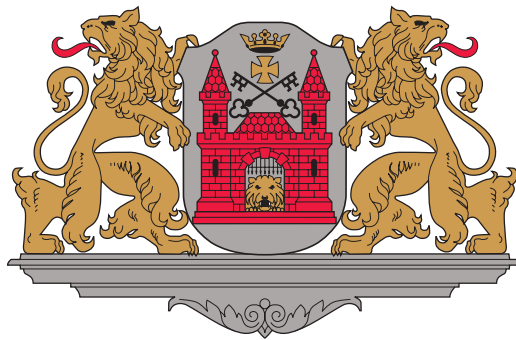


Riga Municipality Annual Report 2004



Riga Municipality Annual Report 2004



Riga City Environment has been developing for more than 800 years yet. From the wood, glass, and traditions. Riga is as diverse as its architecture, reflecting all patterns of North European style, from gothic to modernism. Riga continues to evolve, it will never be ready...



Index

The report of Riga City Council chairman	3
The report of Riga City Council Finance Department Director	4
Riga City Review and Development	6
Review of employment and remuneration of Riga City inhabitants	6
Riga City Economic disposition	8
City economic growth	8
City branch industry structure	8
Riga City Investment disposition	12
Structure and Function of the Riga City Council, public input to its function	14
Riga City Council structure and function	14
Development plan and public input to city planning	14
Promotion of public awareness and its involvement in decision-making	15
Activities aimed at improving the management of municipal institutions and enterprises	15
Riga City participation in international cooperation projects	16
Riga City economic development	18
Riga City financial and budget policy	18
Riga City budget utilization	19
Utilization of budget resources on the execution of municipal function	24
Education	24
Social security, social aid	25
Health care	27
Housing facilities and public utilities, environment protection	28
Culture and sports	29
Transport and communications	30
Public policy and security	31
Riga City property disposition	32
Auditors report	36
Riga Municipality financial statements	38

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The report of Riga City Council chairman



Riga
Municipality

Annual Report 2004 has been prepared in order to provide detailed information on the Municipality budget and financial policy, and the performance of Riga Municipality with regard to the economic and social development of the City of Riga.

This report serves as an introduction to Riga Municipality financial policy and the City budget, as well as provides with the information on the most important activities within the Municipality functions, and allows to evaluate further financial development of the City.

In 2004, Riga Municipality sustained the long-term financial stability policy, ensuring City budget surplus and gradually improving its credit terms. Compared to 2003, in 2004 Riga City basic budget revenues increased by 28.9 million lats (growth of 15%). Simultaneously, budget expenditures in 2004 increased by 9.1 million lats (4.5%), leading to basic budget surplus of 11.6 million lats and special purpose budget surplus of 1.7 million lats.

Riga City budget 2005 has been prepared based on budget program goals, their respective performance indicators and results, allowing to evaluate Municipality's potential to provide the society with the necessary benefits and their respective amount. Moreover, the necessary activities of Municipal institutions on the improvement of service quality have been identified.

By the means of successful financial derivatives policy within the City risk management, budget savings of 3.8 million lats have been achieved.

An ongoing long-term financial policy will ensure the City budget stability, gradually reducing the liability level of the City, simultaneously providing the necessary investment resources for the execution of Municipality economic and social programs.

However, it should be mentioned that the needs for development of the City transportation infrastructure, the social and other fields still significantly exceed budget resources available. Thus, by means of retaining the financial stability and the existing liability level, in 2004 additional resources have been attracted from non-budget sources.

Latvia's status of a lawful member country provides full access to the EU funds allocated to the financing of development projects. In 2004 the utilization of EU funds has been started, utilizing them for the financing of economic and social development goals of the City, by introducing the examination, authorization and co-financing of these projects in Riga

Municipality. 10 projects amounting to 37.8 million lats have been confirmed by the Riga City Council and included in national programs of the structural funds. Today, Riga is not only Latvia's capital, it is also the driving force of country's economic development. More than a half of Latvia's gross domestic product is produced in Riga, also 2/3 of Latvia's construction works and 4/5 of the national trading revenues. Municipality's task is to ensure city infrastructure and provide municipal services in order to foster economic growth within the interests of City's inhabitants.

The rapid economic development of the City increases the welfare of its inhabitants, however that does not reduce the importance of Municipality's social policy. In the conditions of social stratification, several population groups remain in need of help in solving diverse social problems. Under the circumstances of apartment market liberalization, one of the main difficulties for certain categories of inhabitants remains the housing problem.

In 2004, after an interval of several years, Riga Municipality began to implement the Housing development program, resuming construction of apartment-buildings. The newly built apartments have been rented out to the population of moderate needs.

In order to ensure the long-term growth of the City, as well as balanced development of the economic, social and environmental fields, City strategic development documents have been prepared in 2004: Riga long-term development strategy till 2025, Riga development plan 2006-2018, Territory plan 2006-2018, as well as Riga historic center preservation and development plan.

In the development and discussion of these documents, Riga City inhabitants were extensively involved through the campaign "Es daru Rīgu" that brought more than 12000 suggestions, and arranged topical forums where experts and city inhabitants could express their thoughts within the various areas.

Riga Municipality will carry on with a policy fostering economic activity, at the same time ensuring comfortable, socially favorable and environment-friendly city development, by improving the quality of Municipal services, reducing costs, and increasing the transparency of its activities.

In the result of an active and goal-oriented operation of the Municipality and in collaboration with the inhabitants, entrepreneurs, and the state, Riga economic, cultural, and human potential will allow our City hold the deserved position of the metropolis of the Baltic Region.

Aivars Aksenoks,
Riga City Council Chairman

The report of Riga City Council Finance Department Director

4



In 2004 Riga City Council Finance Department continued the financial stabilization policy that was commenced during the previous year by focusing on long-term approach in areas such as budgeting and resource attraction.

As a result of successful budget policy, Riga City budget deficit, previously amounting to 15% of budget revenues, in 2003 was reduced to 5% level. Moreover, in 2004, Riga City basic budget surplus of 11.6 million lats and special purpose budget surplus of 1.7 million lats were achieved.

While planning Riga City budget 2005, Riga City Council Finance Department focused on a long-term budget financial stability approach, evaluating long-term activities to be performed by the Municipality and respectively marking long-term financial resources available to the Municipality.

The budget has been prepared based on budget program goals, their respective performance indicators and results, allowing to evaluate Municipality's potential to provide the society with the necessary benefits and their respective amount. Moreover, the necessary undertakings of Municipal institutions for the improvement of service quality have been identified.

In 2004, by the means of Municipality long-term liability currency exchange and interest rate risk management through successful financial derivatives policy, Riga City Council Finance Department achieved budget savings in the amount of 3.8 million lats.

In 2004, Riga City financial policy was directed at ensuring stable pace of economic and social development of the City, financing of infrastructure maintenance and development expenses in the necessary amount, as well as optimization of financial resources allocation.

Riga City Council financial policy is executed by the Riga City Council Finance Committee, Riga City Council Finance Department, as well as financial professionals of other departments and municipal institutions.

In accordance with the regulations, Riga City Council Finance Department performs following financial management activities:

- prepares the City of Riga budget project;
- performs tax administration;
- performs activities to ensure the City of Riga budget utilization and the accounting of revenues and expenditures;
- attracts necessary financial resources to finance the budget;
- controls finances and the utilization of the Riga City Budget resources;
- consolidates and analyzes the Riga City Council investment and financial policy results.

In 2004, optimization of the structural units was performed within the Finance Department in order to ensure motivated and goal-oriented functioning of the Department. The necessary steps for the liquidation of Riga City Council Finance Department structural unit, the Settlements Office, were taken. Starting 2005, its operations have been delegated to banks on the basis of a group account agreement, thus optimizing the management of the Municipality financial resources and increasing the speed of settlements.

In 2004, co-operation and information exchange with credit-rating agency "Standard and Poors" was improved, in order to facilitate assignation of a better rating. Activities aimed at quality management system implementation were performed within the Department.

In 2004, in order to broaden investment financing sources, the Department introduced the European Union funds co-financing system for the purpose of investment project implementation.

As a result of the financial management policy performed by the Finance Department, successful budget utilization and financing of Municipal functions have been ensured, thus stabilizing City financial situation and improving its development prospects.

A handwritten signature in black ink, appearing to read 'K. Kavacs', written in a cursive style.

K. Kavacs,
Riga City Council Finance Department Director

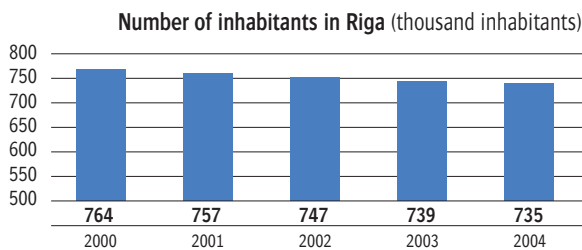
Riga historic wooden structures are unique in the whole Europe. The antique and peculiarly beautiful buildings are architectural monuments attaching special charm to the city. Wooden buildings carry examples of superb apartment and stairway interiors, but woodcarving of facades is adopted from national ornaments and creates unique atmosphere in city suburbs.



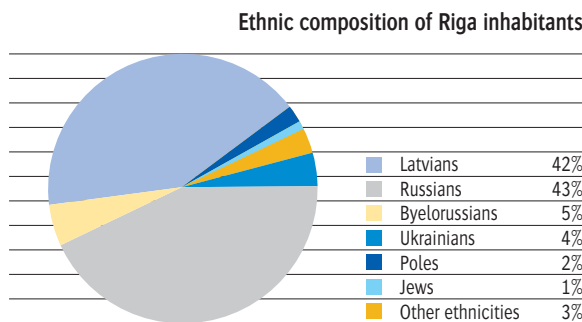


Review of employment and remuneration of Riga City inhabitants

Number of Inhabitants › In 2004, there were 732 000 inhabitants in Riga, which comprises around 32% of the Latvian population overall. Since the early 1990s the population of Riga has been reduced by almost one fifth, although in recent years the reduction has slowed down and the number of inhabitants stabilized. In 2004, the birth rate in the City had grown by 2.2% per 1000 inhabitants compared to 2003.



Ethnic Composition › Riga has been developing as a multinational city. In the early 20th century the proportion of indigenous inhabitants constituted around two-thirds, however dropped to one-third in the late 20th century. However, in the last years the proportion of Latvians within the total amount of inhabitants has been gradually growing, reaching 42% at the beginning of 2004.



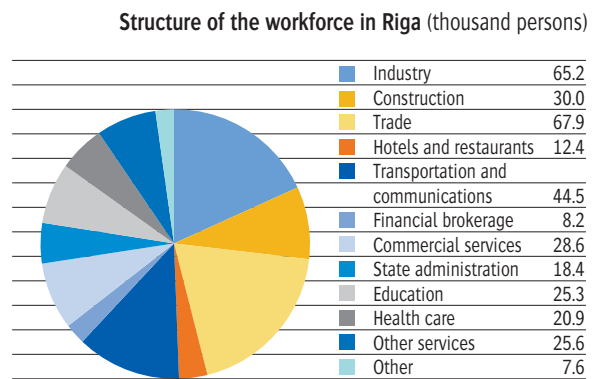
Education Level › The education level of Riga's inhabitants is notably higher than the average level in Latvia overall as 19% of Riga's inhabitants have higher education, the country average: 13%.

Since 1990, mainly because of demographic circumstances, the number of general education students in Riga has decreased by 11%, changes in the number of vocational education students are even more significant, showing almost 50% drop during this period.

The growing image of the higher education, resulting from the economic and social changes as well as changes in the structure of education, the growing number of education institutions, including the private colleges, has led to a significant increase in the number of university and college students. Since the early 1990s their number has almost tripled, reaching 100000 in year 2003/2004. 2/3 of these students study in the public educational institutions.

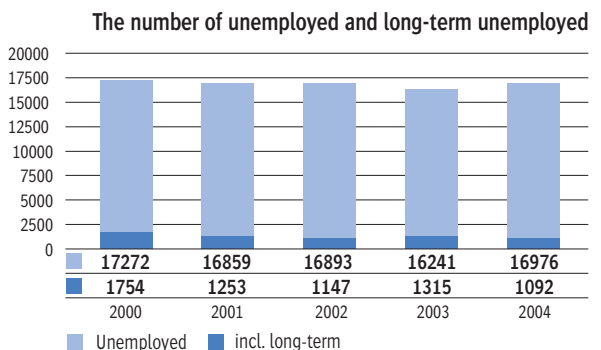
Employment › Over 350 000 people are employed in Riga (around 40% of Latvia's total employment figure), however a part of them are inhabitants of other regions. As a result of rapid economic development, the number of employed in Riga has increased by 45000 people during the previous seven years, whereas it remained constant in the rest of the territory.

The largest sector in Riga by the number of employed is the trade sector, where 68000 people or 19% of all employees are employed. In spite of the fact that the industry proportion within the total value added of the City constitutes 12%, this sector still employs around 18.5% (65000) of the population. The third largest sector is transportation and communications, where 44500 Riga inhabitants are employed.



Unemployment › Unemployment in Riga at the end of 2004 comprised 4.5% (16976) of the economically active City inhabitants, whereas the national average was 8.5%.

The number of unemployed has stabilized over the last years, with a decreasing portion of long-term unemployment.



The highest portion of unemployed is attributable to the services and trade sector: 21%, and the representatives of ordinary occupations: also 21%. The proportion of qualified workers and craftsmen formed 15%, professionals: 8%, senior professionals: 7%.

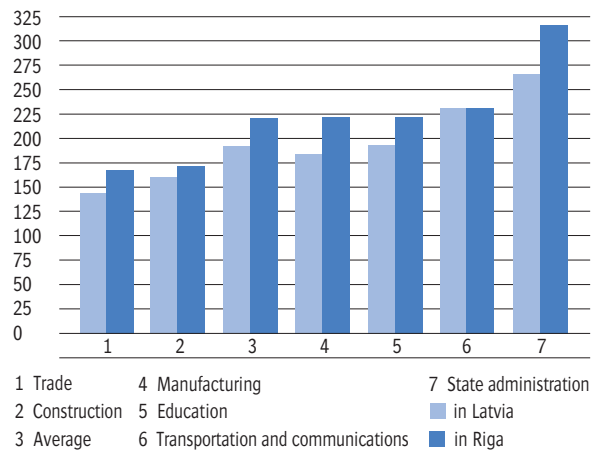


Remuneration › Employees in Riga receive on average 14% higher remuneration than their colleagues in the rest of Latvia. This can be explained by higher productivity and comparatively higher added value within Riga economy, by 70% exceeding the national average.

When comparing economic sectors, the highest monthly gross wage in Riga has been within the financial brokerage sector: 488 lats, however only 9000 of City inhabitants are employed in this sector. Higher than the City average remuneration can be observed in the areas of transportation and communications, however, especially in the state administration sector.

The remuneration in Riga is higher than the national average almost in all largest sectors, but transportation and communications. Within the state administration it exceeds the national average even by 19%. It can be explained by the fact that the leading state administration institutions are located in the capital, where the highest rank employees are employed.

Average gross wages in Riga and Latvia (LVL, by sectors)



Statistics from the Central Statistical Bureau of Latvia

Riga City Economic disposition

8

The economic development of the City of Riga

Since the second half of 1990s, Latvia's national economy resumed its growth. Riga has an increasingly important role within country's economic and social processes, given the tendency that the economic potential of Riga has been increasing at a greater pace than that of the rest of Latvia.

Riga has 1/3 of Latvia's population, however its proportion in the economic potential of Latvia is significantly higher, especially in construction, trade as well as other sectors associated with the foreign direct investment, services, and information technology development.

Riga's proportion in the national economy (in percent)

Enterprises with foreign share of capital	85
Wholesale	82
Computers used in enterprises	77
Construction works	69
Retail	64
Foreign direct investment	60
Enterprises in operation	55
Value added	54
Non-financial investment	50
Industrial products	49
Number of employed	40
Number of inhabitants	32

The newly created value of Riga has doubled during the last seven years, while the economic growth of the rest of Latvia didn't reach 10%.

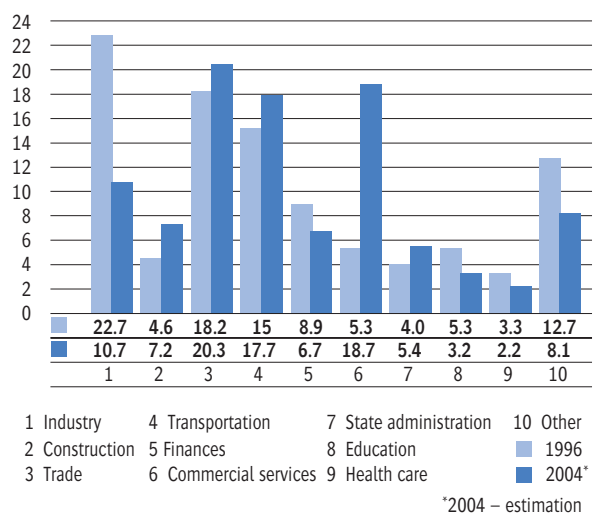
Not without reason, Riga can be referred to as the driving force for the national economy as the rapid economic growth of Latvia during the past years regionally has been concentrated mainly in the City of Riga.

By maintaining the economic growth rate of Riga at the previous level, the economic development in Riga measured as GDP per capita might reach the EU average level in a couple of years.

Higher GDP level is the basis for comparatively higher welfare of the City inhabitants, simultaneously increasing the demand of inhabitants and entrepreneurs for better infrastructure and higher quality municipal services.

Branch industry structure During the recent years, the branch industry structure in Riga has significantly changed in the value added. In 1996 the largest sector in the City economy was industry, where almost 23% of the City value added amount were generated, however its share significantly dropped in the coming years, and in 2004 its portion had decreased to only 11%.

Riga economic sectors by proportion in the total value added (in %)



The major portion of the value added in the Riga economy is formed by three sectors: trade, commercial services as well as transportation and communications. These sectors constitute to 57% of the total value added.

Trade is the largest sector in Riga by value added. Its portion within Riga branch industry structure currently exceeds 20%. Commercial services area, showing the highest growth rate in the recent years, has increased its value added share from 5.3% in 1996 to 19% at the present time. 18% of the City value added is created within the transportation and communications sector.

Industry Since 2000, a significant growth can be observed in the industrial sector of Riga. The industrial output has been increasing by 13-14% per annum.

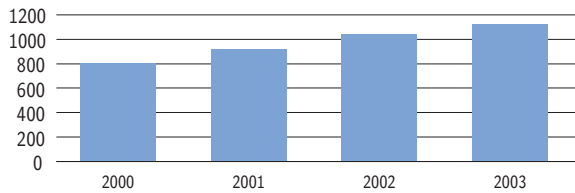
In 2004, the value of the production output in Riga formed 1.39 billion lats or 51% of the total national output.

Around four fifths of Riga total production output is formed by the manufacturing industry, the remaining one fifth being attributed to electric power, gas, and water-supply.

Although the contribution of the manufacturing industry within the branch industry sector in Riga had declined since the mid 1990s, starting 2000 the industry has been showing comparatively rapid growth: the level of output has been growing in average by 12% annually during the last three years.

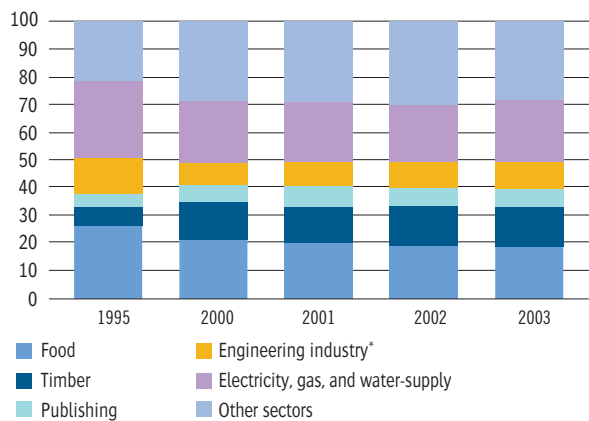
Statistics from the Central Statistical Bureau of Latvia

The manufacturing output in Riga (million lats)



At the beginning of 2004, the Riga's largest industrial sector by output was the electric power, gas and water supply sector, where 19% of the City's total industrial output was generated. The number two was food industry (17%), and the third: timber industry (15%). The engineering industry produced 9.4% of the City's total production output.

The largest industrial sectors in Riga (in percent)



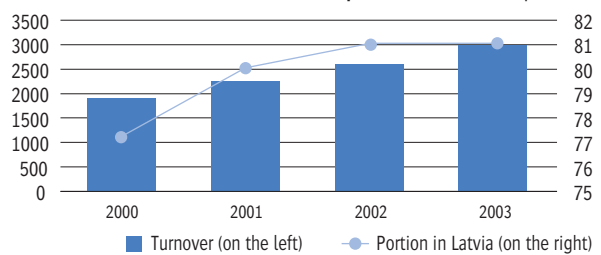
* Engineering industry: machinery and equipment, electrical machinery and equipment, radio, television and communications equipment, motor vehicles, other vehicles.

In 2004, 61% of Riga industrial output were sold in the local market and 39% were exported. The national average was 55% and 45% respectively.

Comparatively larger portion of locally sold production in Riga can be explained by broader opportunities for industrial output sales within the spacious Riga retail and wholesale network.

Trade) As a result of a growing economic activity, developing City trade infrastructure, and by making use of the proximity of the multimodal transportation center, Riga has become a major trade center. The portion of Riga in the national wholesale turnover exceeds 4/5 as the City wholesale sector serves also other regions of Latvia.

Wholesale turnover in Riga (amount in actual prices, million lats) and its portion in Latvia (in percent)



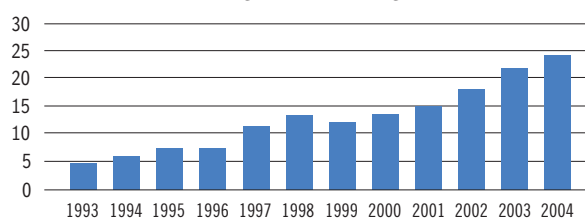
In 2004, 40% of enterprises in this sector nation-wide were located in Riga.

Rapid development of the City retail network is still going on. Since 1995 the amount of shops has increased by 2.2 times in Riga: from 3623 to 7816.

Retail turnover in Riga formed 2/3 of country's total retail turnover. The trade area in Riga has reached 1.1 million square meters.

Transportation) Riga Port) In 2004, two times more amount of cargo was reloaded in Riga Port compared to the amount five years ago. As a result of the rapid development, the proportion of Riga Port within the total turnover of national ports has grown from 18% in 1993 to 42% in 2004.

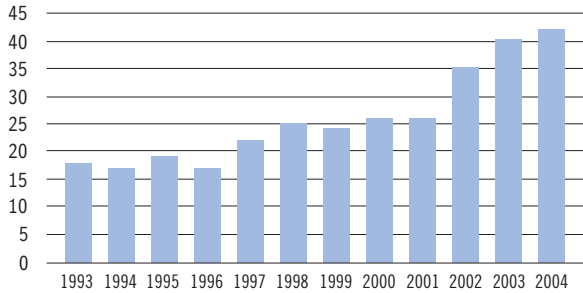
Cargo turnover in Riga Port (million tons)



Statistics from the Central Statistical Bureau of Latvia



Riga portion in the total turnover of national ports (in percent)

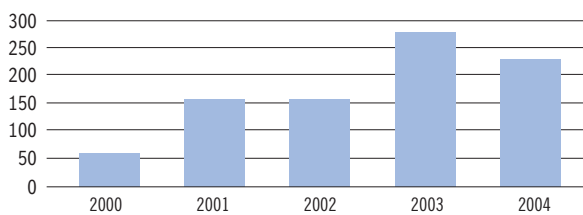


Riga, alike other biggest ports in Latvia, is specialized in cargo reloading. In 2004, the total cargo turnover in Riga Port reached 24.0 million tons, whereof 22.2 million tons were loaded cargo.

Within the structure of shipped (loaded) cargo, the highest portion in Riga Port is formed by coal, constituting 42% of all loaded cargo. The number two portion belongs to timber (20%). In 2004 compared to 2003, the amount of oil loaded in the Port decreased by 10% and constituted 19% of all cargo loaded.

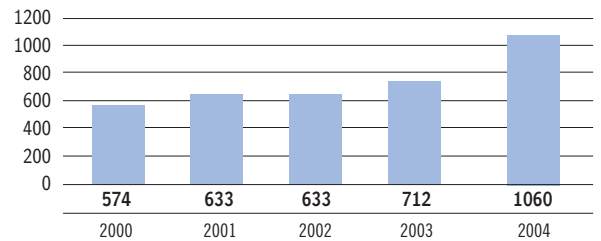
Although since 2001 the annual passenger turnover in Riga Port has significantly increased compared to the previous year, in 2004 18% reduction of passenger turnover could be observed. In 2004, 229 thousand passengers entered and left Riga Passenger Port, whereof 46% entered and left by ferry traffic, and the rest where passengers of cruise boats that entered Riga.

Passenger turnover in Riga Port (thousand people)



Airport) Since the beginning of 1990s, passenger turnover growth has been observed in Riga Airport, but especially high growth could be observed in 2004. In 2004, passenger turnover in Riga Airport exceeded 1 million, showing an increase of almost 50% compared to 2003. In 2004, 8.8 thousand tones of cargo were loaded in Riga Airport.

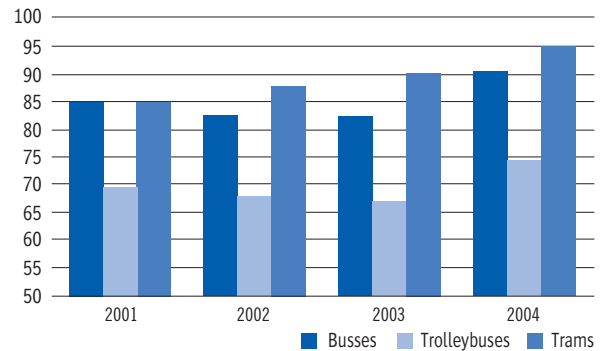
Passenger turnover in Riga International Airport (thousand tons)



Public transportation) In 2004, 259.36 million passengers were transported by the public transportation (buss, tram, trolleybus), which is by 8.4% more than in 2003.

The highest increase could be observed in transportation by trams (11%), whereas transportation by trolleybuses and busses grew by 10% and 5% respectively.

Passenger transportation in the public transportation of Riga by type of transportation (million people)



Statistics from the Central Statistical Bureau of Latvia



Commercial services › Commercial services sector is the second largest in Riga. 19% of the City total value added is generated by this sector. The development of this branch is currently concentrated in Riga, where more than 4/5 of this sector's national value added is generated. Every 12th employee in Riga is occupied within the field of commercial services, whereas in the rest of Latvia it is only every 50th employee. In 2003, 4528 enterprises operated within this sector in Riga.

Construction › As a result of an increasing economic activity in the City of Riga, rapid growth in the construction sector can be observed during the recent years. The amount of construction works in Riga has increased 5 times during the period from 1997 to 2003. In 2004, still the biggest share of the national construction amount: 312 million lats (49% of the total national amount), by the actual location of works were concentrated in Riga.

In 2004, many objects vital to the economy were put into operation in Riga, for instance: Hansabanka office building in Ķīpsala, renovated building of Aizkraukle bank, reconstructed building of the National Theater, new show-room for Ford and Landrover.

Tourism › As a result of widening international contact opportunities and Latvia's admission to EU as well as an improving transportation network with other countries, also the role of the tourism has been increasing in the development of the Capital.

In 2004, 600000 tourists visited Riga. Alike the previous years, the major part (3/4) of tourists came from Estonia, Lithuania, Russia, Germany, and Finland. However, the number of Italian and Spanish tourists has grown, too.

The main portion (43%) of tourists still visit the City on the subject of business contacts, although it should be mentioned that there is an increasing number of tourists visiting Riga in order to relax and observe cultural and sports events.

Also the City tourism infrastructure capacity has increased. During the period from 1997 to 2004 the number of hotels has increased from 28 to 45, the bed-space reached increased from 4859 to 5877.

Given the potential for the development of tourism, the City of Riga still is in need for new, especially middle-class and low-price hotels and other tourist lodging facilities.

Statistics from the Central Statistical Bureau of Latvia

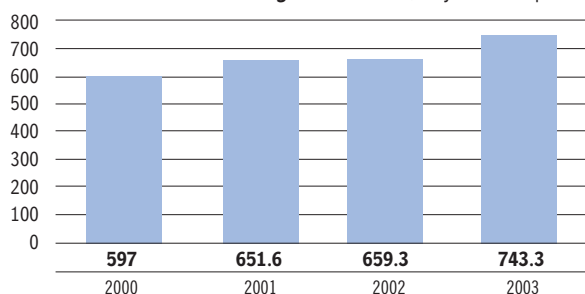
Riga City Investment disposition

12

Given the swift economic development in Riga, there is also an increasing amount of investment. During the period from 2000 to the beginning of 2004 the total non-financial investment in Riga has increased almost 1.5 times. At the beginning of 2004, the total value of non-financial investment in Riga reached 743 million lats, which formed approximately one half of the total investment in the country.

The amount of construction works in the City has grown 5 times during this period, reaching 187 million lats. Their portion within the total amount of construction works in the country constitute to around one third.

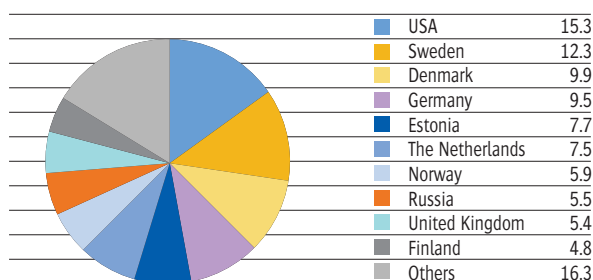
Investment in Riga (million lats, in year 2003 prices)



The rapid increase of private and foreign investment into the economy of Riga and the housing infrastructure raises demand also for investment into the public transportation and social infrastructure sectors, where the main investment sources historically have been the state and the municipality. As the investment attraction to foster the development of these sectors, e.g. by utilizing state and private partnership and concession mechanisms for the financing of infrastructure objects, was not yet popular enough during the previous years, the main investment source for the above mentioned sectors was Riga Municipality budget.

Foreign investment in Riga The rapid development of Riga economy increases foreign investors' interest in the capital of Latvia. As at the end of 2004, the foreign direct investment into the equity capital of enterprises registered in Riga reached 978.7 million lats.

Foreign investment in Riga, breakdown by countries (in percent)*

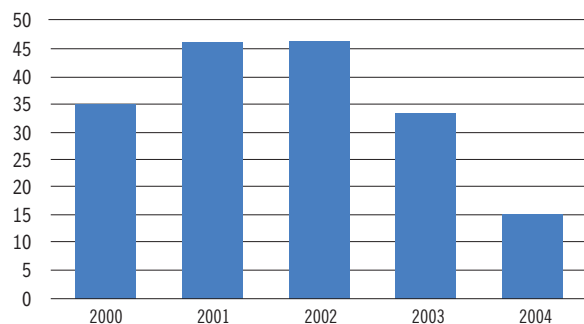


* Based on data from Lursoft

The main part of foreign investment (around 150 million lats or 15.3%) in Riga enterprises has been performed by investors from the US, Sweden (number two with 121 million lats or 12.3%), and Denmark (number three with 97 million lats or 9.9%).

Since the end of 1990s rapid growth in the City of Riga budget investments could be observed, reaching 45 million lats in 2000 and 2001. The growing amount of investment during this period was ensured on the account of the growing budget deficit, which reached around 15% from the annual budget revenues during these years, threatening the City's financial stability.

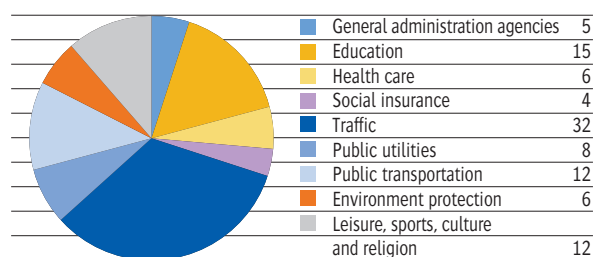
Riga Municipality budget investments (million lats)



The amount of the City budget investment has been aligned with Riga budget potential within the framework of the long-term financial policy begun in 2003. During the recent years, reduction in the investment can be observed. An increase in the municipal budget revenues as a result of the economic development and an increasing personal income will ensure an increase also in the City budget investment potential.

During the period from 2000 to 2004, the total amount of Riga Municipality budget investments reached 172.2 million lats. The greatest portion of these investments was allocated to the development of the traffic infrastructure, education, and the public transportation sectors.

Riga budget investment breakdown by sectors (in percent)



The need for investment into the City infrastructure development will remain and even increase also during the coming years. The Municipality will have to work more actively on the attraction of other investment sources, e.g. European Union funds, state investment, different kind of private capital attraction (state and private partnership, concession mechanism).

The accession of Latvia to the EU broadens also the ability of Riga Municipality to involve European Union funds into the financing of City development projects. In 2004, utilization of the European Union funds was started, including them into the financing of the City economic and social development goals.

10 projects in the total value of 37.8 million lats were confirmed in Riga Municipality, by including them into the national programs of structural funds.

Riga budget investment program for 2005
(the main investment sectors)*

Object	Amount of investment (in lats)
General administration agencies	1 141 797
Education	4 167 480
Health care	250 000
Social insurance	89 783
Housing facilities and public utilities	182 361
Traffic infrastructure	4 612 000
Environment protection	200 000
Leisure, sports, culture and religion	287 002
Public transportation	60 000
Total	11 160 423

* in accordance with Riga City Council regulations No.61 (protocol No.140, paragraph 2) as of 14.12.2004, annex 7.



Structure and Function of the Riga City Council, public input to its function

Structure and function of Riga City Council › Riga Municipality is a local authority that ensures the functioning defined by the law, fulfillment of tasks prescribed by the Cabinet of Ministers, and the execution of Municipality voluntary initiatives with the intervention of the Riga City Council and in accordance with the interests of the inhabitants of the respective administrative territory. The Riga City Council consists of 60 councilors elected to office every four years. The work of the Riga City Council is carried out by the Riga chairman, Vice-chairmen, the Presidium of the Council, the Executive Director of Riga City, the Executive Directors of the Riga regions and administrative districts, as well as the employees of municipal organizations and enterprises in accordance within the structure of the municipal administration. The deputies of the Riga City Council work on ten committees – the Finance Committee; the Education, Youth and Sports Committee; the Municipal Services and Housing Committee; the Security and Order Committee; the Culture, Arts and Religion Committee; the City Development Committee; the Municipal Property and Privatization Committee; the Traffic and Transport Affairs Committee; the Social Issues Committee and the Environment Protection Committee.

The functions of the Riga Municipality are carried out by departments of the Riga City Council – the Finance Department; Education, Youth and Sport Department; Property Department; Municipal Services Department; Welfare Department; City Development Department; Transport Department; Environment Department as well as directorates, institutions, enterprises, and enterprises, centers and agencies.

The Audit Directorate of the Riga City Council is responsible for the evaluation of the internal control system and the coordination of internal audits of the structural units, institutions, enterprises, enterprises, capital companies, and municipal agencies of the Riga City Council.

The main functions of the Riga City Council are to:

- provide inhabitants with the basic and general secondary education, and to provide places for pre-school age children in educational and child care centers;
- organize public transport services;
- provide for the organization and sanitation of the public services and facilities of the administrative territory of Riga City;
- establish regulations for the public use of publicly accessible forests and waters;
- care for culture and to encourage the preservation of traditional cultural values and the development of folk art;
- provide accessible health care, and to encourage inhabitants to lead a healthy lifestyle;
- provide social assistance for residents;
- offer assistance to inhabitants in solving housing issues;
- organize municipal services for inhabitants;
- support entrepreneurship in the Riga City administrative territory;
- help reduce the level of unemployment;
- ensure public order;
- establish regulations for the utilization of and building on land in accordance with the administrative territory plan of Riga City;
- monitor construction works in the Riga city administrative territory.

Development plan and public involvement in City planning discussion › The City of Riga development plan is a document describing strategic and tactical activities on the development of the City. Its aim is to promote and ensure sustainable and stable development of the City. In 2004, the normative basis for the development activities was defined by the City of Riga development plan for 1995-2005. Work on the elaboration of the new Riga development plan for 2006-2018 took place in 2004, actively involving Rigans and specialists of diverse sectors.

The City of Riga development plan is related to the Riga City Council and its structural units for the evaluation of short- and long-term development projects, the capital investors and project filers for the evaluation of their projects' and activities' compliance with the City development goals and future development prospects, the landowners for the evaluation of the future development potential for their property as well as local and foreign investors for the information on Riga future development potential and conditions.

The first edition of Riga development plan consisting of 3 parts written in 2004 is expected to be confirmed by March 2005.

Riga development plan for 2006-2018 comprises three documents:

1. Long-term development strategy till year 2025
It is an all-embracing document, reflecting Riga development vision, defining City interests and development priorities and goals as well as strategy monitoring model.
2. Development program for 2006-2012
It is a medium-term regional planning document that clearly defines tasks and activities as well as their performers, financial resources and results for the fulfillment of goals set in the long-term development strategy.
3. Territory plan for 2006-2018
It is a document defining the allowed utilization of territories and the real estate. The main tasks of this planning are to create favorable conditions for the development of entrepreneurship and attract investments, including the territories of neighboring countries and the EU into the planning activities and considering the potential for the territory development, simultaneously preserving the quality of environment and the cultural heritage as well as diversity of human material resources and the economic activity. The territory plan consists of graphical part, description part, and binding regulations on the construction in Riga.

The work on Riga historical center preservation and development plan was in progress in 2004, where the main development goals were set to be: the preservation of Riga cultural environment and heritage values, simultaneously ensuring the creation of new quality architecture and city environment design; development of a representative cultural center by developing the international tourism; as well as establishment of a convenient and environment friendly public transportation system that would satisfy the needs of Rigans and foster the City development as well as broaden and improve the connection of the pedestrian area, cycle tracks, and Riga historical center with other districts of Riga.



The preservation and development plan for Riga historical center has been developed in order to structurally incorporate into the Riga development plan for 2006-2018 as its component.

In order to actively involve Rigans into the composition of Riga development plan for 2006-2018, the Riga City Council organized diverse seminars, forums, and campaigns. The main of them were the following:

1. Campaign "Es daru Rīgu" ("I Create Riga") aimed at gathering opinions, ideas, and forthcomings of Rigans as to the development of Riga. Three topics were put forward within the framework of this campaign: The Man. The Motion. The Environment., and Rigans were given an opportunity to take an active part in inquiries, opinion forums, and discussions. As a result of this campaign, the Riga City Council received more than 12000 different suggestions and opinions as to the development of the City of Riga;
2. The 3rd international plenary of architects "Vision for the future development of the Moscow Suburb";
3. The international young architects' performance competition "European 8" envisaging the preparation of a program for one construction site in Riga;
4. Public discussion of Riga Development Plan for 2006-2018 that lasted 8 weeks.

Promotion of inhabitants' awareness and involvement into decision-making

› In 2004, Riga City Council continued to create a tight linkage between the society and the Municipality. In order to explore the opinion of Rigans, public opinion poll was carried out on issues vital to the inhabitants, and the results of this poll were put in use by the City Council.

In order to inform Rigans on the activities of the Riga City Council, cooperation with the mass-media has been taking place. Also interviews with officials on urgent problems have gained responsiveness. The Riga City Council ensured the publication of statutory data and other information of significance.

For more effective attraction of internet-users, the amount of the municipal information published in the Municipality portal has been increased. Not only resolutions taken by the City Council, courses of meetings and their protocols, Riga City Council budget, information on the Municipality structural units, officials, their contact information and visiting hours are available on-line, but also information on services provided by the Municipality. Any interested person can express

his/her opinion on the projects submitted for the public discussion. For the first time "Online discussions with Riga City Council parliamentarians" were started in 2004, where portal users could inquire Riga City Council parliamentarians during live broadcast. Also diverse competitions were organized in the portal.

In 2004, Riga City Council continued to publish an informative bulletin "Rīgas Vēstis" ("Riga News"), which has been available free of charge for every Rigan.

Considering the great interest of Rigans for the new City Hall and the work of the City Council, excursions have been organized on a day-to-day basis over the whole year, where employees of the Municipality introduced Rigans to the new building and the work of the City Council. "Open-Door Days" were organized, too, when 2000 visitors had visited the City Hall during one day.

The customer service conception was developed in 2004 within the framework of e-city project, which will significantly improve the service quality for Rigans. Service conception has been developed for sectors prescribing the procedure of applying for visits to Riga City Council officials, services rendered within construction monitoring and the coordination of public events. Documents reflecting requirements and prototypes of electronic signature solutions have been developed as well as suggestions for the improvement of normative basis have been prepared in order to perform gradual transition to an electronic circulation of documents.

Action on the improvement of the administration of municipal institution and enterprises

› In 2004, Riga Municipality performed the following action:

- Municipal enterprises and house manager's offices were reorganized in accordance with the requirements of the Commercial Law
- In order to optimize the financial management of Riga Municipality and increase the speed of settlements, Settlements Office, the Riga City Council structural unit was reorganized, delegating its operations to the banks.
- Optimization of the Riga public transportation system was performed: LLC "Rīgas Satiksmē" was merged with the Riga Municipality non-profit organization LLC "Tramvaju un trolejbusu pārvalde"
- Rigans are offered an opportunity to receive free of charge legal advices
- Document circulation control system has been improved
- Riga representative's office in Brussels has been established.



Riga City participation in international cooperation projects

In 2004, Riga City Council continued its successful cooperation with foreign municipalities and their organizations, as well as developed new forms of cooperation with foreign international institutions and took part in new international projects interesting to the City of Riga. The main goal for the international cooperation is learning the best international practice within the city management area, promote foreign investors' interest and attraction of investments, increase the effectiveness of Riga Municipality and its institutions as well as ensure and promote Riga integration and involvement in international projects.

The Riga City Council actively cooperates with many international organizations, thus defending the interests of the City of Riga when solving socioeconomic and cultural-political issues. In 2004, the Riga City Council took part in the following organizations:

1. Alliance of the EU capitals, uniting municipalities of all EU capitals;
2. Alliance of the Baltic cities, uniting 102 cities from 10 states within the Baltic region with an aim of promoting the cooperation of Western- and Eastern European cities;
3. Organization "European cities against drugs", uniting 30 European states in the fight against the legalization of drugs and an increase of an organized drug traffic's impact;
4. Association of the Baltic Center of Culture and the Baltic and Nordic Cultural Exchange. This association was formed by the three Baltic States, the government of Sweden and the municipalities of the capitals in order to work on the planning and realization of diverse cultural exchange projects. The meeting of the representatives of the above mentioned institutions takes place three times a year;
5. Hanseatic League;
6. The Riga historical center has been included in the list of the cultural heritage of UNESCO World Cultural Heritage Center. The UNESCO experts' delegacy visited Riga during the period from April 21 to April 25, 2004 in order to participate in the seminar on the preservation and development plan of Riga historical center. In 2004, the Riga City Council took part in the 6th international exhibition on reconstruction, maintenance of monuments, and renovation of cities "Denkmal 2004", which took place in the Leipzig Mess. It is the largest exhibition of this kind in the world taking place in the Leipzig Mess since 1994 every second year with the support of UNESCO. The Riga City Council takes part with its stand and professionals since 1996;
7. The City of Riga has established successful contacts with the Local and Regional Municipality Congress of the European Council. The aim of this organization is to promote the experience exchange to help solving municipality problems. There are municipalities of 43 countries represented in the Organization. The chairman of the Riga City Council takes the position of the deputy representative

of the Republic of Latvia to the Board of Municipalities in the above mentioned organization;

8. The Riga City Council represented the City's interests within the EU Regional Committee's plenary meetings and other activities in Brussels. The cooperation between Riga and this consulting institution for the EU has strengthened after Latvia's accession to the EU;
9. Riga is a member of the European metropolises and the regional network (METREX). The aim of this organization is the experience exchange within the area of city planning;
10. In order to promote the tourism cooperation within the Baltic Sea Region, Riga has become a member of the Baltic Sea Tourism Commission (BTC). Also, the annual BTC conference took place in Riga in 2004;
11. In 2004, Riga participated in EUROCITIES, the international organization of the European Cities. This organization unifies the biggest European cities with an aim of promoting cooperation and the interest advocacy of the cities within the EU.

Riga has developed several successful cooperation models with more than 38 cities, an active experience-sharing and teamwork on projects takes place.

In 2004, Riga City Council took an active part in EU projects either as the leading party or a project partner. In 2004, Riga City Council got confirmation for more than 10 projects in the total value of 38 million LVL that were later included in the national programs of the Structural funds. In 2004, 20 projects were confirmed within such programs as: PHARE, INTERREG, Society Integration Fund, the International Exchange Program of the European Commission, Community Program of Action, and the 5th Framework Program.

In 2004, Riga City Council took part in the following EU programs and projects:

- "Strategy for the Renovation of Baltic Metropolises". The aim of this project is to ensure the competitiveness of the economy, by integrating innovation and the city development;
- "InterMetrex". The aim of the project is to promote stable development of European cities and their regions by improving the knowledge on the planning of more efficient space utilization;
- "The establishment of a coordinated project idea development mechanism within the Baltic Sea Region". The aim of the project is to promote the cooperation within the Baltic Sea Region;
- "Co-project of the Baltic Metropolises for the development and application of a coordinated investment management approach within the Baltic Sea Region". The aim of the project is to develop an investment strategy for Riga, Vilnius, and Tallinn, based on the competitive advantage of every metropolis;

Apart from these projects, the structural units of the Riga City Council have developed and submitted 19 new projects to the EU programs.

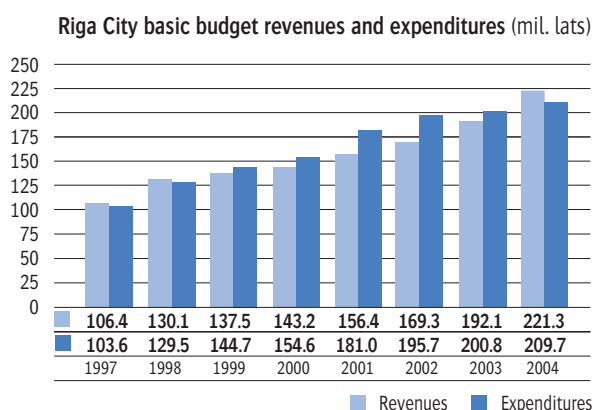
Rigans built their houses magnificent and reliable. Statues of lions and sphinxes rise above the supple cornice lines, whereas facades are graced with stylized ornaments of plants, masks or colorful pieces of brick and ceramic plates. The glaring examples of architecture testify inhabitants' creative freedom and create the visual image of Riga.



City of Riga financial and budget policy

The aim of the Municipal budget policy is to ensure the necessary financial resources for the execution of municipality functions and coordinate the execution of these functions, maintaining the fiscal stability and the transparency of the City finances.

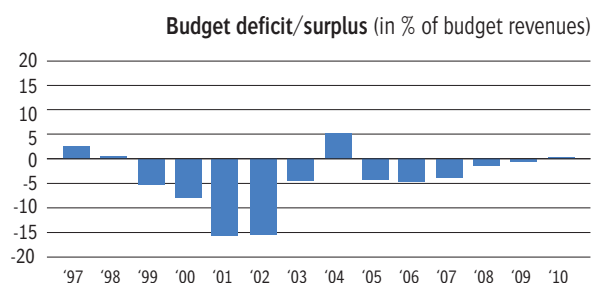
As a result of the previous Riga City budget expenditures policy in 2000-2002, City budget expenditures considerably exceeded the revenues.



Since 2003 Riga Municipality has been running a consequent budget balancing policy resulting in 11.6 million lats surplus in the City basic budget of 2004 and 1.7 million lats surplus in the City special purpose budget of 2004.

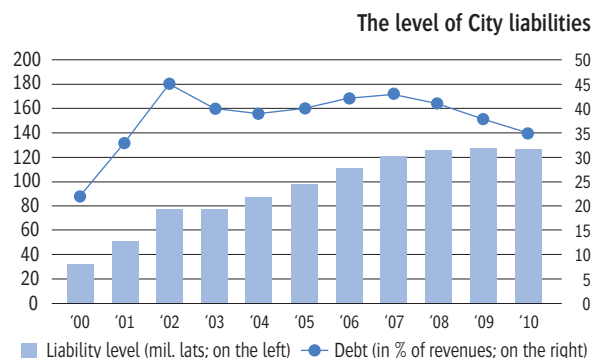
In 2004, Municipality long-term liability currency exchange and interest rate risk management has been realized, by a successful application of financial derivatives.

Budget long-term forecast Budget long-term forecast has been prepared based on the macromodel of budget revenues and expenditures. This model allows to anticipate the major parameters of budget revenues and expenditures, as well as the long-term level of budgeted liabilities versus the City debt.



As a result of economic growth, gradually increasing tax and other budget revenues, as well as performing budget cost cutting, the reduction of the budget deficit will be gradually achieved and starting 2010 a potential budget surplus, too.

Liabilities Although an increase of absolute liabilities is predicted in the following years, the rate of this increase will fall as a result of a lower budget deficit. Starting 2007, higher growth rate of budget revenues will lead to a decreasing relative amount of liabilities (to budget revenues).



However, the "zero level" of liabilities cannot be considered the aim of the financial policy. An optimal level of liabilities should be chosen based on the financial state, need for expenditures, and the potential for the repayment of municipal liabilities.

Credit-rating In 2004, the credit-rating agency "Standard & Poors", evaluating the City since 1997, granted Riga with the rating of BBB-/Stable/A-3.

History of Riga credit-rating

Year of granting the rating	Rating for liabilities in the local currency	Rating for liabilities in the foreign exchange
1997	BBB-/Positive/A-3	BBB-/Positive/A-3
1999	BBB/Stable/A-3	BBB/Stable/A-3
2001	BBB/Positive/A-3	BBB/Positive/A-3
2003	BBB-/Stable/A-3	BBB-/Stable/A-3
2004	BBB-/Stable/A-3	BBB-/Stable/A-3

Riga economic growth and Riga Municipality financial policy results in 2004 are described by achievements in ensuring budget revenues and their purposeful allocation for the execution of autonomous functions in line with priorities set by the Riga City Council.

Budget is a means of fulfilling Riga Municipality economic policy with a financial approach. The budget priorities have remained constant during the past five years: education, housing facilities and public utilities, social aid, and investment into the City infrastructure.

The City of Riga budget consists of the basic budget and the special purposes budget. The City of Riga basic budget forms the major part of the budget and comprises municipality revenues, intended for the financing of expenditures and are not intended for special purposes.

The City of Riga special purposes budget encompasses revenues from sources of special purpose. The City of Riga budget is structured according to the cash flow principle, simultaneously ensuring accounting according to the accumulation approach.

Riga Municipality budget performance, year 2004

The City of Riga budget revenues The City of Riga budget revenues consist of the basic budget revenues and the special purpose budget revenues, incl. revenues from donations and endowments to Riga Municipality.

The City of Riga basic budget revenues In accordance with the legislation and the mandatory regulations of the Riga City Council, Riga Municipality performs the administration of the individual income tax, property tax, natural resource tax and the municipality charges, as well as controls the collection of the gambling tax and state tax with a consecutive debiting to the budget of the City of Riga.

Basic budget revenues comprise both tax and non-tax revenues.

Tax revenues:

- personal income tax
- property tax on land, buildings, and premises
- gambling tax

Non-tax revenues:

- revenues from paid services provided by public authorities
- charges for the utilization of municipality capital
- municipality fees
- state tax for legal and other services
- other revenues (fines and assents, sale of property, etc.).

Riga economic growth secures steady increase of the basic budget revenues. Apart from that, Riga City Council gradually improves the administration of taxes. In 2004, Riga City basic budget revenues reached the level of 221.3 million lats, which is 29.2 million lats more compared to 2003.

Revenue composition of the Riga City basic budget (million lats)

	2002 actual	2003 actual	2004 budgeted	2004 actual
Total tax revenues	125.3	142.5	162.8	165.4
Personal income tax	103.2	117.8	134.9	136.7
Property taxes, incl.:	20.9	23.5	26.4	27.0
Property tax on land	8.7	9.6	11.2	11.3
Property tax buildings and premises	12.0	13.7	15.2	15.7
Other tax revenues	1.2	1.3	1.5	1.7
Total non-tax revenues	13.8	13.7	16.0	16.7
Government (municipality) fees	0.8	0.8	0.9	0.9
Revenues from paid services provided by public authorities	11.7	11.7	13.4	14.1
Other non-tax revenues	1.3	1.1	1.8	1.7
Payments received from the state budget	30.2	35.8	39.2	39.2
Earmarked subsidies, incl.:		34.1	36.9	36.9
Earmarked subsidies for investments	0.2	0.9	0.4	0.4
Payments from state budget institutions		1.7	2.3	2.3
Payments from other budgets		0.2	-	-
Total revenues	169.3	192.1	218.0	221.3

Revenue composition of the Riga City basic budget 2004

	million lats	%
Total tax revenues	165.4	74.8
Personal income tax	136.7	61.8
Property taxes	27.0	12.2
Other tax revenues	1.7	0.8
Total non-tax revenues	16.7	7.5
Government (municipality) fees	0.9	0.4
Revenues from paid services provided by public authorities	14.1	6.3
Other non-tax revenues	1.7	0.8
Payments received from the state budget	39.2	17.7
Total revenues	221.3	100.0

The number one source of City of Riga basic budget revenues are the individual income tax payments of Riga inhabitants. In 2004 the proportion of the individual income tax in the City of Riga basic budget formed 61.8%, showing an increase of 18.9 million lats compared to 2003.

The second largest source of the City of Riga basic budget revenues are the property tax payments, forming 12.2% of the basic budget revenues, incl. property tax on land (5.1%) and property tax on buildings and premises (7.1%). The proportion of collected property tax has remained at the same level as in 2003.

In 2004 a total of 14.1 million lats or 6.3% of the City of Riga basic budget revenues came from the charges for services provided by the public authorities and other own revenues.

Earmarked subsidies and payments from the state budget institutions are the state budget resources intended for municipalities to finance special purpose projects. The earmarked subsidies received by the Riga Municipality in 2004 amounted to 36.4 million lats, incl. 36.4 million lats on education (remuneration and social security payments for the staff of elementary schools, high-schools, music academies and art schools, as well as special pre-school educational institutions and boarding schools), 0.1 million lats on culture (remuneration and social security payments for the curators of folk art amateur groups) and 0.4 million lats on investments. Compared to 2003, the total amount of earmarked subsidies has increased by 2.8 million lats. Payments from state budget institutions (Ministry of Education and Science and Ministry of Culture) to municipalities formed 2.3 million lats in 2003. These resources have been utilized on the remuneration and social security payments for the staff of vocational education institutions, music academies, art schools, and cultural education programs.

The City of Riga special purpose budget revenues)

The City of Riga special purpose budget revenues are formed of income not associated with the basic budget, which, in accordance with the rules and regulations of the Republic of Latvia Cabinet of Ministers, must be transferred to municipalities and is intended for the covering of special expenses only.

The City of Riga special purpose budget comprises:

- Riga Municipality Property Privatization Fund;
- Riga Environment Protection Fund;
- Municipality Road (street) Fund;
- earmarked subsidies for regular passenger traffic;
- other revenue.

In 2004 the revenues of the City of Riga special purpose budget constituted 22.2 million lats, incl. 5.1 million lats or 22.9% contributed by the Riga Municipality Property Privatization Fund, 4.8 million lats or 21.6% contributed by the Road (street) Fund, and 8.3 million lats by the Riga City Development Fund. In 2004, revenues from donations and endowments to the Riga Municipality amounted to 0.5 million lats.






Riga Municipality Property Privatization Fund receives financial resources obtained as a result of the privatization of state owned and municipal property located in Riga administrative area. These resources are being utilized as follows:

- support for entrepreneurship;
- establishment, operation, and development of business support infrastructure;
- managerial and legal services for the privatization process of municipal property, as well as expenses related to resource administration of the Property Privatization Fund

Revenue composition of the Riga City special purpose budget (million lats)

	2002 actual	2003 actual	2004 budgeted	2004 actual
Riga Municipality Property Privatization Fund	6.6	4.9	5.1	5.1
Revenue from the privatization of state and municipal property	5.0	3.6	4.3	4.4
Revenue from the privatization of apartments and the valuation of uninhabitable housing resources	1.6	1.2	0.9	0.7
State Road Fund	4.3	5.0	4.7	4.8
Motor vehicle duties and excise tax	3.9	4.4	4.3	4.4
Earmarked subsidies for regular passenger traffic on busses	0.4	0.5	0.5	0.5
Other state budget transfers received	-	0.1		
Natural resources tax	0.3	0.3	0.3	0.3
Revenues defined in the Republic of Latvia law on "Natural resource tax"	0.3	0.3	0.3	0.3
Other revenues	4.1	7.2	10.2	12.0
Riga City Development Fund (revenue from the lease of land, expropriation, and other revenue)	2.6	3.4	6.7	8.3
Revenue from sale of forest resources		2.3	2.1	2.2
Other special budget revenue	1.5	1.5	1.4	1.5
Total Revenues	15.2	17.4	20.3	22.2

Revenue composition of the Riga City special purpose budget 2004

	million lats		%
Riga Municipality Property Privatization Fund	5.1		22.9
State Road Fund	4.8		21.6
Natural resources tax	0.3		1.4
Other revenues	12.0		54.1
Total Revenues	22.2		100

Budget expenditures of the City of Riga) The revenues of the City of Riga basic budget of 2004 and special purpose budget of 2004 as well as the surplus of the previous budgets have been utilized to support the municipal operations and financing of the special purpose activities in compliance with the "Law on Municipalities" of the Republic of Latvia. In the statement, the budget expenditures are reflected according to the classification of government functions or sectors: institutions of the executive authority, education, social security, housing facilities and public utilities, environmental protection, transportation and communications, culture and sports, public order and security, etc.

Budget is the basis of the financial operations and management of the Municipality and serves as a financial means of ensuring the autonomous functioning of the Municipality. Thus, the composition, approval, execution, and control of the municipal budget must be performed by a unified, transparent, effective order, mandatory for every budget executor. Such an order ensures unified principles in the whole process of Riga Municipality budget: preparation and evaluation of budget requests, as well as budget supervision and control. Based on this order, annual methodology for the individual budget processes is being prepared. When composing the City of Riga budget 2004, the evaluation of priorities and budget programs in accordance with unified methodology was performed.

Thereby, the necessary amount of financial resources for ensuring the autonomous functioning of the municipality were identified, as well as the bases for the specification of the results of operations within the frameworks of budget programs have been prepared in line with the aims of these programs.


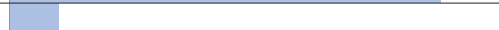











Basic budget expenditures of the City of Riga) Total basic budget expenditures of the City of Riga (incl. financing of investment projects from liabilities) have increased from 200.8 million lats in 2003 to 209.7 million lats in 2004, including financing of investment projects in the amount of 15.2 million lats. In 2004, 24.6 million lats of the basic budget revenues of the City of

Riga (comprising 221.3 million lats) have been diverted as deposits into the municipal cohesion fund. To compare, in 2003 23.1 million lats of the basic budget revenues (192.1 million lats) were diverted. Other resources have been utilized as follows: maintenance of the executive authority institutions, financing of municipal orders, financing of investments, subsidies to municipal enterprises and business entities to ensure the provision of the municipality duties in the areas of public transportation, city transportation infrastructure (illumination), improvement of the territory, etc.

Expenditures composition of the Riga City basic budget (million lats)

	2002 actual	2003 actual	2004 budgeted	2004 actual
Total expenditures by function	174.7	177.7	200.1	185.1
General governmental agencies	17.9	19.3	23	20.3
Public order and security	2.8	3.7	4.4	4.1
Education	81.3	83.5	90.7	88.3
Health care	2.0	0.5	2.5	1.6
Social security	14.6	14.4	17.9	16.5
Housing facilities and public utilities, environmental protection	31.4	22.7	26.5	21.8
Leisure, sports, culture and religion	10.0	13.3	11.5	11
Forestry	1.2			
Transportation, communications	11.0	15.9	17.9	17.3
Other economic operations and agencies	0.1	0.2	0.2	0.2
Other expenses	2.4	4.2	5.5	4
Deposits to municipal cohesion fund	21.0	23.1	24.6	24.6
Total expenditures	195.7	200.8	224.7	209.7

Expenditures composition of the Riga City basic budget in 2004

	million lats		%
Total expenditures by function	185.1		88.3
General governmental agencies	20.3		9.7
Public order and security	4.1		2.0
Education	88.3		42.1
Health care	1.6		0.8
Social security	16.5		7.9
Housing facilities, public utilities, environmental protection	21.8		10.4
Leisure, sports, culture, and religion	11		5.2
Transportation, communications	17.3		8.2
Other economic operations and agencies	0.2		0.1
Other expenses	4		1.9
Deposits to municipal cohesion fund	24.6		11.7
Total expenditures	209.7		100.0

The aim of the City of Riga basic budget is to ensure the financial resources for an autonomous functioning of the Municipality. The ensurance of autonomous functioning of the Riga Municipality has a special meaning, related to the ensurance of national holidays and traditional cultural events, as well as foreign representative state and official visits. Thereby, Riga makes a substantial contribution to the image of the state.

While evaluating programs and setting priorities, the main priorities within the total expenditure structure of the City of Riga basic budget of 2004, were education, housing facilities and public utilities, traffic infrastructure, as well as the social security areas. These priorities form a determinant amount of expenditure also in 2005.

The identification of Riga Municipality investment program priority sectors is related to the ensurance of municipal autonomous functioning.

The major portion of resources is intended and utilized for the housing facilities and public utilities area, the modernization of resource base of educational institutions, adjustment of city infrastructure objects and city environment, ensurance of health care access as well as reconstruction of cultural instiutions.

Priority sectors of the City of Riga basic budget expenditures (million lats)

	2002 actual	2003 actual	2004 budgeted	2004 actual
Education	81.3	83.5	90.7	88.3
Housing facilities and public utilities, environmental protection	31.4	22.7	26.5	21.8
Social security	14.6	14.4	17.9	16.5
Transportation, communications	11.0	15.9	17.9	17.3

The City of Riga special purpose budget expenditures





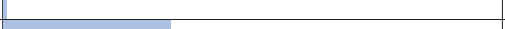

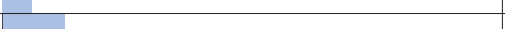



The City of Riga special budget expenditures are directly dependent upon revenues that have been collected in order to finance special purpose programs. In 2004 20.6 million lats of special purpose expenditures have been allocated from the City of Riga budget, showing an increase of 3.2 million lats compared to 2003 (17.4 million lats).

Expenditure composition of the Riga City special purpose budget (million lats)

	2002 actual	2003 actual	2004 budgeted	2004 actual
General governmental agencies	2.45	2.64	4.92	4.32
Public order and security	0.18	0.01	0.06	0.04
Education	3.32	0.60	0.35	0.21
Health care	0.64	0.82	1.37	1.35
Social security	0.30	0.07	0.07	0.05
Housing facilities and public utilities, environmental protection	5.94	6.22	11.90	6.39
Leisure, sports, culture and religion	0.38	0.76	1.27	1.22
Forestry and fishery	0.02	2.03	2.90	2.31
Transportation, communications	4.32	4.22	5.57	4.67
Total expenditures	17.53	17.32	28.41	20.56

The special purpose budget is a part of the budget formed in order to ensure operations vital to both the government and the municipality, by allocating special purpose revenues as the resource of funds as stated in the rules and regulations. Apart from that, special purpose budget comprises also revenues from paid services and other own revenues, foreign financial aid, as well as donations and endowments of all kind.

Expenditure composition of the Riga City special purpose budget in 2004

	million lats		%
General governmental agencies	4.32		21.0
Public order and security	0.04		0.2
Education	0.21		1.0
Health care	1.35		6.6
Social security	0.05		0.2
Housing facilities, public utilities, environmental protection	6.39		31.1
Leisure, sports, culture, and religion	1.22		5.9
Forestry and fishery	2.31		11.2
Transportation, communications	4.67		22.8
Total expenditures	20.56		100.0

In 2004, there were three dominating directions in the special budget expenditures of the City of Riga, classified according to the government function:

- housing facilities and public utilities, environmental protection with 6.4 million lats
- transportation with 4.7 million lats (utilization of motor vehicle duty and excise tax revenues in order to maintain the city roads)
- forestry and fishery with 2.3 million lats.

The major part of the special budget of the City of Riga 2004 comprises:

- Resources of the Riga City Development Fund formed of revenues from non-recurring payments for city infrastructure development, lease of land as well as expropriation of real estate owned by the city (land, buildings, and premises). These resources are utilized on city development projects, rehabilitation and registration of the city rights for real estate ownership in the Land Register as well as development of projects in the areas of culture, education, and sports;
- Tunnel maintenance and operating program: revenues consist of the rent for trade areas located in tunnels. These revenues are utilized to maintain and develop tunnels.
- Fees on transportation in special regime areas: revenues consist of fees on transportation in special regime area of the Old Town. These revenues are allocated to the reconstruction of streets and lighting facilities within the Old City area;
- Road (street) Fund resources comprise revenues from the State Road Fund earmarked subsidies and are utilized on the upkeep and reconstruction of road surfacing as well as overhaul of lighting facilities, etc.;
- Riga Municipality Property Privatization Fund resources are formed of revenues from the privatization of municipal property units and are allocated to the acquisition of medical equipment ("P.Stradiņa kliniskā universitātes slimnīca", Riga Municipality non-profit organization "Ādas un seksuāli transmisīvo slimību klīniskais centrs", Riga Municipality non-profit organization "Rīgas 1.slimnīca", etc.), reconstruction of and construction works in health care, educational, and social aid institutions (construction of gyms, construction of pre-school educational institution "Madariņa", renovation of the facade and the 4th floor of Riga Municipality non-profit organization "Rīgas 2. slimnīca", renovation of social houses and apartments, etc.), the area of culture and arts (reconstruction of Latvia National theater, purchase of two grand pianos for "Rīgas 2. mūzikas skola" and "Pāvila Jurjāna mūzikas skola", purchase of a grand piano for "Bolderājas mūzikas un mākslas skola", as well as traffic infrastructure: planning of

the junction of Brīvības gatve and Juglas street;

- Riga Environment Protection Fund resources comprise revenues from the natural resource tax and are diverted to the financing of projects, programs, and activities related to efficient utilization, research, and regeneration of natural resources;
- Riga municipal agency "Rīgas mežu aģentūra" revenues are generated from the sales of forest resources, and are utilized on the administration and maintenance of forests owned by the City of Riga, as well as education on matters related to forests and their protection.

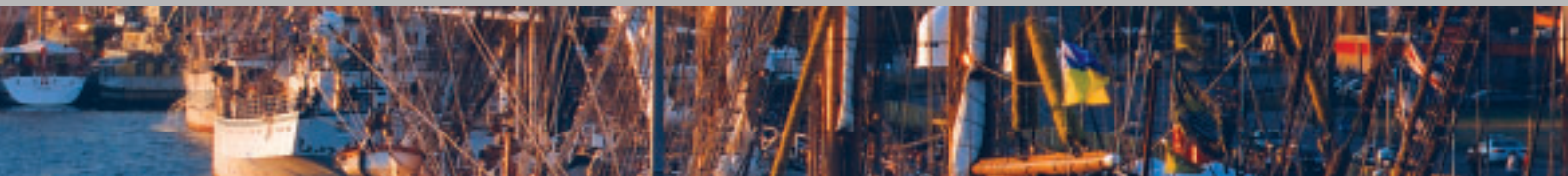
Expenditure of donations and endowments received by the Riga Municipality

In 2004, donations and endowments to Riga Municipality complemented the budget revenues of the City of Riga by 0.5 million lats. These resources comprise revenues from domestic legal entities and individuals (48%) diverted to education and social care, and donations and endowments by the foreign governments (52%), incl. financing for the preservation of Kalnciema street wooden structures, promotion of regional cooperation (Hansa Passage), etc., as well as the endowment by the Federal Republic of Germany to the construction of the monument for genocide (Jewish) victims.

Hence, the majority of donations and endowments received by Riga Municipality are diverted to the financing of educational institutions (amounting to 0.2 million lats). However, financial aid of foreign origin contributes to the development of Riga cultural environment, cooperation within the framework of regional development and the enhancement of the capacity in the acquisition of European Union funds.

Structure of expenditure of donations and endowments received by the Riga Municipality (thousand lats)

	2004 actual	2003 actual	2002 actual
General governmental agencies	141.7	33.4	4.5
Education	238.6	229.3	267.2
Health care	1.4	4.7	-
Social security	10.3	6.3	15.9
Housing facilities and public utilities, environmental protection	11.5	243.8	1 519.5
Leisure, sports, culture and religion	11.7	19.4	13.1
Total expenditures	415.3	536.9	1 820.2



Budget expenditure on the performance of municipality functions

Education In 2004, budget expenditures on education constituted 121 lats on each inhabitant of Riga. In 2004, the proportion of financing allocated to the field of education constituted 42.1% of the City of Riga basic budget expenditures. There is a constant growth in the financing for education in the basic budget. In 2004, basic budget total financing to education and investment projects constituted 88.3 million lats, which is an increase of 4.8 million lats compared to 2003 (83.5 million lats). This increase was diverted as perquisites to the remuneration of the educators in the educational institutions of the City of Riga, the maintenance of the educational institutions and the renovation and construction of the educational premises.

The major part of resources allocated to education have been utilized on financing of general education in primary schools, elementary schools as well as high schools. This financing constituted 537 lats per student annually. In 2004, an increase in this financing reached 0.6 million lats compared to 2002. In 2004, compared to 2003, the financing to pre-school educational institutions grew by 1.2 million lats.

There are 147 educational institutions in Riga:

- 13 primary schools,
- 24 elementary schools, and
- 110 high-schools.

The total of 90025 students study and 8380 teachers are employed by these institutions.

In the recent years, apart from the maintenance of infrastructure in the general education institutions and the improvement of the educational environment, the significance of the safety factor of students has intensified. In 2004, at the desire of parents and educators and in cooperation with Riga Municipal Police, continuous patrols have been ensured at 31 educational institutions. In 2004, regular student bus service was arranged from Ziepniekkalns to the downtown.

The financing of pre-school educational institutions amounted to 17.6 million lats, forming 796 lats per student.

There are 148 pre-school educational institutions in Riga, educating 22076 students and employing 2773 teachers.

One of the priorities within the area of education in 2004 has been the diminishing of queue in the municipal pre-school educational institutions. In the recent years despite the decreasing number of preschoolers the demand for kindergartens has been growing as a result of socioeconomic impact. In 2004, the action plan for diminishing the queues in municipal preschool educational instances was developed and confirmed. The number of preschoolers in 2004 grew by 1036 children.

To ensure the mastering Latvian language basics within the preschool educational institutions of ethnical minorities, a teaching plan for the Latvian language basics was developed.

The out of school education and extracurricular activities organized and supported by the Riga Municipality plays an important role in the improvement of educational and cultural level of the young Rigans.

In 2004, 2 million lats were allocated from the municipal budget for the financing of children's music and sports schools and 10.9 million lats for the funding of other out of school educational arrangements.

There are 17 out of school educational instances and 15 sports schools in Riga, educating a total of 34592 students and providing employment for 945 educators. In total, 78 thousand children and youth were involved in diverse out of school educational activities in 2004.

In 2004, 143 out of school educational activities with the total value of 71 thousand lats and 404 camps with 25 thousand participants were financed from the municipal budget. The support for camps constituted to more than 150 thousand lats.

In 2004, the awarding of "The Golden Scholarship" and "The Golden Pen" was continued. Scholarships were awarded to 18 most diligent Rigans, whereas "The Golden Pen" was attributed to 15 winners. In 2004, 6 preschoolers' sports and folklore festivals and the conference "Children's Safety – Our Future" were organized with the helping hand of Riga City Council. Apart from that, the conference of the managers of European capitals' education centers "The Quality of Education in the European Capitals" was held in Riga, welcoming representatives from 18 countries.

There is also an ongoing process of renovation of the educational premises in Riga. Given the technical condition of buildings, depreciation of the communications, as well as the need to improve the network of the educational institutions, Riga Municipality performs the reconstruction of the educational premises within the borders of the City.

In 2004 the investments on education amounted to 2.9 million lats.

The main areas of investment, incl. major projects (both new and those commenced earlier):

- accomplished renovation and reconstruction of educational institutions, incl. renovation of pre-educational institution on 10A Valentina Street, reconstruction of the roof and the construction of the attic of Riga K.Videnieks Secondary School No.77, renovation of Teika Secondary School
- designing and examination of Riga Boarding School for the Deaf in Jugla, purchase of furniture and reconstruction of Riga Ita Kozakēviča Polish Secondary School, reconstruction of the swimming pool of Riga Secondary School No.72 on 6 Ikšķiles street;
- accomplished the construction of Riga Secondary School No.49 sports center;
- commenced the reconstruction of Riga City Boarding School No.1 (teaching block and boarding house), the first stage of Riga Secondary School No.33 reconstruction, construction works in preschool educational institution "Madariņa" and the renovation of Ukrainian Secondary School premises;
- installed the data transmission and internet connection in Riga schools;
- continued the replacement of windows and doors in Riga educational institutions;
- performed the replacement of sewerage systems in 4 Riga pre-school educational institutions;
- performed repairs of school gyms (replacement of flooring, repairs of locker-rooms and showers, replacement of lighting systems, acquisition of inventory), constructed substandard sports grounds, equipped standard sports halls, etc.;

Expenditure allocated to education (thousand lats)

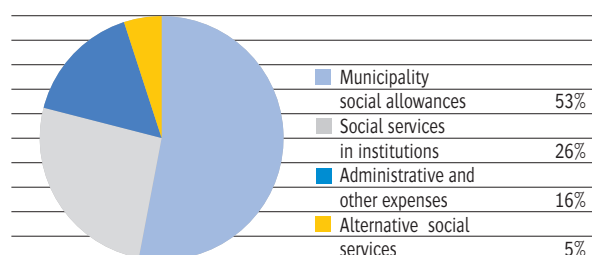
	2002 actual	2003 actual	2004 budgeted	2004 actual
Administration and management of educational institutions	562.5	1 266.2	1 434.4	1 391.6
Pre-school educational institutions	13 497.6	16 358.0	17 836.6	17 569.2
Special pre-school educational institutions	1 403.3	1 686.1	1 826.8	1 813.3
Primary schools, elementary schools and high schools	50 390.7	47 715.1	49 507.6	48 314.0
Boarding schools and sanatorium-boardings schools	1 172.7	1 271.5	1 354.5	1 230.2
Special boarding schools	2 774.7	3 103.2	3 509.6	3 480.5
Improvement of voluntary education		198.5	255.3	220.3
Children's music and art schools	1 562.8	1 811.3	2 065.8	2 007.1
Other voluntary education	8 986.6	9 493.9	11 559.1	10 929.1
Auxiliary services for educational institutions	613.4	-	-	-
Purchase of educational text-books	229.3	229.9	603.3	601.8
Methodological work and other educational activities	115.8	-	756.3	712.4
Basic budget expenditure, incl.	81 309.4	83 449.1	90 709.2	88 269.4
Investments	13 008.5	7 692.5	3 910.5	2 898.1
Special purpose budget expenditure	3 315.9	600.4	357.9	214.0
Total	84 625.3	85 167.9	91 067.1	88 483.4

Social security In 2004, Riga Municipality utilized 16.6 million lats on matters related to social security, including investments amounting to 0.5 million lats. These resources came from the basic budget, the special purpose. Total resources spent on social security in 2004 formed 7.9% of the total expenditures of the basic budget in line with the functional categories.

The financing in this area, which formed 10 lats per Rigan in 1999, had increased to 22 lats in 2004.

In 2004, Riga Municipality intensely continued to solve problems of the population of moderate needs: benefits were increased as well as their type was diversified to adjust for the specific needs. The broadening of social aid infrastructure was continued to ensure the aid closer to the place of residence. More resources were diverted to old people's homes and homes for the disabled. Municipality allowances, compensations and the social aid amounted to 8.4 million lats, which is 4.2% of the basic budget total expenditure.

Structure of resources allocated to the social aid in 2004



In 2004, the quality and amount of social aid and social services as well as its accessibility to diverse population groups has increased in Riga Municipality.

One of the main problems with the disabled people's integration in the society is an unadjusted environment. In 2004, Riga City Council allocated financing for the installment of 18 lifting mechanisms in residential houses in the total value of 38.9 thousand lats.

In order to solve the problem of homeless people, in 2004 lodging-house services were provided to 1716 people.

To improve the housing conditions of the population of moderate needs, Riga City Council broadened the possibilities for the population of moderate needs to occupy social houses, where a total of 1058 residents lived at the end of the year, and 166 people resided in social apartments.

As a result of an increasing proportion of elderly people in Riga, the demand for long-term social care and rehabilitation services is rising. In 2004, 360 retirees and people with the first and second degree of disability were admitted to social care instances. In 2004, 1125 places were funded from the municipality budget.

At the moment, there are seven daily centers in Riga for people with mental illnesses. In 2004, these centers were attended by 225 persons.

In total, 2842 people were in need of care services at home in 2004. 1597 persons rendered gratis care services at home. The material support to family members ensuring person's social care was granted to 1245 people in the total value of LVL 93984.

Riga Social Agency Support units co-operated with 1935 families, which is by 336 more compared to the previous year. It can be explained by the growing level of social problems in the society as well as the recognition of a social worker as a professional.

In 2004, Riga Municipality rendered services in long-term social care and social rehabilitation instances to 845 children as well as in temporary social care and social rehabilitation institutions to 144 children.

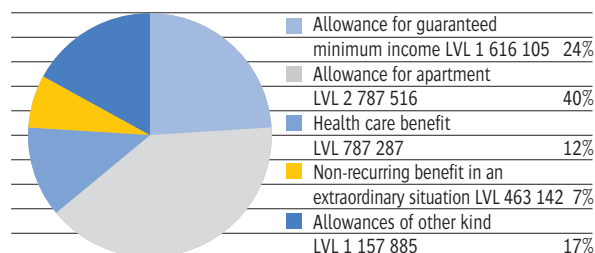
Social aid In 2004, the social benefits system was simplified in Riga; the minimum income level of retirees, disabled and children was considerably increased.

For some population groups in Riga, the minimum guaranteed income level has been set higher than that elsewhere in the country. If the state's minimum has been set to 18 lats, then Rigans, depending on the specific situation, may receive more than twice as much, reaching 39 lats.

Municipal social benefits were allocated to 42772 families in 2004, incl. 10931 families with children. In 2004, LVL 6811934 were allocated

to 75635 inhabitants in the form of social benefits from the City of Riga budget program "Social aid to the population of moderate needs".

Social care allowance structure in 2004 (LVL, in %)



Changes in rules and regulations as well as the organization of social agencies' work resulting from the implementation of social care administration system (SOPA) constituted to significant changes in the customer base and their numeric amount. The number of customers declined significantly as the data provided by SOPA allowed for a more objective evaluation of benefit claimers' financial and material state.

The system of material assistance in 2004

Group	Indication	Persons	Benefit	Number of customers	Allocated resources, LVL
Social aid	By evaluating the income and the financial state	All persons in the household	Benefit for ensuring the minimum guaranteed income level (either in cash or disbursed catering)	260 206	1 616 105
			Apartment benefit (rent, public utilities, firewood, coverage of the arrears of rent)	45 525	2 787 516
		Person receiving the benefit directly	Health care benefit (policy, medicine, other)	19 056	787 287
Non-recurring benefits in extraordinary situations	Income and the financial state is not evaluated	Household/person	In the case of natural disaster	241	10 625
		Person undertaken the burial	For the burial	644	68 230
		Household/person	Other (for the solution of a certain situation)	13 316	384 188
Other benefits	For certain groups of population, not evaluating income	Person receiving the benefit directly	For foster families	8	5 122
			For committees	175	86 574
			For trustees	385	82 015
			For the care of newborn	7 044	704 400
			For the politically retaliated	5047	151 770
			For the population of moderate needs during the Christmas of 2004	42 039	948 762
			Other (for foster families and committees for the purchase of soft inventory, etc.)		52 329
Alternative social care and social rehabilitation services			Services paid by the Social Agency Department of Services	16 109	807 921
Total					8 492 844

In 2004, the new benefits system has given an opportunity for the deprived to receive higher material assistance: in average, 61.67 lats as the allowance for the minimum guaranteed income and 61.23 lats as the apartment benefit for one person in a household, which considerably exceeds the amounts paid in the previous years. In total, 4.4 million lats have been allocated to these benefits from the municipal budget in 2004.

The major investment projects:

- performed repair and reconstruction works in children's and old people's homes: In Riga Municipality orphanage "Imanta", Riga Municipality orphanage-home "Apīte", Social care center "Stella Maris", Riga social care center "Mežciems". The works have commenced in Riga Municipality orphanages "Vita" and "Ziemeļi",

Latgale suburbs center "Rūpju bērns", Social care center "Gaiļezers", etc.

- reconstructed apartment-building on 6 Biešu Street with the construction of group apartments for youth with mental illnesses;
- performed renovation of social home on 35k-3 Aglonas Street;
- repairs in group apartment house on 6 Putnu Street, where a laundry room has been constructed, too;
- commenced renovation and repairs in several municipal crisis centers, incl. Family crisis center "Milgrāvis", crisis center for street children on Marsa Avenue, etc.;
- performed repairs in the premises of Riga Vidzeme Suburb Social Assistance Agency's borough centers and constructed a lift for the disabled on 33-32 Nicgales Street;
- constructed 8 ramps for the disabled at residential houses.

Expenditure allocated to social security (thousand lats)

	2002 actual	2003 actual	2004 budgeted	2004 actual
Municipality allowances, compensations, and social assistance	7 457.1	7 491.9	9 289.8	8 441.8
Children's care centers	2 881.4	2 021.6	2 516.3	2 302.6
Old people's homes	1 774.7	2 012.2	2 135.8	2 088.5
Homes for the disabled	-	-	2.4	2.4
Other institutions of social care	384.0	451.4	845.3	826.4
Agencies of social care, etc.	1 537.9	1 763.5	1 927.5	1 777.4
Other institutions for social care and related services, etc.	150.6	148.5	431.5	404
Custody court and parish courts	139.3	165.6	318.3	286.8
Financial management	296.4	351.6	386.7	384.5
Basic budget expenditure, incl.	14 621.4	14 406.2	17 853.6	16 514.3
Investments	1 706.4	560.2	961.9	610.9
Special purpose budget expenditure	299.5	7.5	68.7	54.5
Total	14 920.9	14 413.7	17 922.3	16 568.8

Health care Riga Municipality has been allocating considerable financial resources to the improvement of the health care system. In 2004 the total amount of health care program financing coming from the basic budget, the special purposes budget as well as investment resources amounted to 3 million lats. Riga Municipality invests in the financing of health care system in order to ensure the accessibility of health care services to the population of Riga in accordance with the autonomous functions defined by law "On Municipalities".

The major investment projects:

- in Riga Municipality non-profit LLC "Rīgas 1. slimnīca" installed the hospital's unified computer network, performed repairs in the department of pathologies with the histomorphologic laboratory and commenced repairs of the centralized oxygen supply system;
- commenced repair and reconstruction works in Riga non-profit LLC

"Klīniskā slimnīca ""Gaiļezers"" as well as construction of a helipad (Riga Municipality provides co-financing);

- accomplished the construction of an automatic fire-alarm system in Riga Municipality LLC "Ilģuciema poliklīnika";
- accomplished the reconstruction of the ventilation system in Riga Municipality non-profit LLC "PVAC "Ziepniekkalns"";
- purchased medical equipment for Riga health care instances: Riga Municipality non-profit LLC "Klīniskā slimnīca "Gaiļezers"" (intraoperational ultrasonic device, laparoscopic ultrasonic device and other equipment), Riga Municipality non-profit LLC "PVAC "Ziepniekkalns"" (x-ray device and a specially equipped room), Riga Municipality non-profit LLC "Bolderājas poliklīnika"" (digital ultrasonic device with a color deplerography for the test of adults and children), Riga Emergency Station (17 computers with

- LCD monitors, securing the connection of such radio-stations in Latvia, etc.), Riga Municipality non-profit LLC "Rīgas 2. slimnīca" (equipment for the central sterilization department, surgical x-ray device – arcoscope), Riga Municipality non-profit LLC "Veselības

namu 5" (ultrasonic device), Riga Municipality non-profit LLC "Veselības centrs "Imanta"" (hematological analyzer) as well as LLC "Rīgas Hematoloģijas centrs" (three microscopes).

Expenditure allocated to health care (thousand lats)

	2002 actual	2003 actual	2004 budgeted	2004 actual
Hospitals	1 216.2	104.4	1 541.4	883.1
Outpatient treatment institutions	162.5	183.4	618.0	493.2
Financial management	612.0	227.1	293.3	270.8
Basic budget expenditure, incl.	1 990.7	515.0	2 452.7	1 647.1
Investments	1 270.1	123.8	1 855.4	1 108.8
Special purpose budget expenditure	642.7	825.9	1 372.3	1 350.3
Total	2 633.4	1 340.9	3 825	2 997.5

Housing facilities, public utilities, and environmental protection

› In 2004 28.2 million lats or 10.4% of the City of Riga basic budget expenditures and 31.1% of the special purpose budget resources were allocated to housing facilities and public utilities sectors.

In 2004, these resources were utilized mainly on the implementation of the City of Riga housing program, the maintenance and renovation of bridges, streets, roads, pedestrian tunnels and lighting systems, upkeep of cemeteries. Resources were allocated also to Riga Municipality non-profit LLC "Rīgas Nacionālais zooloģiskais dārzs" and Riga Municipality non-profit enterprise "Rīgas dārzi un parki" as well as on the maintenance of City gardens, parks, squares, fountains and the renovation of street greenery.

The major investment projects:

Housing facilities and public utilities:

- Renovation of the residential house on 44/50 Lubānas Street (incl. the construction of apartments for disabled people);
- Construction of the residential house on 22B Gobas Street, incl. installation of an elevator;
- Planning and construction of individual heat supply systems as a result of the solid fuel steam shop abolition in the institutions of school-board and social care (40 facilities);
- Repairs of Riga housing fund roofing;
- Commencement of Riga cemeteries development program: planning of cemetery infrastructure elements (Ulbroka Cemetery walks), reconstruction of power supply system in the administration building of I Meža Cemetery, repairs of cemetery administration buildings and bell-towers (repairs of I Meža Cemetery bell tower, repairs of Sarkandaugava, Lāčupe, and Ziepniekkalns Cemeteries' administration buildings, repairs of the roofing of Cemetery Authority's building on

1A Aizsaules Street), as well as other cemetery improvement and management works (repairs of II Meža and Jaunciema cemeteries' fence, asphalt-paving in I Meža Cemetery, examiner's reports on J.Čakste and J.Rainis monuments, repairs of Matīsa Cemetery commemorative wall, lay out of new burial places sector in I Meža Cemetery, repairs of Jaunciems Cemetery walks, etc.);

- Digital land survey of Riga cemeteries;

Traffic infrastructure:

- Preplanning of Eastern trunk-road;
- Commencement of Dreilīņi community street network construction, reconstruction, and renovation;
- Construction of the solid road surfacing on the streets, inner blocks, and territories;
- Commencement of Kalupes Street reconstruction (installation of traffic signs, road safety audit, installation of pedestrian barriers and speed limiters, etc.);
- Commencement of Southern Bridge route planning and construction;
- Street lighting projection, construction, and reconstruction as well as construction of road traffic control equipment (traffic lights);
- Reconstruction of street lighting (Raunas and Burtņieku Streets) and construction or reconstruction of lighting systems (Mazā Juglas and Ropažu Streets);

Environmental protection:

- Development of "Rīgas dārzi un parki" reconstruction project;
- Accomplished the reconstruction of Dzegužkalns park (improvement of territory, greenery, road surfacing, sewerage and water supply systems, and fence);
- Commencement of construction (renovation) of the main draining-ditches in Jūrmala Avenue area;
- Commencement of solid waste dump planning.

Expenditure allocated to public utilities and environmental protection (thousand lats)

	2002 actual	2003 actual	2004 budgeted	2004 actual
Housing facilities and public utilities	1 663.1	1 698.2	2 071.4	1 976.0
Sanitary activities, incl. arrangements for environmental protection	2 148.6	48.9	-	511.1
Street lighting	2 663.9	2 671.0	2 704.6	2 532.0
Other expenditures related to public utilities and environmental protection	24 922.0	18 255.8	21 742.4	16 734.6
Basic budget expenditure, incl.	31 397.6	22 673.9	26 518.4	21 753.6
Investments	17 297.3	10 531.2	9 122.3	4 692.6
Special purpose budget expenditure	5 942.9	6 222.3	11 895.7	6 387.0
Total	37 340.5	28 896.3	38 414.1	28 140.6

Culture and Sports In 2004, Riga Municipality utilized 12.1 million lats on the financing of cultural and sports events as well as investments in this field. This spending formed 5.2% and 5.9% of the basic budget and special purpose budget expenditures respectively. The financing was utilized on the support of annual City events in accordance with Riga Cultural Policy conception, and funding of the operation of cultural instances: Riga libraries, cultural centers and houses as well as remuneration of curators of folk arts and amateur arts groups.

In 2004, Riga music academies and arts schools comprised a total of 3300 students and 419 folk arts groups, incl. 81 children arts groups with a total of 13468 participants. The most significant cultural event organized by Riga City Council in 2004 was the international festival "Europead 2004". Apart from that, the support was provided also for the organization of the international forum "Arsenal" and the support program of Latvijas Dailes Theater.

In accordance with the execution of Riga cultural policy conception program, tenders for the cultural project financing were organized in 2004. A total of 427 projects were submitted, whereof 170 were supported in the total value of LVL 210740, incl. 15 visual arts, 43 music and dance, 9 theatrics, 29 film arts, 14 multimedia, 23 publishing and literature, 2 environmental, 2 traditional culture, 6 international, 14 interdisciplinary, and 13 music projects.

In 2004, 656 projects were submitted and 545 projects supported within the frameworks of Riga City Council Culture Directorate event financing tender. The total value of financing constituted to LVL 151 969.

In 2004, 307 competitions and events within 47 sports disciplines were organized in Riga.

In order to foster the growth in international experience and popularize sports and a healthy life-style, the most significant international competitions of 2004 were: Riga International Cycle Race, Riga City Council Cup in Standard-dancing, competition in calisthenics "Baltic Circle" as well as boxing tournament in the memory of A.Knišs.

In 2004, Latvia First Summer Olympiad took place, where almost 400 sportsmen represented Riga within 23 disciplines and winning 123 golden awards. Riga Students' Sports Games (Students from grades 4 to 9) welcomed more than 300 participants in 9 sports disciplines. The execution of Riga Municipality youth hockey development conception and program as well as operation of hockey groups has been continued in 2004.

The major investment projects:

- Renovation and reconstruction works of Latvia National Theater (acquisition and installation of equipment, reconstruction of the historical rooms);
- Repairs of the hall and balcony flooring in the movie-theater "Riga", acquisition of audience seats, installation of a sound system;
- Construction of an elevator for the disabled in Riga Congress Hall (at the main entrance to the first floor lobby and from the main entrance to the café);
- Reconstruction of the sports center "Arkādija";
- Computerization of Riga libraries;
- Preparation of Riga development plan 2006-2020 and Riga historical center preservation and development project.

Expenditure allocated to culture and sports (thousand lats)*

	2002 actual	2003 actual	2004 budgeted	2004 actual
Administration and management of sports and culture related matters	207.6	208.5	229.2	215.6
Sports events	379.2	508.5	1 418.3	1 417.2
Other sports institutions	2 130.9	3 388.7*	165.0	145.5
Libraries	1 465.3	1 566.6	1 759.7	1 735.5
Museums and exhibitions	-	46.4	86.2	57.9
Culture palaces, houses, and clubs	849.7	1 051.6	1 404.7	1 242.0
Activities related to theaters and concerts	887.6	3 432.3	3 435.1	3 432.6
Cultural events and acquisition of art objects	662.8	767.6	1 483.8	1 292.7
Remuneration and social security payments for curators of folk arts amateur groups	533.2	561.0	655.3	654.9
Other cultural institutions, not classified above	2 531.8	959.0	666.1	537.3
Financial and other administrative management, auxiliary services	52.7	-	-	-
Other events related to leisure, sports, culture and religion, not classified above	274.0	853.1	217.0	189.6
Basic budget expenditure, incl.	9 974.9	13 343.2	11 520.1	10 920.5
Investments	4 600.1	6 421.8	3 782	3 724.9
Special purpose budget expenditure	376.4	767.6	1 265.9	1 215.2
Total	10 351.3	14 110.8	12 786.0	12 135.7

* Starting 2004, new methodology for cost accounting of the sports sector has been applied, as well as investment projects were completed in 2003.

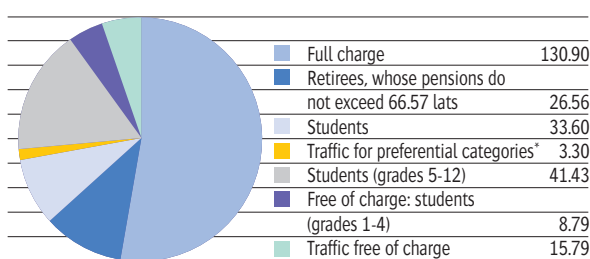
Transportation and communications) One of the main municipal autonomous functions of Riga as a capital is the organization of the public transportation services, used both by Riga inhabitants and guests. In 2004, Riga Municipality allocated 22 million lats to the provision of the public transportation services, which forms 8.2% and 22.8% of basic and special purpose budget expenditures respectively.

In order to provide Rigans and City guests with effective and modern public transportation services, an optimization of Riga Public Transportation system has been performed: Riga Municipality non-profit LLC "Tramvaju un trolejbusu pārvalde" was incorporated into LLC "Rigas Satiksme". One of the main advantages of this merger is expected to be the introduction of a unified public transportation monthly ticket.

In 2004, Riga public transportation carried 259.36 million passengers, which is an increase of 1.4% compared to 2003.

In 2004, only 50.5% of Riga public transportation traffic was paid in full, the remaining portion has been subsidized from the City budget. On a daily basis, more than 351 passages have been subsidized from the municipal budget. Thus, one passage a day for almost a half of Riga City inhabitants.

Passenger traffic in Riga public transportation (million passengers)



* Politically retaliated people, Chernobyl nuclear power plant accident victims, disabled in sight and hearing of the 3 degree.

The major investments:

- Acquisition of new trolley-buses for Riga Municipality LLC "Rigas Tramvaju un trolejbusu pārvalde";
- LLC "Rigas Satiksme": acquisition of new busses equipped with the GPS system for the transportation of passengers, construction of gas station and point of entry and exit on 28 Kleistu Street as well as reconstruction of repair boxes, etc.;
- Acquisition of spare parts for the bus fleets.

Expenditure allocated to transportation and communications (thousand lats)

	2002 actual	2003 actual	2004 budgeted	2004 actual
Motor vehicles	7 930.3	12 698.0	13 060.3	13 060.3
Water transport	331.8	-	-	-
Other services related to transportation and communications	2 761.6	3 205.7	4 850.2	4 240.2
Basic budget expenditure, incl.	11 023.7	15 903.8	17 910.5	17 300.5
Investments	4 974.2	4 252.4	1 275.6	1 275.6
Special purpose budget expenditure	4 317.9	4 222.5	5 569.2	4 673.2
Total	15 341.6	20 126.3	23 479.7	21 973.7

Public order and security In 2004 Riga Municipality allocated 4.2 million lats to the public order and security related matters and activities from the basic budget, special purpose budget, and investment resources. In 2004, 2.0% of the basic budget expenditures were allocated on these matters.

Riga as the capital of Latvia must be able to ensure public order and security level correspondent to up-to-date requirements. Therefore, Riga Municipality expenditures in this area are subordinated to the achievement of this goal. Riga Municipality proceeds with the improvement of security measures within the city environment in order for the inhabitants and City guests to have a good time every day and during events of an international character. In 2004, the public order was secured during 451 public event in Riga. To ensure public order and security in the city, 948 swoops were carried out, 12241 administrative reports were drawn, and 82805 violations of road traffic regulations were recorded. Significant attention has been

drawn to youth and students' education in the area of public order and security. In 2004, 536 educational arrangements were organized in Riga schools. Lectures on rendering of first aid in the water and safety measures at swimming resorts have been held in 84 Riga schools.

Lately, the City of Riga has come to the front with diverse events of an international character, attracting an increasing amount of tourists and providing the population of Riga and the whole Latvia with new opportunities for leisure activities within the city environment. To ensure public order and security during the arrangements of this kind, Riga Fund for Public Order has been established.

The major investments:

- Reconstruction of the building on 17 Viestura Avenue with the purpose of establishing the Directorate of the Northern District of Riga Municipal Police;
- Acquisition of furniture for Riga Municipal Police.

Expenditure allocated to public order and security (thousand lats)

	2002 actual	2003 actual	2004 budgeted	2004 actual
Public order and security matters, unclassified earlier (Municipal Police)	2 766.1	3 646.7	4 383	4 135.9
Other services related to public order and security, unclassified earlier	-	0.4	2	2.0
Basic budget expenditure, incl.	2 766.1	3 647.1	4 385	4 137.9
Investments	8.9	333.5	142	119.7
Special purpose budget expenditure	175.6	1.2	64	36.1
Total	2 941.7	3 648.3	4 449	4 174.0

City property disposition

32

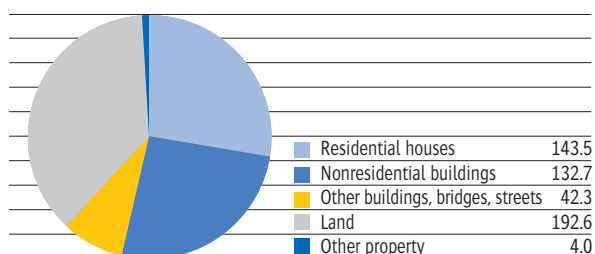
Property book value › At the end of 2004, the book value of the City of Riga land, buildings, premises, and perennial plantation formed a total of 542.6 million lats, share value of associated and related enterprises constituted 163.6 million lats.

The total value of City assets, including other long-term investment categories at the end of 2004 formed 743.6 million lats, showing an annual increase of 10%.

The major part of the book value of Riga property (land, buildings, premises, and perennial plantation) is formed by the value of land and residential houses as well as nonresidential buildings. During 2004, as a result of the privatization of housing fund, the book value of residential houses in the City balance sheet has declined by 12%, whereas the value of nonresidential buildings and land has increased by 16% and 11% respectively.

It is predicted that during the coming years the book value of residential housing in the City balance sheet will continue to decrease, as currently it still comprises buildings undergoing the "expedited" privatization process, where the decision on the commencement of privatization has not been made yet. Upon the completion of the privatization process, these buildings will be eliminated from the City balance sheet.

Riga property (land, buildings, premises, and perennial plantation) book value as at December 31, 2004 (million lats)



Land › According to the data of State Land Service, at the end of 2004, 18084 ha of land was owned by different owners within the territory of the City of Riga.

There are 8270 ha of land in Riga Municipality ownership, forming 46% of the total area of Riga.

The highest proportion of Riga Municipality land comprises land under

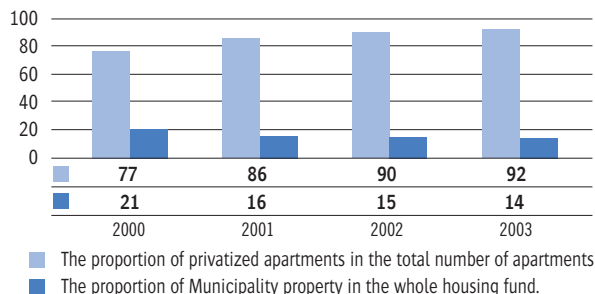
public property objects: 3460 ha (42% of the total Municipality land) as well as 2931 ha of forest space (35% of the total area).

Riga Municipality land property by type of utilization (in ha)

Public property objects	3 460
Forestry	2 931
Apartment houses	688
Industrial objects	369
Single and double family residential houses	329
Commercial buildings	310
Traffic infrastructure objects	89
Port infrastructure	46
Engineering communications	26
Water handling facilities	20
Agriculture	3

Residential buildings › Since the end of the 90-ties, a rapid privatization process of residential buildings has been taking place, resulting in a diminishing amount of the housing fund owned by Riga Municipality.

Apartment privatization in Riga



Currently, all buildings undergoing the "expedited" privatization process as well as the majority of apartment buildings undergoing planned privatization are still reflected in the accounts of Riga Municipality balance sheet. Thus, a part of privatized apartments are still accounted for as the property of the Municipality. Upon the completion of privatization these buildings will be eliminated from the Riga City Council balance sheet.



Share in municipal enterprise equity capital) The share in the equity capital of associated and related enterprises (163.6 million lats) forms a significant part of Riga Municipality assets, which formed 21% of the total value of Municipality assets as at the end of 2004.

Riga Municipality has invested capital into municipal enterprises performing its functions in diverse areas: public transportation, city water supply, and heat supply.

At the end of 2004 Riga City Council's balance sheet reflected 46 investments into the equity capital of enterprises with 100% (share) ownership by Riga Municipality, 7 investments into the statutory capital of Municipal enterprises to be liquidated, 4 investments into the equity capital of municipality limited companies to be liquidated as well as investments into the equity capital of four limited companies with the control by Riga Municipality.

As at the end of 2004, the revaluation value (by equity method and principle of precaution) of Riga City Council long-term investments in the equity capital of related enterprises constituted 138.9 million lats, which is by 50.2 million lats more than at the end of 2003.

This increase can be explained mainly by the incorporation of Riga Municipality share in the provisions for long-term investments of related enterprises as at December 31, 2003 into own capital's position "Provision for long-term investment revaluation" in 2004 in the total amount of 35.7 million lats as well as incorporation of Riga Municipality share of retained earnings of related enterprises assigned to by the results of the basic budget execution in the previous years in the total amount of 20.7 million lats.

As at the end of 2004, Riga City Council's balance sheet reflects investments into the equity share capital of 8 associated enterprises with a total value of 24.7 million lats. 98.5% of this amount is formed by the investment into JSC "Rīgas siltums".

Privatization In 2004, the privatization of Riga Municipality property was sustained. 227 proposals for privatization were received, including proposals for the privatization of 153 lots and 74 buildings supplemented by land.

In 2004, Riga City Council passed 85 resolutions on the privatization of the municipal property. In 2004, 68 purchase contracts on 56

municipal property objects with a total value of 3271 million lats were signed, whereof 46.5% to be paid in cash.

The privatization process can be completed by the resolution of the Riga City Council. In 2004, Riga City Council passed 93 resolutions on the completion of privatization.

Disposition of privatization on 2004

Type of activity	Privatization commenced	Purchase agreements signed	Privatization completed
Objects in total, incl.	85	56	93
buildings with land	37	13	25
buildings	-	2	11
separate built-up lots	41	39	52
vacant lots	6	1	3
municipal enterprises	1	1	-
equity share capital owned by the Municipality	-	-	2

Nowadays, Riga is a dynamic and modern city. Its countless beautiful buildings with glazed facades serve as an evidence for a completely new construction quality and the successful economic development of the City.





1. We have audited the aggregated financial statements of Riga City Council for the year ended 31 December 2004, from which the summarised financial statements set out on pages 38 to 47 were derived, in accordance with International Standards on Auditing issued by the International Federation of Accountants. In our report dated 20 April 2005 we expressed an opinion that the aggregated financial statements from which the summarized financial statements were derived gave a true and fair view of the financial position of Riga City Council as at 31 December 2004, results of its operations and cash flows for the year then ended in accordance with the Cabinet of Ministers Regulations No 999 "Preparation of annual financial statements of the State budget institutions and municipal budget institutions" dated 30 November 2004 and the specific accounting policies as disclosed in the notes to these financial statements, except for the effect of such adjustments to the current year and corresponding figures, if any, as might have been determined to be necessary had we been able to quantify the effect of the limitations of the audit scope referred to in paragraphs 2 and 3, and except for the effect of the matters described in paragraphs 4 and 5.

2. The Property department of Riga City Council continues to perform inventory of real estate and the registration of ownership rights in the Land Book. As a result of this process adjustments to the carrying value of the real estate are made and property rights confirmed for the properties where owners were not clearly defined. This process was only partly completed with respect to the buildings belonging to Riga municipality and the land plots situated within the administrative borders of Riga City. Therefore it is likely that the carrying value of real estate as at 31 December 2004 will be further adjusted in subsequent periods. We were not able to determine the number or estimated amount of corrections, which would be related to the real estate as at 31 December 2004. These circumstances were present also as at 31 December 2003 and in prior years, therefore our audit opinions on the aggregated financial statements of the Riga City Council for the years ended 31 December 2003, 31 December 2002 and 31 December 2001 were qualified in this respect.

3. No unified methodology for valuation of street infrastructure items has been developed for Riga City. Riga City's street infrastructure is the responsibility of Riga City Council. However, prior to 2000 these assets had not been included in the books of Riga City Council. Included in the balance sheet item "Land, buildings, constructions, perennials" as at 31 December 2004 are capitalised street reconstruction costs in the amount of Ls 41.5 million (as at 31 December 2003 – Ls 38.5 million). Depreciation of such assets commenced only in 2004, as amendments to the Republic of Latvia Cabinet of Ministers regulations No 96 "On fixed assets depreciation rates and application for budget institutions" which came into force on 1 January 2004, stipulated that 10% depreciation per annum should be charged to streets, motor ways and street infrastructure. Due to the lack of policies we were not able to ascertain if those capitalised street infrastructure costs had been appropriately accounted as at 31 December 2004 and 31 December 2003 as well as we were not able to ascertain what would be the carrying amount of those assets as at 31 December 2004 and 31 December 2003 if the depreciation charge was applied from the moment when those assets were put into use. Our audit opinions on the aggregated financial statements of Riga City Council for the years ended 31 December 2003, 31 December 2002 and 31 December 2001 were qualified due to limitation of audit scope as described above.

4. As at 31 December 2004 included in the balance sheet of the Riga City Council as residential buildings are also apartments privatized within accelerated privatization process with the carrying value of approximately Ls 86.8 million. In our opinion, these apartments cannot be regarded as a property of Riga municipality. If those apartments privatized within accelerated privatization process would be excluded from the balance sheet of Riga City Council, then the carrying value of the residential buildings and the equity as at 31 December 2004 would be by Ls 86.8 million lower. Such circumstances existed already on 31 December 2001, however the carrying value of the apartments privatised within accelerated privatization process was not known until 2004. Our audit opinions on the aggregated financial statements

of Riga City Council for the years ended 31 December 2003, 31 December 2002 and 31 December 2001 were qualified due to limitation of audit scope as described above.

5. In 2003 written off as unrecoverable were debts in the total amount of Ls 1.1 million and additional provisions were made for doubtful debts in the amount of Ls 5.2 million. In our opinion, these costs in the amount of Ls 6.3 million had to be recognised already in prior periods. For this reason our audit opinions on the financial statements were qualified for the years ended 31 December 2001, 31 December 2002 and 31 December 2003. If a provision against all bad and doubtful debtors had been made in the balance sheet when doubt over their recoverability arose then the accumulated result as at 31 December 2002 would have been lower by Ls 6.3 million and the result of operations for 2003 would have been by Ls 6.3 million higher.

6. In our opinion, the accompanying summarized financial statements are consistent, in all material respects, with the financial statements from which they were derived and on which we issued a qualified audit opinion.

7. For better understanding of the Riga City Council's financial position and the results of its operations for year and the scope of our audit, the summarized financial statements should be read in conjunction with the financial statements from which the summarized financial statements were derived and our audit report thereon.

PricewaterhouseCoopers SIA
Audit company licence No. 5



Juris Lapše,
Member of the Board



Lolita Čapkeviča,
Certified auditor,
Certificate No. 120

Riga,
9 June 2005

Riga Municipality Financial Statements

38

Riga Municipality Consolidated Balance Sheet)	31.12.2004. (KLVĻ)	31.12.2003. (KLVĻ)
Assets	794 135.7	711 296.2
Long-term assets	743 602.5	675 636.1
Intangible assets	3 461.5	2 626.4
Tangible fixed assets	542 602.0	526 029.9
Financial investments	197 539.0	146 979.8
Current assets	50 533.2	35 660.1
Inventories	12 292.2	9 537.5
Accounts receivable	13 073.9	11 582.9
Prepaid expenses	557.2	374.3
Securities and short-term investment in equity capital	3 843.9	-
Cash and bank	20 766.0	14 165.4
Equity and Liabilities	794 135.7	711 296.2
Equity	679 850.3	599 189.5
Equity capital	512 852.6	483 489.6
Reserves	68.0	-
Retained budget surplus	140 210.4	112 770.9
Budget surplus for the year	26 719.2	2 929.0
Liabilities	114 285.4	112 106.7
Borrowings	86 502.7	76 772.5
Accounts payable	3 781.5	1 822.8
Taxes payable	3 058.8	3 064.6
Affiliated enterprise, and employees	15 843.0	24 635.8
Other liabilities	5 099.4	5 811.0

Receivables, Accounts payable)	31.12.2004. (KLVĻ)	31.12.2003. (KLVĻ)
Receivables		
Customers' accounts	5 445.3	1 449.5
ISPA, SAPARD and other debtors	6 684.8	6 640.9
Prepaid expenses	727.2	1 143.1
Other receivables	216.6	197.2
Total	13 073.9	9 430.7
Liabilities		
Borrowings	86 502.7	76 772.5
Affiliated enterprises and employees	15 843.0	24 350.4
Accounts payable	3 781.5	1 822.8
Salaries and payroll tax payable	2 442.5	2 040.3
Taxes payable	3 058.8	3 064.6
Deferred income	2 425.3	3 579.9
Other liabilities	231.6	476.2
Total	114 285.4	112 106.7

Income statement › (accruals basis)	2004. g. (KLVĻ)	2003. g. (KLVĻ)
Revenues	288 856.7	265 221.2
Total tax revenues	160 700.6	140 408.1
Personal income tax	136 738.7	117 610.1
Property taxes	22 280.4	21 553.4
Real estate tax on land	7 543.2	7 846.5
Real estate tax on buildings and structures	15 648.9	13 706.9
Other tax revenues	1 681.5	1 244.6
Total non-tax revenues	86 601.2	88 564.0
Government and municipality fees, transferred to municipal budget	870.5	822.7
Revenues from paid services provided by public authorities	19 636.7	11 511.9
Other non-tax revenues	66 094.0	76 229.4
Total tax and non-tax revenues	247 301.8	228 972.1
Payments from state budget	41 555.0	36 249.2
Earmarked subsidies	39 282.4	34 330.6
Earmarked subsidies for education and culture	36 482.8	32 977.5
Earmarked subsidies for investments	2 722.1	955.1
Other earmarked subsidies	77.5	398.0
Payments from state budget	2 272.6	1 918.6
Expenses		
Expenses by government function	247 127.1	244 325.3
General governmental agencies	84 052.5	104 135.9
Public order and security	4 023.5	3 224.9
Education	85 188.2	75 492.8
Health care	1 082.8	358.3
Social security	16 317.1	14 721.4
Housing facilities and public utilities, environmental protection	22 756.5	15 449.6
Leisure, sports, culture, and religion	11 943.0	7 024.9
Transportation, communications	17 600.2	16 499.6
Other economic operations and agencies	226.7	198.9
Other expenses	3 936.6	7 219.0
Deposits to municipal cohesion fund	24 627.1	23 045.6
Total expenses	271 760.2	267 370.9
Budget surplus or deficit	17 096.6	-2 149.6

Income statement (Special purpose budget)) (accruals basis)	2004. g. (KLVĻ)	2003. g. (KLVĻ)
Revenues		
Riga Municipality Property Privatization Fund	6 218.4	5 418.5
Revenues from privatization of state and municipality property	5 559.4	4 293.5
Revenues from privatization of apartments and valuation of uninhabitable housing resources	659.0	1 125.0
State Road Fund	4 845.9	5 026.5
Motor vehicle duty and excise tax	4 378.2	4 419.1
Earmarked subsidies for regular bus traffic	467.7	497.4
Other incoming state budget transfers	-	110.0
Natural resources tax	331.6	285.7
Municipality revenues stated in the Law on Natural Resources Tax	331.6	285.7
Other Revenues	13 088.4	7 106.0
Riga City Development Fund (revenues from lease of land, expropriation and other revenues)	7 810.1	3 102.2
Revenues from sales of forest resources	2 311.7	2 815.5
Other special purpose budget revenues	2 966.6	1 188.6
Total Revenues	24 484.3	17 836.7
Expenses		
General governmental agencies	2 773.6	1 062.6
Public order and security	67.1	30.7
Education	610.2	3 462.1
Health care	2 709.6	1 973.9
Social security	54.5	39.8
Housing facilities and public utilities, environmental protection	3 687.0	2 282.0
Leisure, sports, culture and religion	2 640.4	1 976.7
Forestry and fishery	2 152.8	1 801.9
Transportation, communications	489.5	497.4
Total expenses	15 184.7	13 127.2
Budget surplus	9 299.6	4 709.5

Income statement › (Cash Flow basis)	2004. g. Budgeted (KLVĻ)	2004. g. Actual (KLVĻ)	2003. g. Actual (KLVĻ)
Total revenues	218 009.1	221 256.9	192 125.0
Total tax revenues	162 833.1	165 368.0	142 537.2
Personal income tax	134 900.2	136 661.5	117 842.2
Property taxes	26 402.9	27 025.1	23 450.4
Real estate tax on land	11 162.2	11 269.5	9 633.0
Real estate tax on buildings and premises	15 212.0	15 715.9	13 743.2
Other property taxes	28.7	39.7	
Other tax revenues	1 530.0	1 681.4	1 318.8
Total non-tax revenues	15 968.1	16 681.0	13 650.7
Government and municipality fees, transferred to municipal budget	855.1	872.0	831.0
Revenues from paid services provided by public authorities	13 353.4	14 077.2	11 678.9
Other non-tax revenues	1 759.6	1 731.8	1 140.8
Total tax and non-tax revenues	178 801.2	182 049.0	156 187.9
Payments from state budget	39 207.9	39 207.9	35 784.1
Earmarked subsidies	36 935.3	36 935.3	34 075.8
Earmarked subsidies for education and culture	36 482.8	36 482.8	32 756.1
Earmarked subsidies for investments	375.0	375.0	921.7
Other earmarked subsidies	77.5	77.5	398.0
Payments from state budget	2 272.6	2 272.6	1 708.3
Expenses			
Total Expenses by government function	200 059.2	185 063.6	177 702.3
General governmental agencies	22 976.2	20 291.2	19 328.1
Public order and security	4 384.9	4 137.9	3 647.1
Education	90 709.2	88 269.4	83 449.1
Health care	2 452.7	1 647.1	515.0
Social security	17 853.6	16 514.3	14 406.2
Housing facilities and public utilities, environmental protection	26 518.4	21 753.6	22 673.9
Leisure, sports, culture, and religion	11 520.1	10 920.5	13 343.2
Forestry			
Transportation, communications	17 910.5	17 300.5	15 903.8
Other economic operations and agencies	233.1	221.6	203.3
Other expenses	5 500.5	4 007.5	4 232.6
Deposits to municipal cohesion fund	24 627.1	24 627.1	23 045.6
Total expenses	224 686.3	209 690.7	200 747.9
Budget surplus or deficit	-6 677.2	11 566.2	-8 622.8
Financing	6 677.2	-11 566.2	8 622.8
Internal financing	6 734.1	-11 509.3	9 373.7
From other state administration organizations	-5 000.0	-5 098.9	-2 000.0
Change in budget resources	7 281.4	7 180.7	-3 155.8
Budget resources, beginning of period	7 281.4	7 281.4	4 165.6
Budget resources, end of period	0.0	100.7	7 281.4
From commercial banks	4 452.7	7 984.1	53 196.0
Other internal financing	0.0	-21 575.2	-38 706.4
External financing	-56.9	-56.9	-750.9
Financing with mediation of State Treasury	-	-	-696.9
Other external financing	-56.9	-56.9	-54.0
Total financing	6 677.2	-11 566.2	8 622.8

Income statement (Special purpose budget)) (Cash Flow basis)	2004. g. Budgeted (KLVĻ)	2004. g. Actual (KLVĻ)	2003. g. Actual (KLVĻ)
Revenues			
Riga Municipality Property Privatization Fund	5 141.3	5 099.9	4 860.7
Revenues from privatization of state and municipality property	4 275.3	4 440.9	3 634.6
Revenues from privatization of apartments and valuation of uninhabitable housing resources	866.0	659.0	1 226.1
State Road Fund	4 726.6	4 845.9	5 026.5
Motor vehicle duty and excise tax	4 258.9	4 378.2	4 419.1
Earmarked subsidies for regular bus traffic	467.7	467.7	497.4
Other incoming state budget transfers			110.0
Natural resources tax	300.0	331.6	283.3
Other Revenues	10 162.8	11 962.4	7 240.6
Riga City Development Fund (revenues from lease of land, expropriation and other revenues)	6 394.1	8 257.5	3 409.0
Revenues from sales of forest resources	2 085.0	2 223.6	2 319.5
Other special purpose budget revenues	1 683.7	1 481.3	1 512.1
Total Revenues	20 330.7	22 239.8	17 411.1
Expenses			
Expenses by government function			
General governmental agencies	4 914.8	4 321.2	2 644.4
Public order and security	64.0	36.0	1.2
Education	357.9	214.0	600.4
Health care	1 372.3	1 350.3	825.9
Social security	68.7	54.5	7.5
Housing facilities and public utilities, environmental protection	11 895.7	6 387.0	6 222.3
Leisure, sports, culture and religion	1 265.9	1 215.2	767.6
Forestry and fishery	2 905.0	2 309.1	2 029.9
Transportation, communications	5 569.2	4 673.2	4 222.5
Total expenses	28 413.5	20 560.5	17 321.7
Budget surplus or deficit	-8 082.8	1 679.3	89.4
Financing	8 082.8	-1 679.3	-89.4
Cash and cash equivalents, beginning of period	11 266.0	11 266.0	11 176.6
Cash and cash equivalents, end of period	3 183.2	3 650.2	11 266.0

Income Statement on donations and endowments › (Cash Flow basis)	2004. g. Budgeted (KLVĻ)	2004. g. Actual (KLVĻ)	2003. g. Actual (KLVĻ)
Revenues	800.0	452.7	623.0
Donations and endowments by domestic legal entities and individuals	387.2	440.1	283.6
Donations and endowments to education	370.3	370.9	227.7
Donations and endowments to social aid	15.4	10.1	9.6
Other donations by domestic legal entities	414.4	71.7	48.3
Donations and endowments by foreign legal entities and individuals	412.8	12.6	339.4
Global Environment Facility endowment to the development of solid waste dump project in "Getliņi", and "Phare" project resources	412.8	12.3	327.3
Other donations by foreign legal entities		0.3	12.1
Expenditures by government function	1 020.3	415.3	536.9
General governmental agencies	191.0	141.9	33.4
Education	453.8	238.6	229.3
Health care	0.9	0.9	4.7
Social security	19.2	10.7	6.3
Housing facilities and public utilities, environmental protection	341.6	11.5	243.8
Leisure, sports, culture and religion	13.8	11.7	19.4
Other economic operations and agencies			
Budget surplus or deficit	-220.3	37.4	86.1
Financing	220.3	-37.4	-86.1
Budget balance, beginning of period	239.5	239.5	153.4
Budget balance, end of period	19.2	276.9	239.5

General terms of Riga Municipality annual report composition

44

The annual report 2004 has been prepared in line with the Cabinet of Ministers Regulations No.999 as of November 30, 2004 "Preparation of annual financial statements of the state budget institutions and municipal budget institutions". The annual report 2004 has been prepared in accordance with the accruals principle and ongoing concern basis in accordance with the financial policy of the Riga City Council in the laws and regulations of the Republic of Latvia. This report provides information on the results of Municipality financial activities in 2004, as well as the assets, liabilities and the financial position of the Municipality as of December 31, 2004, and can be used to develop the financial policy and assist in the decision-making process during the planning and actualization of the basic budget and the special purpose budget revenues (classified by their type) and expenditures (in line with the budget programs administered by the Riga City Council executive authorities) based on the cash flow basis and the accruals basis.

Riga Municipality accounting is performed in the local currency of Latvian lats. All transactions done in the foreign exchange are converted into lats based on the Bank of Latvia official currency exchange rate on the respective day of the transaction. All foreign exchange balances at the end of the financial year are converted into lats based on the Bank of Latvia official currency exchange rate on the last day of the financial year.

Structural units and programmes included in the aggregate financial statements) The aggregate financial statements comprise financial statements of the Riga City Council Finance Department and second rank executive authorities: its departments, agencies and other institutions. The aggregate financial statements do not include the Administrations of Riga Free Port as well as subsidiary undertakings of the Municipality.

The financial statements reflect data on the City of Riga basic budget and special purposes budget revenues and expenditures' programs in line with the classification defined by the Republic of Latvia Ministry of Finances.

The basic budget comprises:

1. Riga City Council and Riga City Council Finance Department (funding of operations)
2. Riga City Council City Development Department (funding of operations)
3. Riga City Council Property Department (funding of operations)
4. Riga City Council Transport Department (funding of operations)
5. Riga City Council Municipal Services Department (funding of operations)
6. Executive Board of Riga Central District (funding of operations)
7. Executive Board of Riga Kurzeme District (funding of operations)
8. Executive Board of Riga Latgale Suburb (funding of operations)
9. Executive Board of Riga Vidzeme Suburb (funding of operations)
10. Executive Board of Riga Zemgale Suburb (funding of operations)
11. Executive Board of Riga Northern District (funding of operations)
12. Riga Children Rights Protection Center (funding of operations)

13. Riga Drug Addiction Prevention Center (funding of operations)
14. Riga Municipal Police (funding of operations)
15. Riga Orphans Court (funding of operations)
16. Riga Education, Youth, and Sports Department (funding of operations, administration)
17. Riga Tourism Coordination and Information Center
18. Riga City Council Welfare Department (funding of operations)
19. Riga City Council Environment Department (funding of operations)
20. Riga City Environment Center "Agenda 21"
21. Riga Municipal company "Rīgas gaisma"
22. Riga City Council Directorate of Culture (funding of operations)
23. Riga Municipal agency "Rīgas pieminekļu aģentūra"
24. Riga Municipal agency "Rīgas dārzi un parki"

The special purposes budget comprises:

- Riga City Development Fund resources
- Tunnel maintenance and operations program
- Transportation charges for the entry into special regime areas
- Road Fund resources
- City of Riga Municipal Property Privatization Fund resources (funding of operations of Riga City Council Property Department Property Alienation Directorate, Entrepreneurship Directorate, program "Privatization Process Technical Supply of Houses and Apartments", Riga City Commission for Privatisation of State and Municipal Houses and Riga Municipal Agency "Rīgas mājoklis")
- Riga Environment Protection Fund resources
- Riga Water and Environment Project
- Riga Public Policy upkeep resources
- Riga Municipal Agency "Rīgas mežu aģentūra"
- Endowments and donations for special purposes, incl. donations by foreign governments and individuals.

The financing of Riga City institutions and special-purpose programs is performed from the resources accumulated in the Riga Municipality budget (basic and special-purpose budget), as well as in accordance with the endowments and donations for special purposes and foreign government aid, based on the laws and regulations of the Republic of Latvia, resolutions by the Riga City Council and Riga City Council Committees, as well as the special regulations, provisions and resolutions by the Riga City Council chairman. In 2004 they were as follows:

- CIPECH – preservation of Kalnciema street wooden construction under the "Cultural heritage and environment in a civic perspective"
- INTERREG III C
- ID 647 BaltMet Invest "Co-project of the Baltic metropolises for the development of coordinated investment management approach and application in the Baltic Sea Region
- ID 650 HANSA PASĀŽA "Promotion of the regional co-operation (types of management, social-economic planning)
- ID 666 E-PIPELINES "formation of coordinated project concept development mechanism in the Baltic Sea Region"
- Donation resources for the construction of a monument for genocide (Jewish) victims received within the donations and endowments budget framework from the Federal Republic of Germany.

Municipal budget revenues › Municipal budget revenues comprise tax payments in accordance with the state tax legislation, government and municipality fees as well as other payments to the budget, revenues from paid services provided by municipality budget institutions, other own revenues, revenues of special purpose, net revenues from the disposal of assets, interest payments received, dividends, foreign financial aid, donations and endowments both in cash and in kind (accounted for in cash) (Law "On the budget and the financial management"). Budget tax and non-tax revenues by their type are recorded by the Finance Department Budget Accounting and Reporting Section, whereas the Municipal Revenue Directorate performs recording by type, payers, and dates of payment. In turn, revenues from paid services are received and recorded by every second rank executive authority (institution, agency, department). Revenues are recognized by the accruals approach.

Municipal budget expenditures › The expenditures section of the financial report contains results of budget programs and sub-programs administered by Riga Municipal institutions (second rank) in accordance with the budgetary and economic classification of the Government function defined by the Republic of Latvia Ministry of Finance.

Long-term assets › Assets that influence economic activity for more than one year are defined as long-term assets

Intangible assets › This position contains software and their respective licenses with book value either decreasing or increasing depending on the grade of computerization of the Riga Municipality institutions and the costs of software purchased within the framework of this process as well as due to the capitalized software development costs. Intangible assets are reflected in the balance sheet at their acquisition value less accumulated amortization.

Fixed assets › Fixed assets are reflected at their acquisition or revalued value less depreciation. Fixed assets with no depreciation (land) are recorded at the value set by the State Land Service (SLS). Because of the prudence principle, accounting does not reflect land belonging to the territory of the Riga Municipality, the ownership of which is not registered in the Land Register as held by the Riga Municipality. Buildings and premises are recognised for at the residual value recorded in the balance sheets of municipal institutions, structural units, or municipal enterprises at the time of their transfer or at the inventory value of real estate certified by the SLS.

The excess value resulting from the revaluation is recorded in the equity capital as the long-term investment revaluation reserve. Revaluation is performed as a result of real estate inventory-taking process, and the revaluation value is based on the inventory value of real estate certified by the SLS.

Accounting for the land › Riga Municipality property rights are confirmed by a Land Register certificate issued by the City of Riga Land Register, reflecting information on the structure of real estate,

its owners, encumbrances, and liabilities.

Based on the Land Register certificate, the Land Directorate records the data of the land owned by the City of Riga in the database "Nekustamā īpašuma reģistrs" (NIR5). Data on the cadastral value of the land are received in an electronic format from the SLS "Software of the City land cadastral valuation". Based on both above-mentioned data sources, the Land Directorate prepares a Property Department director's resolution on the recording of the land into the balance sheet accounts.

Resolutions are prepared on a regular basis, once a month. Resolutions comprise land having a Land Register certificate and a cadastral valuation.

Together with the resolutions on recording the land into accounts, also resolutions on elimination from the accounts are issued. Elimination is performed on the land that has been expropriated during the accounting period (privatization and expropriation of the municipal property; property rights transfer to the state in the person of the Privatization Agency or the Ministry of Finances; exchange for another real estate, expropriation through the court; investment into the municipal enterprises), as well as land, the initial area of which has changed as a result of planning (split of a large land plot into smaller plots, merger of the land, plots, or incorporation of a part of another land).

Accounting for buildings and premises › Riga Municipality accounts for the real estate belonging to the City of Riga: buildings, structures, and constructions, in accordance with the order established by the Riga City Council Chairman's resolution Nr.925 as of October 20, 1999.

Buildings and premises are recognised for at the residual value recorded in the balance sheets of municipal institutions, structural units, or municipal enterprises at the time of their transfer.

Real estate privatization › In accordance with the legislation requirements of the Republic of Latvia and the policy defined by the Riga City Council, the privatization of the City of Riga property is still in progress. The privatization applies to the major part of residential houses owned by the City of Riga as well as a considerable portion of non-residential buildings and land. Under the completion of the privatization process, the City of Riga will lose its property rights on the privatized real estate.

According to the Riga City Council resolution, only buildings and their respective portion of land, the privatization of which has been commenced with a resolution of the Riga City Council in accordance with the legislation of the Republic of Latvia, can be eliminated from the balance sheet. Currently, the legislation of the Republic of Latvia does not establish the principles of accounting for the real estate under privatization.

"Expedited privatization" is applied only to a part of residential houses, the living space, whereas the remaining part, such as the staircase,

attic, or the basement remain in the ownership of the City of Riga. This part of buildings is allocated during the process of planned privatization. Riga City Council Property Department has performed valuation of apartments undergone the "expedited privatization" as of December 31, 2004. The total area of these apartments constituted to 6 339 446.05 m² and the non-residential area formed a total of 122 529.29 m². The total value of these apartments constitutes to LVL 86 800 551. During the following accounting periods until the completion of the privatization process, this amount might reach LVL 100 000 000.

Thus, such a portion of the total value of residential-houses reflected in the balance sheet of the Riga Municipality as of December 31, 2004 is considered to be involved in the privatization and will be eliminated from the balance sheet accounts once the privatization process is completed.

Traffic infrastructure) The accounting for streets, bridges, and crossovers is performed on the object basis, recording investment resources allocated to reconstructions and renovations. No uniform methodology for street infrastructure object valuation is developed in the City of Riga. Riga City Council is the institution in charge of the City street infrastructure, however till 2001 these assets were not reflected in Riga City Council balance sheet accounts. Accounting for the depreciation of these objects was started only in 2004 as the amendments as of November 25, 2003 of the regulations Nr. 96 "Regulations on standards and application of the depreciation of fixed assets in the budget institutions" issued by the Cabinet of Ministers as of March 6, 2001, effective January 1, 2004, include the regulation to apply 10% annual depreciation to streets, roads, and street equipment. In order to align the accounting of traffic infrastructure objects, actual object value of item is gradually being determined.

Depreciation of fixed assets) Depreciation of fixed assets has been calculated using straight-line approach on all fixed tangible and intangible assets, applying the following standards of depreciation defined by the Cabinet of Ministers Regulations No.96 as of May 3, 2001 "Regulations on standards and application of the depreciation of fixed assets in the budget institutions":

Computer equipment, printing devices, information systems, software, communication equipment, photocopiers, etc.	35%
Other fixed assets: furniture, motor vehicles, household inventory, etc.	20%
Street infrastructure objects	10%
Buildings and premises	5%

Long-term financial investments) Riga Municipality financial statements contain equity shares in limited liability companies and enterprises, with Riga City Council Chairman being the representative of equity shareholders, and other equity shares held by other Riga Municipality institutions in accordance with the resolution of

the Riga City Council as well as investments in the statutory fund of enterprises belonging to the Riga Municipality.

Riga Municipality financial statements do not include investments in the equity capital of enterprises and business entities registered in the Republic of Latvia Enterprise Register, but having permanently discontinued their operations, as well as enterprises still under privatization. Investments in enterprises with discontinued operations are included in the off-balance sheet accounts. Information on these investments is reflected in the appendices to the financial statements.

When comparing the financial statements, one should take into consideration changes in the methodology of the accounting for Riga Municipality equity capital shares in the affiliated and associated enterprises.

Riga Municipality equity shares in affiliated and associated enterprises as of January 1, 2004 had been accounted for based on the cost method. Because of prudence principle, as of January 1, 2004, for the enterprises with equity capital being lower than the book value of the investment for at least two years, the investment value have been adjusted in 2003 in the amount of the value decrease.

The book value of an investment has been increased during the accounting year in cases when, based on the Riga City Council's resolution on the increase of equity capital, the Riga City Council has transferred its real estate to enterprises as a investment-in-kind.

The acquisition cost of Riga Municipality equity share capital acquired in a way of a property investment by the Riga City Council has been determined based on the book value of the respective asset. Prior to the property investment process, the real estate objects accounted for in the Municipality balance sheet have been revalued in accordance with the regulations of the Commercial Law and the Law "On the equity share capital of the state, the municipality, and the enterprises".

As at December 31, 2004, long-term investments in the equity share capital of affiliated and associated enterprises have been revalued based on the equity method and the prudence principle in the valuation of assets.

The book value of the long-term investments into the equity share capital of related and associated enterprises have been assessed based on:

- the audited financial statements for enterprises with the financial year ending no earlier than September 30, 2004, applying the prudence principle in the asset valuation in accordance with the operating statements on the equity capital submitted by the enterprises as at December 31, 2004;
- the last audited financial statements, applying the prudence principle in the asset valuation in accordance with the operating statements on the equity capital submitted by the enterprises as at December 31, 2004;
- the operating statements on the equity capital submitted by the enterprises as at December 31, 2004.

Investments into the equity share capital of affiliated and associated enterprises with a negative equity capital value have been reduced to the zero level, and no further losses will be recognised.

Investments in the equity capital of affiliated and associated enterprises have been reduced by the amount of money and the value of the property received by the Riga Municipal enterprises as a result of the liquidation of business entities. The residual value of the investment has been written off in the financial statements as a loss from the investments into enterprises.

The book value of the investments into the equity share capital of affiliated and associated enterprises has been reduced by the amount of dividends received.

As the equity method has been first applied in 2004, the portion of the effect from the investment revaluation resulting from the revaluation reserve accounted for in the equity capital of enterprises, in the financial statements of 2004 has been included in the equity capital account "Long-term investment revaluation reserve", whereas the portion not associated with revaluation reserves the provisions accounted for in the equity capital of enterprises, has been included into the accounts "Basic budget result for the previous periods" and "Basic budget result for the current period".

Loans issued to affiliated enterprises) The balance comprises amounts that have been invested into Municipality enterprises and the liabilities of these enterprises to Riga Municipality for the borrowings from international financial institutions, where Riga City Council is considered an intermediary in the process of resource allocation and repayment. Investments are intended for capitalization, increasing the equity capital of the subsidiaries.

Inventory) Inventory is accounted for at their cost and recorded by their economic substance. Upon the utilization of inventory, it is excluded from the accounts and entered into expenses for the current period.

The stock-taking of the warehouse is performed by necessity, at least once a year, at the end of the financial year.

Accounts receivable) Receivables are reflected at their recoverable value being a cost less accruals for doubtful and bad debts. This item comprises debt on the buy-out of objects under privatization, deferred payments for the buy-outs, buy-out payments of objects under privatization and deferred payments for the privatization buy-outs, taxes accounted for but not collected, creating a special accrual for doubtful debts, as well as other debts for paid services. Accruals have been created based on the following criteria:

- debtor is liquidated or excluded from the Enterprise Register,
- court decision on inability to pay is available,
- the real estate is in need of tax recalculation resulting in the decrease of debt;
- reliable sources have provided information that the insolvent enterprise does not possess any financial or other resources to cover the debt.

Deferred expenses) comprise prepayments for the press and postal expenses, insurance of motor vehicles, as well as employee health insurance payments, referring to the next year, etc.

Cash and bank) includes all financial resources of Riga City Council or its executive authorities available at the Settlements Office and banks.

Own capital) comprises Fixed Assets Fund, the equity capital or co-ownership capital, as well as revaluation reserve of long-term assets.

Fixed Assets Fund has been historically created when accounting for the purchase of fixed assets based on the cash flow approach until January 1, 2001. The Fixed Assets Fund has been gradually decreasing, by allocating the depreciation and the book value of disposed fixed assets acquired until January 1, 2001.

Riga Municipality Budget 2005

48

(Riga City Council regulations No.61, effect. December 14, 2005)	Budget 2005 (LVL)
Total revenues	241 507 825
Basic budget revenues	225 046 077
Tax revenues	168 067 758
Personal income tax	142 508 739
Real estate tax (on land)	9 935 882
Real estate tax (on buildings and premises)	14 123 137
Gambling tax	1 500 000
Non-tax revenues	16 135 678
Payments for utilization of municipal funds	350 000
Government and municipality fees	940 000
Revenues from paid services provided by public authorities and other own revenues	14 085 678
Fines	410 000
Other non-tax revenues	350 000
Payments received	40 842 641
Earmarked subsidies	34 683 112
Subsidies from state budget	2 159 529
Payments from other budgets	4 000 000
Special purpose budget revenues	16 461 748
Revenues from sources of funds designated to special purposes	15 929 832
Revenues from donations and endowments	531 916
Total expenditures	256 068 685
Basic budget	237 617 969
Maintenance costs	212 446 140
Recurrent expenses	134 850 111
Payments on loans	2 987 230
Subsidies, incl.:	74 608 799
deposits to municipal cohesion fund	27 400 000
Expenditure on capital investments	24 155 090
Expenditure on acquisition and overhaul	12 994 667
Investments	11 160 423
Acquisition of land	1 016 739
Special purpose budget	18 450 716
Maintenance costs	10 393 901
Recurrent expenses	9 300 441
Subsidy	1 093 460
Expenditure on capital investments	8 056 815
Expenditure on acquisition and overhaul	8 056 815
Fiscal balance	14 560 860
Basic budget	12 571 892
Special purpose budget	1 988 968
Financing	14 560 860
Basic budget	12 571 892
From banks	12 629 723
External financing	-57 831
Special purpose budget	1 988 968
Change in budget resources	1 988 968
Budget balance, beginning of period	2 519 458
Budget balance, end of period	530 490