57,575,068
Total	\$ 57,575,068

INTERFUND PAYABLES, RECEIVABLES AND TRANSFERS

At June 30, 2004, the City had the following short-term Receivables and Payables:

Fund Financial Statements:

		Due from Other Funds		
		General Fund	RDA	Total
Due to Other Funds	Nonmajor Governmental Funds			
	JPFA		34,358	34,358
	General Capital Improvement	\$773,368		773,368
	Municipal Sewer	2,098,133		2,098,133
	Total	\$2,871,501	\$56,367	\$2,927,868

Fund Financial Statements:

		Advances to Other Funds		
		General Fund	Redevelopment Agency	Total
Advances from Other Funds	Governmental Activities:			
	General Fund	\$ -	\$ 111,770	\$ 111,770
	Redevelopment Agency	13,062,156		13,062,156
	Total Governmental Activities	13,062,156	111,770	13,173,926
	Business Type Activities:			
	Port of Richmond	17,024,856	115,000	17,139,856
	Total Business Type Activities	17,139,856	115,000	17,139,856
	Total	\$30,087,012	\$ 226,770	\$30,313,782

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

Interfund transfers

		Transfers In											
		General Fund	Redevelopment Agency	JPEA	General Capital Improvement	Non-Major Governmental Funds	Total Governmental Funds	Municipal Sewer	Port of Richmond	Non-Major Enterprise Funds	Total Enterprise Funds	Internal Service	Total
Transfers Out	Governmental Funds:												
	General Fund	\$ 150,000	\$ -	\$ -	\$ 183,614	\$ 9,178,167	\$ 9,511,781	\$ -			\$ -	\$ 3,000,000	\$ 12,511,781
	Redevelopment Agency		20,250,577				\$ 20,250,577				\$ -		\$ 20,250,577
	JPEA Debt Service		23,880,527			270	\$ 23,880,797				\$ -		\$ 23,880,797
	General Capital Improvement			145,206	9,846,389	15,530	\$ 10,007,125				\$ -		\$ 10,007,125
	Non-Major Governmental Funds	1,013,137	622,456		100,000	1,223,779	\$ 2,959,372				\$ -		\$ 2,959,372
	Total Governmental funds	1,163,137	44,753,560	145,206	10,130,003	10,417,746	66,609,652	-	-	-	-	3,000,000	69,609,652
	Proprietary Activities:												
	Municipal Sewer						-	5,749,423		8,887	5,758,310		\$ 5,758,310
	Port of Richmond								4,803,929		4,803,929		\$ 4,803,929
Non-Major Enterprise Funds					49,486	49,486			224,815	224,815		\$ 274,301	
Total Proprietary Funds	-	-	-	-	49,486	49,486	5,749,423	4,803,929	233,702	10,787,054	-	10,836,540	
Total	\$ 1,163,137	\$ 44,753,560	\$ 145,206	\$ 10,130,003	\$ 10,467,232	\$ 66,659,138	\$ 5,749,423	\$ 4,803,929	\$ 233,702	\$ 10,787,054	\$ 3,000,000	\$ 80,446,192	

During the fiscal year ended June 30, 2004, the City had no unusual transfers in/out between funds.

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

NOTES AND LOANS RECEIVABLE

As of June 30, 2004, notes and loans receivable consisted of the following:

CalTrans Loan	<u>\$ 997,031</u>
Community Development Block Grant:	
Mechanics Bank Loans	49,871
Deferred Loans	3,540,152
Home Improvement Program Loans	1,203,449
Rental Rehab Loans	<u>356,369</u>
Subtotal - Community Development Block Grant	<u>5,149,841</u>
Redevelopment Agency:	
EDA Loans	339,445
Mechanics Bank Serviced Loans	74,231
Atchison Village Annex Apartments	461,705
Heritage Park Development	500,000
PY Silent Second Mortgage Loans	1,096,313
Chesley Street Development	<u>4,741,492</u>
Subtotal- Redevelopment Agency	<u>7,213,186</u>
Total Notes and Loans Receivable	<u>\$13,360,058</u>

CalTrans Loan

The total of \$997,031 consists of two loans from the City of Richmond to Richmond Neighborhood Housing Services. These are pass through loans from CalTrans for the construction of 27 new homes located in North Richmond.

Mechanics Bank Loans

Loans are amortized home improvement loan accounts which the low and moderate income borrowers repay at 3% per annum. Approved CDBG loan contracts are forwarded to Mechanics Bank for servicing. Mechanics Bank provides the City with monthly reports detailing the transactions of these accounts such as loan repayments, payoffs and approved new loans forwarded to them for servicing. Mechanics Bank reports are reconciled monthly with the City's records for accuracy and proper recording. The outstanding balance of the loans at June 30, 2004 was \$49,871.

Deferred Loans

Deferred loans are granted by the City to low and moderate income families in Richmond to assist them in purchasing their homes. Emergency repair loans not exceeding \$10,000 funded by HOME Investment Partnership Program (HIPP) are provided to low income families in Richmond to assist them in rehabilitating their existing housing units. These loans are required to be repaid over a period of 15 years and in some cases over a period of 30 years. The outstanding balance of the loans at June 30, 2004 was \$3,540,152.

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

Home Improvement Program Loans

Included are silent second mortgage loans given to low and moderate income first time homebuyers in Richmond to be used as a gap financing to provide the minimum amount needed to close the gap between the primary lender's requirements and the borrower's ability to pay the down payment or closing costs. Home improvement program loans also include amortized loans provided by the City to assist low income families in Richmond in the improvement of their homes. The interest rate for these loans range from 0% to 3% and are payable over a period of 15 years and in some cases over a period of 30 years. This revolving loan account was formerly serviced by Bank of America and was transferred in 11/2000 to USE now known as Amerinational. As these loans are approved, these contracts are forwarded to Amerinational for servicing. Amerinational provides the City with monthly reports showing the activities of these accounts such as loan repayments, payoffs and new loans awarded. The outstanding balance of the loans at June 30, 2004 was \$1,203,449.

Rental Rehabilitation Loans

The purpose of Rental Rehabilitation Loans is to make rental units affordable to low and very low income housing families. Loans are awarded to assist private and non-profit owners purchase and rehabilitate existing multifamily housing units. The outstanding balance of the loans at June 30, 2004 was \$356,358.

EDA loans

The City of Richmond's Revolving Loan Fund (RLF) is a community based program with the goal of fostering local economic growth through the creation and retention of employment opportunities for Richmond residents and complementing community and individual development initiatives. The loans will be repaid. The outstanding balance at June 30, 2004 was \$339,445.

Mechanics Bank Serviced Loans

Four loans were provided to individuals by Richmond Redevelopment Agency to establish businesses in the blighted area. One of the loans matured in 2002. The remaining three loans mature in 2049 and have interest rates of 6%. Payments of principal and interest on the loans are due monthly and are received by the Mechanics Bank and credited to the Richmond Redevelopment Agency's account. The outstanding balance as at June 30, 2004 was \$74,231.

Atchison Village Annex Apartments

On August 3, 1998, the Richmond Redevelopment Agency entered into an agreement with Atchison Village Associates, LP for a loan in the total original amount of \$464,000 collateralized by a deed of trust. The loan is used to finance the acquisition and rehabilitation of 100 units of family housing. The accrued simple interest rate on the unpaid principal balance is 3% per annum. No payments shall be made during the first year, but the interest on the loan shall be deferred and capitalized. Beginning in year two, the principal amount shall increase to \$477,920. Year two through five, loan payments shall be interest only at \$1,195 per month. Years six through twenty-five the principal and interest shall be fully amortized and payable in equal monthly payments of \$2,651. The outstanding balance of the loan as at June 30, 2004 was \$461,705.

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

Heritage Park Development

On July 22, 1999, the Richmond Redevelopment Agency entered into two agreements with Hilltop Group, LP for loans in the total original amount of \$250,000 each, collateralized by deeds of trust and bearing interest at an effective rate of 1½% starting September 2004. The loans were used to finance the expenses related to the development of the Heritage Park Development in the City of Richmond. Monthly installments of interest and principal in the amounts of \$1,726 and \$ 1,389 respectively are payable from September 1, 2004 to September 1, 2019, at the interest rate of 3% per annum. The outstanding balances of the loans at June 30, 2004 were \$500,000.

Prior Year Silent Second Mortgage Loans

Loans are provided to qualifying individuals for the difference between the amount received by the individuals who qualified for low and moderate income housing loans and the amount needed to purchase the homes. The loans are to be forgiven in the future if the property owners do not sell or refinance the property. The outstanding loan balance at June 30, 2004 was \$1,096,313.

Chesley Avenue Mutual Housing Development

On December 1, 2003, the Redevelopment agency agreed to loan Chesley Avenue Limited Partnership the amount of \$4,741,492, to construct very low and low income housing units. The loan's principal is due in 2058; interest is payable starting May 1, 2006, at the rate of 2% per annum or in the amount of 95% of any residual receipts remaining from the prior year, whichever is less.

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

CAPITAL ASSETS

The following is a summary of capital assets for governmental activities:

	Balance <u>July 1, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	Balance <u>June 30, 2004</u>
Governmental Activities:					
Capital assets, not being depreciated:					
Land	\$ 19,702,886	\$ 189,077	\$ (306,761)	\$ (9,500)	\$ 19,575,702
Construction in progress	<u>13,113,820</u>	<u>6,522,997</u>	<u>(3,829,457)</u>	<u>(36,392)</u>	<u>15,770,968</u>
Total capital assets, not being depreciated	<u>32,816,706</u>	<u>6,712,074</u>	<u>(4,136,218)</u>	<u>(45,892)</u>	<u>35,346,670</u>
Capital assets, being depreciated:					
Building and improvements	28,496,594	973,451		532,112	30,002,157
Machinery and equipment	30,065,050	319,153	(660,688)	81,542	29,805,057
Infrastructure	<u>391,049,207</u>	<u>3,829,456</u>	<u>-</u>	<u>9,500</u>	<u>394,888,163</u>
Total capital assets, being depreciated	<u>449,610,851</u>	<u>5,122,060</u>	<u>(660,688)</u>	<u>623,154</u>	<u>454,695,377</u>
Less: Accumulated Depreciation:					
Building and improvements	(10,374,612)	(535,463)		(337,132)	(11,247,207)
Machinery and equipment	(15,630,421)	(4,242,379)	596,913	(70,833)	(19,346,720)
Infrastructure	<u>(191,542,307)</u>	<u>(13,035,490)</u>			<u>(204,577,797)</u>
Accumulated depreciation	<u>(217,547,340)</u>	<u>(17,813,332)</u>	<u>596,913</u>	<u>(407,965)</u>	<u>(235,171,724)</u>
Total capital assets, being depreciated, net	<u>232,063,511</u>	<u>(12,691,272)</u>	<u>(63,775)</u>	<u>215,189</u>	<u>219,523,653</u>
Governmental activities capital assets, net	<u>\$ 264,880,217</u>	<u>\$ (5,979,198)</u>	<u>\$ (4,199,993)</u>	<u>\$ 169,297</u>	<u>\$ 254,870,323</u>

Governmental activities depreciation expenses for capital assets for the year ended June 30, 2004 are as follows:

General government	\$ 769,140
Public safety	394,499
Highways and streets	16,215,623
Community development	5,087
Cultural and recreational	250,637
Housing and redevelopment	<u>178,346</u>
Total Depreciation for Governmental Activities	<u>\$ 17,813,332</u>

The following is a summary of capital assets for business-type activities:

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

	Balance July 1, 2003	Additions	Retirements	Transfers	Balance June 30, 2004
Capital Assets Not Being Depreciated:					
Land	\$ 8,285,893	\$ 9,180,465	\$ (8,240)	\$ (45,876)	\$ 17,412,242
Construction in Progress	13,277,278	16,122,206	(921,782)	36,392	28,514,094
Total capital assets not being depreciated	<u>21,563,171</u>	<u>25,302,671</u>	<u>(930,022)</u>	<u>(9,484)</u>	<u>45,926,336</u>
Capital Assets Being Depreciated:					
Buildings and Improvements	89,101,753	27,990,708	(17,194)	(532,112)	116,543,155
Machinery and equipment	13,482,264	341,838	(166,142)	(81,542)	13,576,418
Infrastructure	72,866,758	969,425	0	45,876	73,882,059
Total Capital Assets Being Depreciated	175,450,775	29,301,971	(183,336)	(567,778)	204,001,632
Less Accumulated Depreciation					
Buildings and Improvements	(40,858,131)	(1,638,413)	0	337,132	(42,159,412)
Machinery and equipment	(9,462,648)	(409,533)	158,210	70,833	(9,643,138)
Infrastructure	(55,698,770)	(1,791,728)	0	0	(57,490,498)
Total Accumulated depreciation	<u>(106,019,548)</u>	<u>(3,839,674)</u>	<u>158,210</u>	<u>407,965</u>	<u>(109,293,047)</u>
Total capital assets being depreciated, net	<u>69,431,227</u>	<u>25,462,297</u>	<u>(25,126)</u>	<u>(159,813)</u>	<u>94,708,585</u>
Business type activities, capital assets, net	<u>\$ 90,994,398</u>	<u>\$ 50,764,968</u>	<u>\$ (955,148)</u>	<u>\$ (169,297)</u>	<u>\$ 140,634,921</u>

Business-type activities depreciation expenses for capital assets for the year ended June 30, 2004 are as follows:

Cable TV	\$ 27,124
Storm Sewer	968,571
Municipal Sewer	1,268,372
Port of Richmond	262,629
Marina	91,378
Housing Authority	380,011
RHA Properties	841,589
Total Depreciation Expense	<u>\$ 3,839,674</u>

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

LONG-TERM OBLIGATIONS

Following is a summary of governmental activities long-term debt transactions during the fiscal year ended June 30, 2004:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004	Due Within One Year	Due in More than One Year
Bonds payable	\$ 123,067,779	\$ 31,122,389	\$ (5,125,000)	\$ 149,065,168	\$ 4,980,000	\$ 144,085,168
Notes payable	2,683,222	586,652	(306,172)	2,963,702	150,000	2,813,702
Capital leases	9,058,762	-	(2,558,558)	6,500,204	2,045,459	4,454,745
Total	\$ 134,809,763	\$ 31,709,041	\$ (7,989,730)	\$ 158,529,074	\$ 7,175,459	\$ 151,353,615

Bonds Payable

Bonds payable at June 30, 2004 consisted of the following:

	Net
JPFA Revenue Refunding Bonds - 1995 Series A	\$ 10,660,000
Harbor Tax Allocation Refunding Bonds - 1991	305,000
Harbor Tax Allocation Refunding Bonds - 1998 Series A	24,290,168
Pension Obligation Bonds - 1999 Series A	27,945,000
JPFA Tax Allocation Revenue Bonds - 2000 Series A	24,610,000
JPFA Tax Allocation Revenue Bonds - 2000 Series B	5,180,000
JPFA Lease Revenue Bonds - 2001 Series A	27,495,000
JPFA Tax Allocation Revenue Bonds - 2003 Series A	16,080,000
JPFA Tax Allocation Revenue Bonds - 2003 Series B	12,500,000
Total	\$ 149,065,168

1995 Richmond Joint Powers Financing Authority Refunding Revenue Bonds Series A - Original Issue Series A \$17,320,000

The bonds were issued by the Richmond JPFA for the purpose of refinancing the cost of certain public capital improvements financed by 1990 Series A Revenue Bonds, fund a separate Reserve Fund for the respective Series of Bonds and pay costs of issuance of the Bonds. The Series A bonds consist of serial bonds that mature annually through 2013, in amounts ranging from \$525,000 to \$1,450,000. Interest rates vary from 4.0% to a maximum of 5.25% and are payable semiannually on May 15 and November 15. The Series 1995A Local Obligations consist of a Master Lease with the City of Richmond and an installment Purchase Agreement with the City payable solely from gas tax revenues. The annual debt service requirements on the Series A Bonds are as follows:

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

For the Years Ending June 30,	Principal	Interest	Total
2005	955,000	561,260	1,516,260
2006	1,010,000	511,600	1,521,600
2007	1,055,000	458,070	1,513,070
2008	1,115,000	401,100	1,516,100
2009-2013	6,525,000	1,063,650	7,588,650
Total	\$ 10,660,000	\$ 2,995,680	\$ 13,655,680

1991 Harbour Redevelopment Project Tax Allocation Refunding Bonds – Original Issue \$11,465,000

The Bonds were issued by the Redevelopment Agency to refund 1985 Tax Allocation and Refunding Bonds used for the Urban Renewal Plan for Project 11-A, the Harbour Redevelopment Plan. The bonds consist of serial bonds in the amount of \$6,365,000 that mature annually through 2004, in amounts ranging from \$50,000 to \$740,000. Interest rates vary from 3.75% to a maximum of 6% and are payable semiannually on January 1 and July 1. The term bonds in the amount of \$5,100,000 bear interest at 7% and mature on July 1, 2009 with sinking fund payment requirements starting in 2004. In 1998, \$5,820,000 outstanding principal amount of these bonds were advance refunded by issuance of the 1998 Harbour Redevelopment Project Tax Allocation Bonds Series A. The bonds are secured by a pledge of tax revenues and certain other funds held by Bankers Trust Company of California, N.A.

The annual debt service requirements on the bonds are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2005	-	21,350	21,350
2006	-	21,350	21,350
2007	-	21,350	21,350
2008	-	21,350	21,350
2009-2010	305,000	32,025	337,025
Total	\$ 305,000	\$ 117,425	\$ 422,425

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

1998 Harbour Redevelopment Project Tax Allocation Refunding Bonds Series A – Original Issue \$21,862,779

The bonds were issued by the Agency to refinance a portion of the 1991 Harbour Redevelopment Project Tax Allocation Refunding Bonds, refinance certain loans from the City to the Agency, which amount will be used by the City to finance certain publicly owned capital projects, finance certain redevelopment activities within the Harbour Redevelopment Project Area, fund a reserve account and pay certain costs of issuance of the 1998 bonds. The bonds mature annually through 2023, in amounts ranging from \$50,000 to \$1,130,000. Interest rates vary from 3.5% to a maximum of 5.5% and are payable semiannually on January 1 and July 1. The bonds are secured by a pledge of tax revenues. At June 30, 2004, the Bonds consisted of the following:

	Net Value	Accretion/ Amortization	Unamortized Premium (Discount)	Net
Current interest bonds	\$ 14,835,000			\$ 14,835,000
Capital appreciation bonds	16,935,000	2,542,389	(7,479,832)	9,455,168
	\$ 31,770,000	\$ 2,542,389	\$ (7,479,832)	\$ 24,290,168

The annual debt service requirements on the bonds are as follows:

Ending June 30,	Principal	Interest	Total
2005	470,000	708,328	1,178,328
2006	485,000	689,228	1,174,228
2007	500,000	669,153	1,169,153
2008	525,000	647,753	1,172,753
2009	550,000	624,903	1,174,903
2010-2014	8,560,000	2,726,398	11,286,398
2015-2019	9,765,000	1,802,125	11,567,125
2020-2024	10,915,000	635,803	11,550,803
Total	\$ 31,770,000	\$ 8,503,691	\$ 40,273,691

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

1999 City of Richmond Taxable Limited Obligation Pension Bonds – Original Issue \$36,280,000

The bonds were issued to fund a portion of the unfunded accrued actuarial liability in the Pension Fund together with the prepayment of certain pension benefit costs of the Beneficiaries and to pay the costs of issuance associated with the issuance of the bonds. The bonds are payable from certain Pension Tax Override Revenues received by the City from a special tax pursuant to City Council Ordinance 99-9 adopted on March 30, 1999. The bonds consist of serial bonds in the amount of \$23,885,000 that mature annually on through 2013, in amounts ranging from \$1,280,000 to \$3,240,000. Interest rates vary from 6.37% to a maximum of 7.39% and are payable semiannually on February 1, and August 1. The term bonds consist of \$8,960,000 due August 1, 2020 with an interest rate of 7.57% and \$3,435,000 due August 1, 2029 with an interest rate of 7.62%. The bonds are payable from certain pension tax override revenues received by the City from a special tax pursuant to City Council Ordinance 9-99 adopted by the City Council on March 30, 1999. The annual debt service requirements on the bonds are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2005	1,720,000	1,992,784	3,712,784
2006	1,710,000	1,873,251	3,583,251
2007	1,690,000	1,753,742	3,443,742
2008	1,660,000	1,635,407	3,295,407
2009-2013	7,490,000	6,487,968	13,977,968
2014-2018	7,185,000	3,888,765	11,073,765
2019-2023	4,385,000	1,506,950	5,891,950
2024-2028	1,885,000	381,954	2,266,954
2029-2030	220,000	14,099	234,099
Total	\$ 27,945,000	\$ 19,534,920	\$ 47,479,920

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

2000 Richmond Joint Powers Financing Authority Housing Set-Aside Tax Allocation Bonds Series A and Series B – Original Issue Series A \$25,720,000, Series B \$5,795,000

The Bonds were issued by the Richmond JPFA and consisted of Series A Bonds were issued for the purpose of funding certain capital improvements of the Redevelopment Agency, to fund the reserve accounts and capitalized interest. The Series B Bonds were issued for use in certain low and moderate income housing activities and to fund a reserve account. The Series A Bonds consist of serial bonds in the amount of \$25,210,000 and term bonds in the amount of \$510,000. The serial bonds mature annually through 2018 in amounts ranging from \$1,110,000 to \$2,205,000. Interest rates range from 4.0% to 5.5% and are payable semiannually on March 1 and September 1. The term bonds mature in 2029 and bear interest of 5.25%. The Series B Bonds consist of serial bonds in the amount of \$1,245,000 and term bonds in the amount of \$4,550,000. The serial bonds mature annually through 2006 in amounts ranging from \$170,000 to \$260,000. Interest rate is 7% and is due semiannually on March 1 and September 1. The term bonds mature as follows: \$1,075,000 in 2010 at interest rate of 7.35%, \$3,365,000 in 2018 at interest rate of 7.7% and \$110,000 in 2029 at interest rate of 8.0%. The bonds are secured by a pledge of certain tax increment revenues derived from taxable property within certain redevelopment project areas.

The annual debt service requirements on the Series A Bonds are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2005	1,155,000	1,176,808	2,331,808
2006	1,200,000	1,126,708	2,326,708
2007	1,255,000	1,073,353	2,328,353
2008	1,305,000	1,017,635	2,322,635
2009-2013	7,510,000	4,082,271	11,592,271
2014-2018	9,470,000	2,047,760	11,517,760
2019-2023	2,495,000	159,862	2,654,862
2024-2028	150,000	39,112	189,112
2029-2030	70,000	3,675	73,675
Total	\$ 24,610,000	\$ 10,727,184	\$ 35,337,184

The annual debt service requirements on the Series B Bonds are as follows:

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

For the Years Ending June 30,	Principal	Interest	Total
2005	195,000	384,193	579,193
2006	210,000	370,018	580,018
2007	225,000	354,793	579,793
2008	240,000	338,097	578,097
2009-2013	1,500,000	1,384,281	2,884,281
2014-2018	2,165,000	691,762	2,856,762
2019-2023	600,000	52,397	652,397
2024-2028	25,000	13,000	38,000
2029-2030	20,000	1,600	21,600
Total	\$ 5,180,000	\$ 3,590,141	\$ 8,770,141

2001 Richmond Joint Powers Financing Authority Lease Revenue Bonds – Original Issue \$29,205,000

The Bonds were issued to finance various street and stormwater improvements within the City and improvements to City facilities. The Bonds consist of serial bonds in the amount of \$11,665,000 and term bonds in the amount of \$17,540,000. The serial Bonds mature annually in amounts ranging from \$450,000 to \$905,000. Interest rates range from 3.2% to 5.125% and are payable on each February 1 and August 1. The term bonds mature as follows: \$7,745,000 due in 2026 bearing an interest rate of 5% and \$9,795,000 due in 2031 bearing an interest rate of 5%. The Bonds are secured by revenues of a lease agreement between the City and the Financing Authority. The City will make lease payments from amounts included in the City's annual budget. The Bonds are subject to optional, mandatory and extraordinary redemption prior to maturity starting in 2020.

The annual debt service requirements on the bonds are as follows:

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

For the Years Ending June 30,	Principal	Interest	Total
2005	485,000	1,344,275	1,829,275
2006	500,000	1,324,875	1,824,875
2007	520,000	1,304,875	1,824,875
2008	545,000	1,284,075	1,829,075
2009-2013	3,095,000	6,040,406	9,135,406
2014-2018	3,905,000	5,230,750	9,135,750
2019-2023	5,005,000	4,136,381	9,141,381
2024-2028	6,385,000	2,752,500	9,137,500
2029-2031	7,055,000	833,250	7,888,250
Total	\$ 27,495,000	\$ 24,251,387	\$ 51,746,387

2003 Richmond Joint Powers Financing Authority Tax Allocation Revenue Bonds Series A and Series B – Original Issue Series A \$16,080,000, Series B \$12,500,000

The Bonds were issued on August 27, 2003 by the Richmond JPFA. The proceeds of the Series A Bonds will be used to finance certain capital improvements for the Richmond Redevelopment Agency, fund the reserve account for the Series A Bonds, fund capitalized interest (through September 1, 2005), and pay the amount of \$13,000,000 to the City of Richmond in partial payment of the Prior Obligations. The proceeds of the Series B Bonds will be used to finance certain capital improvements for the Agency, fund the reserve account for the Series B Bonds, fund capitalized interest (through September 1, 2005), and pay the amount of \$5,000,000 to the City of Richmond in partial payment of the Prior Obligations. Interest rates range from 3.00% to 6.30% and are payable semiannually on March 1 and September 1. The bonds are secured by a pledge of certain tax increment revenues derived from taxable property within certain redevelopment project areas.

For the Years Ending June 30	Principal	Interest	Total
2005	\$ -	\$ 1,521,191	\$ 1,521,191
2006	-	1,515,770	1,515,770
2007		1,515,770	1,515,770
2008		1,515,770	1,515,770
2009	780,000	1,502,011	2,282,011
2010 - 2014	4,390,000	6,999,069	11,389,069
2015 - 2019	5,530,000	5,804,578	11,334,578
2020 - 2024	9,725,000	3,737,330	13,462,330
2025 - 2026	8,155,000	465,222	8,620,222
Total	\$ 28,580,000	\$ 24,576,711	\$ 53,156,711

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

Debt Without City Commitment

2003 Richmond Joint Powers Financing Authority Reassessment Revenue Bonds Series A

On July 17, 2003 the Richmond JPFA issued \$11,075,000 in Revenue Bonds to acquire the Reassessment Bonds (the \$9,740,000 aggregate principal amount of Limited Obligation Improvement Bonds Reassessment District No. 2003-01 issued by the City on behalf of the Reassessment District No. 2003-01) from the City of Richmond. The proceeds will refund the outstanding City of Richmond Limited Obligation Refunding Improvement Bonds Reassessment District No. 855 (Atlas Road West and Interchange), fund a Reserve Fund, and pay certain costs of issuance of the Bonds. Interest rates range from 1.85% to 5.50% and are payable semiannually on March 2 and September 2. The Bonds are secured by a pledge of the Revenues of the Authority. The interest on and principal of the Reassessment Bonds are payable from the annual Reassessment installments collected on the regular property tax bills sent to owners of property within the District having unpaid special Reassessments levied against them.

Notes Payable

Notes payable at June 30, 2004 consisted of the following:

Hilltop Exterior Renovation Loan	\$ 425,000
Wells Fargo Loan	500,000
CalTrans Home Loans	867,188
CHFA Help Loan	<u>1,171,514</u>
Total	<u>\$ 2,963,702</u>

Hilltop Exterior Renovation Loan – Original Amount \$1,500,000

On June 26, 1995, the City entered into an agreement with Richmond Associates for a loan to finance the City's share of capital improvement costs of portions of the Hilltop Shopping Center. The note is due in monthly installments of \$12,500 through 2007. The interest is a floating rate equal to the prime rate of Wells Fargo Bank plus 2% per annum. The amount outstanding at June 30, 2004, was \$425,000.

The annual debt service requirements on the Hilltop Exterior Renovation note are as follows:

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

For the Years Ending June 30,	Principal	Interest	Total
2005	150,000	32,519	182,519
2006	150,000	18,831	168,831
2007	125,000	5,241	130,241
Total	\$ 425,000	\$ 56,591	\$ 481,591

Wells Fargo Loan – Original Amount \$500,000

The Richmond Redevelopment Agency entered into a loan agreement with Wells Fargo Bank for an original amount of \$500,000 to be used to provide direct predevelopment loans, subordinated loans, and line of credit to non-profit and profit developers primarily located in targeted community development areas in the City's jurisdiction. Interest rate on the loan is fixed at 1.5% for the first 10 years and adjustable to a fixed rate 3.5% below the ten year US Treasury Note rate. The principal balance is due and payable 10 years from the date of the initial disbursement.

The annual debt service requirements on the Wells Fargo note are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2005	-	7,500	7,500
2006	-	7,500	7,500
2007	-	7,500	7,500
2008-2012	-	37,500	37,500
2013-2017	500,000	37,500	537,500
Total	\$ 500,000	\$ 97,500	\$ 597,500

CalTrans Home Loans - Original Amount \$1,460,000

The City entered into an agreement with Caltrans to purchase 43 homes for a total price of \$1,710,050. The purpose of this purchase is to sell the homes to Richmond Neighborhood Housing Services in order to provide housing to very low, and low and moderate income persons. Upon execution of the contract the City paid \$10,000 nonrefundable deposit which will be applied to purchase price at the close of the escrow. Upon the close of the escrow the City shall pay an additional sum of \$232,890 for a total down payment of \$242,890. The remainder of the purchase price will be paid by the City in the form of promissory notes which will provide for quarterly payments over a 40 year period at simple interest rate and for one lump sum payment plus simple interest at the end of the period that each house was committed by Caltrans to be used as affordable housing. Interest will be computed annually based upon the average rate of return by the Pooled Money Investment Board for the past five years. The amount outstanding at June 30, 2004 was \$867,188.

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

CHFA Help Loan – Original Amount \$578,141

On September 22, 2000, the Richmond Redevelopment Agency entered into an agreement with California Housing Finance Agency, to assist the Agency in operating a local housing program which provides loans to non-profit developers for the purpose of financing the acquisition, preconstruction, and construction of single-family ownership and multifamily rental properties. The loan is due ten years from the date of the loan. The loan bears a simple per annum 3% interest rate. The amount outstanding at June 30, 2004 was \$1,171,514.

Capital Leases

Capital leases payable at June 30, 2004 consisted of the following:

Sun Trust Leasing Corporation - Financial System	\$	836,195
Sun Trust Leasing Corporation - Capital Equipment		791,227
Sun Trust Leasing Corporation - 911 System Interface		1,103,668
Municipal Finance Corporation - Viron		3,769,114
Total	\$	6,500,204

Sun Trust Leasing Corporation Equipment Lease – Original Amount \$3,214,192

On October 31, 2001 the City entered into a lease agreement with SunTrust Leasing Corporation to refinance the existing lease with Banc one Leasing Corporation. The refinanced lease was to purchase computer software, hardware, licenses and implementation, to remodel the computer room by adding team rooms, offices and workstations, data warehousing and imaging facilities. The lease is payable in semiannual installments of \$430,787 including principal and interest through May 2005.

The annual debt service requirements on the capital lease are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2005	836,195	25,380	861,575
Total	\$ 836,195	\$ 25,380	\$ 861,575

Sun Trust Leasing Corporation Equipment Lease– Original Amount \$3,723,021

On October 31, 2001 the City entered into a lease agreement with SunTrust Leasing Corporation to refinance an existing lease with Banc One Leasing Corporation. The refinanced lease was to purchase four fire trucks and related equipment and computer hardware and software for the financial system. The lease is payable in annual installments ranging from \$420,000 to \$1,066,000 including principal and interest through May 2006.

The annual debt service requirements on the capital lease are as follows:

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

For the Years Ending June 30,	Principal	Interest	Total
2005	387,700	32,300	420,000
2006	403,527	16,473	420,000
Total	\$ 791,227	\$ 48,773	\$ 840,000

Sun Trust Leasing Corporation 911 System Equipment Lease– Original Amount \$1,900,000

On July 2, 2002 the City entered into a lease agreement with SunTrust Leasing Corporation to finance the purchase of 911 system interface hardware, software and services. The lease is payable in quarterly installments of \$128,473 including principal and interest through July 2006.

The annual debt service requirements on the capital lease are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2005	479,050	34,842	513,892
2006	497,343	16,550	513,893
2007	127,275	1,198	128,473
Total	\$ 1,103,668	\$ 52,590	\$ 1,156,258

Municipal Finance Corporation (CNB) Viron Mechanical Retrofit & Energy Management – Original Amount \$4,069,623

On October 9, 2002 the City entered into a lease agreement with Municipal Finance Corporation to finance the purchase of Viron mechanical retrofit and energy management project. The lease is payable in monthly installments of \$15,532 interest for the first nine months, then \$42, 334 including principal and interest through July 2013.

The annual debt service requirements on the capital lease are as follows:

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

For the Years Ending June 30,	Principal	Interest	Total
2005	342,514	165,495	508,009
2006	358,534	149,474	508,008
2007	375,304	132,704	508,008
2008	392,859	115,150	508,009
2009-2014	2,299,903	282,474	2,582,377
Total	\$ 3,769,114	\$ 845,297	\$ 4,614,411

Long-Term Debt of Business-Type Activities

The following is a summary of long-term debt of business-type activities during the fiscal year ended June 30, 2004:

	Balance			Balance June 30, 2004	Due Within One Year	Due in More than One Year
	July 1, 2003	Additions	Deletions			
Bonds payable	\$ 52,695,524	\$35,636,856	\$ (1,720,000)	\$ 86,612,380	\$ 3,235,000	\$ 83,377,380
Loans and leases payable	9,704,142	\$ 5,424,178	\$ (2,584,580)	\$ 12,543,740	\$ 531,178	\$ 12,012,562
Total	\$ 62,399,666	\$41,061,034	\$ (4,304,580)	\$ 99,156,120	\$ 3,766,178	\$ 95,389,942

Bonds payable at June 30, 2004 consisted of the following:

RHA Properties Affordable Housing Agency Bonds Series 2003 A and A-S	\$ 34,720,000
Wastewater Revenue Bonds Series 1999	39,903,191
Port Terminal Lease Revenue Refunding Bonds Series 1999	6,984,189
Port Terminal Lease Revenue Bonds 1996	5,005,000
Total	\$ 86,612,380

RHA Properties Affordable Housing Agency Bonds 2003 Series A and A-S

In September 2003, RHA Properties issued \$35,000,000 principal amount of multi-family housing revenue bonds to finance the acquisition of an affordable housing residential complex. Of these Bonds, \$12,000,000 bear interest at a rate of 6.375% and \$23,000,000 bear interest at variable rates; all the Bonds are due in 2033.

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

For the Years Ending June 30	Principal	Interest	Total
2005	\$345,000	\$1,732,816	\$2,077,816
2006	455,000	1,709,076	2,164,076
2007	565,000	1,685,314	2,250,314
2008	475,000	1,661,319	2,136,319
2009	585,000	1,632,030	2,217,030
2010-2014	3,320,000	7,703,337	11,023,337
2015-2019	4,530,000	6,728,039	11,258,039
2020-2024	6,200,000	5,400,842	11,600,842
2025-2029	8,475,000	3,585,347	12,060,347
2030-2035	9,770,000	1,137,106	10,907,106
Total	\$34,720,000	\$32,975,226	\$67,695,226

Wastewater Revenue Refunding Bonds Series 1999

The Bonds were issued to pay for the cost of improvements and renovation to the wastewater treatment system. The Bonds consist of current interest bonds in the amount of \$29,250,000 and capital appreciation bonds in the amount of \$37,765,000. The current interest bonds are due in annual installments through 2018 ranging from \$75,000 to \$2,195,000. Interest rates vary from 4.5% to 5.5% and are payable semiannually on February 1 and August 1. The capital appreciation bonds will accrete interest ranging from 6.1% to 6.23% compounded semiannually on February 1 and August 1 and are payable only at maturity beginning from 2019 through 2031. At June 30, 2004, the Bonds consisted of the following:

	Net Value	Accretion/ Amortization	Unamortized Premium (Discount)	Net
Current interest bonds	\$ 29,100,000	\$ (2,584)	\$ 69,989	\$ 29,169,989
Capital appreciation bonds	37,765,000	633,278	(27,031,798)	10,733,202
	<u>\$ 66,865,000</u>	<u>\$ 630,694</u>	<u>\$ (26,961,809)</u>	<u>\$ 39,903,191</u>

The Bonds are payable from a lien on and pledge of net revenues, primarily consisting of charges, income and receipts derived by the City from the ownership and operation of the City's wastewater collection, treatment and disposal system, after deducting maintenance and operation costs of the wastewater system.

The annual debt service requirements on the bonds are as follows:

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

For the Years Ending June 30,	Principal	Interest	Total
2005	1,355,000	1,518,949	2,873,949
2006	1,415,000	1,455,916	2,870,916
2007	1,480,000	1,389,331	2,869,331
2008	1,545,000	1,318,984	2,863,984
2009-2013	8,930,000	5,349,143	14,279,143
2014-2018	11,630,000	2,546,595	14,176,595
2019-2023	14,365,000	79,605	14,444,605
2024-2028	14,525,000	-	14,525,000
2029-2031	11,620,000	-	11,620,000
Total	\$ 66,865,000	\$ 13,658,523	\$ 80,523,523

Port Terminal Lease Revenue Refunding Bonds Series 1999 – Original Issue \$10,955,000

The Bonds were issued by the Authority to refund the Port Terminal Lease Revenue Bonds Series 1994. The Bonds are special limited obligation of the Authority payable solely from revenues of the authority pursuant to a Facilities Lease agreement with the City. The City has pledged the subordinated port revenues to the payment of the base rental payments of the Facilities Lease agreement. The Bonds consist of serial bonds that mature annually through 2009, in amounts ranging from \$930,000 to \$2,385,000. Interest rates vary from 3.7% to a maximum of 4.6% and are payable semiannually on June 1 and December 1. The bonds are payable solely from revenues of the Authority consisting principally of base rental payments to be received by the Authority from the City of Richmond.

Bonds outstanding	\$ 7,015,000
Unamortized discount	<u>(30,811)</u>
Net	<u><u>\$ 6,984,189</u></u>

The annual debt service requirements on the Bonds are as follows:

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

For the Years Ending June 30,	Principal	Interest	Total
2005	1,085,000	313,680	1,398,680
2006	1,130,000	267,568	1,397,568
2007	1,180,000	218,413	1,398,413
2008	1,235,000	165,902	1,400,902
2009	2,385,000	109,710	2,494,710
Total	\$ 7,015,000	\$ 1,075,273	\$ 8,090,273

Port Terminal Lease Revenue Bonds Series 1996 – Original Issue \$6,500,000

The Bonds are being issued by the Authority to pay the cost of certain public capital improvements related to the Port of Richmond. The Bonds are special limited obligation of the Authority payable solely from revenues of the Authority pursuant to a Facilities Lease Agreement with the City. The City has pledged the subordinated revenues of its Port Enterprise to the payment of the base rental payments of the Facilities Lease Agreement. The Bonds consist of term bonds that mature on September 1, 2002, 2006, 2009 and 2016. Interest rates vary from 5.55% to a maximum of 6.6% and are payable semiannually on February 15 and August 15. The Bonds are payable solely from revenues of the Authority consisting principally of base rental payments to be received by the Authority from the City of Richmond.

The annual debt service requirements on the bonds are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2005	260,000	314,175	574,175
2006	275,000	298,459	573,459
2007	295,000	281,716	576,716
2008	310,000	263,207	573,207
2009-2013	1,880,000	978,020	2,858,020
2014-2017	1,985,000	272,415	2,257,415
Total	\$ 5,005,000	\$ 2,407,992	\$ 7,412,992

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

Loans and Leases Payable

Loans and leases payable at June 30, 2004, consisted of the following:

State Revolving Fund Loan Contract	\$ 3,592,593
California Department of Boating and Waterways	3,526,969
Pt. Potrero Lease Revenue Note	5,424,178
Total	\$ 12,543,740

State Revolving Fund Loan Contract

In 1992 the City entered into an agreement with the State of California Water Resources Control Board to receive financial assistance in the amount of \$6,737,658 for the improvement of the Richmond Wastewater Treatment Facility. The loan is due in annually through 2013 and bears interest of 3%. Annual installments including principal and interest are \$461,410. The amount outstanding at June 30, 2004 was \$3,592,593.

California Department of Boating and Waterways

The Agency entered into three loan agreements with the California Department of Boating and Waterways (Contract Nos. 6-21-114, 88-21-85, 91-102-030) for a total of \$9,427,000. Proceeds of the loans were used to finance marina construction projects. The loans bear interest ranging from 4.5% to 7.9% and are due in annual installments through 2042. The total amount outstanding at June 30, 2004 was \$3,526,969.

The annual debt service requirements on the State revolving fund loan and California Department of Boating and Waterways are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2005	401,734	266,491	668,225
2006	414,508	253,718	668,226
2007	427,697	240,529	668,226
2008	441,316	226,910	668,226
2009-2013	2,426,935	914,192	3,341,127
2014-2018	391,064	643,011	1,034,075
2019-2023	487,337	546,738	1,034,075
2024-2028	607,311	426,764	1,034,075
2029-2033	714,786	277,257	992,043
Thereafter	806,874	144,504	951,378
Total	\$ 7,119,562	\$ 3,940,114	\$ 11,059,676

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

2004 Richmond Joint Powers Financing Authority Point Potrero Lease Revenue Note

On May 6, 2004 the Richmond JPFA promised to pay Comerica Bank, a Michigan banking corporation, a Note in the amount of \$5,424,178. The Note bears interest at the rate of 4.75% per annum, payable in quarterly installments. Principal payments are to be made in semi-annual installments until May 1, 2019. The Note was issued to provide funds for the construction of an automobile shipping and warehousing facility located in the City of Richmond. The Note is a limited obligation of the Authority and is payable solely from certain proceeds held in certain funds and certain revenues as defined in a Trust Agreement with Union Bank of California. Minimum annual lease payments are to be \$509,380 through 2019.

DEFERRED REVENUE

Fund Financial Statements

At June 30, 2004, the following deferred revenues were recorded in the Fund Financial Statements because either the revenues had not been earned or the funds were not available to finance expenditures of the current period:

Governmental Funds:

	<u>General Fund</u>	<u>Redevelopment Agency</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Loans receivable	761,866	6,935,068	5,164,213	\$ 12,861,147
Grants receivable	21,275		966,332	987,607
Unearned grant revenues			237,649	237,649
Interest accrual - Advances to other funds	8,665,377			8,665,377
Park & recreation receivable - rents	80,117			80,117
Total	<u>\$9,528,635</u>	<u>\$6,935,068</u>	<u>\$6,468,194</u>	<u>\$22,931,897</u>

RESTATEMENT OF BEGINNING BALANCES

During the fiscal year 2004 the City recorded a prior period adjustment to remove a liability to Point Pinole Properties in the amount of \$2,077,898.

DEFICIT FUND BALANCES AND ACCUMULATED DEFICITS

The City plans to remove the deficit in retained earnings of \$12,237,338 in the Port of Richmond Enterprise Fund by increased leasing activity at the Port.

Deficit fund balances in Internal Service Funds will be eliminated through future increases in service charges.

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEMS

Plan Description and Provisions

The City contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS 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 PERS' annual financial report may be obtained from their Executive Office located at 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members are required by state statute to contribute 8% for miscellaneous and 9% for safety employees of their annual covered salary. The City employer makes the contributions required of City employees on their behalf and for their account, which amounted to \$5,249,311 for the year ended June 30, 2004. The City employer was required to contribute for fiscal year ending 2003-2004 at an actuarially determined rate of 8.311% and 21.139% of annual covered payroll for miscellaneous and safety employees respectively.

Annual Pension Cost

For 2003-2004, the City's annual pension cost of \$8,608,154 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2003, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 3.25% to 14.45% for miscellaneous employees and from 3.25% to 13.15% for safety employees depending on age, service, and type of employment, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. PERS unfunded actuarial accrued liability (or surplus) is being amortized as a level percentage of projected payroll on a closed basis. The average remaining amortization period at June 30, 2003, was 16 years for miscellaneous and 20 years for safety employees for prior and current service unfunded liability.

THREE-YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2002	\$ -	100%	-
6/30/2003	\$ 4,290,153	100%	-
6/30/2004	\$ 8,608,154	100%	-

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

PENSION PLANS

Plan Description and Funding Policy

The City maintains three, single-employer, defined benefit pension plans, which are funded entirely by City contributions: General Pension Plan, Police and Firemen's Pension Plan, and Garfield Pension Plan (collectively, the "Plans"). The General Pension Plan, a defined benefit pension plan, covers 36 former City employees not covered by PERS, all of whom have retired. The Police and Firemen's Pension Plan, a defined benefit pension plan covers 98 police and fire personnel employed prior to October 1964. The City has also established a separate defined contribution pension plan (Garfield Pension Plan) for a retired police chief. The Plans provide retirement, disability, and death benefits based on the employee's years of service, age, and final compensation. No separate financial statements are issued for these plans.

General Pension Plan – Retirement and other benefits are paid from the assets of the Plan and from related investment earnings. The City is required under its charter to contribute the remaining amounts necessary to fund the Plan using the entry age-normal actuarial method as specified by ordinance.

Police and Firemen's Pension Plan – Funding for the Plan is provided from the Pension Reserve Trust Fund. Employees were vested after five years of service. Members of the Plan are allowed normal retirement benefits after 25 or more continuous years of service. The City is required under its charter to contribute the remaining amounts necessary to fund the Plan using the entry age-normal actuarial method as specified by ordinance.

The City established the Pension Reserve Trust Fund to which proceeds of a special incremental property tax levy voted by the citizens of the City of Richmond are credited for the payment of benefits under the Plan.

Garfield Pension Plan – Retirement and other benefits are paid from the assets of the Plan and from related investment earnings. In the current year, the City was not required to make any contributions to fund this plan. Benefit provisions have been established and may be amended upon agreement between the City and Mr. Garfield.

Actuarially Determined Required Contributions

General Pension Plan – As of July 1, 2004, the date of the most recent actuarial valuation available, the actuarial present value of pension benefits under the Plan was \$7,127,611 and the assets of the Plan at fair value were \$2,786,571 resulting in an unfunded actuarial liability of \$4,341,040. In computing the actuarial valuation, Plan assets were assumed to yield a 5% return and were assumed to increase 5% annually. Assumptions for retirement age, disability, withdrawal, and salary increases were not meaningful as substantially all of the participants had retired.

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

Police and Firemen's Pension Plan – The City established the Pension Reserve Trust Fund to which proceeds of a special incremental property tax levy voted by the citizens of the City of Richmond are credited for the payment of benefits under the Plan. The incremental property tax revenue received for the year ended June 30, 2004 was \$3,825,777. Pension benefits for the 2003/04 fiscal year were \$5,075,297. The actuarial present value of future pension liabilities under the Plan at July 1, 2004, the date of the most recent actuarial valuation, was approximately \$43,244,772, representing principally prior service costs. Assets of the Plan were \$20,384,607 resulting in an unfunded actuarial liability of \$22,860,165. Actuarial assumptions included an assumed rate of return of 6.5%. Mortality rates were based on the mortality tables currently used by California PERS. These PERS mortality tables were further adjusted to reflect anticipated future mortality improvement. Benefit payments were assumed to increase 3.5% annually. Assumptions for retirement age, disability, withdrawal, and salary increases have an insignificant effect on the valuation as substantially all of the participants had retired.

Three-year historical trend information relative to contributions is presented below:

	General Pension Plan			Police and Firemen's Pension Plan		
	Annual Required Contribution	Amount Contributed	Percent Contributed	Annual Required Contribution	Annual Contribution	Percent Contributed
2001/02	348,626	-	0%	762,611	-	0%
2002/03	329,048	1,070,888	325%	2,174,274	-	0%
2003/04	357,744	1,119,537	313%	2,428,906	2,899,909	119%

The Entry Age Normal Cost Method was used for the actuarial valuation of both plans.

Significant Accounting Policies

City contributions for all plans are recognized when due and the City has made a formal commitment to provide contributions. Benefit payments and refunds are recognized when due and payable in accordance with the terms of the Plan. Assets are valued at fair value based on available market information obtained from independent sources.

Net Pension Liability (Asset) at Transition

The City has adopted the provisions of GASB Statement No. 27. The net pension liability (asset) at adoption of GASB No. 27 was determined in accordance with the provisions of that statement. The General Pension Plan had an adjusted net pension asset at transition of \$776,607. At July 1, 2004, the General Pension Plan had a net pension asset of \$1,508,346.

The Police and Firemen's Pension Plan had a net pension liability at transition of \$5,741,424, which was recorded in government-wide statement. During the year ended June 30, 2004, the City's annual pension cost exceeded the annual pension contribution to the Police and Firemen's Pension Plan by \$220,343 which reduced the net pension obligation that is reported in the Police and Fireman's Pension Fund to \$5,108,767 and the governmental activities to \$853,000.

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

The City's annual pension cost and net pension obligation to the Police and Firemen's Pension Fund for the current year were as follows:

Annual required contribution	\$ 3,281,906
Interest on net pension obligation	373,193
Adjustment to annual required contribution	<u>(534,847)</u>
Net pension obligation	3,120,252
Contributions made	<u>(2,899,909)</u>
Increase in net pension obligations	220,343
Net pension obligation beginning of year	<u>5,741,424</u>
Net pension obligation end of year	<u><u>\$ 5,961,767</u></u>

Pension Tax Override

As of June 30, 2004, the City has decided to set aside the pension property tax override, after pension debt service payments of \$11,096,641 received, as restricted cash and deferred revenue. This pension property tax override was to be used to pay pension contributions. However, the Superior Court of California, County of Orange, made a tentative decision (Case No. 81-87-80) that stated "The Court declares the defendant...Property Tax Override violates California Constitution Article XIII A, Section 1(b) to the extent it exceeds the City employer contributions for PERS obligation as it existed prior to July 1, 1978 and cannot lawfully be assessed or collected". Until the Court's decision, including appeals, is final, the City has elected to set aside the pension property tax override, after pension debt service payments, of \$7,456,647 in the Pension Trust Fund in the accompanying financial statements.

OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Notes 8 and 9, the City provides postretirement health care benefits, in accordance with City ordinances, to all employees who retire from the City on or after attaining retirement age (50 for policemen, 50 for firemen, and 55 for all other employees) and who have at least ten years of service. At June 30, 2004, 344 retirees met those eligibility requirements. The City funds these benefits on a pay-as-you-go basis. During fiscal year 2004, expenditures of \$1,312,234 were recognized for post employment health care benefits.

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; natural disasters; and inverse condemnation. The City began self-insuring its workers' compensation and its general and auto liability in 1976. The City has chosen to establish risk financing internal service funds where assets are accumulated for claim settlements associated with the above risks of loss up to certain limits. Excess coverage for the above-mentioned risk categories excluding wrongful termination, sexual harassment and

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

inverse condemnation is provided by policies with various commercial insurance carriers. Self-insurance and insurance company limits are as follows:

Type of Coverage	Self-Insurance	Commercial Insurance Carrier
General and auto liability	\$0 - 250,000 per claim	\$250,000 - 10,000,000 per claim
Workers' compensation for public safety employees	0 - 400,000 per claim	400,000 - 10,000,000 per claim
Workers' compensation for general employees	0 - 300,000 per claim	300,000 - 10,000,000 per claim

Losses greater than \$10 million per claim are not insured. Property damage risks are covered on an occurrence basis up to \$25,000,000 by commercial insurance purchased from independent third parties. All properties are insured at full replacement values. During the fiscal year ended June 30, 2004, there were no significant reductions in any of the City insurance coverage and no settlement amounts exceeded the self-insurance coverage.

The unpaid claims liabilities included in each of the self-insurance internal service funds are based on case reserves and include amounts for claims incurred but not reported (IBNR).

At June 30, 2004, the estimated claims payable of \$21,140,000, consisting of reserves for both reported and IBNR losses, as well as allocated loss adjustment expenses, has been recorded in the internal service funds. Changes in the claims liabilities for the years ended June 30, 2004 and 2003 were as follows:

	2004	2003	2002
Claims liabilities, beginning of year	\$ 17,132,000	\$ 13,355,000	\$18,555,000
Claims and changes in estimates	17,018,916	5,901,358	(2,935,886)
Claim payments	(9,759,653)	(4,652,980)	(4,627,031)
Legal administrative and other expenses	(3,251,263)	2,528,622	2,362,917
Claims liabilities, end of year	\$ 21,140,000	\$ 17,132,000	\$13,355,000

COMMITMENTS AND CONTINGENCIES

Construction in Progress

The City has committed to spend approximately \$194,677,000 on a number of capital improvement projects as described in the City's Five Year Capital Improvement Plan for 1999-2004.

City of Richmond
Notes to Basic Financial Statements
June 30, 2004

Litigation

The City is involved in various claims and litigation resulting from its normal operations. The ultimate outcome of these matters is not presently determinable. In City management's opinion, these matters will not have significant adverse effect of the City's financial position.

SUBSEQUENT EVENTS

2004 Richmond Joint Powers Financing Authority Housing Set-Aside Tax Allocation Revenue Bonds Series A and Series B – Original Issue Series A \$15,000,000, Series B \$2,000,000

The Bonds were issued October 28, 2004 by the Richmond JPFA. The proceeds of the Series A Bonds will be used to pay the approximate amount of \$6,367,031 to the City of Richmond in full and final payment of the Prior City Obligations, to finance certain working capital requirements of the Richmond Redevelopment Agency, to finance certain low and moderate income housing activities of the Agency, fund the reserve account, and pay certain costs related to the issuance of the Series A Bonds. The proceeds of the Series 2004B Bonds will be used to finance certain low and moderate income housing activities of the Agency, fund the reserve account, and pay certain costs related to the issuance of the Series B Bonds. Interest rates range from 2.00% to 5.44%; interest is payable on March 1 and September 1. The Bonds are secured by a pledge of certain tax increment revenues derived from taxable property within certain redevelopment project areas.

CITY'S FINANCIAL CONDITION

The City's General Fund cash balance improved by \$ 20.5 million, showing cash balance of \$12.3 million at the close of the fiscal year. In addition the General Fund's current liabilities were reduced from \$27.2 million in the previous year to \$ 16.2 million being a net reduction of \$11.5 million. The City's staff made considerable efforts in reduction of operating and payroll expenditures as mandated by the City council.

The City's Municipal Sewer Fund cash balance improved by \$3.0 million as a reduction in cash overdraft balance over the previous year. The improvement in cash balances was a result of two factors. First, the City increased its revenues by \$1.0 million as a result of higher rates for water sewerage services and secondly, reduction of \$1.0 million in the operating expenditures.

The Port of Richmond showed improved financial performance by reducing its loss to \$33,265 during the fiscal year. The Port is preparing itself for increased economic activity in the next fiscal year and invested \$ 9.0 million in non-depreciable capital assets and \$2.7 million in investments.

The Richmond General Debt Service Fund ended the year with a cash overdraft of \$ 1.6 million. The Fund had a net loss of \$5.3 million which was partly offset by operating transfers of \$ 5.7 million. The City is planning to issue debt in FY 2005-06 which will generate adequate working capital for the fund.

City of Richmond
Notes to Basic Financial Statements
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The Community Development Block Grant improved its cash balance position by reducing the cash overdraft by \$875,453 over the previous year. Revenue enhancements measures included timely billings by the staff and collections.

The Employment and Training grant revenues showed a significant decline from \$ 6.0 to \$ 3.9 million. However, the cash overdraft position did not change due to increased cash flows from collections by the staff members.

CITY OF RICHMOND
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property tax	\$24,745,635	\$24,781,218	\$23,640,305	(\$1,140,913)
Sales tax	12,923,990	12,400,000	12,352,198	(47,802)
Utility user fees	25,444,115	27,300,000	29,322,704	2,022,704
Other taxes	6,135,852	8,433,419	9,421,142	987,723
Licenses, permits and fees	6,676,079	2,622,209	3,024,816	402,607
Fines, forfeitures and penalties	542,500	522,500	399,505	(122,995)
Use of money and property	4,430,200	4,705,780	1,164,286	(3,541,494)
Intergovernmental	6,587,695	5,963,475	5,638,131	(325,344)
Charges for services	1,050,236	51,000	4,135,907	4,084,907
Rent	173,366	183,416	2,453,613	2,270,197
Other	935,380	1,251,266	10,142,510	8,891,244
Total Revenues	89,645,048	88,214,283	101,695,117	13,480,834
EXPENDITURES:				
Current				
Salaries and wages	68,003,610	68,003,610	68,640,913	(637,303)
General and administrative	21,123,185	21,123,185	16,572,865	4,550,320
Maintenance	1,176,517	1,176,517	1,450,993	(274,476)
Other			366,944	(366,944)
Capital outlay			98,047	(98,047)
Total Expenditures	90,303,312	90,303,312	87,129,762	3,173,550
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(658,264)	(2,089,029)	14,565,355	16,654,384
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of property			57,545	57,545
Transfers in	4,658,606	5,277,742	1,163,137	(4,114,605)
Transfers (out)	(3,257,982)	(10,761,065)	(12,511,781)	(1,750,716)
Total other financing sources (uses)	1,400,624	(5,483,323)	(11,291,099)	(5,807,776)
NET CHANGE IN FUND BALANCE	742,360	(7,572,351)	3,274,256	10,846,607
Fund balance, July 1	32,500,756	32,500,756	32,500,756	
Fund balance, June 30	<u>\$33,243,116</u>	<u>\$24,928,405</u>	<u>\$35,775,012</u>	<u>\$10,846,607</u>