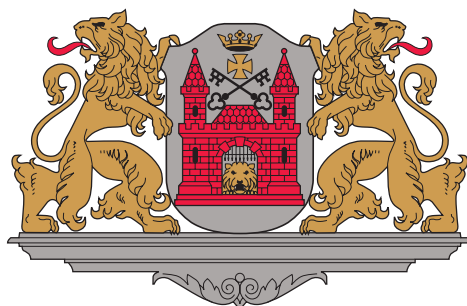




2005

Riga Municipality Annual Report





Riga Municipality Annual Report 2005

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➔ In 2005, Riga Municipality sustained the long-term financial policy, ensuring budget revenue growth and improving its credit terms. Compared to 2004, in 2005 Riga City budget revenue has increased by 53.7 million lats, thus ensuring the necessary resources not only for the operation of Municipality, but also giving substantial contribution in the amount of 27.3 million lats to the development of other Municipalities of the country within the framework of the financial cohesion fund.

The swift economic development and both increasing role of Riga City in the development of Latvia and internationally calls for the need to increase annual investment into City traffic, housing, and social infrastructure. Therefore, apart from the investment program financing, Municipality also works on increasing off-the-budget resources attraction aimed at financing City development projects. Based on the experience from prior years, in 2005 utilization of the European Union funds was increased, as well as state and private partnership has been developed as an effective means of resource attraction.

Successful budget revenue achievement already in 2005 allowed Riga Municipality to carry out several additional activities for the welfare

improvement of the socially most unprotected City inhabitants, as well as include these activities also in Budget 2006. The guaranteed minimum income in Riga City was set to LVL 40.00, which almost twice exceeds the State guaranteed level of LVL 24.00. Municipal aid in the amount LVL 150.00 per month was introduced for adoptive families. The remuneration of social agencies' employees was increased by 15% and remuneration of old-peoples homes' and day-care personnel was increased by 10%.

A significant priority within the Municipal budget has been given to education, assigning 38% of the basic budget expenditures to this sector. In 2005, new preschool educational institution was put into operation in Dreilini, remuneration of kindergarten nannies was increased, preschool educators' training expenses were reimbursed, as well as all preschool educational institutions were equipped with external code-locks and 32 preschool educational institutions were fitted with new external illumination, and finally, the capacity of kindergartens has been increased, too.

Municipality continues to participate in solving housing problems for inhabitants. Two residential buildings have been put into operation with 117 apartments, the construction of the second stage of residential houses in Dreilini has been continued. The Municipal budget provides funds for the relocation support for the inhabitants of denationalized houses, which will give an opportunity to provide assistance to around 400 families in Riga.

Within the traffic area, the transportation flow has been improved as a result of the unification of Riga's public transportation into a single company: "Rigas Satiksme". 23% increase in the remuneration of the public transport drivers and conductors has been achieved.

Improvements have been achieved in the City property maintenance. Unified IT system for the registration and administration of Riga City real estate and rental agreements, as well as the registers for the privatization and expropriation proposals has been developed, which will improve the control of Municipal Structural Units', institutions, and agencies work within this area. The stocktaking list of all wrecks belonging to the Riga Municipality has been prepared, taking a separate decision on every single object and undertaking its liquidation process.

For the improvement of Riga Municipality management, new Riga Municipality regulation was prepared and approved in 2005, document

flow system's improvement was continued, and unified accounting system of municipalities has been gradually introduced.

Within the cultural sector, the organization and financing of diverse cultural events has been improved, transparency principle has been established in tenders for the organization of Riga festivals and other cultural events, which will lead to an improved quality of cultural events simultaneously allowing to save Municipality budget resources.

Several new and long-expected activities have been performed within the area of territory and environment improvement. The improvement of play-grounds, mass-sawing of poplars in Riga, as well as improvement of urban beaches has been undertaken.

For the strategic development of Riga two plans have been widely discussed and approved: Riga Development Plan for 2006-2008 and Riga Historical Center Preservation Plan. These strategic documents will ensure the daily operational decisions' conformity with the strategic development move of the City, and will allow to preserve the traditional

and recognizable image of the City during the times of swift economic and social changes. In order to ensure that, Riga City Architect's Office has been established providing Riga City Council with judgments as for the City territorial planning, detailed planning, construction regulations, and future conceptions, as well as monitoring the architectural and building quality in Riga.

In the future, Riga Municipality will continue to consider interests of all Riga inhabitants in the development of the City and budgetary policy, increasing the variety of economic, social, and cultural opportunities for every single inhabitant. While performing these activities, special attention will be paid to the improvement of Municipality operations, transparency in decision-making, improvement in Municipality service quality, and reduction of costs.

As a result of a goal-oriented and strategic operation of the Municipality and in collaboration with the inhabitants, entrepreneurs, and the state, Riga will strengthen its position as the metropolis of the Baltic Region.



Aivars Aksenoks
Riga City Council Chairman



→ In 2005 Riga City Council Finance Department continued the long-term financial policy ensuring balanced budget and effective Municipality resource-management. In the area of municipal budget revenues, the highest growth during past seven years was achieved, increasing the possibilities of Riga City in the financing of current and future needs. As a result of a balanced budget policy, budget surplus was achieved already the second year in row: basic budget surplus reached 0.3 million lats and special purpose budget surplus reached 1.9 million lats.

The Finance Department continued with an effective resource attraction policy, ensuring attraction of relatively cheap financial resources for the needs of Riga City development. Compared to 2004, the annual municipal budget payments for financing in 2005 decreased by 2 million lats. Within the framework of loan-management, through the application of financial derivatives, long-term loan currency and interest rate risks were balanced, ensuring the stability and predictability of loan-servicing costs.

The preparation of Riga Municipality Budget 2006 was based on long-term budget stability approach by balancing the main interests of all

sectors and ensuring financing for the operation of Municipality. Budget program goals, results and key performance indicators were identified during the budgeting process, also adding new programs in order to better provide City inhabitants with the necessary public goods.

Riga City Council financial policy is executed by the Riga City Council Financial and Administrative 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:

- Strategic planning of Riga Municipality financial resources;
- Preparation of Riga City budget (and its alterations) project;
- Controlling of Riga Municipality financial resources' utilization.

In the beginning of 2005, as a part of Finance Department structural units' optimization, Settlements Office was liquidated, and its operations delegated to banks on the basis of a group account agreement. These changes allowed to optimize Municipality financial resources management and increase the speed of settlements, providing the Finance Department with an opportunity to monitor the settlements system.

In 2005, co-operation with credit-rating agency "Standard and Poors" was continued. As a result of evaluating Riga City achievements in its financial stability and transparency, the credit-rating agency increased Riga City credit-rating to BBB/Stable/A-3.

By considering the limited budget possibilities in the financing of development and the increasing need for investments in the City infrastructure, Finance department has paid special attention to the broadening of investment sources and the improvement of Municipality investment and project financing system. In 2005, the attraction of EU structural funds for the financing of Riga City development projects was increased, reaching more than 106 million lats, thus broadening Municipality possibilities in the investment area.

As a result of the financial policy performed by the Finance Department, successful execution of Municipality budget and preparation of Budget 2006 was achieved in 2005, ensuring the financing of municipal operations and creating a stable basis for the growth of City and the welfare of its inhabitants.

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

Kārlis Kavacs
Riga City Council Finance Department Director



ARHITEKTŪRA

Attīstības plāns

Modern city environment
based on architectural quality
and up-to-date building
standards is an integral part
of Riga City image.

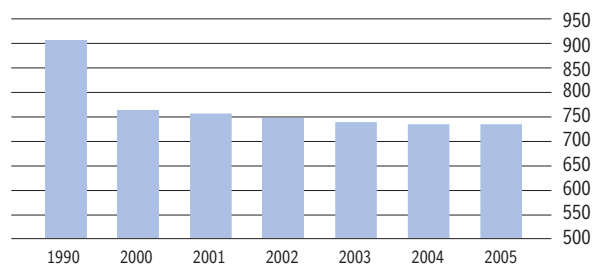
Riga City population, employment, and remuneration review

Inhabitants

➔ As of the end of 2005 the population of Riga formed 728 thousand or 32% of the total population of Latvia. Over the last 15 years the population of Riga has decreased almost by one fifth, however during the recent years stabilization tendency in this area can be observed as a result of an improving demographical situation. In 2005, the birth rate in Riga grew by 6.6% per 1000 inhabitants compared to 2004.

Over the last year the number of City inhabitants decreased by 4.2 thousand people, inter alia, 2.8 thousand due to the natural movement in population and 1.4 thousand due to the migration of population.

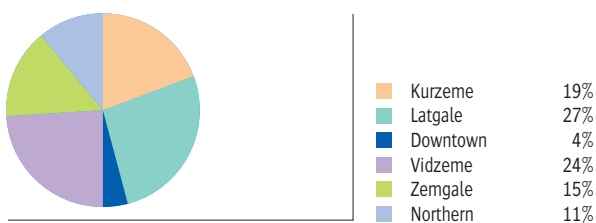
Number of inhabitants in Riga (th. people)



Over the last years the proportion of population in the giving age within the age structure of City inhabitants has been gradually increasing. During the period from 2000 to 2005 it has grown from 60.3 to 65.1% of the total population of Riga. However, the proportion of the population above the giving age level has been decreasing. On the other hand, significant decrease can be observed in the children's and youth's age groups, whose proportion has decreased from 15% to 12.6%. The average indicator for the whole country is 14.8% of population.

The largest Riga districts by the size of population are Latgales and Vidzemes suburbs, where more than a half of population is located, whereas Pardaugava (Kurzeme district and Zemgale suburb) region comprises 1/3 of City's population.

Riga population spread over districts* (as of the end of 2005, in %)

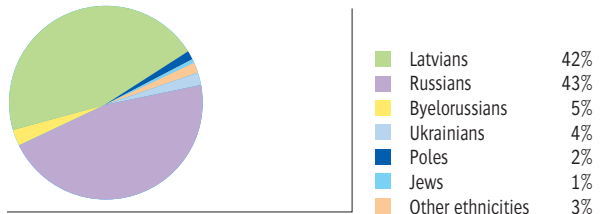


* Office of Citizenship and Migration Affairs data

Ethnic Composition

➔ Historically, Riga has been a multinational city, however the proportion of individual ethnicities within the population has been subject to change over time. During 1930s the proportion of indigenous inhabitants (Latvians) in Riga constituted around 63%, however dropped to 37% in the late 80s. However, over the last years the proportion of Latvians within the total amount of inhabitants has been gradually growing, reaching 42.3% at the beginning of 2005.

Ethnic composition of Riga inhabitants



Education Level

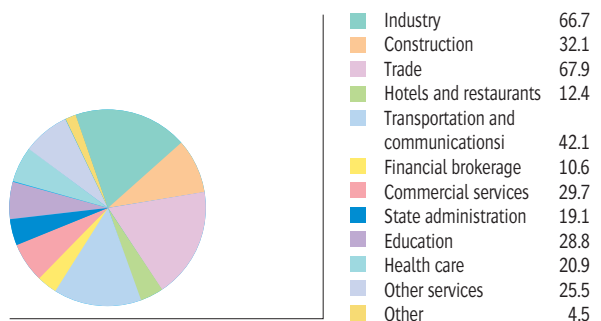
➔ The education level of Riga's inhabitants is notably higher than the average level in Latvia. Every fifth Rigan has higher education, whereas country's average is only 13%. Over the last years, mainly because of demographic circumstances, the number of general education students in Riga has decreased by 14%, the number of vocational education students has dropped by 16%. However, the number of higher-educational institution students has increased by 44% over the same period.

Employment

➔ As a result of the swift economic development, over the past three years the number of employees in Riga has grown by 32 thousand people, forming a total of 362 thousand employed. The largest sector in Riga by the number of employed still is the trade sector, where 68 thousand people or 19% of all employees are employed. Only slightly behind is the industrial sector with 67 thousand people.

The third largest within the economy of Riga is the transportation and communications sector, where 42 thousand Riga inhabitants are employed. Over the last year the highest increase could be observed within the education sector, where the number of employed grew by 3.5 thousand people, financial brokerage (2.4 thousand), building and construction (2.1 thousand).

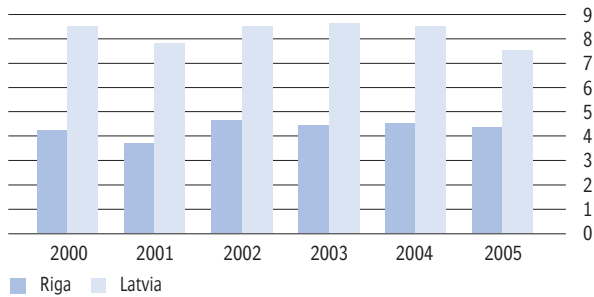
Structure of workforce in Riga (th. people)



Unemployment

➔ As of the end of 2005, unemployment in Riga City decreased by 0.2% forming 4.3%, whereas the national average rate declined to 7.5%, showing a decrease of 1%. Over the last year, certain economic sectors even in the capital observe a shortage in the employees. As at the end of 2005, there were 9044 vacant positions available in Riga.

Unemployment rate in Riga City and Latvia (in %)



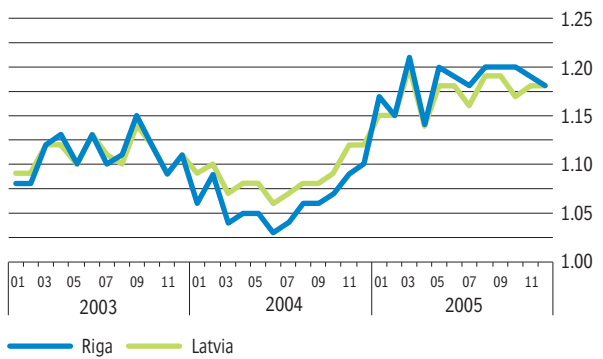
Remuneration

→ The average gross monthly wage in Riga in 2005 formed 280 lats, which is on average 14% higher than in the rest of the country. This difference can be explained by higher productivity and comparatively higher added value within Riga economy, by more than 77% exceeding the national average.

Starting mid 2004, significant salary rise can be observed in the economies of Riga and Latvia, influenced by the increase in the speed of economic development, need to increase salaries to compensate for an increasing inflation, as well as to keep labor force in certain areas having shortage in work force.

In 2005, the average gross monthly wage in Riga grew by 18% compared to 2004. The real salary increase was more than 10% against the last year.

Average gross wages in Riga and Latvia (in comparison with the respective period of 2004)



The highest monthly gross wage in Riga has been in the financial brokerage sector: 488 lats. Remuneration forms 70% of the total Riga population income, pensions form 15%, and income from business 7%.

Data from the Central Statistical Bureau of Latvia

The economic development of Riga City

→ Riga is the driving force for the national economy both because of its economic potential and the swift economic growth of Latvia during the last years. Although Riga has only 1/3 of Latvia's population, more than a half of the gross domestic product has been generated here, as well as 60% of foreign investment received, and 2/3 of Latvia's retail and 4/5 of Latvia's wholesale revenue was generated here.

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

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

Since the middle of 1990s, Latvia's economic growth has been geographically concentrated mainly in Riga, and only over the recent years it has started to spread also over the rest of the country.

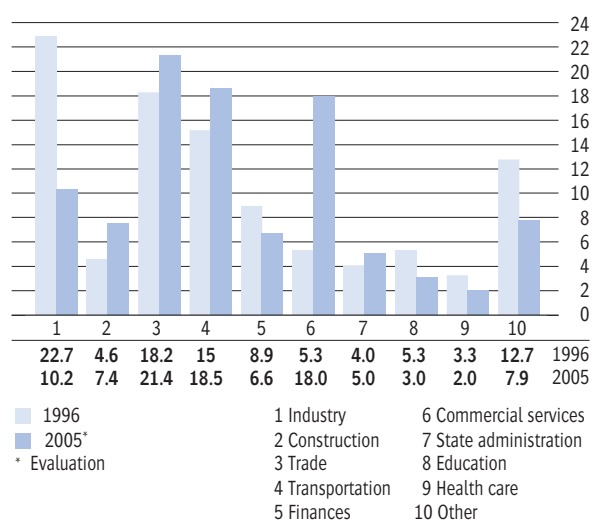
GDP per capita in Riga is by 77% higher than the national average indicator. If the economic development of the City grows at the same rate as historically, GDP per capita could reach the European average level already by 2009-2010. Higher GDP per capita level is the basis for comparatively higher welfare of the City inhabitants, simultaneously increasing the demand of inhabitants and entrepreneurs for better infrastructure and higher quality municipal services.

Branch industry structure

→ Over the last years, significant changes have taken place in Riga branch industry structure: industrial sector has decreased its proportion in the economy of the City, whereas the proportion of commercial services has significantly grown. In the middle of 90s the largest sector in the City economy was manufacturing, where almost 23% of City's value added were generated, however its share significantly dropped over the following years, and currently this sector contributes only 1/10 of City's value added.

Currently the largest sectors in Riga's economy are: trade (21%), transportation and communication (19%), as well as commercial services (18%). In total, these three sectors generate 58% of City's value added. 10 years ago their proportion was significantly lower, forming 39%. Especially significant development and growth in proportion over the last years can be observed in the commercial services sector.

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



Manufacturing

→ In 2005, the total value of the industrial output in Riga formed 1.6 billion lats, which was by 17% more than in the prior year, forming 51% of the total national industrial output.

Around 4/5 of Riga total industrial output are formed by the manufacturing industry, the remaining 1/5 can be attributed to electric power, gas, and water-supply. Almost 40% of City's industrial output is exported, the remaining part flows into the local market. The largest industrial sector in Riga by output over the last couple of years has been electrical power, gas, and water-supply sector giving around 20% of the total industrial output in the City, the second largest: food manufacturing industry (17%), the third: timber production industry (15%). Machinery industry contributed 10% of the total industry output.

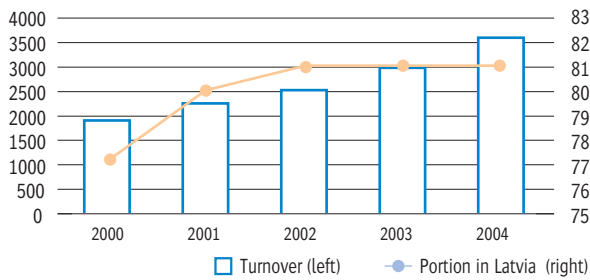
Data from the Central Statistical Bureau of Latvia

Trade

➔ As a result of a growing economic activity, developing City trade infrastructure, Riga has become a major trade center.

The portion of Riga trade in the national wholesale turnover over the last years exceeds 80% as the City wholesale sector serves also other regions of Latvia.

Wholesale turnover in Riga (amount in actual prices, MLVL) and its proportion in Latvia (in %)

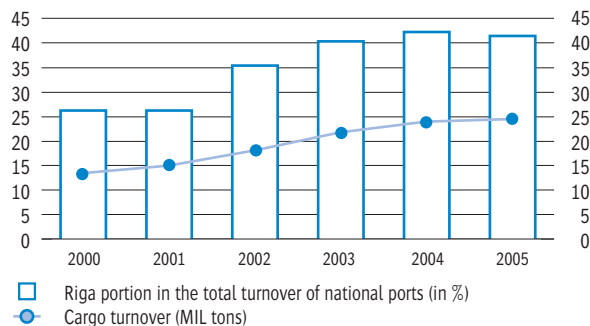


Rapid development of the City retail network still can be observed. Over the last 10 years the number of shops in Riga has increased by 2.6 times, reaching 9583 and forming the total area of 1844 square meters per 1000 Riga inhabitants.

Transportation and communications Riga Port

➔ As a result of the swift development, the proportion of Riga Port within the total turnover of national ports has grown several times, and reached 41% in 2005. The total turnover from cargo increased by 1.8% in 2005.

Operation of Riga Port



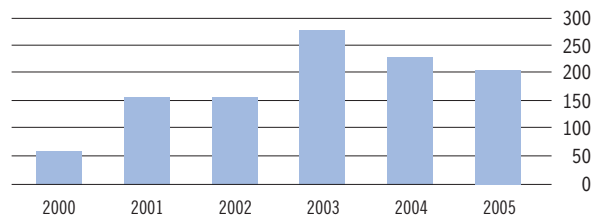
Riga, alike other main ports in Latvia, has specialized in cargo reloading. In 2005, the total cargo turnover in Riga Port reached

24.4 million tons, whereof 22.20million tons were loaded cargo.

Within the structure of shipped (loaded) cargo, the highest portion in Riga Port is formed by coal, constituting 49% of all loaded cargo, showing a year-on-year increase of 14%. The number two portion belongs to timber (17%). Over the last years the amount of loaded oil products has been decreasing. In 2005 compared to 2004, the amount of oil loaded in the Port decreased by 25% and constituted 15% of all cargo loaded in the Port.

Over the last two years decrease in the number of passenger turnover in Riga Port could be observed: in 2005 turnover decreased by 15%.

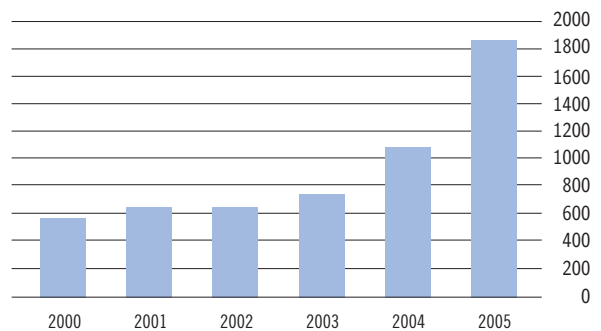
Riga Port: passenger turnover (th. people)



Transport and communications Airport

➔ Passenger turnover increase can be observed in Riga Airport, especially high it has been over the last two years, annually increasing by 49% and 77% respectively.

Passenger turnover in Riga International Airport (th. people)



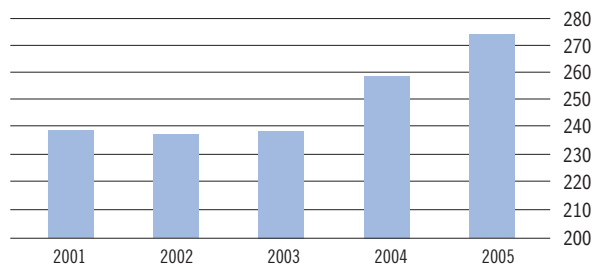
In 2005, 870 thousand passengers (increase of 41% year on year) entered and left Riga Airport on aircraft of Latvian national carriers and 1009 thousand passengers (by 2.3 times more than in the prior year) entered and left on foreign airlines' aircraft. In 2005, the highest turnover in Riga Airport was with the airports of Germany: 367 thousand passengers.

Data from the Central Statistical Bureau of Latvia

Transport and communications Public transportation

→ In 2005, the number of passengers carried with Riga public transportation (bus, tram, trolleybus) continued to increase, which could be observed already in 2004. In 2005, 274.3 million passengers were transported, which is by 6% more than in 2004.

Passenger transportation in the public transportation of Riga (mil. people)



Apart from Riga public transportation company "Rigas Satiksme", passenger transportation within the sector of maxi-taxies, is also provided by 8 private companies in 46 routes. The number of passengers carried by the maxi-taxies forms around 20 million passengers annually, thus, 7% of the total number of passengers carried in Riga City.

Commercial services

→ Commercial services sector is one of the largest in Riga. 19% of City's total value added is generated within this sector. Over the last years, the development of this branch has been especially swift exactly in Riga, where more than 4/5 of this sector's national value added is generated.

In 2004, 6984 companies operated in Riga within this sector, and 29.7 thousand employees were employed (every 12th employee in Riga, only every 50th in the rest of Latvia).

Construction

→ There are 2086 companies operating in Riga within the construction sector, whose value added forms 7% of the total value added generated in the City.

Construction area employs more than 32 thousand employees, which is by 10 thousand more than in 2000.

The amount of construction works in Riga has increased by 6.8 times over the last seven years, in 2004 reaching 266 million lats (35% of the total national amount).

Data from the Central Statistical Bureau of Latvia



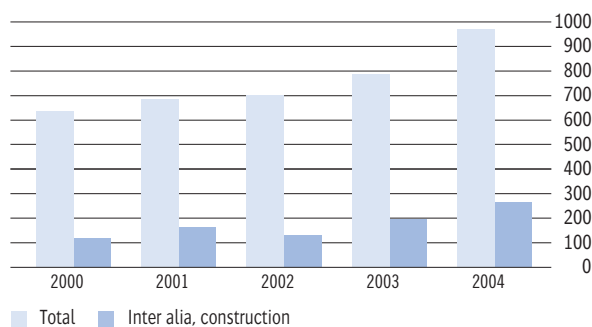
Swift economic development during the recent years and positive changes within the business environment promote foreign investors' interest in Riga

Riga City growth and development

Review of investments

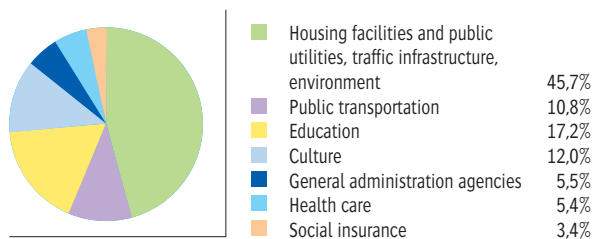
→ Over the last years, the total amount of non-financial investment (in year 2004 prices) in Riga has grown by 2.5 times, forming 48% of the total investment in the country. In 2004, the total non-financial investment in Riga grew by 22%, in comparison with the previous year, reaching 971 million lats. The amount of construction works in the City has grown significantly, reaching 266 million lats in value, and forming 35% of the total construction works in the country.

Investment in Riga (MLVL, in year 2004 prices)



During the period from 1997 to 2005 the total amount of Riga City budget investment reached 243 million lats. The major part of municipal budget investment in this period has been allocated to areas of housing facilities and public utilities, traffic infrastructure, and environment.

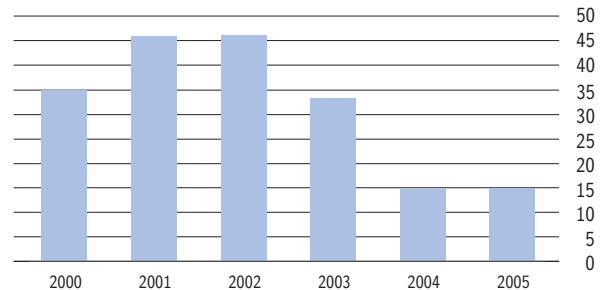
Riga City budget investment breakdown by sector, 1997–2005 (in %)



During 2000-2001, rapid growth in Riga City budget investments could be observed. However, the growing amount of investment during this period was ensured on the account of growing budget deficit, which reached around 15% from the annual budget revenues during these years, thus threatening City's financial stability.

In 2003, new long-term financial policy was implemented, ensuring that the amount of City budget investment has to be aligned with Riga City budget potential. As a result, during the period from 2002 to 2004 reduction in the investment could be observed. In 2005, 15.4 million lats were allocated to City budget investment, which is slightly more than in 2004. In the coming years, an increase in the municipal budget revenues will also ensure gradual increase in the City budget investment.

Riga City budget investment (MLVL)



Swift economic development and an increase of private investment will also increase the demand for respective investment into the public infrastructure, especially into the transportation sector. In order to promote the development of infrastructure projects, Riga Municipality has planned to broaden the attraction of other investment sources, such as private capital attraction based on the principle of state and private partnership. Also, utilization of European Union structural funds on financing of City development needs has been increasing. As of the end of 2005, European Union structural funds projects in the total value of 106 million lats were carried out within Riga Municipality. The major sectors financed from the EU funds are housing facilities and public utilities, as well as traffic infrastructure, where 88% of all Riga City Council EU structural funds projects were carried out (by value).

Projects financed from the EU structural funds with participation of Riga Municipality (by sector)

Sector	Total value of projects (MLVL)	Riga Municipality co-financing (MLVL)
Housing facilities and public utilities	69.70	4.69
Traffic infrastructure	24.00	7.70
City planning and development	5.20	0.27
Health care	4.30	2.47
Social insurance	1.46	0.12
Tourism	1.00	0.03
Education	0.64	0.05
Total	106.30	15.33

In 2005, the major projects financed from the EU funds with the participation of Riga City Council were "Water-supply services development in Riga" (total value of projects: 69.6 million lats), modernization and development of traffic lights system, traffic lights management (value of project: 6.2 million lats), reconstruction of junctions on K.Valdemara and Daugavgrivas Streets (value of project: 3.5 million lats), reconstruction of junctions on Tadaiku and Valdeku Streets (value of project: 1.4 million lats), reconstruction of "Riga 1.slimnica" reception and construction of "Kliniska Slimnica "Gailezers"" emergency and reception block (value of projects: 4.4 million lats).

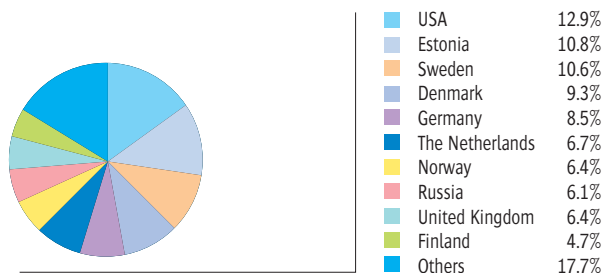
Foreign investment in Riga

→ Swift development of Riga economy over the last years as well as the stability of economic environment resulting from Latvia's integration into the EU has increased foreign investors' interest in the capital of Latvia as a promising investment place for activities in both Latvia and Baltics. As of the end of 2005, foreign direct investment into the equity capital of enterprises registered in Riga reached 1120 million lats, showing an annual increase of 14%. The major part of foreign direct investment in companies located in Riga (around 145 million lats or 12.9%) was invested by the US investors, although this country's proportion in the overall amount of investments has decreased over the last year. The second place goes to investors from Estonia with 120 million lats (10.8%), and the third place: to Sweden with 119 million lats (10.6%).

Especially high increase in investment over the last year comes from

Estonia: growth by 60% (by 45 million lats), Great Britain: by 36% (by 19 million), Russia: by 28% (by 15 million).

Foreign investment in Riga, breakdown by country



* Based on data from Lursoft

Structure and function of Riga City Council

→ In March, 2005 the new Riga City Council started to function. The Riga City Council consists of 60 that respectively elected Riga City Council Chairman, Riga City Council deputy chairmen, and members of committees. In order to ensure self-functioning and prepare issues to review during Riga City Council meetings, Riga City Council formed permanent committees.

The following committees are part of Riga City Council:

- 1) Finance and Administration Committee;
- 2) Social Issues Committee;
- 3) City Development Committee;
- 4) Environmental Committee;
- 5) City Property and Privatization Committee;
- 6) Education, Youth, and Sports Committee;
- 7) Culture, Arts, and Religion Committee;
- 8) Municipal Services and Housing Committee;
- 9) Traffic and Transport Affairs Committee;
- 10) Security and Order Committee.

The functioning of Riga City Council is ensured by Riga City Council Chairman, Riga City Council Deputy Chairmen, Presidium of Riga City Council, Executive Director of Riga City, as well as employees of municipal organizations and enterprises in accordance with the structure of municipal administration.

In 2005, in order to improve the functioning of Riga Municipality, Riga City Council approved the new regulations of Riga Municipality.

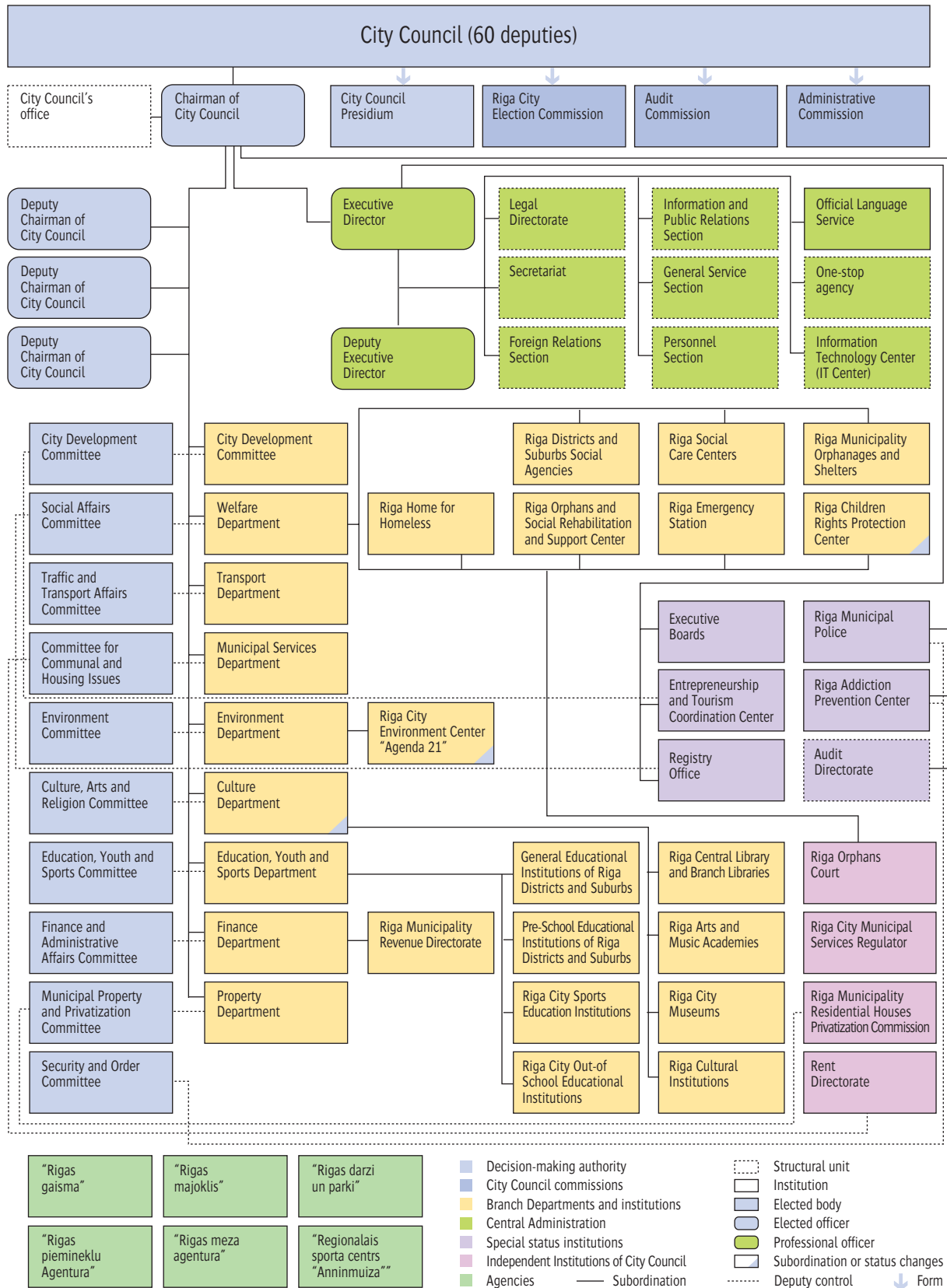
The law of the Republic of Latvia "On Municipalities" defines the following functions of Riga Municipality:

- to provide accessible health care, and encourage inhabitants for a healthy style of life;
- to provide inhabitants with social assistance;
- to offer assistance to inhabitants in solving housing issues;
- to provide inhabitants with the rights to receive basic and general secondary education, and to provide places for pre-school age children in educational and child care-centers;
- to establish regulations for the utilization of and building on land in accordance with the administrative territory plan of Riga City;
- to monitor construction works in Riga City administrative territory;
- to organize public transportation services;
- to ensure territory improvement and sanitation within the administrative territory of Riga City;
- to establish regulations for the use of publicly accessible forests and waters;
- to organize municipal services for inhabitants;
- to promote entrepreneurship in Riga City administrative territory;
- to help reduce the level of unemployment;
- to ensure public order.

The functioning of Riga Municipality is organized according to sectors by forming institutions responsible for each sector, Riga City Council Departments: Riga City Council Finance Department, Riga City Council City Development Department, Riga City Council Property Department, Riga City Council Education, Youth and Sport Department, Riga City Council Municipal Services Department, Riga City Council Welfare Department, Riga City Council, Riga City Council Transport Department, Riga City Council Culture Department*, Riga City Council Environment Department. To ensure functioning of Riga Municipality, Riga City Council also uses municipal agencies, capital companies, and the administration of equity share capital belonging to the Municipality is organized in line with the legislation of the Republic of Latvia.

* Established in 2006

Structure of Riga Municipality Authority



Development plan and public involvement in City planning discussion

→ The aim of Riga City development plan is to promote and ensure sustainable development of the City. Over the last three years work on the new Riga development plan was performed as the City needs an up-to-date city planning document with a long-term view. During Riga development plan preparation, number of topical research projects was carried out, such as: research on Riga nature territory, analysis of the current traffic situation, and creation of the potential transportation scheme.

As a result, the new Riga development plan for 2006-2018 was prepared as a set of documents comprising:

1. Long-term development strategy till year 2025 (approved with Riga City Council resolution on November 15, 2005);
2. Development program for 2006-2012 (approved with Riga City Council resolution on November 15, 2005);
3. Territory plan for 2006-2018 (approved with Riga City Council resolution on December 20, 2005);
4. Riga historical center and its preservation area plan (approved with Riga City Council resolution on February 7, 2006).

The public discussion on the 1st edition of Riga development plan and the 2nd edition of Riga historical center preservation and development plan took 8 weeks. Planning documents were put on display in Riga City Council, meetings with City inhabitants were held in Riga City executive authorities and discussions with experts on traffic, environmental, educational, economic development, and other issues took place. Proposals and objections received during the public discussion were evaluated and respectively integrated into the 2nd edition of Riga development plan. During this discussion as well as the discussion on the 3rd edition of Riga historical center and its preservation area plan the main attention was paid to the communication with certain population target groups as well as detailed consulting for inhabitants about Riga territory detail-plan for 2006-2018. Seminar with foreign city-planning experts was held with the purpose of improving the City development plan. The experts gave their judgment and proposals.

Within the framework of the new Riga development plan, a number of various projects and events are planned in 2006, to mention the most significant:

- Riga City development strategy till 2025 and Riga development program for 2006-2012, creation of a monitoring system;
- preparation of an action plan for Riga historical center and its preservation area's territorial plan;
- preparation of a concept for Daugava left bank silhouette;
- organizing of Northern crossing's construction;
- detail-planning of Mezaparks and other objects defined in Riga territory plan for 2006-2018;
- creation and administration of City's 3D model (city-building designing solution for the Northern high-way and other projects significant for the City).

Promotion of inhabitants' awareness and involvement in the decision-making

→ In order to inform Rigans on the current issues faced by Riga City as well as on Riga Municipality decisions and activities,

cooperation with the mass-media was continued in 2005. Also, Riga City Council's website "Online discussions with Riga City Council parliamentarians" received high public-response. This site allowed to ask questions to Riga City Council officers online. Information on the current issues of Municipality was communicated to the mass media during regular City Council Chairman's press conferences.

In order to ascertain the opinion of Rigans, public opinion surveys on issues of high importance were carried out. The results of these surveys assisted in the work of Riga City Council.

Riga Municipality website www.riga.lv reflects information on decisions made by Riga City Council, meeting processes and minutes, Riga Municipality budget, as well as receive information on services provided to the inhabitants by the Municipality.

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

→ The dynamic economic development and the diverse cultural environment makes Riga one of the most interesting European capitals and one of the most attractive partners in various economic projects.

Riga City maintains the traditional connection with fellow-cities in Europe, Asia, Australia, and North America, as well as continues to widen cooperation both with the existing fellow-cities and new cooperation partners. Fellowship-agreements with 28 cities in 21 countries have been signed, as well as affairs widened with the capital of EU and Municipalities of Central and Eastern European, Middle Asia, and Eastern block countries: in total, 20 cities in 17 countries.

In 2005, Riga had cooperation with 16 international organizations and institutions, inter alia, the union of EU capitals, union of Baltic capitals, where Riga actively participates in city-planning, cultural, traffic, and environment committees, with the organization "European Cities Against Drugs", Baltic Cultural Center, Cultural Exchange Association of the Baltics and Nordics, Union of Hansaetic Citties, also participation of Riga in the cooperation network of Baltic Metropolises continued.

In 2005, 235 events took place in cooperation with foreign fellowship and cooperation cities and international institutions. To mention the most significant ones in 2005:

- with the financial support and organizational input of Riga City Council number of events were held in French cities within the framework of festival "Amazing Latvia": conferences, economics seminars, concerts, art exhibitions, and other events. This festival was one of the biggest presentation projects Riga had ever carried out. Riga architecture, fashion, culture, and economics: all these sectors were represented in Paris, Bordeaux, Strasbourg, and Lyon;
- "Riga meeting Warsaw", where Riga City Council's official delegation was accompanied by a wide delegation of entrepreneurs and cultural representatives in order to participate in various discussions and business forums on current economic, social, and cultural issues of the cities;
- Hamburg days in Riga, and Latvian days in Rostock.

In 2005, Riga Municipality structural units continued active work in EU programs and various international projects.

Rīgas pl

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FEST

Koncerts

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Dynamic and diverse cultural
environment is what makes Riga
one of the most interesting
European capitals.



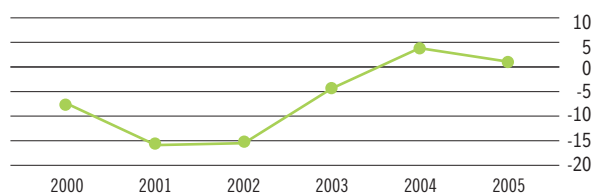
Riga Municipality financial and budget policy

Financial and budget policy

→ The aim of the Municipal budget policy is to ensure the preparation and execution of budget by balancing revenues and expenditures, provide the necessary financial resources for the municipality functions as well as ensure efficient and transparent credit-management strategy.

Since 2003 Riga Municipality has been running a consequent budget balancing policy resulting in significant reduction of City's basic budget annual deficit.

Budget deficit/surplus (in % of budget revenues)

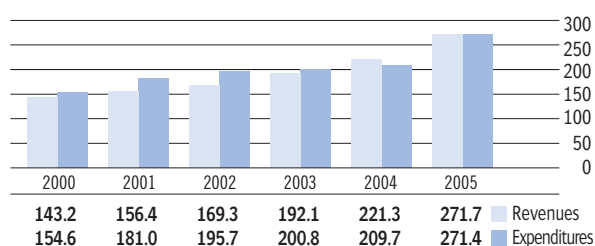


In 2005, already second year in row, surplus was achieved in the City's basic budget and special budget: 0.3 million lats and 1.9 million lats respectively.

Economic and social processes taking place in the country and the capital, which were significant during 2005: economic growth above 10%, 16-17% increase in wages as well as high inflation, had influence on the dynamics of Riga Municipality budget revenues and expenditures over the financial year.

Municipal basic budget revenues increased by 23% compared to 2004, which is the fastest growth during the last 7 years. Also, basic budget expenditures increased by 29%, however due to successful budgetary policy, balance in municipal budget revenues and expenditures was achieved in 2005.

Riga City basic budget revenues and expenditures (mil. lats)

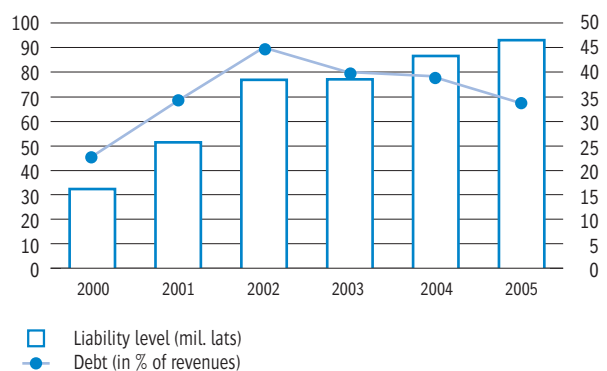


Liabilities

→ Through an effective resource attraction policy Riga Municipality has ensured an attraction of relatively cheap credit-resources intended for the City development projects. As a result, in 2005 payments from the municipal budget on borrowings and loans decreased by almost 2 million lats compared to 2004.

As a result of successful financial policy, Riga Municipality has also managed to reduce the swift growth in liabilities. During the period from 2000 to 2002 the level of City's liabilities grew by 2.4 times, but in the following years the growth was only 20%. As the basic budget revenues grew faster, during the period from 2002 to 2005 the comparative amount of liabilities decreased from 45% to 34% against the budget revenues.

The level of City liabilities



Credit-rating

→ In 2005, the cooperation with the international credit-rating agency "Standard & Poors" was continued. The cooperation with the agency allows Riga Municipality receive an objective evaluation of City's financial and budgetary state as well as prepare the necessary additions to the financial policy of the City.

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
2005	BBB/Stable/A-3	BBB/Stable/A-3

By evaluating achievements in the financial stability of Riga City, and recognizing improvements in the management of Riga Municipality financial management, the credit-rating agency "Standard & Poors" increased Riga's credit-rating to BBB/Stable/A-3.

This evaluation is a positive signal to Riga Municipality cooperation partners, providing evidence for the economic and financial growth in the City.

Riga City budget revenues

→ Riga economic growth and the results of Riga Municipality financial policy in 2005 are characterized by achievements in budget revenues and their purposeful utilization on operations of municipal autonomous functions in accordance with Riga City Council priorities.

Budget is a tool for Riga Municipality economic policy execution by financial means. Over the past five years budget priorities have stayed unchanged: education, housing facilities and public utilities, social aid, and investment into City's infrastructure.

Riga City budget comprises basic budget and special purposes budget. Riga City basic budget is the main part of the budget, which includes Municipality revenues intended for the coverage of expenditures, and are not intended for special purposes.

Riga City special purposes budget includes revenue sources marked for special purposes. Riga City budget is prepared based on the cash flow approach, simultaneously ensuring accounting based on accruals approach, which is according to the regulations by the State Treasury.

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

Riga City 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 resources tax, Municipality charges, as well as controls the collection of gambling tax and state charges' transferring to Riga City budget.

Basic budget revenues comprise:

tax revenues:

- personal income tax;
- property tax on land, buildings, and structures;
- gambling tax;

non-tax revenues:

- charges for 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 2005, Riga City basic budget revenues reached 271.7 million lats, which is 50.4 million lats more compared to 2004.

Riga City basic budget revenue composition (MLVL)

	2003 actual	2004 actual	2005 budgeted	2005 actual
Total tax revenue	142.6	165.4	192.0	193.7
Personal income tax	117.8	136.7	162.7	163.3
Property taxes, incl.:	23.5	27.0	27.2	28.3
Property tax on land	9.6	11.3	10.3	10.1
Property tax buildings and premises	13.7	15.7	16.9	18.2
Other tax revenues	1.3	1.7	2.1	2.1
Total non-tax revenue	13.6	16.7	23.6	24.6
Government (municipality) fees	0.8	0.9	0.9	0.9
Revenue from paid services provided by public authorities	11.7	14.1	21.5	22.5
Other non-tax revenue	1.1	1.7	1.2	1.2
Payments received from the state budget	35.8	39.2	43.3	48.7
Earmarked subsidies,	34.1	36.9	40.8	40.8
incl. Earmarked subsidies for investments	0.9	0.4	0.2	0.3
Payments from state budgetary institutions	1.7	2.3	2.5	7.9
Payments from other budgets	0.2	-	4.7	4.7
Total revenue	192.2	221.3	263.6	271.7

Riga City basic budget basic revenue source is personal income tax payments. Compared to 2004, personal income tax payments in 2005 have increased by 26.6 million lats.

Second biggest Riga City basic budget revenue source is property tax payments. In 2005 they formed 28.3 million lats as Riga Municipality budget revenue, including property tax on land in the amount of 10 million lats and real estate tax on buildings and structures, 182 million lats. Compared to the prior year, there is significant increase in real estate tax collection: real estate tax on buildings and structures grew by 2.5 million lats.

In 2005 a total of 22.5 million lats of Riga City basic budget revenues came from the charges for services provided by the public authorities and other own revenues. In comparison with the prior year, these payments have increased by 8.4 million lats.

Earmarked subsidies and payments from the state budget institutions are the state budget resources intended for municipalities to finance special purpose projects.

In 2005, earmarked subsidies received by Riga Municipality from the state budget amounted to 40.8 million lats, incl. 40.3 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 0.3 million lats on investments. Compared to 2004, the total amount of earmarked subsidies has increased by 3.9 million lats.

Riga City special purpose budget revenues

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

Riga City 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 2005, revenues of the Riga City special purpose budget constituted 25.5 million lats, incl. 3.3 million lats contributed by the Riga Municipality Property Privatization Fund, 5.2 million lats contributed by the Road (street) Fund, and 4.5 million lats by the Riga City Development Fund. In 2005, revenue from donations and endowments to 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 utilized as follows:

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

Riga City special purpose budget revenue composition (MLVL)

	2003 actual	2004 actual	2005 budgeted	2005 actual
Riga Municipality Property Privatization Fund	4.9	5.1	2.2	3.3
Revenue from the privatization of state and municipal property	3.7	4.4	1.6	2.6
Revenue from the privatization of apartments and the valuation of uninhabitable housing resources	1.2	0.7	0.6	0.7
State Road Fund	5.0	4.9	4.8	5.2
State Road Fund earmarked subsidies to Municipal Road (Street) Fund (direct payments)	4.4	4.4	4.3	4.7
State Road Fund earmarked subsidies for regular passenger traffic on busses	0.5	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	7.2	12.0	16.8	16.7
Riga City Development Fund (revenue from the lease of land, expropriation, and other revenue)	3.4	8.3	4.6	4.5
Revenue from sale of forest resources	2.3	2.2	2.8	2.7
Other special budget revenue	1.5	1.5	9.4	9.5
Total Revenues	17.4	22.2	24.1	25.5

Riga City Budget expenditures

→ The revenues of Riga City basic budget 2005 and special purpose budget 2005 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 this report, 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.

Given that the budget is the basis for the financial operation and management of the Municipality and serves as a financial means of ensuring the autonomous functioning of the Municipality, the composition, approval, execution, and control of the municipal budget must be performed in 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.

In line with the above mentioned order, the preparation of Riga City budget 2005, the evaluation of priorities and budget programs in accordance with unified methodology was performed, as well as

priorities were set, thus the necessary amount of financial resources for ensuring the autonomous functioning of the municipality were identified.

In order to increase the efficiency in Municipality budget resources utilization, Riga Municipality budgeting process has been improved: budget program purposes have been identified, 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, as well as their respective key performance indicators.

Riga City basic budget expenditures

→ Riga City total basic budget expenditures (incl. financing of investment projects from liabilities) have increased from 209.7 million lats in 2004 to 271.4 million lats in 2005, including financing of investment projects in the amount of 15.4 million lats.

In 2005, 27.3 million lats were diverted to the Municipal Cohesion Fund. To compare, in 2004 24.6 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, urban traffic infrastructure (illumination), improvement of the territory, etc.

Riga City basic budget expenditures composition (MLVL)

→	2003 actual	2004 actual	2005 budgeted	2005 actual
Total expenditures by function: in total	177.7	185.1	252.9	244.1
General governmental agencies	19.3	20.3	28.1	25.8
Public order and security	3.7	4.1	5.2	5.1
Education	83.5	88.3	105.0	101.2
Health care	0.5	1.7	2.7	6.9
Social security	14.4	16.5	20.6	19.7
Housing facilities and public utilities, environmental protection	22.7	21.8	47.0	42.4
Leisure, sports, culture, and religion	13.3	10.9	10.5	9.3
Transportation, communications	15.9	17.3	30.4	31.2
Other economic operations and agencies	0.2	0.2	0.3	0.3
Other expenses	4.2	4.0	3.1	2.2
Deposits to municipal cohesion fund	23.1	24.6	27.3	27.3
Total expenditures	200.8	209.7	280.2	271.4

The aim of the Riga City basic budget is to ensure the financial resources for an autonomous functioning of the Municipality. According to the development tendencies of Riga as the capital city, the ensuring of autonomous functioning of Riga Municipality has a special meaning, related to providing of national holiday celebrations 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 Riga City basic budget of

2005, 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 2006.

The identification of Riga Municipality investment program priority sectors is related to ensuring of autonomous functioning of Municipality, and 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, improvement of city infrastructure objects and city environment, ensuring of health care access as well as reconstruction of cultural intuitions.

Priority sectors of Riga City basic budget expenditures (MLVL)

	2003 actual	2004 actual	2005 actual
Priorities within the total expenditure structure (by government function)			
Education	83.5	88.3	101.2
Housing facilities and public utilities, environmental protection	22.7	21.8	42.4
Transportation, communications	15.9	17.3	31.2
Social security	14.4	16.5	19.7

Riga City special purpose budget expenditures

Riga City special purpose budget expenditure is closely linked to revenue, which during the financial year have been received for the financing of special programs. In 2005, 23.6 million

lats of specially marked expenditure were financed from Riga City special purpose budget, which is by 3 million lats more than in 2004 (20.6 million lats).

Riga City special purpose budget expenditure structure (MLVL)

	2003 actual	2004 actual	2005 budgeted	2005 actual
General governmental agencies	2.64	4.32	9.89	6.32
Public order and security	0.01	0.04	0.08	0.04
Education	0.60	0.21	0.07	0.05
Health care	0.82	1.35	0.70	0.56
Social security	0.07	0.05	0.08	0.05
Housing facilities and public utilities, environmental protection	6.22	6.39	9.08	7.27
Leisure, sports, culture, and religion	0.76	1.22	2.36	1.95
Forestry and fishery	2.03	2.31	3.58	2.63
Transportation, communications	4.22	4.67	5.58	4.76
Total expenditures	17.37	20.56	31.42	23.63

Special purpose budget is a part of budget formed with the aim of ensuring execution of individual, vital for Municipality, functions by providing a certain source of funds defined by the rules and regulations for this purpose: specially marked revenue. Apart from that, special purpose budget also includes revenue from paid services and other own revenue, foreign financial aid, as well as donations and endowments with an explicitly stated purpose or without it.

In 2005, there were three dominating directions in Riga City special

purpose budget expenditures, classified according to government function:

- housing facilities and public utilities, environmental protection with 7.3 million lats;
- transportation with 4.8 million lats (utilization of motor vehicle duty and excise tax revenues in order to maintain the city roads);
- forestry and fishery with 2.6 million lats.

The major part of Riga City special purpose budget 2005 comprises:

- Resources of 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 areas of culture, education, and sports development;
- Tunnel maintenance and operating program: revenue consists of 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 illumination objects within the Old City area, improvement of traffic flow, etc.;
- 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 illumination objects, etc.;
- Riga Municipality Property Privatization Fund resources are formed of revenues from the privatization of municipal property units and are allocated to: Riga Social Crisis Center (1% annually), the acquisition of medical equipment ("Latvijas Infektologijas Centrs" for the purchase of extracorporeal liver substitution therapy equipment and blood plasma unfreezing equipment, "Rigas Atras Mediciniskas Palīdzības Stacija" for the purchase of universal patient simulator, purchase of 75 traction splints and 20 electrocardiographs, Primary health-care center "Ziepiņkalns" for the purchase of a digital x-ray device, Latvian Oncology Center for the purchase of two dosage meters, Riga Municipality LLC "Rigas 1.slimnica" for the purchase of universal stationary x-ray devices and Riga Municipality LLC "Rigas 2.slimnica" for the purchase of equipment for sterilization equipment), repair of residential houses' water-supply systems (1, 2, 4, 6, 10, and 12 J.Vaciesa Street, 19, 25, and 27 Ezermalas Street,

15 and 17 Ciekurkalna 4.Skeršlinija, 49, 51, 53, 61, and 63 Eizensteina Street, 53 Jūrmala Avenue, and 102 Bikernieku Street), repair of Municipality's free apartments and wood-heating equipment (3-6 Grobinas Street, 1a-8 Parades Street, 102-6 Kalnciema Street, 82-11, 12, 13 Matisa Street, 73-34 Viestura Boulevard, 6-83, 84, 3a-38, 14/16-38 Simana Street, 24-1a Tvaika Street, 34-6, 36-1 Draudzības Street, and 2-22 Sniega Street), reconstruction of a social house on 22 Gobas Street, as well as the modernization of the little hockey hall within the framework of the World Hockey Championship;

- 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 "Rigas mežu aģentūra" revenues are generated from the sales of forest resources, and are utilized on the administration and maintenance of forests owned by Riga City, as well as education on matters related to forests and their protection.

Expenditure of donations and endowments received by the Riga Municipality

→ In 2005, donations and endowments to Riga Municipality complemented the revenue of Riga City budget by 483 thousand lats. These resources comprise revenue from domestic legal entities and individuals (264.9 KLVL) diverted to education and social care, and donations and endowments by the foreign legal entities and individuals (218.1 KLVL), inter alia, financing for the completion of the solid municipal waste dump project in Getlini.

The major part of donations and endowments to Riga Municipality in the amount of 210.8 million lats has been utilized on public utilities and environmental protection (solid municipal dump project in Getlini), as well as on the area of education, where resources mainly have been spent on individual educational events (purchase of study materials, tuition fee within the framework of International Baccalaureate Program, etc), and organization of sports events (organization of competitions, purchase of boats and sports suits, etc).

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

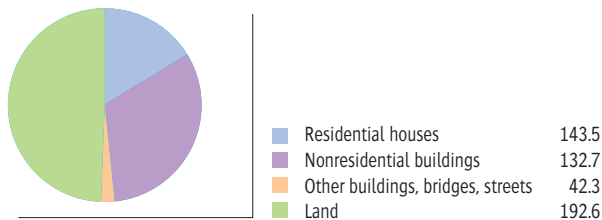
	2003 actual	2004 actual	2005 budgeted	2005 actual
General governmental agencies	33.4	141.7	80.6	19.2
Public order and security			0.5	
Education	229.3	238.6	657.6	259.4
Health care	4.7	1.4		
Social security	6.3	10.3	11.9	4.5
Housing facilities and public utilities, environment protection	243.8	11.6	253.5	210.8
Leisure, sports, culture, and religion	19.4	11.7	28.5	13.6
Total expenditure	536.9	415.3	1 032.6	507.5

Property book value

→ At the end of 2005, the book value of Riga City land, buildings, structures, and perennial plantation formed a total of 486.9 million lats, share value of associated and related enterprises constituted 186.7 million lats. The total value of City assets, including other long-term investment categories at the end of 2005 formed 697.8 million lats, showing 6% decrease year on year. This decrease in assets is based mainly on the accelerated privatization of apartments in the total value of 76 million lats that were excluded from the balance sheet of Municipality.

As the most active accelerated privatization took place in prior years, the most part of the reduction in these assets can be attributed to the prior financial year. As a result, total value of residential buildings within Riga Municipality property (land, buildings, structures and perennial plantation) book value has significantly decreased: from 31% to 17%, and currently the major part of it is formed by Municipality land.

Riga Municipality property (land, buildings, premises, and perennial plantation) **book value as of December 31, 2005 (MLVL)**



According to the data of State Land Service, at the end of 2005, 18223 ha of land was owned by various owners within the territory of the Riga City. There were 4250 land lots with a total area of 7541 ha in Riga Municipality ownership, forming 41% of the total property area in Riga. The highest proportion of Riga Municipality land is formed by land under public property objects: 3206 ha (43% of the total Municipality land) as well as 2819 ha of forest space (39% of the total area).

Riga Municipality land property by type of utilization (in ha) **as of January 1, 2006**

Public property objects	3 206
Forestry	2 819
Apartment buildings	314
Industrial objects	328
Single and double family residential houses	325
Commercial buildings	263
Traffic infrastructure objects	126
Port infrastructure	48
Engineering communications	91
Water handling facilities	22
Agriculture	0.4
In total	7 541

Residential buildings

→ Since the end of the 90-ties, a rapid privatization process of residential buildings has been taking place. As a result, 94% of all apartments intended for privatization were privatized at the end of 2004. According to this indicator (94% of apartments privatized), Riga is significantly ahead of the rest of Latvia (81%), as well as the average indicator of Latvian cities (89%).

Share in municipal enterprise equity capital

→ The share in the equity capital of associated and related enterprises (195.04 million lats) forms a significant part of Riga Municipality assets (around 28% of the total value of Municipality assets) as at the end of 2004.

At the end of 2005 investment into associated enterprises formed 163.86 million lats, 24.96 million increase year-on-year. In 2005, Riga Municipality invested in the equity capital of the following associated enterprises:

- Part of real estate necessary for ensuring Riga Municipality LLC "Rigas Satiksme" transportation services amounting to 15.4 million lats, rights to demand against the LLC 7.7 million lats, and vehicles in the total value of 0.1 million lats;
- Investment into LLC "Rigas Pilsetbuvnieks" in a form of real estate formed 1.1 million lats;
- Usage of land rights to Riga Municipality JSC "Rigas Centraltirgus" for 10 years' period in the total value of 0.65 million lats;
- Investment into LLC "Rigas Udens" in a form of a land lot with value of 0.08 million lats;
- Riga Municipality LLC "Kliniska slimnīca "Gailezers"": 0.15 million lats of funds.

As at the end of 2005, Riga City Council's balance sheet reflected 42 investments into the equity capital of related enterprises with 100% (share) ownership by Riga Municipality, 4 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 4 limited companies with the control by Riga Municipality (ownership of more than 50% of shares).

As at the end of 2005, Riga City Council's balance sheet reflects investments into the equity share capital of 6 associated enterprises with a total value of 31.2 million lats. 81% of this amount is formed by the investment into JSC "Rigas siltums".

Privatization

→ During the financial year, privatization of Riga Municipality property was sustained. 568 proposals for privatization were received. In 2005, Riga City Council passed 63 resolutions on the privatization of 67 Riga Municipality property objects and land lots. In 2005, 128 Municipality property purchase contracts with a total value of 1.5 million lats were signed, whereof 77% to be paid in cash. The privatization process can be completed by the resolution of the Riga City Council on the completion of privatization. In 2005, Riga City Council passed 81 such resolutions.

Education

→ In 2005, the total financing for educational sector in Riga City basic and special purpose budget expenditures structure according to the functional categories formed a total of 101.2 lats. In 2005, total financing for education and investment projects was by 12.9 million lats more compared to 2004 (88.3 million lats). This increase was diverted as perquisites to the remuneration of the educators in the educational institutions of Riga City, the increase of maintenance costs of educational institutions and the renovation and overhaul of educational premises.

In 2005, there were 150 preschool educational institutions founded by the Municipality in Riga, as well as 109 high-schools, 24 elementary schools, whereof 12 are special schools and 6 are night schools, with a total of 85029 students. In order to promote students' interest in spending their spare time effectively, thus developing their abilities and talents, as well as improving their physical condition and abilities in sports, there are 14 out of school educational institutions and 17 sports educational institutions in Riga, and in 2005 this number increased by 3 new spare time centers. With the financial support of Riga Municipality 430 children's camps and 143 various events for children and youth of Riga were organized. Riga Municipality, in cooperation with other institutions, created 12 new children's playgrounds near Riga Municipality institutions, as well as performed children's security activities, ensuring 29 Riga Schools with security guards, installing video-monitoring in 10 schools, and supplying students with reflectors.

The major part of resources allocated to education has been utilized on financing of general education (primary schools, elementary schools, high schools). In 2005, an increase in this financing reached 6.7 million lats compared to 2004. In 2005, compared to 2004, financing to pre-school educational institutions grew by 2.7 million lats, and remuneration of teachers, school-heads, and vice school-heads in charge of procurement was increased.

29 new groups in pre-school educational institutions were created, including 7 groups in Dreilini community. Riga Schools' involvement in the IX Latvian School Youth Song and Dance Festival was ensured and financing increased for the purchase of educational books in Riga Municipality schools. In 2005, such significant documents as regulations

on the procedure for children's registration and enrollment into Riga Municipality pre-school educational institutions, which perform pre-school educational programs, regulations on the procedure for children's enrollment into Riga Municipality general educational institutions for the following study year, were prepared, as well as agreements with 20 pre-school educational institutions and 21 Riga general education schools were signed about the schooling of little Rigans.

In 2005, the awarding of "The Golden Scholarship" and "The Golden Pen", which already has become a tradition, was continued, as well as nominations for titles of best out-of-school education students, teams, and teachers took place.

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 reconstruction of educational premises within the whole City.

In 2005 the investments on education amounted to 4.2 million lats.

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

- accomplished renovation and reconstruction of educational institutions, inter alia, reconstruction of the kitchen area in Riga Secondary School No.99 and the reconstruction of the guest house on Bruknas Street, near Ziepniekkalns swimming-pool;
- renovation and improvement of Riga Ukrainian Secondary Schools building on 4 Visvalza Street, including the overhaul of the building and the construction of a gallery, equipment of canteen and kitchen, technological equipment in the kitchen, household room's equipment, and improvement of the yard;
- continued reconstruction of Strazdumuiza boarding-school's development center;
- continued work on the improvement of energy efficiency (replacement of windows and external doors) in Riga City educational institutions, including Riga Secondary School No.13, Riga Special Boarding School No.5, etc.

Riga City budget expenditure on the execution of municipality functions

Expenditure allocated to education* (KLV) (LVL)

	2003 actual	2004 actual	2005 budgeted	2005 actual
Administration and management of educational institutions	1 266.2	1 391.6	1 757.6	1 740.3
Pre-school educational institutions	16 358.0	17 569.3	20 879.1	20 290.3
Special pre-school educational institutions	1 686.1	1 813.3	2 115.3	2 113.3
Primary schools, elementary schools, and high schools	47 715.1	48 314.0	57 837.9	55 048.9
Boarding schools and sanatorium-boarding schools	1 271.5	1 230.2	1 640.3	1 558.1
Special boarding schools	3 103.2	3 480.5	3 922.9	3 922.8
Improvement of professional education	198.5	220.3	297.2	264.1
Children's music and art schools	1 811.3	2 007.1	2 297.5	2 250.7
Other out of school educational activities	9 493.9	10 929.1	12 819.7	12 607.0
Purchase of educational textbooks	229.9	601.8	653.2	651.7
Methodological work and other educational activities	315.4	712.4	761.8	737.2
Basic budget expenditure, incl.	83 449.1	88 269.4	104 982.5	101 184.4
Investment	7 692.5	2 898.1	7 052.1	4 160.9
Special purpose budget expenditure	950.2	214.0	71.6	52.1
Total	85 167.9	88 483.4	105 054.1	101 236.5

* Excluding donations and endowments

Social security

→ The swift economic development of Riga City creates opportunities and simultaneously need to pay more attention to the development of City's social sector.

In 2005, Riga Municipality utilized 19.7 million lats from the basic and special purpose budget, as well as investments on matters related to social security. Investment formed 0.4 million lats of this amount. The financing of this sector reached 28 lats per City inhabitant, which is by 2.7 times more than in 1999.

In 2005, Riga Municipality 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 location 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 10 million lats, which is 3.7% of City's total basic budget expenditure. Furthermore, remuneration of staff in health-care institutions was increased in 2005.

Structure of resources allocated to the social aid sector in 2005



In 2005, the quality social aid and social services improved, and the number of inhabitants using social agencies' services grew with the

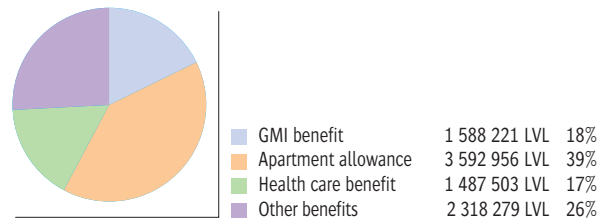
increase in the amount and variety of services and aid offered. In 2005, new structural unit of Riga Municipality started its operation: Center for Social Issues, a consulting center for socially endangered Riga inhabitants. In 2005, Riga Municipality provided social care and social rehabilitation services to almost one thousand children. 432 children were registered in day-care institutions in 2005. In 2005, 4250 people were provided with services such as home care, financial support for family members ensuring peoples' care at home, service "alarm button", hot meal at home, assistance, etc. Disabled people are one of the most undefended population groups, whose involvement in various social processes often is impossible without a helping hand. For people with movement difficulties and who are unable to use public transportation, Riga Municipality covers transportation costs and provides with an opportunity to use specially equipped vans, adapted for the needs of individuals with movement difficulties, as well as taxi services.

In total, 2086 individuals were provided with the transportation services in 2005, and LVL 219 534 of Riga City budget were allocated for this purpose, i.e. 105 lats per person. Compared to 2004, the number of individuals having used transportation services increased by 35%. As of 2003, Riga City Council has been allocating financing for lifting mechanisms in residential houses inhabited by individuals with movement difficulties. In 2005, 22 electromechanical lifting mechanisms were installed in residential houses in the total value of LVL 72 296. In order to solve the problem of homeless people, there is a municipal institution: Riga Lodging-house operating in Riga. In 2005 lodging-house services were provided to 2019 individuals (1212 in Riga lodging-house and 807 in cooperation with other lodging houses).

Social aid

During the financial year, amounts for two main benefits were significantly increased: guaranteed minimum income (GMI) level benefit and apartment allowance. The GMI level set by the State in 2005 was 21 lat. Riga Municipality has set an increased GMI benefit for certain groups of population. In 2005, the increased GMI benefit in Riga Municipality was 40 lats, which was allocated to 19.8 thousand Rigans in 2005.

Structure of social aid benefits in 2005 (LVL and in %)



The system of material assistance in 2005



Type of social aid	Number of individuals	Resources allocated, LVL
Benefit for ensuring the minimum guaranteed income level	19 796	1 588 221
Non-recurring benefit in case of an emergency (natural disaster, burial)	10 291	343 805
Apartment allowance	54 905	3 592 956
Health care benefit	29 432	1 487 503
Benefits to families with children	5 893	119 625
To foster families	32	21 403
To orphans	291	31 133
To committees	171	80 700
To trustees	503	101 414
For the care of newborn	7 381	738 100
To the politically retaliated	4 807	168 245
For other purposes		713 854
Total social aid		8 986 959

In 2005, in average 80.23 lats were spent as an allowance for the minimum guaranteed income, which is by 30% more than in 2004. 65.44 lats as the apartment allowance per person in a household, which is an increase of 7% compared to 2004.

The major investment projects:

- performed repair of Riga Municipality orphanage/lodging-house "Apite";
- commenced repairs, renovation, and reconstruction of children's

and old people's homes, social care institutions, and support agencies: Riga Municipality orphanage "Ziemeli", Family Crisis Center "Milgravis", renovation of premises, etc.;

- projects prepared for the renovation of heating, ventilation, and water-supply systems of the social home on 35k-3 Aglonas Street;
- constructed 22 lifts for the disabled;
- constructed 22 ramps for the disabled at residential houses.

Expenditure allocated to social security* (KLVĻ)

	2003 actual	2004 actual	2005 budgeted	2005 actual
Municipality allowances, compensations, and social aid	7 491.9	8 441.8	10 125.3	10 012.3
Children's care centers	2 021.6	2 302.6	2 270.1	2 174.1
Old people's homes	2 012.2	2 088.5	2 703.5	2 656.2
Homes for the disabled	–	2.3	–	–
Other lodging homes of social care	451.4	826.4	740.8	731.0
Social care agencies, etc.	1 763.5	1 777.4	2 724.7	2 567.2
Other social care institutions and activities	148.5	404.0	1 251.5	769.4
Custody court and parish courts	165.6	286.8	378.9	365.6
Financial management	351.6	384.5	420.7	416.5
Basic budget expenditure, incl.	14 406.2	16 514.3	20 615.5	19 692.3
Investment	560.2	610.9	601.9	348.8
Special purpose budget expenditure	7.5	54.5	83.3	50.7
Total	14 413.7	16 568.8	20 698.8	19 743.0

* Excluding donations and endowments

Health care

→ Riga Municipality continues allocating considerable financial resources to the improvement of Riga health care system. In 2005 the total amount of health care program financing coming from the basic budget, the special purposes budget as well as investment resources amounted to 7.5 million lats, which is by 4.5 million lats more than in 2004.

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".

As of 2005, co-financing of Riga Emergency Center from Riga Municipality resources was started in order to ensure an increased access to emergency services.

The major investment projects:

- continued repair and reconstruction works in Riga Municipality LLC "Klīniskā slimnīca "Gailezers"": repair of the 16th neurosurgical department and reconstruction of disinfection and sterilization departments was performed, seven stationary monitors and a workstation, and medical pictures' archiving and communication (PACS) system with radiologist work stations was purchased, as well as co-financed the construction of a helipad;
- continued reconstruction of Riga Municipality LLC "Rīgas pilsetas Dzemdību nams" reception and infection insulators;
- performed the installation of Riga Municipality LLC "Rīgas pilsetas Dzemdību nams" uninterrupted electrical supply system and reconstruction of the electrical power network.

Expenditure allocated to health care* (KLVĻ)

	2003 actual	2004 actual	2005 budgeted	2005 actual
Hospitals	104.4	883.1	909.5	692.1
Outpatient treatment institutions	183.4	493.2	1 839.6	6 236.6
Financial management	227.1	270.8	–	–
Basic budget expenditure, incl.	514.9	1 647.1	2 749.1	6 928.7
Investment	123.8	1 108.8	1 012.6	699.1
Special purpose budget expenditure	825.9	1 350.3	703.0	561.1
Total	1 340.9	2 997.4	3 452.1	7 489.8

* Excluding donations and endowments

Housing facilities, public utilities, and environmental protection

→ In 2005, the total amount of housing facilities and public utilities program financing coming from the basic budget, the special purposes budget as well as investment resources amounted to 49.7 million lats, which is by 21.5 million lats more than in 2004. In 2005, these resources were utilized mainly on the implementation of Riga City housing program, as well as the maintenance and renovation of bridges, streets, roads, pedestrian tunnels and lighting systems, upkeep of cemeteries, City gardens, parks, squares, fountains and the renovation of street greenery.

In the area of housing facilities and public utilities, 425 apartments were constructed in Riga City in 2005, and 776 apartments were rented out (incl. 113 apartments in social houses).

In 2005, renovation of existing free Municipality apartments was performed from the resources of Riga City Property Privatization Fund for the total value of 100.6 thousand lats, thus creating 42 apartments for recurring rent.

In the area of traffic infrastructure, in 2005 8.97 million lats were spent on the renovation and reconstruction of street surfacing in the total area of 328 thousand square meters. A significant traffic infrastructure object in 2005 was the construction of street network around Arena Riga within the framework of World Hockey Championship in Riga. In 2005, also parts of Hospitalu, Jurkalnes, and Augusta Deglava Streets, as well as 11 Novembra Krastmala were reconstructed.

In 2005, new Riga budgetary program was opened: periodic renovation of street surfacing. 1.33 million lats were allocated to financing of 25 objects within this program. Within the area of Riga City environment protection, the following activities were performed: environment protection plans for natural reserves "Vakarbuli", "Jaunciems", "Daugavgriva" were prepared and approved, "Riga City Municipal Waste Plan 2006-2012" was prepared, soil and groundwater contamination reduction activities were performed in the territory of the former "Rumbula" airfield oil terminal, as well as improved natural foundation territories in the total area of 85 ha.

The major investment projects – Housing facilities and public utilities:

→ continuation of renovation of a residential house on 44/50 Lubānas Street: building of apartments for disabled people;

- planning and construction of individual heat supply systems, as well as planned and performed general construction works for the construction of 57 annexes near municipal residential houses (in connection with the installation of individual heating systems);
- commencement of Riga cemeteries development program (power supply system's reconstruction in the administration building of I Meža Cemetery, Cemetery Authority's building on 1A Aizsaules Street, Sarkandaugava Cemetery administration building and mortuary;
- creation of new burial area in Bolderaja Cemetery;
- repair or renovation of elevators in Riga apartment houses.

The major investment projects – Traffic infrastructure:

- commencement of Southern Bridge route planning and construction;
- commencement of Dreilini community street network construction;
- continuation of street reconstruction in line with the detailed plan among Sporta Street, Vesetas Street, Zirnu Street, and the railroad;
- performed of territory improvement and building of engineering communications within the area of the Olympic Sports Center;
- performed the current situation pre-analysis and analysis on the traffic around the Latvian National Library and the Acoustic Concert Hall;
- performed repair of Airu Street;
- ensured the construction of solid road surfacing on non-asphalted streets, renovation of street surfacing, installation of traffic signs and safety barriers in areas dangerous for the traffic, as well as equipment of public transportation stops, etc.

The major investment projects – Environmental protection:

- continuation of solid waste dump planning;
- continuation of construction (renovation) of the main draining-ditches in the Jurmala Avenue area with the purpose of draining the territory between Jurmala Avenue and Riga-Jurmala railroad, and the territory between Beberbeki Street and Kuburga Street.

Expenditure allocated to public utilities and environmental protection* (KLVL)

	2003 actual	2004 actual	2005 budgeted	2005 actual
Housing facilities and public utilities	1 698.2	1 976.0	2 762.0	2 719.0
Sanitary activities, incl. arrangements for environmental protection	48.9	511.1	–	-680.0**
Street illumination	2 671.0	2 531.9	3 289.7	3 268.1
Other expenditures related to public utilities and environmental protection	18 255.8	16 734.6	40 939.8	37 098.7
Basic budget expenditure, incl.	22 673.9	21 753.6	46 991.5	42 405.8
Investments	10 531.2	4 692.6	10 976.4	9 164.7
Special purpose budget expenditure	6 222.3	6 387.0	9 081.4	7 271.4
Total	28 896.3	28 140.6	56 072.9	49 677.2

* Excluding donations and endowments

** Loan has been repaid from the municipal budget

Culture and Sports

→ In 2005, Riga Municipality utilized 11.2 million lats on the financing of cultural and sports events from the Riga City basic budget, special purpose budget and investment resources. 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, children's music and art academies, as well as remuneration of curators of folk arts and amateur arts groups.

In 2005, 302 folk art groups with more than ten thousand participants, incl. 90 quires, 55 dance groups, 6 brass bands, 17 folklore groups, 47 applied arts studios, 47 vocal groups, as well as 416 amateur groups with more than thirteen thousand participants. As the most significant cultural events in 2005 in Riga should be mentioned the IX School Youth's Song and Dance Festival "Sudmalinas", a broad cultural events program during the "Riga Days". A special event of an international significance within the cultural life of Riga was year 2005 presentation of Riga City in the festival "Amazing Latvia", an program of interesting and diverse cultural events in French cities of Paris, Bordeaux, Lyon, and Strasbourg. Riga Municipality also supported film events "Arsenal" and "The Baltic Pearl".

In 2005, in accordance with the execution of Riga cultural policy conception program, 166 projects were supported in the total value

of LVL more than 200 thousand lats, thus financing 14 visual arts, 58 music and 4 dance, 12 theater, 28 film arts projects, etc.

Also various sports events and competitions took place in Riga, gathering more than 100 thousand participants in 298 various sports events during 2005. Here should be mentioned Riga City Council cup in ball-room dancing, Riga cycling marathon, Riga cup in track-and-fields, as well as international level competition in artistic gymnastics "The Baltic Circle".

In total, 66 City championships and youth matches, 137 national sports events, 14 veteran competitions, and 15 competitions for disabled people were organized in Riga, as well as support provided for Riga sportsmen's participation in European and World championships. In order to be able to provide Rigans with possibilities for sports also during the winter time, a project on artificial snow track construction was commenced in 2005.

The major investment projects:

- commenced work on the 2nd stage of sports center reconstruction on 10 Uzvaras Boulevard and 2 Ojara Vaciesa Street;
- prepared territorial planning projects for the clarification of Riga City Development Plan.

Expenditure allocated to leisure, sports, culture, and religion* (KLV) (KLV)

	2003 actual	2004 actual	2005 budgeted	2005 actual
Administration and management of sports and culture related matters	208.5	215.5	328.6	326.3
Sports events	508.5	1 417.2	954.5	949.8
Other sports institutions	3 388.7	145.5	1 665.0	1 336.7
Libraries	1 566.6	1 735.5	1 833.2	1 815.4
Museums and exhibitions	46.4	57.9	144.1	46.1
Culture palaces, houses, and clubs	1 051.6	1 241.9	1 695.9	1 651.9
Activities related to theaters, performances, and concerts	3 432.3	3 432.5	338.3	66.0
Cultural events and acquisition of art objects	767.6	1 292.7	1 703.6	1 654.0
Remuneration and social security payments for curators of folk arts amateur groups	561.0	654.9	661.0	661.0
Other cultural institutions, not classified above	959.0	537.3	953.1	597.1
Financial and other administrative management, auxiliary services	–	–	–	–
Other events related to leisure, sports, culture, and religion, not classified above	853.1	189.4	213.6	157.1
Basic budget expenditure, incl.	13 343.2	10 920.5	10 490.8	9 261.5
Investment	6 421.8	3 724.9	680.9	64.0
Special purpose budget expenditure	767.6	1 215.2	2 358.0	1 946.3
Total	14 110.8	12 135.7	12 848.8	11 207.8

* Excluding donations and endowments

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 2005, Riga Municipality allocated 36 million lats to the provision of public transportation services, which is by 14 million lats more than in 2004.

In order to improve the organization of public transportation services in Riga City an agreement "On providing public transportation, transportation, and paid parking services in Riga" was signed between Riga City Council and Riga Municipality LLC "Rigas Satiksme". This agreement defines the rights and obligations of both parties in the area of public transportation, financial payment system, and the procedures for control.

LLC "Rigas Satiksme" provided transportation in:

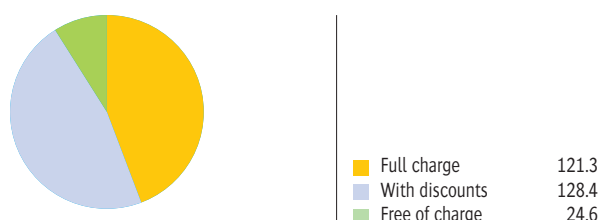
- 11 tram routes;
- 20 trolley-bus routes;
- 64 public bus routes.

In 2005, Riga public transportation (bus, tram, and trolley-bus) carried 274.3 million passengers, which is an increase of 6% compared to 2004.

In 2005, only 44% of Riga public transportation traffic was paid in full, the remaining portion was subsidized from Riga City budget.

On a daily basis, more than 420 passages have been subsidized from the municipal budget.

Passenger flow in Riga public transportation in 2005 (mil. passengers)



Road safety

In 2005, Riga City road safety book "Balta gramata" was issued with goals defined for the area of road safety until year 2009. Also the so called City's "black spots" map was analyzed and the rebuilding plan of the dangerous junctions was prepared for 2006-2008. Illumination of special construction on 14 non-regulated pedestrian crossings was installed, thus ensuring long distance visibility of these pedestrian crossings. In connection with the students' safety, 15 new speed reduction dams were built near the City educational institutions. Thus, there are 88 speed reduction dams in total in the City.

Riga City budget expenditure on the execution of municipality functions

Expenditure allocated to transportation and communications* (KLV) (KLV)

	2003 actual	2004 actual	2005 budgeted	2005 actual
Motor vehicles	12 698.0	13 060.3	30 337.9	30 337.9
Other services related to transportation and communications	3 205.7	4 240.2	–	879.5
Basic budget expenditure, incl.	15 903.7	17 300.5	30 381.9	31 254.4
Investment	4 252.4	1 275.6	10.0	10.0
Special purpose budget expenditure	4 222.5	4 673.2	5 574.1	4 759.9
Total	20 126.3	21 973.7	35 956.0	36 014.3

* Excluding donations and endowments

Public order and security

➔ In 2005, Riga Municipality allocated 5.1 million lats to the public order and security related matters and activities from the basic budget and special purpose budget resources, which is by 969.2 million lats more than in 2004. 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. In 2005, public order and security was ensured during 404 public events in Riga, inter alia, the visit of the President of the United States of America. In order to inform society about current safety issues, information bulletins were issued "On the safety on the water" and "On the safety on the street", as well as 400 information events were held in Riga schools.

Expenditure allocated to public order and security* (KLV) (KLV)

	2003 actual	2004 actual	2005 budgeted	2005 actual
Public order and security matters, not classified earlier (Municipal Police)	3 646.7	4 135.9	5 188.6	5 099.2
Other services related to public order and security, not classified earlier	0.4	2.0	–	–
Basic budget expenditure, incl.	3 647.1	4 137.9	5 188.6	5 099.2
Investment	333.5	119.7	22.1	20.0
Special purpose budget expenditure	1.2	36.0	82.7	44.0
Total	3 648.3	4 173.9	5 271.3	5 143.2

* Excluding donations and endowments



IZGĪTĪBA



The development tendencies over the last years create confidence about Riga as a secure place for its inhabitants' future plans for education, work, leisure, and business.

To Riga City Council



1. We have audited the summary financial statements of Riga City Council for the year ended 31 December 2005, on the basis of which the condensed financial statements of Riga City Council for the year ended 31 December 2005 have been prepared, set out on pages 38 through 48. Except as disclosed in paragraphs 2, 3, 4, 5, 6, and 7 below, we conducted our audit in accordance with International Standards on Auditing issued by the International Federation of Accountants. In our auditors' report dated 13 April 2006, we expressed our opinion on the summary financial statements of Riga City Council for the year ended 31 December 2005, on the basis of which the condensed financial statements of Riga City Council for the year ended 31 December 2005 have been prepared, stating that, except for the effect of such adjustments, if any, as might have been disclosed had we been able to evaluate the effect of uncertainties listed in paragraphs 2, 3, 4, 5, 6, and 7 below on the figures of the reporting and prior years, based on our audit and reports issued by other auditors, the financial statements referred to above give a true and fair view of the financial position of Riga City Council as at 31 December 2005, of the results of its operations and cash flows for the year then ended in accordance with Regulations No. 446 of the Republic Latvia Cabinet of Ministers On the Procedure for Preparation of Annual Reports of State and Municipal Institutions and with the accounting policies of Riga City Council disclosed in the notes to the financial statements. We have not audited the financial statements of Riga City Council City Development Department, Riga City Council Transport Department, Riga City Council Municipal Services Department, Riga City Council Education, Youth, and Sports Department, Riga City Council Welfare Department, Riga City Council Environment Department, Executive Board of Riga Central District, Executive Board of Riga Kurzeme District, Executive Board of Riga Latgale District, Executive Board of Riga Vidzeme District, Executive Board of Riga Zemgale District, Executive Board of Riga Ziemeļi District, Riga Children Rights Protection Centre, Riga Drug Addiction Prevention Centre, Riga Municipal Police, Riga Custody Court, Riga City Council Cultural Department, Riga Tourism Coordination and Information Centre, Riga Environment Centre Agenda 21, Riga Municipal Apartment House Privatisation Board, Riga Municipal Agency Rīgas mājoklis, Riga Municipal Agency Rīgas meža aģentūra, Riga Municipal Agency Rīgas gaisma, Riga Municipal Agency Rīgas dārzi un parki, Riga Municipal Agency Rīgas pieminekļu aģentūra, Riga Municipal Agency Reģionālais sporta centrs Anņņmuiža, Riga Municipal Agency Telemedicīnas centrs, Riga City Public Services Regulator (hereinafter jointly referred to as the "Municipal Institutions") included in the above summary financial statements. The total assets of the Municipal Institutions as at 31 December 2005 amounted to LVL 113 385 740 and their total expenses for the year ended 31 December 2005 amounted to

LVL 144 309 600. These financial statements have been audited by other auditors, whose reports as of 24 and 27 February, 1, 2, 3, 6, 7, 8, 9, 10, 13, 14, 16, 27, 20, 29 March 2006 have been reviewed by us, and our opinion as far as it concerns the Municipal Institutions covered by the summary financial statements is based solely on the opinion of such other auditors.

2. The Riga City Council Property Department continues the stocktaking process of the real estate owned by Riga City and the registration of the respective ownership rights with the Land Registry. Under the above process, adjustments to the carrying amounts of the real estate are being made and title to the real estate whose owners have not been strictly defined is being concerted. The aforesaid process has been completed in relation to a part of the Riga municipal real estate and a part of the land plots included in the administrative territory of Riga City. Therefore, the carrying amount of the real estate as at 31 December 2005 and beyond might be adjusted. We were not able to identify the number or amount of potential adjustments which would be attributable to the real estate as at 31 December 2005. These circumstances were also effective as at 31 December 2004 and in the previous years whereon the former auditors expressed a qualified opinion in their report dated 20 April 2005.

3. According to the value of the apartments privatised under the accelerated privatisation process as at 31 December 2005 as estimated by the Riga City Council Property Department, in 2005 the Riga City Council Property Department excluded from the balance sheet the value of the apartments privatised under the accelerated privatisation process in the amount of LVL 76 million. The said amount comprises the total value of all the apartments privatised by 31 December 2005. Therefore, a part of the excluded amount is attributable to the prior reporting periods. We were not able to determine the amount of potential adjustments and estimate the amount attributable to the previous reporting periods.

4. The value of the apartment houses included in the balance sheet of the Riga City Council Property Department as at 31 December 2005 also comprises the part of the common use properties attributable to the apartments privatised under the accelerated privatisation process, which will be fully excluded from the balance sheet of the Riga City Council Property Department as soon as the planned privatisation process is completed. We believe that the said part of the common use properties cannot be treated as an asset of the Riga City Council Property Department. As there is an uncertainty regarding how and to what extent the common use properties will be privatised under the planned privatisation process, we were not able to determine the amount of potential adjustments in respect to the part of the common use properties attributable to the apartments privatised under the accelerated privatisation process.

5. The Riga City Council Transport Department continues appraisal of the facilities of the Riga street infrastructure. Riga Council is in charge of the Riga street infrastructure. However, these assets had not been recognised in the accounting records of Riga Council until 2000. In the period from 2003 to 2005, Riga Council recognised only part of capitalised street reconstruction costs and the street infrastructure that has been already appraised by charge to the balance sheet caption Land, buildings, constructions and perennial plants. For this reason, the carrying value of the street infrastructure as at 31 December 2005 and beyond will be adjusted. We have not been able to determine the number or amount of potential adjustments which would be attributable to the street infrastructure as at 31 December 2005. These circumstances were also effective as at 31 December 2004 and in the previous years whereon the former auditors expressed a qualified opinion in their report dated 20 April 2005.

6. Riga City does not have a unified method to measure forest stand. Until 31 December 2005, these assets had not been measured and stated in the accounting records of Riga City Council. We have not been able to determine the amount of potential adjustments which would be attributable to forest stand as at 31 December 2005.

7. Riga City Council has neither developed respective methods, nor established provisions for earned but unused vacations which would be attributable to the current and prior reporting years. We were not able to determine the amount of potential adjustments to vacation pay reserve which would be attributable to the liabilities and accrued result as at 31 December 2005.

8. In our opinion, the aforementioned condensed financial statements in all material aspects correspond to the full summary financial statements of Riga City Council for the year ended 31 December 2005, on the basis of which the condensed financial statements have been prepared.

9. To obtain a more complete view of the financial position of Riga City Council as at 31 December 2005, and of the results of its operations in 2005 and the amount of our audit work, the aforementioned condensed financial statements should be viewed in conjunction with the full summary financial statements of Riga City Council for the year ended 31 December 2005, on the basis of which the condensed financial statements have been prepared, and our respective auditors' report.

SIA Ernst & Young Baltic
Licence No. 17



Diana Krišjāne
Chairperson of the Board
Latvian Sworn Auditor
Certificate No. 124

Riga, 26 May 2006

Riga Municipality Consolidated Balance Sheet

	31.12.2004. (KLVĻ)	31.12.2005. (KLVĻ)
Assets:	794 135.7	739 118.7
Long-term assets	743 602.5	697 762.5
Intangible assets	3 461.5	2 796.6
Tangible fixed assets	542 602.0	486 876.6
Financial investments	197 539.0	208 089.3
Current assets	50 533.2	41 356.2
Inventory	12 292.2	12 065.1
Accounts receivable	13 073.9	9 547.2
Prepaid expenses	557.2	1 289.9
Securities and short-term investment in equity capital	3 843.9	3 843.8
Cash and bank	20 766.0	14 610.2
Equity and Liabilities:	794 135.7	739 118.7
Equity	679 850.3	629 753.0
Equity capital	512 852.6	509 846.1
Reserves	68.0	68.0
Retained budget surplus for the prior year	140 210.3	143 512.7
Budget surplus for the year	26 719.2	-23 673.8
Liabilities	114 285.4	109 365.7
Borrowings	86 502.7	92 920.9
Accounts payable	3 781.5	2 383.7
Taxes payable	3 058.8	2 569.8
Affiliated enterprises, and employees	15 843.0	5 133.8
Other liabilities	5 099.4	6 357.5

Receivables

	31.12.2004. (KLVĻ)	31.12.2005. (KLVĻ)
Customers' accounts	5 445.3	982.9
ISPA, SAPARD and other debtors	6 684.8	6 134.3
Prepaid expenses	727.2	2 146.0
Other receivables	216.6	283.9
Total	13 073.9	9 547.1

Liabilities

	31.12.2004. (KLVĻ)	31.12.2005. (KLVĻ)
Borrowings	86 502.7	92 920.9
Affiliated enterprises, and employees	15 843.0	5 133.8
Accounts payable	3 781.5	2 383.7
Salaries and payroll tax payable	2 442.5	2 684.7
Taxes payable	3 058.8	2 569.8
Deferred income	2 425.3	3 361.0
Other liabilities	231.6	311.8
Total	114 285.4	109 365.7

Income Statement (Basic budget) Accrual basis

	2004 (KLV) (KLV)	2005 (KLV) (KLV)
Revenue		
Total tax revenue	160 700.6	192 888.3
Personal income tax	136 738.7	163 844.3
Property taxes	22 280.4	26 937.3
Real estate tax on land	6 631.5	8 886.2
Real estate tax on buildings and structures	15 648.9	18 051.1
Other tax revenues	1 681.5	2 106.7
Total non-tax revenue	86 601.2	66 956.3
Government and municipality fees transferred to municipal budget	870.5	894.9
Revenue from paid services provided by public authorities	19 636.7	19 498.8
Other non-tax revenue	66 094.0	46 562.6
Total tax and non-tax revenue	247 301.8	259 844.6
Payments from state budget	41 555.0	57 786.6
Earmarked subsidies	39 282.4	50 216.7
Earmarked subsidies for education and culture	36 482.8	40 355.8
Earmarked subsidies for investments	2 722.1	9 755.6
Other earmarked subsidies	77.5	105.3
Payments from state budget	2 272.6	7 569.9
Total revenue	288 856.7	317 631.2
Expenses		
Expenses by government function	247 133.1	327 291.5
General governmental agencies	84 052.5	112 661.1
Public order and security	4 023.5	4 636.2
Education	85 188.2	94 723.8
Health care	1 082.8	6 532.2
Social security	16 317.1	20 762.0
Housing facilities and public utilities, environmental protection	22 756.5	38 841.9
Leisure, sports, culture, and religion	11 949.0	8 760.0
Transportation, communications	17 600.2	37 933.4
Other economic operations and agencies	226.7	279.5
Other expenses	3 936.6	2 161.4
Deposits to municipal cohesion fund	24 627.1	27 310.6
Total expenses	271 760.2	354 602.1
Budget surplus or deficit	17 096.6	-36 970.9

Income Statement (Special purpose budget) Accrual basis

→	2004 (KLV)	2005 (KLV)
Revenues		
Riga Municipality Property Privatization Fund	6 218.4	3 438.6
Revenues from privatization of state and municipality property	5 559.4	2 759.1
Revenues from privatization of apartments and valuation of uninhabitable housing resources	659.0	679.5
State Road Fund	4 845.9	5 184.7
Motor vehicle duty and excise tax	4 378.2	4 686.5
Earmarked subsidies for regular bus traffic	467.7	498.2
Other incoming state budget transfers	0.0	0.0
Natural resources tax	331.6	400.3
Municipality revenues stated in the Law on Natural Resources Tax	331.6	400.3
Other revenues	13 088.4	17 118.4
Riga City Development Fund (revenues from lease of land, and other revenues)	7 810.1	3 881.7
Revenues from sales of forest resources	2 311.7	2 752.7
Other special purpose budget revenues	2 966.6	10 484.0
Total revenues	24 484.3	26 142.0
Expenses		
General governmental agencies	2 773.6	6 015.2
Public order and security	67.1	2.2
Education	610.2	40.1
Health care	2 709.6	330.8
Social security	54.5	90.7
Housing facilities and public utilities, environmental protection	3 687.0	1 766.2
Leisure, sports, culture, and religion	2 640.4	1 721.8
Forestry and fishery	2 152.8	2 477.6
Transportation, communications	489.5	513.7
Total expenses	15 184.7	12 958.3
Budget surplus or deficit	9 299.6	13 183.7

Income Statement (Basic budget) Cash flow basis

	2004 Budgeted (KLVĻ)	2004 Actual (KLVĻ)	2005 Budgeted (KLVĻ)	2005 Actual (KLVĻ)
Total revenue				
Total tax revenue	162 833.1	165 368.0	191 998.5	193 766.7
Personal income tax	134 900.2	136 661.5	162 675.8	163 375.4
Property taxes	26 402.9	27 025.1	27 222.7	28 284.6
Real estate tax on land	11 162.2	11 269.5	10 306.8	10 048.0
Real estate tax on buildings and premises	15 212.0	15 715.9	16 915.9	18 229.9
Other property taxes	28.7	39.7	0.0	6.7
Other tax revenue	1 530.0	1 681.4	2 100.0	2 106.7
Total non-tax revenue	15 968.1	16 681.0	23 564.1	24 561.3
Government and municipality fees, transferred to municipal budget	855.1	872.0	940.0	889.4
Revenue from paid services provided by public authorities	13 353.4	14 077.2	21 502.6	22 458.3
Other non-tax revenue	1 759.6	1 731.8	1 121.5	1 213.6
Total tax and non-tax revenue	178 801.2	182 049.0	215 562.5	218 328.0
Payments from state budget	39 207.9	39 207.9	43 293.5	48 649.8
Earmarked subsidies	36 935.3	36 935.3	40 753.1	40 753.1
Earmarked subsidies for education and culture	36 482.8	36 482.8	40 355.8	40 355.8
Earmarked subsidies for investments	375.0	375.0	292.0	292.0
Other earmarked subsidies	77.5	77.5	105.3	105.3
Payments from state budget	2 272.6	2 272.6	2 540.4	7 896.7
Payments from other budgets	0.0	0.0	4 706.0	4 706.7
Total revenue	218 009.1	221 256.9	263 562.0	271 684.5
Expenses				
Total expenses by government function	200 059.2	185 063.6	252 858.7	244 132.6
General governmental agencies	22 976.2	20 291.2	28 087.1	25 851.9
Public order and security	4 384.9	4 137.9	5 188.6	5 099.2
Education	90 709.2	88 269.4	104 982.5	101 184.4
Health care	2 452.7	1 647.1	2 749.1	6 928.7
Social security	17 853.6	16 514.3	20 615.5	19 692.3
Housing facilities and public utilities, environmental protection	26 518.4	21 753.6	46 991.5	42 405.8
Leisure, sports, culture, and religion	11 520.1	10 920.5	10 490.8	9 261.5
Transportation, communications	17 910.5	17 300.5	30 381.9	31 254.4
Other economic operations and agencies	233.1	221.6	267.1	267.8
Other expenses	5 500.5	4 007.5	3 104.6	2 186.6
Deposits to municipal cohesion fund	24 627.1	24 627.1	27 310.6	27 310.6
Total expenses	224 686.3	209 690.7	280 169.3	271 443.2
Budget surplus or deficit	-6 677.2	11 566.2	-16 607.3	241.3
Financing	6 677.2	-11 566.2	16 607.3	-241.3
Internal financing	6 734.1	-11 509.3	16 666.5	-182.1
From other state administration organizations	-5 000.0	-5 098.9	0.0	199.4
Change in budget resources	7 281.4	7 180.7	1 100.7	-7 703.2
Budget resources, beginning of period	7 281.4	7 281.4	1 100.7	1 100.8
Budget resources, end of period	0.0	100.7	0.0	8 804.0
From commercial banks	4 452.7	7 984.1	15 565.8	4 000.0
Other internal financing	0.0	-21 575.2	0.0	3 321.7
External financing	-56.9	-56.9	-59.2	-59.2
Financing with mediation of State Treasury	-	-	-	-
Other external financing	-56.9	-56.9	-59.2	-59.2

Income Statement (Special purpose budget) Cash flow basis

	2004 Budgeted (KLVĻ)	2004 Actual (KLVĻ)	2005 Budgeted (KLVĻ)	2005 Actual (KLVĻ)
Revenue				
Riga Municipality Property Privatization Fund	5 141.3	5 099.9	2 226.6	3 263.2
Revenue from privatization of state and municipality property	4 275.3	4 440.9	1 634.7	2 583.7
Revenue from privatization of apartments and valuation of uninhabitable housing resources	866.0	659.0	591.9	679.5
State Road Fund	4 726.6	4 845.9	4 799.0	5 184.7
Motor vehicle duty and excise tax	4 258.9	4 378.2	4 259.0	4 686.5
Earmarked subsidies for regular bus traffic	467.7	467.7	540.0	498.2
Natural resources tax	300.0	331.6	305.0	337.7
Other revenues	10 162.8	11 962.4	16 772.6	16 732.0
Riga City Development Fund (revenue from lease of land, and other revenue)	6 394.1	8 257.5	4 609.1	4 518.8
Revenue from sales of forest resources	2 085.0	2 223.6	2 835.0	2 690.2
Other special purpose budget revenue	1 683.7	1 481.3	9 328.5	9 523.1
Total revenue	20 330.7	22 239.8	24 103.2	25 517.7
Expenses				
General governmental agencies	4 914.8	4 321.2	9 891.3	6 320.6
Public order and security	64.0	36.0	82.7	44.0
Education	357.9	214.0	71.6	52.1
Health care	1 372.3	1 350.3	703.0	561.1
Social security	68.7	54.5	83.3	50.7
Housing facilities and public utilities, environmental protection	11 895.7	6 387.0	9 081.4	7 271.4
Leisure, sports, culture, and religion	1 265.9	1 215.2	2 358.0	1 946.3
Forestry and fishery	2 905.0	2 309.1	3 580.7	2 627.3
Transportation, communications	5 569.2	4 673.2	5 574.1	4 759.9
Total expenses	28 413.5	20 560.5	31 426.1	23 633.4
Budget surplus or deficit	-8 082.8	1 679.3	-7 322.9	1 884.3
Financing	8 082.8	-1 679.3	7 322.9	-1 884.3
Cash and cash equivalents, beginning of period	11 266.0	11 266.0	12 945.3	3 650.2
Cash and cash equivalents, end of period	3 183.2	3 650.2	5 622.4	5 534.5
Other internal financing	0.0	-9 295.1	0.0	0.0

Income Statement on Donations and Endowments Cash flow basis

	2004 Budgeted (KLVĻ)	2004 Actual (KLVĻ)	2005 Budgeted (KLVĻ)	2005 Actual (KLVĻ)
Revenues	800.0	452.7	755.7	483.0
Donations and endowments by domestic legal entities and individuals	387.2	440.1	476.4	264.9
Donations and endowments to education	370.4	370.9	446.4	231.0
Donations and endowments to social aid	15.4	10.1	8.2	2.7
Other donations by domestic legal entities	1.4	59.1	21.8	31.2
Donations and endowments by foreign legal entities and individuals	412.8	12.6	279.3	218.1
Donations and endowments to education	0.0	0.0	0.0	9.5
Global Environment Facility endowment to the development of solid waste dump project in "Getliņi" and "Phare" project resources	412.8	12.3	278.7	206.0
Other donations by foreign legal entities	0.0	0.3	0.6	2.6
Expenditures by government function	1 020.3	415.3	1 032.6	507.5
General governmental agencies	191.0	141.9	80.6	19.2
Public order and security	0.0	0.0	0.5	0.0
Education	453.8	238.6	657.6	259.4
Health care	0.9	0.9	0.0	0.0
Social security	19.2	10.7	11.9	4.5
Housing facilities and public utilities, environmental protection	341.6	11.5	253.5	210.8
Leisure, sports, culture, and religion	13.8	11.7	28.5	13.6
Budget surplus or deficit	-220.3	37.4	-276.9	-24.5
Financing	220.3	-37.4	276.9	24.5
Budget balance, beginning of period	239.5	239.5	276.9	276.9
Budget balance, end of period	19.2	276.9	0.0	252.4

Basis of preparation

→ The summary annual report 2005 has been prepared in line with Cabinet of Ministers Regulations No.446 as of June 21, 2005 "Regulations on State and Municipal Institutions' Annual Reports" and Riga City Council's accounting policies. The annual report 2005 has been prepared on an accrual and going concern basis in accordance with the financial policy of the Riga City Council and the laws and regulations of the Republic of Latvia. This report provides information on the results of Municipality financial activities in 2005, as well as the record of liabilities and expenses, and can be used to develop the financial policy as well as, within its competence, 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 approach and the accrual principle. In accordance with resolution No.876-r "On Year 2005 Stocktaking" as of October 17, 2005 issued by the Riga City Council chairman, all structural units and executive authorities of Riga City Council have performed year-end stocktaking (of all balance sheet items), the results of which have been included in these financial statements. The financial statements cover the time period from January 1, 2005 to December 31, 2005. Riga Municipality accounting is performed in the local currency (Latvian lats). All transactions performed in foreign currencies are converted into lats based on the Bank of Latvia official currency exchange rate on the respective day of the transaction. All monetary assets and liabilities reflected in foreign currencies are converted into lats based on the Bank of Latvia official currency exchange rate on the last day of the financial year. Foreign exchange differences arising from payments in foreign currencies, or assets and liabilities, using foreign exchange rates that differ from rates used for the initial bookkeeping, are reflected in revenues and expenses.

Structural units and programs included in the summary financial statements

→ The summary financial statements comprise summary financial statements of the Riga City Council Finance Department and second rank executive authorities: the summary financial statements of its departments, agencies, and other institutions in accordance with the revenue and expense programs defined within the budget and economic classification of the Republic of Latvia Ministry of Finance. The statements do not include The Administration of Riga Free Port for its special status, nor are the City of Riga municipal daughter companies consolidated in these statements.

The statements do not contain information on the financial state of Riga City municipal enterprises as the Law "On Annual Reports of Enterprises" prescribes the different order of the annual report submission.

The statements reflect data on Riga Municipality basic budget and special purposes budget programs for 2005.

Basic budget expense programs:

- Riga City Council and Riga City Council Finance Department (funding of operations)
- Riga City Council City Development Department (funding of operations)

- Riga City Council Property Department (funding of operations)
- Riga City Council Transport Department (funding of operations)
- Riga City Council Municipal Services Department (funding of operations)
- Executive Board of Riga Central District (funding of operations)
- Executive Board of Riga Kurzeme District (funding of operations)
- Executive Board of Riga Latgale Suburb (funding of operations)
- Executive Board of Riga Vidzeme Suburb (funding of operations)
- Executive Board of Riga Zemgale Suburb (funding of operations)
- Executive Board of Riga Northern District (funding of operations)
- Riga Children Rights Protection Center (funding of operations)
- Riga Drug Addiction Prevention Center (funding of operations)
- Riga Municipal Police (funding of operations)
- Riga Orphans Court (funding of operations)
- Riga City Council Education, Youth, and Sports Department (funding of operations, administration)
- Riga Tourism Coordination and Information Center
- Riga City Council Welfare Department (funding of operations)
- Riga City Council Environment Department (funding of operations)
- Riga City Council Riga Environment Center "Agenda 21"
- Riga Municipal company "Rigas gaisma"
- Riga Municipal agency "Rigas dārzi un parki"
- Riga City Council Cultural Department (funding of operations).

Special purposes budget expense programs:

- Riga City Development Fund
- Tunnel maintenance and operations program
- Transportation charges for the entry into special regime areas
- Earmarked subsidy for Municipal roads (streets)
- City of Riga Municipal Property Privatization Fund (incl. Property Department program connected with the financing of property registration, administration, and expropriation)
- Riga Environment Protection Fund
- Riga City Public Services Regulator
- Riga Municipal Agency "Rigas meži"
- Financing of Riga City Council Education, Youth, and Sports institutions and programs from donations and endowments
- Financing of Riga Districts' programs from donations and endowments
- Financing of Riga City Council Welfare department's programs from donations and endowments
- Financing of Riga City Council Environmental department's programs from donations and endowments
- Financing of programs from donations and endowments
- Financing of Riga Municipality Agency "Rigas pieminekļu aģentūra" programs from donations and endowments.

Riga City Council's investment program, incl. the general administration agencies, education, health care, social security, public order and security, protection of rights, housing facilities and public utilities, traffic infrastructure, environment protection, territorial development planning program, leisure, sports, culture and religion, public transportation.

Centralized programs that the Finance Department records into separate books. These are projects that have received an approval for the co-financing from Riga City Council.

Riga Municipality financing

→ In 2005, by means of an open tender, financing was attracted for the construction of the Southern Crossing over the river Daugava in Riga.

The financing model, unless terminated before its term, does not give rise to current liabilities for Riga City Council except for long-term payables to the construction company A/S "Dienvidu tilts" and other suppliers as classified in the annual report. In case of before-the-term termination of the financing model, the long-term liabilities against the supplier would be classified as long-term liabilities against Deutsche Bank.

In accordance with the economic substance, Riga City Council recognizes liabilities for the construction performed as well as recognizes the cost of financing (interest) for every period during the whole duration of the financing model in its revenues and expenses. The financing model offers a fixed interest rate during the whole duration of the model, however, given that Riga City Council has been paying for the loan starting from the moment when financing was transferred to the escrow account of general partnership "Dienvidu tilts", the actual Riga City Council's interest rate is higher. The fair value of the chain of forward deals arising from the City's swap agreements is zero as the financing model offers both fixed currency exchange rate and fixed interest rate in the amount of 6.28% over the period of the duration of the model.

Municipal budget revenues

→ In accordance with the state tax legislation, Municipal budget revenues comprise tax payments, government and municipality fees as well as other payments to the budget, which are recognized after they have been transferred to the Municipality budget revenue accounts based on the cash accounting principle. Apart from that, Municipality revenues comprise revenues from paid services provided by municipality budget institutions, and other own revenues, revenues of special purpose, net revenues from the disposal of assets, interest and dividend payments received, foreign financial aid, donations and endowments both in cash and in kind (accounted for in cash) (Law "On the Budget and Financial Management"). These revenues are recognized based on the cash flow principle at the moment when they are transferred to the Municipality budget revenue accounts; however, based on the accrual principle, revenue is recognized to the extent that it is probable that revenue will be derived in the amount that can be measured reliably, by evaluating receivables by the kind of revenues. 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 due dates (recognizing them according to the accrual

principle). Revenues from paid services are received and recorded by every second rank executive authority (institution, agency, department) by recognizing them according to the accrual principle. In turn, subsidies, earmarked subsidies and other payments from the state basic budget and state budget institutions to municipalities are recognized as the respective payment is received.

Municipal budget expenditures

→ The expenditures section of the financial statements 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 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, which is amortized over the useful life of the asset on a straight-line basis and applying the annual rate of 35% defined by the Republic of Latvia Cabinet of Ministers.

Fixed assets

→ Fixed assets are initially evaluated at the cost of acquisition, less accumulated depreciation and any impairment in value. The aim of bookkeeping of assets is to ensure an accounting control over each fixed asset, and its preservation, following the changes of its values over the whole period of its useful life until its liquidation, disposal, or exclusion from the fixed assets. Apart from movable properties, fixed assets comprise also reconstruction costs of objects as well as reconstruction and construction costs of buildings, which have not been finished yet or for some other reason have not been put into operation, as well as real estate (land, buildings, structures).

When accounting for the fixed assets, Municipality takes into account their economic substance, in other words, a fixed asset is recognized as an asset that does not generate considerable cash flows for the funding of the operation of departments, agencies, and other institutions' administered programs, provision of services, rent, or other administrative purposes if costs arise from the maintenance of these fixed assets, as well as risks of long-term assets.

Accounted for are buildings and structures at their residual value, as it was in the balance sheet of municipality institutions, structural units, or municipal enterprises at the moment of acquisition, or at the real estate stocktaking value approved by the State Land Service (further in the text: SLS). On the grounds of prudence, accounting does not reflect land belonging to the territory of the Riga Municipality, the ownership of which is not registered with the Land Register as held by the Riga Municipality.

The accounting for streets, bridges, and crossovers is performed on an individual basis, by contributing the capital expenditure related to reconstruction and renovation of the street infrastructure to each particular object (street, bridge, crossover). Gradually, in order to improve accounting for the traffic infrastructure objects, the actual value of objects is identified within the frames of the available financing.

Depreciation of fixed assets is calculated using the straight-line method over the useful life of the respective fixed asset, applying the following annual rates of depreciation defined by the Cabinet of Ministers:

Buildings, structures	5%
Computer equipment	35%
Other equipment, vehicles	20%

Depreciation is calculated once in a quarter, starting with the next month after the fixed asset is put into operation or engaged in commercial activity.

Non-depreciable fixed assets (land) are reflected at the value defined by SLS (cadastral value), except for cases when land has been acquired as a part of real estate together with a building. In such a case the value of the land is considered to be its previously determined value, which is also considered the acquisition value.

When performing the renewal, reconstruction, or upgrade of fixed assets leading to an extended useful life of the asset or considerable improvements in its condition, costs of upgrading are added to the book value of the asset. Costs from the maintenance or up-keep of the fixed assets in the current condition, as well as those from repairs, are recognized as expenditures during the period when they have arisen.

The stocktaking process in Riga Municipality executive institutions takes place on a yearly basis. During the stocktaking of real estate, its revaluation is performed. The revaluation value is based on the real estate stocktaking value approved by the SLS. The difference in the value resulting from the revaluation is recorded under the equity as the long-term asset revaluation reserve.

A fixed asset is derecognized upon disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognized.

Fixed assets acquired by means of rent are not accounted for in the balance sheet. Such assets are entered in a special register. Costs of rent are recognized in expenses based on the accrual principle, by recognizing costs in the period when they have arisen, not depending on the actual payment.

Future rent costs are not accounted for in the balance sheet and are registered in the special register. Construction in progress represents fixed assets under construction and is stated at historical cost. This includes the cost of construction and other direct expenses. Construction in progress is not depreciated as long as the respective assets are not completed and put into operation.

Financial assets

➔ According to Riga Municipality equity capital accounting policy (hereinafter, the policy), financial statements on shares in the equity capital of related, associated, and other enterprises are composed based on the going concern assumption.

Financial statements contain all Riga Municipality equity capital shares in limited liability companies and enterprises, with Riga City Council Chairman being the representative of shareholders, as well as Riga Municipality long-term investments in the equity capital of to-be-liquidated municipal enterprises and limited liability companies.

Riga Municipality financial statements do not include investments in the equity capital of enterprises and business entities registered with 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. Riga Municipality equity shares in related and associated enterprises both as of December 31, 2004 and December 31, 2005 have been evaluated using the equity method and on the grounds of prudence in balance sheet assets evaluation. Other financial investments are accounted for based on their acquisition value in accordance with the cost approach.

Inventory

➔ Inventory is a current asset of a budgetary institution intended to support its operations, and as raw materials is utilized during the economic activity of the institution. Inventory is accounted for at its acquisition value and recorded by classifying it according to its economic substance. Upon the utilization of inventory, it is excluded from the accounts and charged to costs for the current period based on the weighted average price method. Stocktaking of the warehouse is performed when necessary, but not less than once a year: at the end of the financial year.

Accounts receivable

➔ Receivables are reflected at their recoverable value less accruals for doubtful 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-out agreements, as well as taxes accounted for but not collected by the Municipality, less special accruals for doubtful debts.

Deferred expenses

➔ This item comprises prepayments for the press and postal expenses, use of public transportation, insurance of motor vehicles of Municipal Police and other budgetary institutions, as well as employee health insurance payments, referring to the following financial year, etc.

Cash and bank

→ Cash and bank include all Riga City Council's and Riga City Council Finance Department's financial resources kept with the State Treasury and commercial banks.

Equity

→ Equity is formed of Fixed Assets Fund, equity capital or co-ownership capital, long-term asset revaluation reserve, reserves, retained budget surplus for the prior year and budget surplus for the year. Fixed Assets Fund keeps record of all fixed assets purchased or created until January 1, 2001. The balance of the Fixed Assets Fund is being gradually decreased by the depreciation and exclusion of respective fixed assets from the balance sheet.

Equity capital or co-ownership capital reflects non-depreciable fixed assets (land). Changes in this item arise from new non-depreciable assets accounted for in the balance sheet as well as from eliminating the respective non-depreciable assets from the accounts. Long-term asset revaluation reserve is formed from the revaluation of long-term assets. Long-term asset revaluation reserve comprises also other reserves, which are recognized if valuation of financial investments based on the equity method is performed, and the company has such changes in the equity, which are not reflected in the profit and loss statement of this company. The retained budget surplus for the prior year and the budget surplus for the year are recorded by type of budget.

Borrowings

→ Riga Municipality borrowings are stated in the financial statements at cost.

Loan policy, and hedging of foreign currency risk and interest rate risk

→ Municipality borrowings management is performed based on Riga Municipality borrowings management strategy for 2005–2007 approved on December 14, 2004. In accordance with the principles set for the municipal borrowings management, financial derivatives are being applied.

In 2005, Riga Municipality borrowings management was successfully accomplished, ensuring necessary financial resources at the lowest possible cost, currency risk has been avoided, the loan currency structure, as well as the average duration of borrowings have been balanced.

Apart from that, by organizing an open tender, financial resources were attracted for the financing of investment projects planned in the budget. In accordance with the loan agreement No.841 of December 20, 2005, signed with Nordea Bank Finland Plc., a loan of EUR 5 691 487 was received at the surplus rate of 0.3% and the base rate equal to 12 Months EURIBOR.

Riga Municipality Budget 2006

Riga City Council regulations No.44, effective May 16, 2006

	Budget 2006, (LVL)
Total revenue	328 395 280
Basic budget revenue	305 595 883
Tax revenue	223 287 896
Personal income tax	194 037 988
Real estate tax (on land)	10 373 242
Real estate tax (on buildings and premises)	16 876 666
Gambling tax	2 000 000
Non-tax revenue	26 551 019
Payments for utilization of municipal funds	700 000
Government and municipality fees and payments	980 000
Revenues from paid services provided by public authorities and other own revenues	24 371 019
Fines	430 000
Other non-tax revenue	70 000
Payments received	51 176 870
Earmarked subsidies	46 317 679
Subsidies from state budget	4 859 191
Municipal budget revenues designated for the projects financed from the EU Structural Funds	4 580 098
Special purpose budget revenue	22 799 397
Revenues from sources of funds designated to special purposes	22 320 174
Revenues from donations and endowments	479 223
Total expenditures	355 256 186
Basic budget	321 983 171
Maintenance costs	281 017 173
Recurring expenses	178 878 172
Payments for loans	2 936 905
Subsidies, incl.:	99 202 096
deposits to municipal cohesion fund	31 552 226
Expenditure on capital investments	40 965 998
Expenditure on acquisition and overhaul	11 595 907
Acquisition of land	1 700 000
Investments	26 630 091
Earmarked subsidy for investments	1 040 000
Special purpose budget	33 273 015
Maintenance costs	12 463 813
Recurring expenses	10 653 581
Subsidy	1 810 232
Expenditure on capital investments	20 809 202
Expenditure on acquisition and overhaul	20 809 202
Fiscal balance	-26 860 906
Basic budget	-16 387 288
Special purpose budget	-10 473 618
Financing	26 860 906
Basic budget	16 387 288
From banks	16 417 845
External financing	-30 557
Special purpose budget	10 473 618
Change in budget resources	10 473 618
Budget balance, beginning of period	15 081 978
Budget balance, end of period	4 608 360

