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SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA

SUBMITTAL DATE: January 7, 2013

FROM: Auditor-Controller

SUBJECT: Fiscal Year 2011-12 Comprehensive Annual Financial Report (CAFR), Popular Annual Financial Report (Financial Highlights), Management Letter, and Report on Statement on Auditing Standards (SAS) 114 *The Auditors' Communication with those Charged with Governance.*

RECOMMENDED MOTION:
That the Board of Supervisors receive and file the attached Comprehensive Annual Financial Report, Financial Highlights, Management Letter, and Report on SAS 114 for the fiscal year ended June 30, 2012.

BACKGROUND:
The County's CAFR is hereby submitted in accordance with Section 25253 of the Government Code of the State of California.

(Continued)

Paul Angulo
Paul Angulo, CPA
County Auditor-Controller

FINANCIAL DATA				
	Current F.Y. Total Cost:	-0-	In Current Year Budget:	No
	Current F.Y. Net County Cost:	-0-	Budget Adjustment:	No
	Annual Net County Cost:	-0-	For Fiscal Year:	

SOURCE OF FUNDS:

Positions To Be Deleted Per A-30 ☐

Requires 4/5 Vote ☐

C.E.O. RECOMMENDATION:

APPROVE

BY: ~~Karen L. Johnson~~

County Executive Office Signature

MINUTES OF THE BOARD OF SUPERVISORS

On motion of Supervisor Stone, seconded by Supervisor Benoit and duly carried by unanimous vote, IT WAS ORDERED that the above matter is approved as recommended.

Ayes: Jeffries, Tavaglione, Stone, Benoit and Ashley
Nays: None
Absent: None
Date: January 15, 2013
xc: Auditor

Kecia Harper-Ihem
Clerk of the Board
By: Deputy

☐ Policy ☒ Consent Dep't Recomm.:

☐ Policy ☒ Consent Per Exec. Ofc.:

Prev. Agn. Ref.: **District:** ALL **Agenda Number:**

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The Financial Highlights provides a 25 page recap of the County's financial information in an easy-to-read format. The financial information contained in this publication is derived from the County's 219 pages CAFR for Fiscal Year 2011-12.

The Management Letter is issued in accordance with Statement on Auditing Standard (SAS) 112, *Communicating Internal Control Related Matters Identified in an Audit*. It establishes a requirement to our external auditors to communicate with those matters related to the County's internal control over financial reporting identified in an audit of financial statements. The attached Management Letter discloses those matters to the County's Board of Supervisors.

The Report on SAS 114 establishes a requirement for the external auditors to communicate with those charged with governance certain significant matters related to the audit. SAS 114 uses the term *those charged with governance* to refer to those with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity, including overseeing the entity's financial reporting process. The attached Report on SAS 114 discloses those matters to the County's Board of Supervisors.

COUNTY OF RIVERSIDE,
CALIFORNIA

MANAGEMENT LETTER

JUNE 30, 2012

[redacted]

BROWN ARMSTRONG

Certified Public Accountants

December 20, 2012

To the Honorable Board of Supervisors
County of Riverside
4080 Lemon Street
Riverside, California 92502

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Riverside (the County) as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency 2012-1 in the County's internal control to be a material weakness.

2012-1 WASTE MANAGEMENT DEPARTMENT

MATERIAL WEAKNESS IN INTERNAL CONTROL OVER FINANCIAL REPORTING:

While we performed our audit for the financial statements of the Waste Management Enterprise Fund, we detected reportable errors during our audit and proposed material adjusting journal entries to the closure/post-closure and remediation cost liabilities and the related expense/net assets accounts. In February 2012, the Waste Management Department (the Department) hired a Supervising Accountant who identified that closure/post-closure and remediation cost liabilities were distributed in both equity and liability accounts. In an attempt to consolidate closure/post-closure and remediation cost liabilities that in past years had been allocated to both equity and liability accounts, the Department reallocated these funds into equity accounts. Correcting entries were made during the financial review process to allocate these funds to liability accounts.

PKF

RECOMMENDATION:

We recommend that the County Waste Management Department and Auditor-Controller's Office (ACO) continue to record closure/post-closure and remediation cost liabilities to their appropriate accounts.

MANAGEMENT'S RESPONSE:

Management agrees with the recommendation.

PRIOR YEAR MANAGEMENT LETTER FINDINGS

2011-1 WASTE MANAGEMENT DEPARTMENT

MATERIAL WEAKNESS IN INTERNAL CONTROL OVER FINANCIAL REPORTING:

While we performed our audit for the financial statements of the Waste Management Enterprise Fund, we detected reportable errors during our audit and proposed material adjusting journal entries to closure liability and the related expense/net assets accounts. The cause of reportable errors is likely a result of the Department's cost saving reorganization plan that was implemented shortly after fiscal year-end. The Department's reorganization plan included elimination of the Department's Accounting Manager position in place of a lower salaried Supervising Accountant position.

RECOMMENDATION:

We recommend that the County Waste Management Department recruit a qualified accountant as soon as possible. Meanwhile, the County Waste Management Department can seek temporary help from an outside source or from the Auditor-Controller's Office.

MANAGEMENT'S RESPONSE:

Management agrees with the recommendation to recruit and hire a qualified accountant and initiated a recruitment to hire at the Supervising Accountant level in September 2011. The Department was provided with a candidate listing and conducted interviews in November 2011. From the initial referral list, no candidate was selected and a supplemental list was requested. The Department has scheduled interviews for candidates identified on the supplemental list to occur on January 12, 2012.

The Department requested and received assistance from the ACO's office throughout, and subsequent to, the audit.

Management agrees that material adjustments were necessary. The Department identified the need for and made an adjustment to correct the OASIS Asset Management module. Closure liability requirements are regulated by the California Department of Resources Recycling and Recovery (CalRecycle). The Department held several meetings with CalRecycle throughout fiscal year 2011 to ensure compliance with newly updated financial liability reporting requirements. Annual fluctuations are routine and it is standard practice to make adjustments after final audit review. Other adjustments were minor and fell within the norm of year-end adjustments.

CURRENT YEAR STATUS:

Fully implemented. Please see current year finding 2012-1.

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Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the County of Riverside gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time. This report is intended solely for the information and use of the Board of Supervisors, management, and others within the County and is not intended to be and should not be used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 20, 2012

BROWN ARMSTRONG

Certified Public Accountants

To the Honorable Board of Supervisors
County of Riverside, California

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Riverside, California, for the year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards,* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated March 26, 2012. Professional standards also require that we communicate to you the following information related to our audit.

<u>Significant Audit Findings</u>

Qualitative Aspects of Accounting Practices
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County of Riverside are described in Note 1 to the financial statements. We noted no transactions entered into by the County of Riverside during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

> Management's estimate used in establishing allowances for accounts receivable, estimating date of collection to comply with period of availability for certain revenues, establishing self insurance reserves, estimating closure and post closure care costs, establishing the other postemployment benefit obligation, depreciation, and valuations of certain infrastructure. We evaluated the key factors and assumptions used in developing these estimates and they appeared reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The disclosure of Restatement of Beginning Fund Balances/Net Assets in Note 3 to the financial statements.
- The disclosure of Commitments and Contingencies in Note 20 to the financial statements.
- The disclosure of Subsequent Events in Note 21 to the financial statements.
- The disclosure of Successor Agency Trust for Assets of Former Redevelopment Agency in Note 22 to the financial statements.

Difficulties Encountered in Performing the Audit
We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements
Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, misstatements detected as a result of audit procedures and corrected by management relating to the County's Waste Management Fund were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management
For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations
We have requested certain representations from management that are included in the management representation letter dated December 20, 2012.

Management Consultations with Other Independent Accountants
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the County of Riverside's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County of Riverside's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters
With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We identified a certain deficiency in internal control that we consider to be a material weakness in internal control over the financial reporting. The material weakness will be communicated to you in a separate communication letter and will be presented in the County of Riverside's fiscal year 2012 single audit report.

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This information is intended solely for the use of Board of Supervisors and management of the County of Riverside and is not intended to be and should not be used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION
Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 20, 2012

County of Riverside, California

Popular Annual Financial Report

Fiscal Year Ended June 30, 2012

Paul Angulo, CPA, MA-Mgmt
County Auditor-Controller

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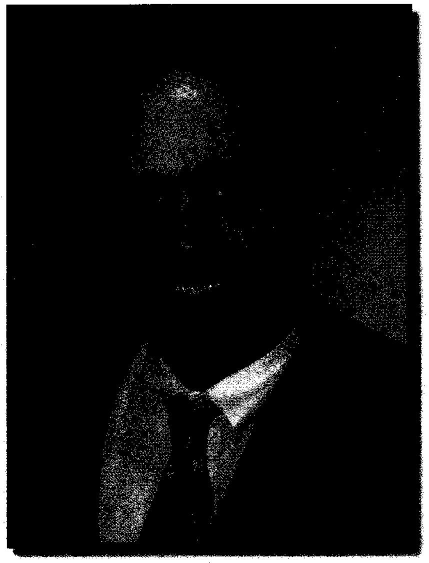
A message from your
Auditor-Controller



Dear Citizens of Riverside County,

As your County Auditor-Controller, I am deeply honored to serve as your fiscal "watchdog" ensuring efficient and effective use of your tax dollars. Openness, transparency, and dedication to public service are core values that will underscore my administration. Under my leadership, we have set a high standard of performance to deliver the kind of services the taxpayer expects and deserves. It is our goal to create public value through initiative, teamwork and leadership.

County government's primary financial report is the Comprehensive Annual Financial Report (CAFR). CAFR provides information on consolidated revenues, expenditures, and net assets. CAFR, by its very nature, is a complex financial report. This publication, Financial Highlights, is designed to address this complexity by providing a summarized version of CAFR in an easier-to-read format.

Most of the data in Financial Highlights are drawn from CAFR for the fiscal year ended June 30, 2012. For more in-depth information, CAFR provides detailed financial information in a variety of financial statements, note disclosures, supplemental schedules, and statistical tables. This data is taken from various sources and are not necessarily GAAP based. CAFR is prepared in conformance with generally accepted accounting principles and is audited by the independent firm of Brown Armstrong, Certified Public Accountants. Both the CAFR and Financial Highlights are available at my office and online at www.auditorcontroller.org.

Respectfully,

Paul Angulo, CPA, MA-Mgmt
County Auditor-Controller

Fraud, Waste, and Abuse Program

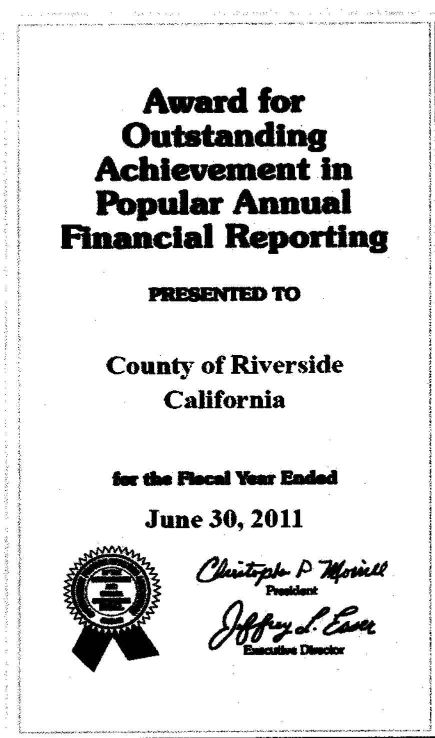
As part of our role in the stewardship of public funds, the County initiated a countywide fraud, waste, and abuse prevention program in 2009. Known as **Riverside County Fraud Hotline!**, the program provides employees and citizens with easy and anonymous ways to participate in helping the County protect its financial resources, as well as identify potential fraud and stop wasteful spending. Reports can be made 24-hours a day, 365 days per year by phone (800) 461-9330 or via Internet www.rivcofraudhotline.com.

Financial Highlights Award

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the County of Riverside for its Popular Annual Financial Report for the fiscal year ended June 30, 2011. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability and reader appeal.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. The County of Riverside received a Popular Award for last fiscal year ended June 30, 2011. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we have submitted it to GFOA.



Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

County of Riverside
California

for the Fiscal Year Ended

June 30, 2011

President

Executive Director

County Profile

County of Riverside Mission Statement

"Provide local government services as mandated by the State and Federal law, and discretionary services as requested by County taxpayers, within the bounds of available fiscal resources, in a manner which reflects favorably upon the profession of public service and the American form of democratic government."

County of Riverside Vision

"Our vision is to be a proactive county that provides community, business, government, and regional leadership. We will set an exemplary standard of performance among counties by providing our citizens with cost-effective, efficient, and reliable government services, and by developing creative solutions to critical community-wide problems confronting all segments of our constituency. We will anticipate and address the challenges of environmental quality, societal change, and economic competitiveness while striving to make Riverside County an even better place to live, work, raise our families, and do business."

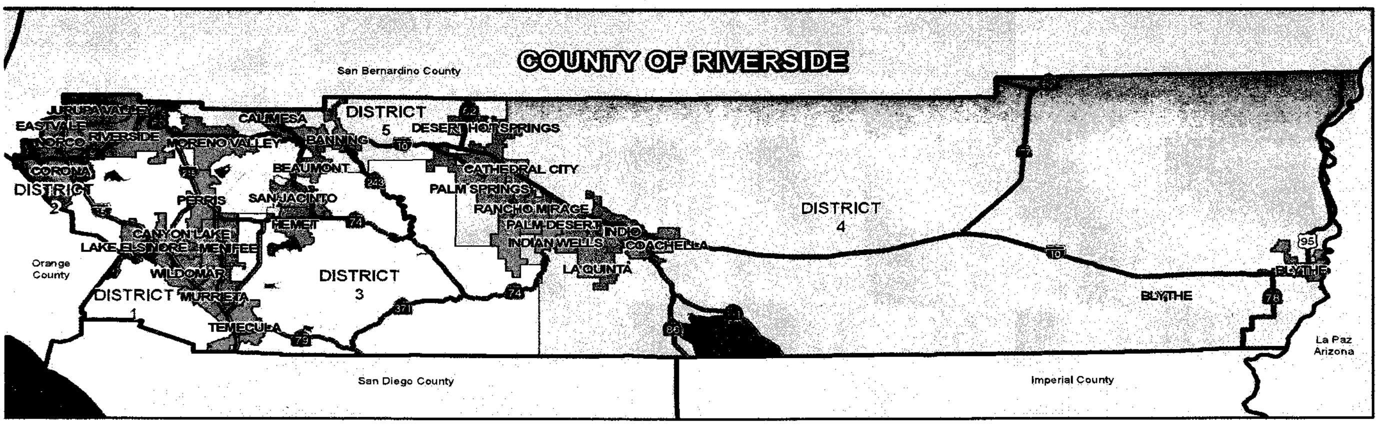
County of Riverside Overview

Riverside County is the State's fourth largest County by area. It encompasses 7,295 square miles and extends nearly 184 miles across Southern California, from the Arizona border west to within 10 miles of the Pacific Ocean. It is situated east of Los Angeles and Orange Counties, south of San Bernardino County, and north of San Diego and Imperial Counties.

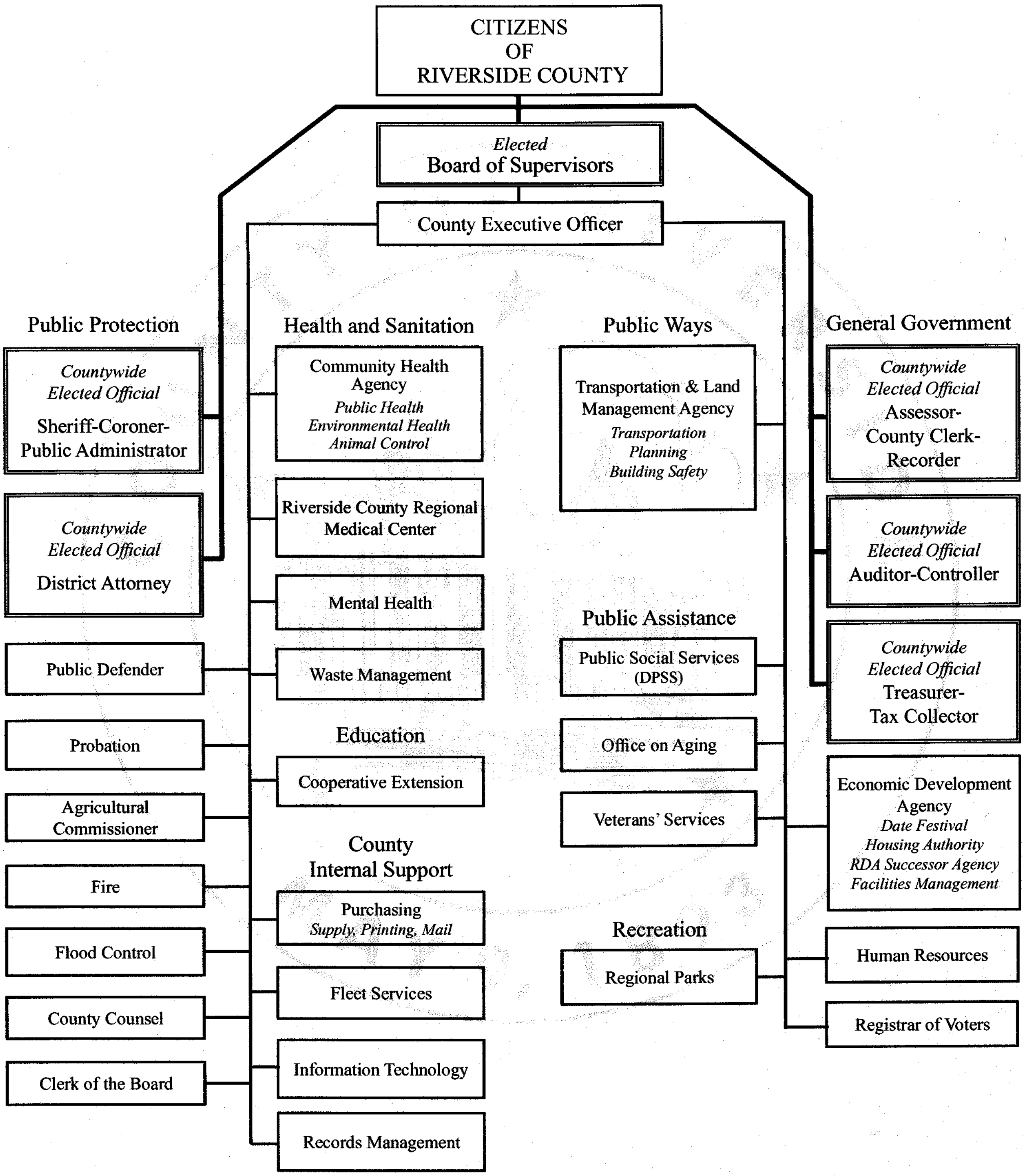
There are 28 incorporated cities located within the County. The latest city to be incorporated was Jurupa Valley on July 1, 2011. The largest cities in the County are the city of Riverside (the county seat) with a population of 308,511, Moreno Valley with a population of 196,495, and Corona with a population of 154,520.

Total County population was 2,227,577 on January 1, 2012, an increase of 1.0% compared to the revised estimate for 2011 from the California State Department of Finance. Estimated population figures are developed by the State as of January 1 of each year with a revised estimate for the prior year. Approximately 16.0% of the County's residents live in the unincorporated area. Riverside County has large and rapidly expanding trade, transportation, utilities, distribution and manufacturing industries.

Agriculture has been the traditional foundation of the Riverside County economy; a transition is well underway toward an urban way of life with a multi-faceted economy. This change is being driven in part by economic and political forces at the regional, State, and national levels. However, Riverside County residents, through their elected representatives, will make the key local decisions that will shape Riverside County, differentiating it in character and quality of life from adjoining counties.



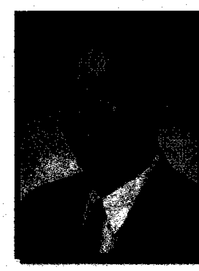
Organizational Structure



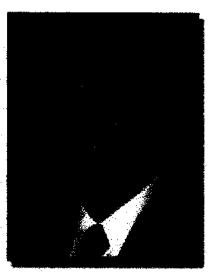
Countywide Elected Officials

Paul Angulo
Auditor
Controller

Stanley Sniff,Jr
Sheriff
Coroner
Public Administrator



Paul Zellerbach
District Attorney



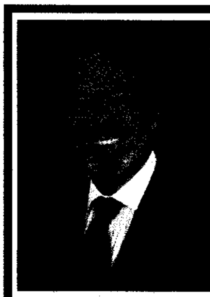
Don Kent
Treasurer
Tax Collector

Larry Ward
Assessor
County Clerk
Recorder

Board of Supervisors

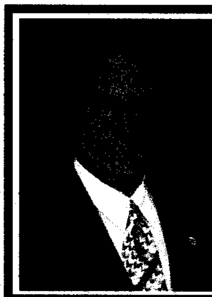
Bob Buster - District 1

The First Supervisorial District includes areas within the City of Riverside (the La Sierra and Arlington communities), as well as the cities of Canyon Lake, Lake Elsinore, and Wildomar. The District is also comprised of unincorporated communities including Good Hope, Mead Valley, Temescal Valley, Woodcrest, and Lake Mathews.



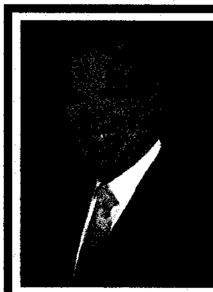
John F. Tavaglione - District 2

The Second Supervisorial District includes the cities of Corona, Norco, Jurupa Valley, and Eastvale; approximately one-third of the City of Riverside, including Northside, Downtown, Wood Streets, Magnolia Center, Grand and the northern half of Arlanza and La Sierra Acres. Unincorporated communities within the Second Supervisorial District consist of Home Gardens, El Cerrito, Coronita, and Highgrove.



Jeff Stone - District 3

The Third Supervisorial District includes the cities of Hemet, Murrieta, San Jacinto, and Temecula. The major unincorporated areas include Anza, Aguanga, Idyllwild, Valle Vista, Winchester, Gilman Hot Springs and Pinyon Pines.



John Benoit - District 4

The Fourth Supervisorial District includes the cities of Palm Springs (excluding Northern Palm Springs in District 5), Cathedral City, Rancho Mirage, Palm Desert, Indian Wells, La Quinta, Indio, Coachella, Blythe, and Desert Hot Springs. Unincorporated communities include: Bermuda Dunes, Thousand Palms, Sky Valley, Indio Hills, Mecca, Thermal, Oasis, Vista Santa Rosa, North Shore, Chiriaco Summit, Desert Center, Lake Tamarisk, Mesa Verde, Ripley, and the Colorado River Communities.

Marion Ashley - District 5

The Fifth Supervisorial District includes the cities of Moreno Valley, Perris, Calimesa, Beaumont, Banning, and Menifee. Unincorporated areas include Nuevo, Lakeview, Juniper Flats, Meadowbrook, Good Hope, a portion of Mead Valley, Romoland, Homeland, Green Acres, Box Springs, Pigeon Pass, Reche Canyon, San Timoteo Canyon, Oak Valley, Cherry Valley, Banning Bench, Cabazon, Palm Springs Village, and Palm Springs West. The District's boundaries also include the tribal governments from the sovereign nations of the Morongo Band of Mission Indians and the Agua Caliente Band of Cahuilla Indians, and a portion of March Air Reserve Base.

Financial Highlights FY 2011-12

Financial Highlights

- At the close of the current fiscal year, the County's assets of $7.2 billion exceeded its liabilities of $2.8 billion resulting in $4.4 billion of net assets.
- Net assets includes $845.8 million of unrestricted net assets, which may be used to meet the County's ongoing obligations to citizens and creditors; $724.9 million of restricted net assets, which is required by external sources or through enabling legislation to be used for specific purposes; and $2.9 billion is invested in capital assets, net of related debt.
- During fiscal year 2011-12, the County's net assets increased by $591.0 million, or 15.3% including a restated amount of $4.5 million from prior fiscal year. Of this amount, an increase of $641.0 million was from governmental activities and an offset of a $50.0 million decrease from business-type activities. The increase in net assets was primarily due to an overall decrease in total liabilities. This decrease was largely due to $803.1 million in government activities from Redevelopment Agency Tax Allocation Bonds being transferred to its Successor Agency on February 1, 2012. Countywide expenses of $3.2 billion were offset by program revenues of $2.6 billion and general revenues of $764.3 million. Of the $2.6 billion, $1.4 billion, or 56.5%, was recognized through operating grants and contributions.
- On January 10, 2011, as part of a statewide budget process, Governor Brown proposed the elimination of Redevelopment Agencies (RDA's) throughout California starting fiscal year 2011-12. On December 29, 2011, after a period of litigation, the State of California Assembly Bill AB X1 26 was upheld by the California Supreme Court, and RDA's were officially dissolved as of February 1, 2012. The transfer of responsibility is described in Note 16 to the financial statements.
- As of June 30, 2012, the total fund balances of the governmental funds were $1.3 billion. This represents a decrease of $432.1 million, or 24.5%, in comparison with the prior year. This decrease was primarily the result of transferring assets and liabilities to the Riverside County Redevelopment Successor Agency, from the existing Redevelopment Agency, brought about by the legislation referred to above.
- As of June 30, 2012, fund balance for the General Fund was $336.6 million, or 15.0% of the total General Fund expenditures. This amount is comprised of the following fund balance categories: $1.8 million nonspendable, $101.7 million restricted, $52.4 million committed, $8.8 million of assigned fund balance, and $171.9 million unassigned. The detail of these fund balances can be found in Note 13 to the financial statements.
- The County's long-term debt of $1.9 billion showed a net decrease of $834.0 million, or 31.0%, compared to the prior year. The decrease was mainly a result of the transfer of RDA's long term debt to RDA Successor Agency pursuant to the provisions of the Redevelopment Restructuring Act AB X1 26. These obligations are bonds payable, capital leases, certificates of participation, loans payable, and other long-term debt.

Statement of Net Assets

Primary Government (in thousands)

	2012	2011	Variance
ASSETS:			
Cash and investments	$ 1,383,706	$ 1,735,709	$ (352,003)
Receivables, net	652,255	562,176	90,079
Inventories	13,537	13,401	136
Internal balances	-	-	-
Pension asset, net	443,947	434,732	9,215
OPEB asset, net	23,596	21,818	1,778
Prepaid items and deposits	11,003	6,008	4,995
Restricted cash and investments	564,156	598,372	(34,216)
Other noncurrent receivables	39,135	34,669	4,466
Notes receivable	-	61,999	(61,999)
Land held for resale	34,368	92,570	(58,202)
Unamortized bond issuance costs	10,868	28,263	(17,395)
Deferred outflows of resources	35,185	24,669	10,516
Capital assets :			
Nondepreciable assets	1,273,054	1,101,112	171,942
Depreciable assets , net	2,701,408	2,663,975	37,433
Total assets	7,186,218	7,379,473	(193,255)
LIABILITIES:			
Current Liabilities:			
Accounts payable	154,103	170,797	(16,694)
Salaries and benefits payable	78,478	69,549	8,929
Due to other governments	123,205	78,762	44,443
Interest payable	9,412	20,883	(11,471)
Deposits payable	418	2,415	(1,997)
Notes payable	171,324	206,805	(35,481)
OPEB Obligation, Net	-	49	(49)
Other liabilities	3,386	4,341	(955)
Unearned revenue	313,260	256,162	57,098
Interest rate swap	35,185	24,669	10,516
Long-term liabilities:			
Due within one year	239,506	252,227	(12,721)
Due beyond one year	1,616,251	2,437,557	(821,306)
Total liabilities	2,744,528	3,524,216	(779,687)
NET ASSETS:			
Invested in capital assets, net of related debt	2,870,939	1,800,617	1,070,322
Restricted for:			
Community development	307,843	269,112	38,731
Debt service	143,358	134,693	8,665
Health and sanitation	34,064	34,131	(67)
Public protection	38,085	31,275	6,810
Public ways & facilities	156,088	192,111	(36,023)
Other programs	45,500	38,111	7,389
Unrestricted	845,813	1,355,207	(509,394)
Total net assets	$ 4,441,690	$ 3,855,257	$ 586,433

The Statement of Net Assets presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether or not the financial position of the County is improving.

The County's total net assets increased by 15.3%, or $591.0 million ($586.5 million as previously reported and restatement of $4.5 million), during fiscal year 2011-12. Governmental activities increased by $641.0 million in net assets while business-type activities decreased by $50.0 million. Below are the three components of net assets and their respective fiscal year-end balances:

Invested in capital assets, net of related debt

This component of net assets represents the amount that is unavailable for reducing debt or paying for services because it is the value of the capital assets themselves, not liquid assets like cash or equivalents that could be used to pay the bills. The balance represents 64.5%, or $2.9 billion, of the County's total net assets under this category for fiscal year 2011-12.

Restricted net assets

This component of net assets represents the amount that is available for use only as allowed by creditors, grantors, contributors, or laws and regulations of other governments, and restrictions imposed by law through constitutional provisions or enabling legislation. The balance in this category accounts for 16.3%, or $724.9 million, of the County's total net assets for fiscal year 2011-12.

Unrestricted net assets

This component of the County's total net assets is the amount that is available and may be used to meet the County's ongoing obligations to citizens and creditors. Of the unrestricted net assets for fiscal year 2011-12, $851.3 million is from governmental activities, and ($5.5) million is from business-type activities. The balance in this category is 19.0%, or $845.8 million, of the County's total net assets for fiscal year 2011-12.

Capital Assets & Long-Term Liabilities

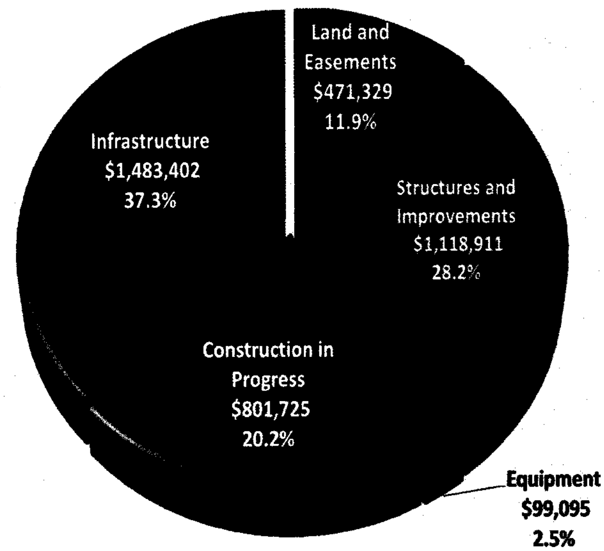
Capital Assets

As of June 30, 2012, the County's capital assets for both governmental and business-type activities amounted to $4.0 billion (net of depreciation). The capital assets include land and easements, land improvements, construction in progress, infrastructure (channels, storm drains, basins, roads, traffic signals, bridges, runways, and parks), structures and improvements, and equipment.

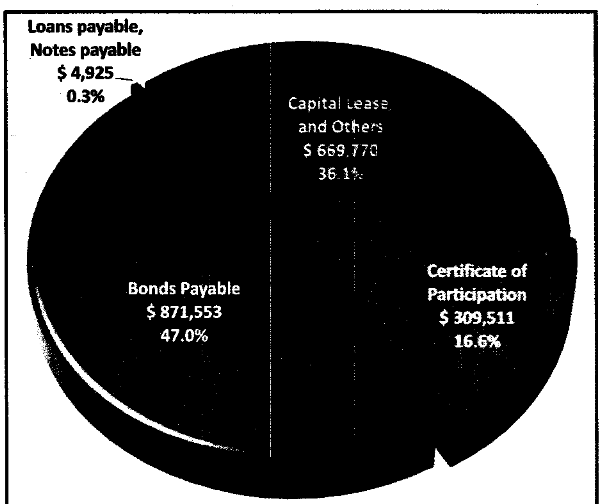
Major projects under construction in fiscal year 2011-2012 included the following:

- Roads and signal infrastructures – $97.0 million
- RCRMC parking lot expansion - $6.6 million
- Siemens Hospital Information System – $2.6 million
- Mead Valley Library – $6.8 million
- Idyllwild Library conversion – $2.1 million
- Flood storm drains and channel projects - $8.1 million
- Public Safety Enterprise Communication - $2.7 million

Capital Assets, net of depreciation
(in thousands)



Long-Term Obligations
(in thousands)



Long-Term Liabilities

As of June 30, 2012, the County's outstanding debt obligation for its government-wide activities amounted to $1.9 billion. Long-term debt incurred by the County of Riverside includes bonds, certificates of participation, loans, capital leases, and others.

The following are credit ratings maintained by the County

	Moody's Investors Service, Inc	Standard & Poor's Corp.
Long-term lease debt	Aa3	AA
Issuer credit	Aa3	AA

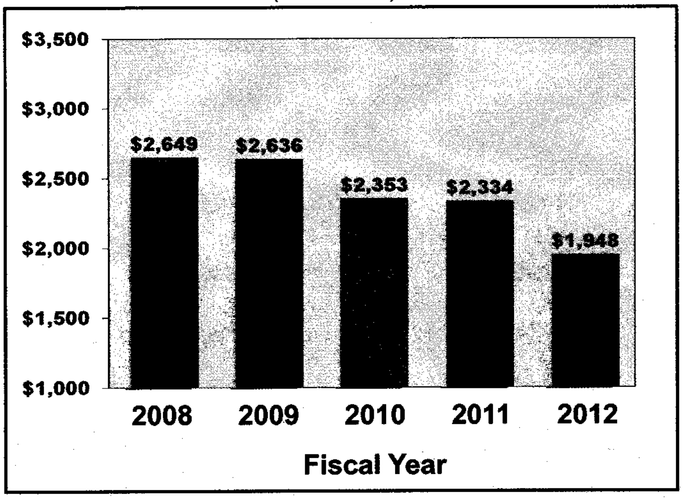
Cash and Investments, Net Assets

Cash and Investments

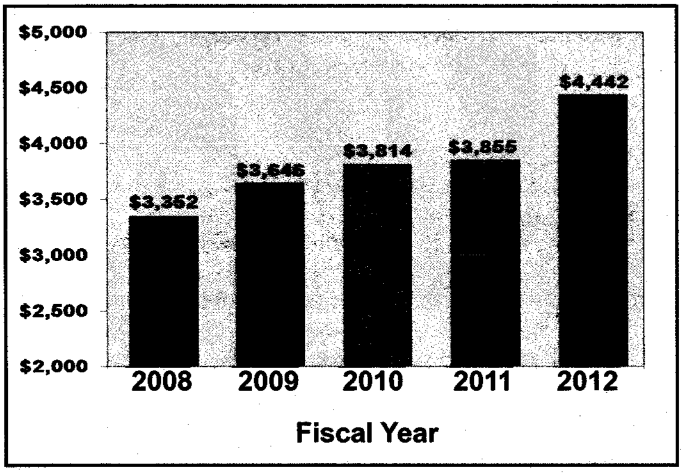
The Cash and Investments represented in the Government-wide Statement of Net Assets includes cash and investments that are available for use, as well as restricted cash and investments for both governmental and business-type activities.

At the end of the current fiscal year, the County reported a decrease of $386.2 million in cash and investments. Unrestricted cash and investments showed a decrease of $352.0 million and a decrease of $34.2 million in restricted cash and investments. The main reason for such a drastic decrease in unrestricted cash and investment was mainly due to the dissolution of Redevelopment Agencies (RDA's). RDA's were officially dissolved as of February 1, 2012 per State of California Assembly Bill ABX126. Also, the public facilities improvement fund dropped by $51.3 million. For business type activities, the major decrease was from the Riverside County Regional Medical Center, which resulted in a cash and investments decrease of $15.5 million.

Cash and Investments
(in millions)



Net Assets
(in millions)



Net Assets

Net Assets is total assets less total liabilities of the primary government. Net assets serve as a useful indicator of a government's financial condition.

At the end of the current fiscal year, the County reported positive net assets balances for both governmental and business-type activities, with total assets exceeding liabilities by $4.4 billion, which is a $591.0 million increase over fiscal year 2011 ($586.5 million as previously reported and restatement of $4.5 million). The most significant increase in net assets is the capital investment net of related debt in the amount of $1.1 billion as well as restricted net assets increasing by $25.5 million, offset by a decrease in unrestricted net assets in the amount of $509.3 million.

Statistics

Liquidity Ratios

The current ratio and the quick ratio indicate the County's ability to pay its bills. The current ratio trend for 2012 is unfavorable because it decreased to 3.79 in 2012 from 4.18 in 2011. The current ratio is calculated by dividing current assets by current liabilities.

The quick ratio trend is unfavorable because it fell to 5.52 in 2012 from 6.67 in 2011. The quick ratio is calculated by cash, investments and accounts receivable divided by current accounts payable and accruals.

The fund balance ratio decreased. It was 0.40 in 2011 and fell to 0.26 in 2012. This trend represents a reduction in the County's ability to pay its short-term obligations when they come due. The fund balance ratio is unrestricted net assets divided by annual expense.

	2012	**2011**	**2010**
Current Ratio	3.79	4.18	3.99
Quick Ratio	5.52	6.67	7.49
Fund Balance Ratio	0.26	0.40	0.46

Activity Ratios

An increase in the accounts receivable (AR) turnover ratio indicates the average number of times the AR balance is fully paid throughout the year. The AR turnover is unfavorable. It is 5.10 in 2012 as compared to 6.00 in 2011.

The average collection period is a representation of the AR turnover in terms of days. This ratio is unfavorable. In 2012, it took 72 days to collect (365days/5.10), as compared to 61 days 2011 (365 days/6.00).

	2012	**2011**	**2010**
AR Turnover	5.10	6.00	6.00
Average Collection Period	72 days	61 days	61 days

Debt Ratios

The long-term debt/assets ratio gives an indication of the County's ability to issue new debt. The lower the organization's reliance on debt for asset formation, the less risky the organization is, since excessive debt can lead to a heavy repayment burden. In 2012, this ratio is favorable at 25.8%, compared to 36.5% in 2011.

The debt service coverage indicates the resources available to repay the debt already issued. In 2012, this ratio is favorable at 16.58 in 2012, compared to 12.06 in 2011.

	2012	**2011**	**2010**
Long-term Debt/Assets	25.8%	36.5%	35.9%
Debt Service Coverage	16.58	12.06	12.91

Statement of Activities

Primary Government (in thousands)

	2012	2011	Variance
Revenues:			
Program revenues:			
Charges for services	$ 1,086,462	$1,118,598	$ (32,136)
Operating grants	1,447,694	1,393,016	54,678
Capital grants	28,244	32,114	(3,870)
General revenues:			
Property taxes	322,337	367,867	(45,530)
Sales and use taxes	26,744	45,489	(18,745)
Other taxes	6,715	9,004	(2,289)
Motor vehicle in-lieu taxes	226,384	235,153	(8,769)
Investment earnings	12,708	20,032	(7,324)
Other	169,399	149,583	19,816
Total revenues	3,326,687	3,370,856	(44,169)
Expenses:			
General government	270,474	298,032	(27,558)
Public protection	1,047,202	1,021,288	25,915
Public ways and facilities	84,797	87,424	(2,628)
Health and sanitation	374,950	369,984	4,966
Public assistance	827,092	907,202	(80,111)
Education	10,376	15,816	(5,440)
Recreation and culture	15,806	9,364	6,442
Interest on long-term debt	39,098	88,998	(49,900)
Regional Medical Center	417,074	401,120	15,954
Waste Management	57,272	56,688	584
Housing Authority	91,469	86,027	5,442
Flood Control	2,306	3,711	(1,405)
County Service Areas	456	383	73
Total expenses	3,238,372	3,346,037	(107,665)
RDA dissolution	502,638	-	502,638
Change in net assets	590,953	24,819	566,134
Net Assets, Beginning of Year, as Restated	3,850,737	3,830,438	20,299
Net Assets, End of Year	$ 4,441,690	$ 3,855,257	$ 586,433

Statement of Activities illustrated here, represents combined activities of governmental and business-type. Governmental functions are supported by property taxes, sales taxes and other intergovernmental revenues, and the business-type is mainly supported by user fees and charges. Governmental activities are reported in the General Fund, Special Revenue Funds, Capital Project Funds, Debt Service Funds, and Internal Service Funds. Business-type activities are supported by Enterprise Funds.

The majority of the functions that are supported by governmental activities are: Information Services, OASIS, Sheriff, District Attorney, Social Services, Transportation, Economic Development, Facilities Management, Community Health, Mental Health, Auditor-Controller, Human Resources, Assessor, Treasurer-Tax Collector, and other small general government functions. Functions supported by user fees and charges are: Regional Medical Center, Waste Management, Housing Authority, and County Service Areas.

Revenues

The County's revenue decreased in 2012 in the amount of $44.2 million. The only increase in revenue was from operating grants. The increase was offset by the continued decrease of property taxes collected, decrease in motor vehicle in-lieu taxes, and a decline in interest earning from lower interest rates.

Expenses

The expenses in 2012 also decreased by $107.7 million. The decrease was mainly due to governmental type activities in the Public Assistance, Interest on Long Term Debt, and General Government areas.

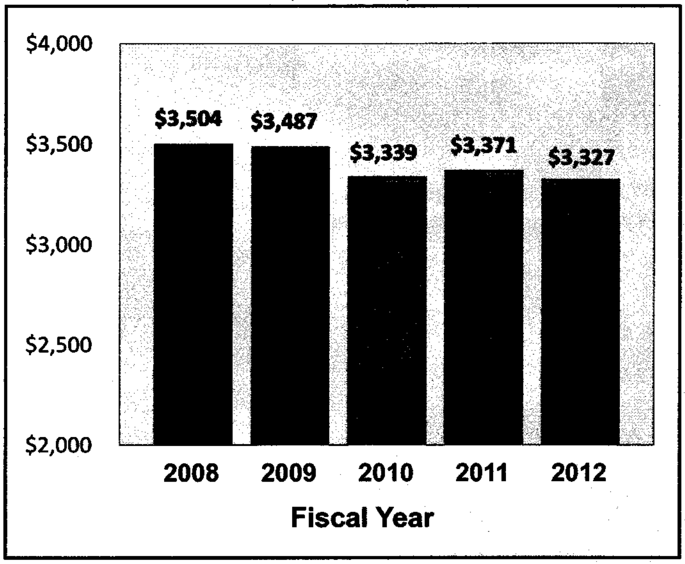
Revenues and Expenses

Revenues

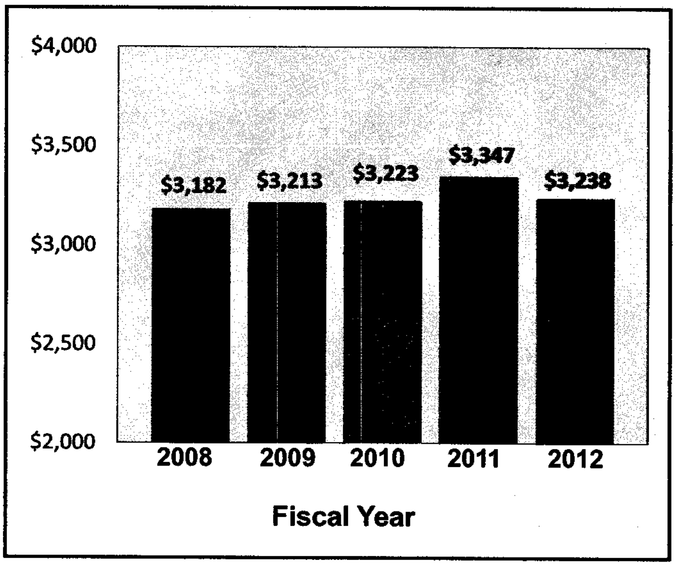
Slow economic growth continues to influence the County's general revenues; 2011 was the first year since 2008 there was a slight increase in revenues, but at the end of 2012 there was a decline in revenue again. As the housing market continues to struggle, assessed property values continue to vacillate. Charges for services also declined mainly due to the establishment of AB109, California's Prison Realignment Plan.

Operating grants were one of two revenue sources that increased in 2012. The increase is attributable to higher reimbursements from State and Federal funding.

Five Year Trend - Revenues
(in millions)



Five Year Trend - Expenses
(in millions)



Expenses

Expenses are a representation of the services we provide to the citizens of Riverside County. The increase in population has resulted in an increase demand for local government services. In an effort of trying to maintain a balanced budget, Riverside County is working hard to keep our communities safe and provide quality service for our citizens.

In fiscal year 2012, general government decreased due to vacant positions not being filled and personnel reductions, as well as less payments for capital projects that have been completed in the prior years. The decrease in public assistance was attributable to a reduction of CalWORKS benefits in categorical aid as well as lower staffing levels in the Department of Public Social Services. Interest on long term debt decreased due to the County's decrease in long term borrowing, therefore less interest that needs to be paid. Public protection increased due to the following projects: Smith Correction Facility warehouse construction, safety cell construction, security camera system at Southwest Juvenile Hall, and the new secured Youthful Offender Program (YOP) facility.

Revenues by Source

The statement of activities reports revenue by sources using government-wide reporting standards. To assist the reader in understanding what makes up the various sources referenced, we have provided the following detailed listing:

Program Revenues

Charges for Services
Assessment and tax collection fees, auditing and accounting fees, communication services, election services, legal services, planning and engineering services, civil process services, estate fees, humane services, law enforcement services, recording fees, road and street services, health fees, mental health services, sanitation services, institutional care and services, animal licenses, business licenses, construction permits, road privileges and permits, zoning permits, franchises and other licenses and permits, vehicle code fines, other court fines, forfeitures and penalties in addition to penalties and costs on delinquent taxes, and parking fees.

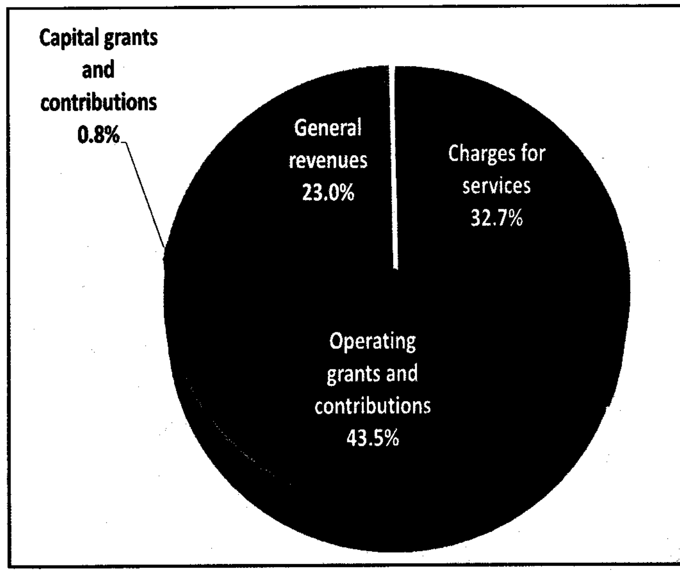
Operating Grants
State, federal, other government, and private contributions to fund specific programs.

Capital Grants
State, federal, other government, and private contributions to fund capital purchases for specific programs.

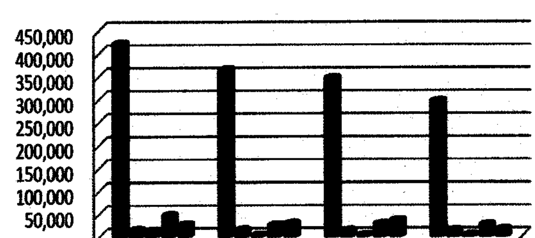
General Revenues

Taxes: Property taxes, sales and use taxes as well as other County levied taxes, investment income, rents and concessions, sale of surplus property, contributions and donations, non-governmental grants and unclaimed money.

Revenues by Source



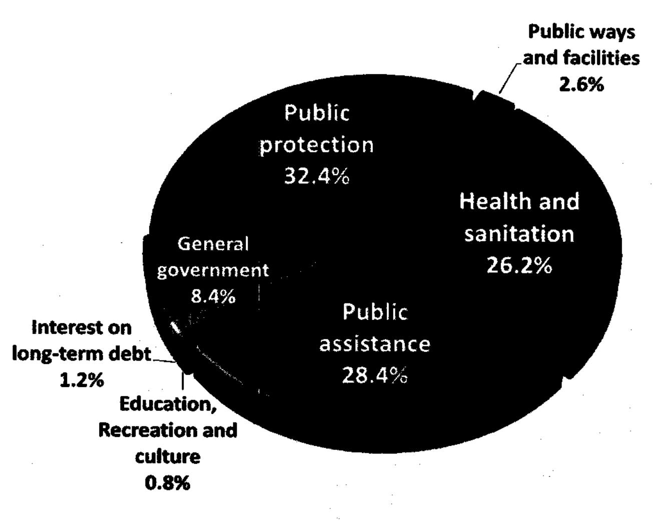
General Government Tax Revenues
(Dollars in Thousands)



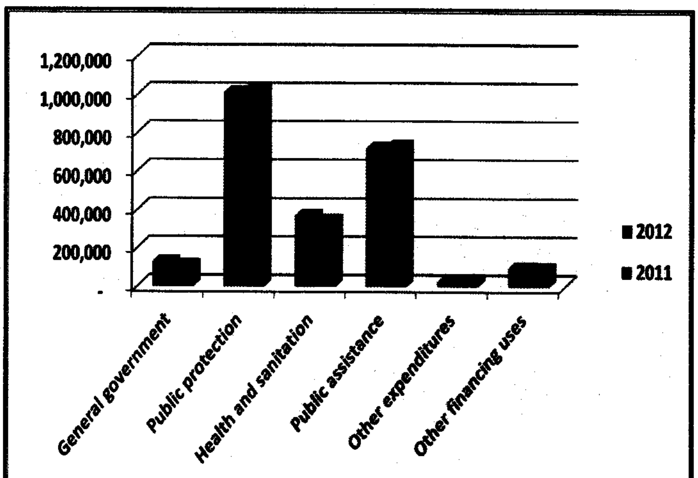
	2009	2010	2011	2012
Secured Tax	422,329	364,810	346,356	295,974
Unsecured Tax	15,071	15,270	13,404	13,499
Supplemental Tax	12,981	3,778	3,681	3,498
Sales & Use Tax	47,683	25,762	28,393	26,626
Other Taxes	27,174	29,815	36,058	16,199

Expenses by Function

Expenses by Function



General Fund Expenditures & Other Financing Uses
(Dollars in Thousands)



The following list provides details to define the County departments included in each of the functional categories listed in the statement of activities:

General Government
Assessor, Auditor-Controller, Treasurer-Tax Collector, Economic Development Agency, Date Festival, Housing Authority, Human Resources, Registrar of Voters, Redevelopment Agency, Public Safety Enterprise Communication, Facilities Management, Board of Supervisors, Executive Office, County Counsel and Purchasing.

Public Protection
Sheriff, Coroner, Public Administrator, District Attorney, Public Defender, Probation, Fire, Agricultural Commissioner, Animal Control, County Clerk-Recorder, Flood Control, Planning, Building and Safety, Department of Child Support Services, Juvenile Hall and Code Enforcement.

Public Ways and Facilities
Transportation and Land Management Agency, Surveyor, Transportation, County Airports and County Service Areas.

Health and Sanitation
Public Health, Environmental Health, Detention Health Services, California Children's Services, Mental Health, Regional Medical Center and Waste Management.

Public Assistance
Department of Public Social Services, Community Action Partnership, Office on Aging, Veteran's Services and Housing Authority.

Education
Cooperative Extension and County Library.

Recreation and Culture
Regional Parks and Edward Dean Museum.

Property Taxes

How the Property Tax System Works

[redacted]

Assesses all real estate and personal property (businesses, manufactured homes, boats & airplanes) located throughout the entire County.

↓

[redacted]

Receives the assessments from the Assessor and applies the appropriate tax rate to determine the actual amount of property tax owed.

↓

[redacted]

Mails out the property tax bills, collects the money, and deposits it in the County Treasury.

↓

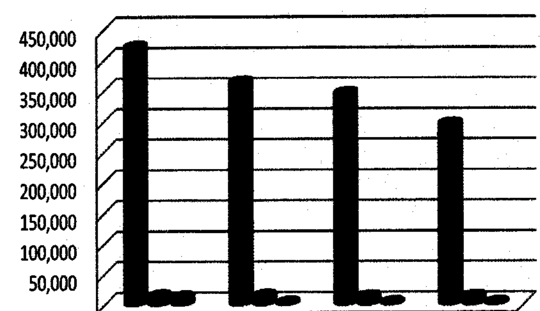
[redacted]

Receives and allocates the money to local taxing agencies, including the County, cities, schools, and special districts.

CREST Project

The Assessor-County Clerk-Recorder, Auditor-Controller, and Treasurer-Tax Collector are collectively developing a new integrated property tax management system. The project began with a Business Process Re-engineering phase that documented the integrated roles of the three departments. This phase identified the current system's capabilities, strengths, and weaknesses. The second phase of the project is to implement a new integrated property tax management system based on new technology. Project was started in fiscal year 2007 and anticipated completion date is fiscal year 2013.

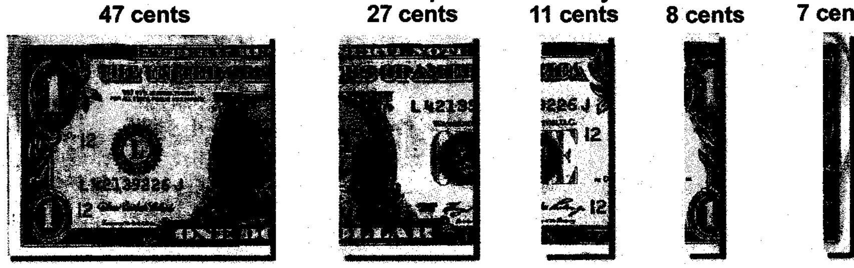
Property Tax Revenue
(in thousands)



	2009	2010	2011	2012
■ Secured Tax	422,329	364,810	346,356	295,974
■ Unsecured Tax	15,071	15,270	13,404	13,499
■ Supplemental Tax	12,981	3,778	3,681	3,498

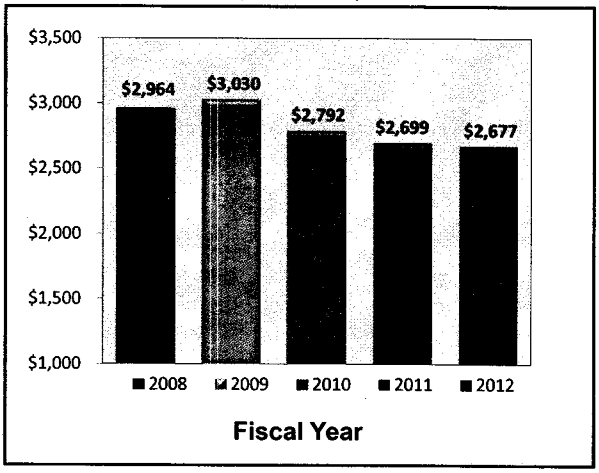
Where did your property tax dollar go in fiscal year 2011-2012?

Schools 47 cents | **Community Redevelopment 27 cents** | **County 11 cents** | **Special Districts 8 cents** | **Cities 7 cents**

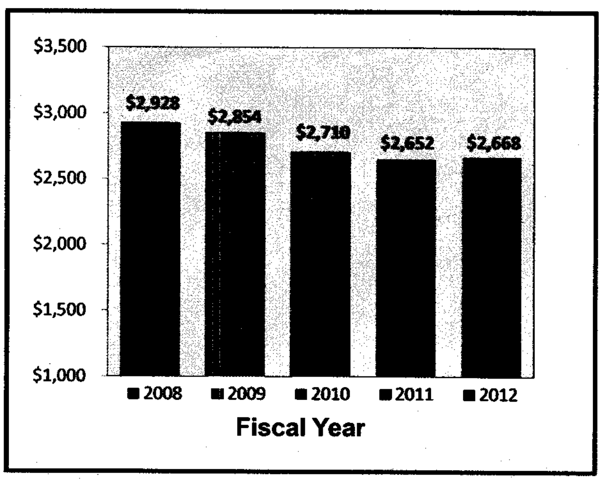


Property Taxes

Tax Levies
(in millions)



Tax Collections
(in millions)



Riverside County
Principal Property Tax Payers
(Property tax in thousands)

1.	Southern California Edison Co.	$23,447
2.	Verizon California Inc.	10,214
3.	Inland Empire Energy Center LLC	8,423
4.	Federal Natl Mortgage Assn.	6,612
5.	So. California Gas Co.	6,554
6.	Wells Fargo Bank.	3,105
7.	Abott Vascular Inc.	3,096
8.	Walgreen Co.	3,015
9.	Tyler Mall LTD Partnership	2,881
10.	Standard Pacific Corp.	2,873

Property taxes are levied on both real and personal property and are recorded as receivables at the date of levy. Secured property taxes are levied on or before the first business day of September of each year. These taxes become a lien on real property on January 1 preceding the fiscal year for which taxes are levied. Tax payments can be made in two equal installments; the first is due November 1 and is delinquent with penalties after December 10; the second is due February 1 and is delinquent with penalties after April 10. Secured property taxes that are delinquent and unpaid as of June 30 are declared to be tax defaulted and are subject to redemption penalties, costs, and interest. If the delinquent taxes are not paid at the end of five years, the property is sold at public auction and the proceeds are used to pay the delinquent amounts due and any excess is remitted, if claimed, to the taxpayer.

For more property tax information visit the County of Riverside's Property Tax Portal at:

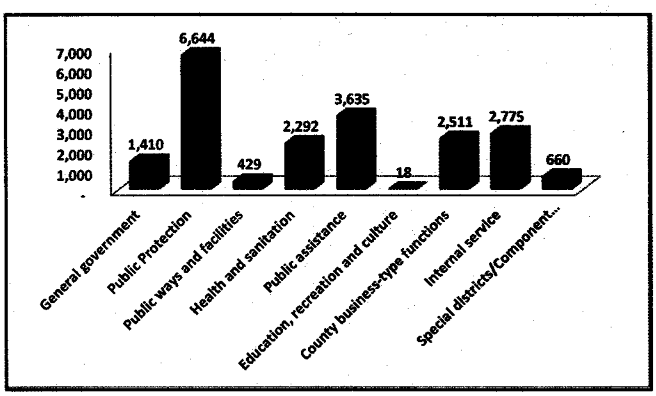
www.riversidetaxinfo.com

Demographics

Riverside County Principal Employers
(number of employees)

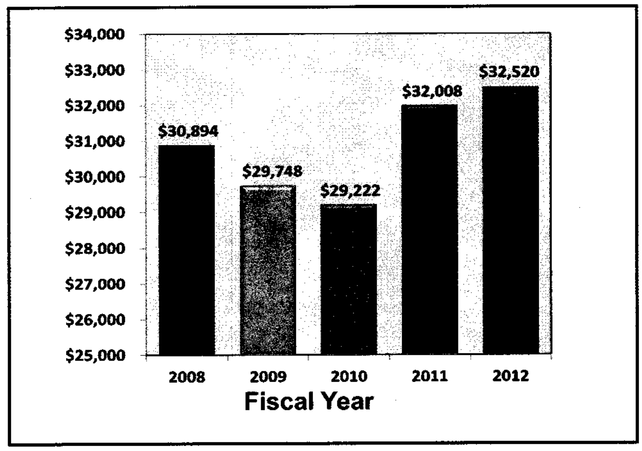
1. County of Riverside 19,150
2. March Air Reserve Base........................ 9,000
3. Stater Brothers Market 6,900
4. U.C. Riverside 5,790
5. Walmart 5,360
6. Corona-Norco Unified School District..... 4,686
7. Kaiser Permanente Riverside Medical ... 4,000
8. Pechanga Resort & Casino 4,000
9. Riverside Unified School District. 3,796
10. Moreno Valley Unified School District..... 3,500

Full-time Equivalent County Government Employees by Function/Program*

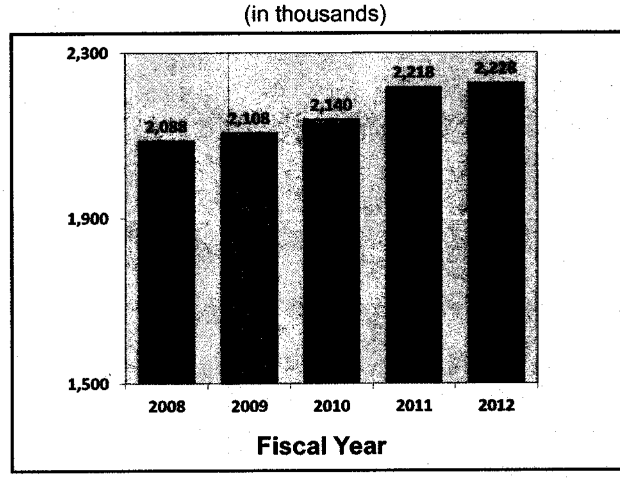


*Temporary employees, 1,663, filled as of 5/24/12, are included in the total number of employees.

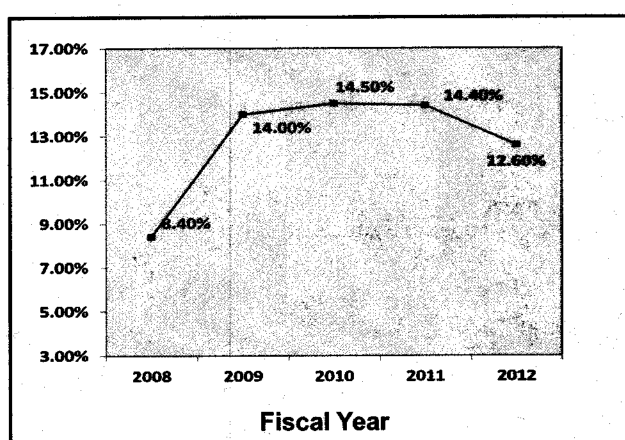
Per Capita Income



Population
(in thousands)

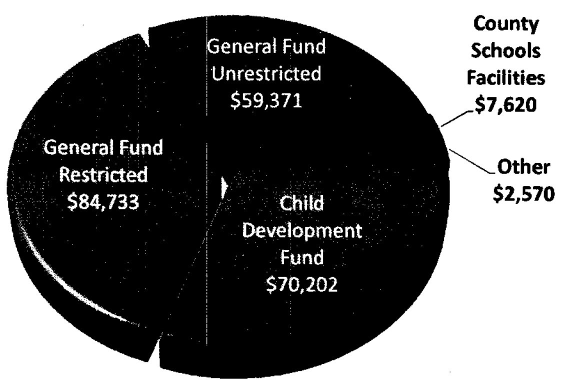


Unemployment Rate



Demographics

Riverside County Office of Education Expenditures 2011-2012
(in thousands)



Total = $224,496

Riverside County Average State Funding Per Pupil

Elementary Districts	$6,247
High School Districts	$7,504
Unified Districts	$6,535

Additional information about the Riverside County Office of Education may be found at their website: **www.rcoe.us**

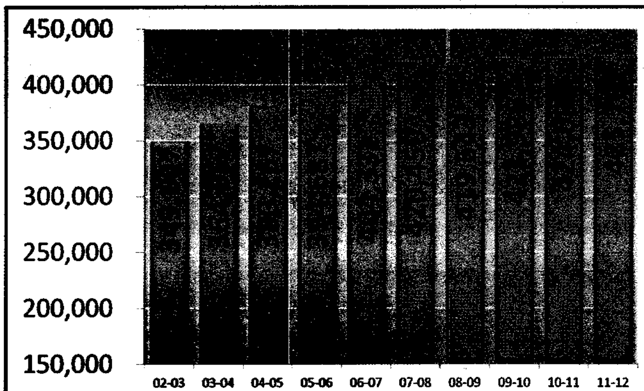
Public School sites in Riverside County

Charter Schools	20
Elementary Sites	278
Middle/Junior High Sites	77
Continuation/Adult Education	33
High School	64
Total Schools	472

Number of Riverside County School Districts

Elementary	4
High School	1
Unified	18

Kindergarten Through 12th Grade Enrollment Growth 2002-2012



Service Operating Indicators

Community Health Agency

Facilities inspections 36,201
Inspections include fixed food facilities, pools, spas, hazardous material generators and miscellaneous food operations
Patient visits 109,870
Patient services performed 392,621
Services include family planning, primary health care, prenatal care, urgent care, breast cancer early detection, child health and disability prevention
Animal impound 36,518
Spays and neuters 9,771

Public Social Services

CalWORKs clients 33,682
Food stamp clients 107,076
Medi-Cal clients 130,562
In-home supportive services 19,070
Services include meal preparation and cleanup, food shopping, bathing, dressing, personal care, domestic services (cleaning), assistance with medications, etc.
Foster care placements 3,113
Child welfare services 9,664
Services include child adoptions and investigations of child abuse, neglect or abandonment

Auditor-Controller

Invoices paid 389,798
Vendor warrants issued 255,463
Active vendors 78,887
Payroll warrants (checks) issued 509,468
Average paychecks per pay period 19,595

Waste Management

Landfill tonnage 1,071,309
Recycling tonnage 2,206

Sheriff

Number of bookings 53,691
Coroner case load 10,947
Calls for services–Unincorporated areas
(contract cities not included) 176,062

Veterans' Services

Phone inquiries answered 36,707
Client interviews 14,990
Claims filed 6,030

Fire

Medical assistance 96,843
Fires extinguished 12,990
Other services 11,856
Other services include fire menace standbys (bomb threats, electrical hazards, gas hazards, etc.), public service assists (assisting other agencies, persons, flooding, etc.) and false alarms.
Communities served 78

Assessor-Clerk-Recorder

Assessments 904,706
Official records recorded 592,531
Vital records copies issued 78,768
Official records copies issued 26,153

Registrar of Voters

Voting precincts 853
Polling places 522
Voters 852,217
Number of voters that were mailed voting materials for all elections in the fiscal year
Poll workers 2,300

Service Operating Indicators

County Regional Medical Center

Emergency room treatments	101,952
Emergency room services–Mental Health	16,750
Clinic visits	127,546
Admissions	23,949
Patient days	121,949
Discharges	23,694

TLMA - Building & Safety

Building permits issued	566
Building plans checked	558
Building structures inspected	447

Community Action Partnership

Utility assistance (households)	21,912
Weatherization (households)	842
Energy education attendees	14,950
Disaster relief (residents)	13,968
Income tax returns prepared	2,711
After school program (students)	20,700
Mediation (cases)	2,181
Leadership program enrollment	166

County Library

Total circulation - books	3,387,218
Reference questions answered	441,269
Patron door count	4,080,738
Programs offered	8,382
Programs attendance	163,692
Branch libraries	33
Book mobiles	2

Probation

Adults on probation	14,992
Juveniles in secure detention	193
Juveniles in treatment facilities	107
Juveniles in detention facilities	9,148

Mental Health

Mental health clients	35,696
Substance abuse clients	17,849
Detention clients	10,544
Probate conservatorship clients	351
Mental health conservatorship clients	879

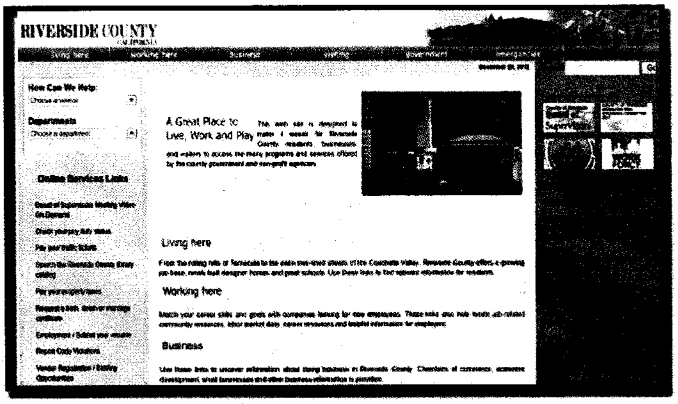
Agricultural Commissioner

Export phytosanitary certificates	19,875
Pesticide use inspections	793
Weights and measures regulated	137,727
Agriculture quality inspections	553
Plant pest inspections	11,931
Nursery acreage inspected	6,920
Weights and measures inspected	51,074

Parks and Recreation

Historic sites	5
Nature centers	4
Archaeological sites	6
Wildlife reserves	9
Regional parks	11

Internet Resources



Visit the County of Riverside's Official Website

www.countyofriverside.us

Where you can find information about:

- Board Agendas
- County Agencies and Departments
- County Employment
- County Ordinances
- Court Cases
- Property Assessments
- Public and Official Records
- Roads and Highways
- Voting and Elections

Online services provided:

- Check your jury duty status
- Online crime report
- Pay your property taxes
- Pay your traffic tickets
- Report code violations
- Request a birth, death, or marriage certificate
- Search the county library catalog
- Vendor Registration

Visit the County of Riverside Auditor-Controller's Official Website

www.auditorcontroller.org

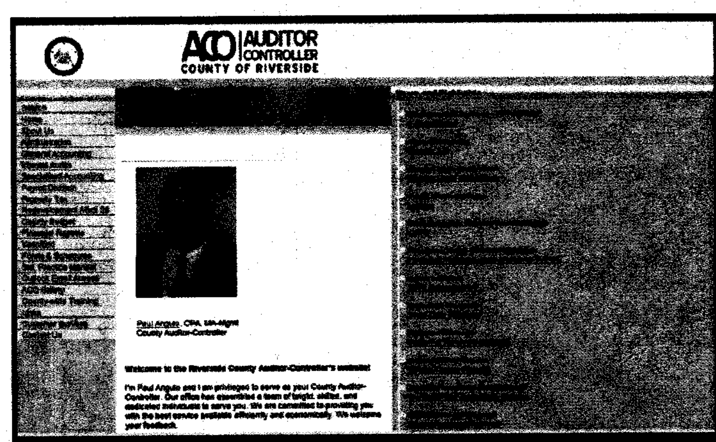
Where you can find information about:

Auditor-Controller's Office Divisions

- Administration
- Audits & Specialized Accounting
- General Accounting
- Payroll
- Property Tax

Financial Statements

- Comprehensive Annual Financial Report (CAFR)
- Popular Annual Financial Report (PAFR)
- Internal Audit Reports
- Single Audit Reports



Riverside County Popular Annual Financial Report

Paul Angulo, CPA, MA-Mgmt
Riverside County Auditor-Controller

County of Riverside, California

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2012

Paul Angulo, CPA, MA-Mgmt

County Auditor-Controller

2-16

COUNTY OF RIVERSIDE, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2012

PREPARED BY THE OFFICE OF:

PAUL ANGULO, CPA, MA-MGMT

COUNTY AUDITOR-CONTROLLER

COUNTY OF RIVERSIDE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
June 30, 2012

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June 30, 2012

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COUNTY OF RIVERSIDE
OFFICE OF THE
AUDITOR-CONTROLLER
County Administrative Center
4080 Lemon Street, 11th Floor
P.O. Box 1326
Riverside, CA 92502-1326
(951) 955-3800
Fax (951) 955-3802

AUDITOR CONTROLLER
COUNTY OF RIVERSIDE
Paul Angulo, CPA, MA-Mgmt
Auditor-Controller

December 20, 2012

The Honorable Board of Supervisors
Citizens of the County of Riverside
4080 Lemon Street, 5th Floor
Riverside, California 92501

Members of the Board and Citizens of Riverside County:

The Comprehensive Annual Financial Report (CAFR) of the County of Riverside for the fiscal year ended June 30, 2012 is hereby submitted in accordance with the provision of Section 25253 of the Government Code of the State of California (the State). The report contains financial statements that have been prepared in conformity with the United States generally accepted accounting principles (GAAP) prescribed for governmental entities. Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the County of Riverside (the County). To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that presents fairly the financial position and changes in financial position of the various funds and component units of the County of Riverside. All disclosures necessary to enable the reader to gain an understanding of the County's financial activities have been included.

The management's discussion and analysis (MD&A) immediately follows the report of the independent auditors and provides a narrative, overview, and analysis of the basic financial statements. The MD&A was designed to complement this letter of transmittal and should be read in conjunction with it.

The financial reporting entity for the County includes all the funds of the primary government--the County of Riverside as legally defined--as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable.

The County has eleven independent fiscal entities that are considered blended component units and three discretely presented component units. These entities vary widely in function and provide essential services.

For a more detailed overview of the County's component units see the MD&A and the notes to the basic financial statements.

PROFILE OF THE GOVERNMENT

Riverside County is the fourth largest county by area in the state of California. It encompasses 7,295 square miles and extends nearly 184 miles across Southern California, from the Arizona border west to within 10 miles of the Pacific Ocean. It is situated east of Los Angeles and Orange Counties, south of San Bernardino County, and north of San Diego and Imperial Counties.

There are 28 incorporated cities located within the County. The latest city to be incorporated was Jurupa Valley on July 1, 2011. The largest cities in the County are Riverside (the County seat) with a population of 308,511, Moreno Valley 196,495, Corona 154,520, Temecula 103,092, and Murrieta 104,985. Estimated population figures are developed by the California State Department of Finance, and each year it is revised on January 1, with a revised estimate for the prior year. Total County population was 2,227,577 on January 1, 2012, an increase of 0.99 percent as compared to the revised estimate for January 1, 2011. Approximately 16 percent of the residents live in unincorporated areas.

The County is governed by a five-member Board of Supervisors, who serve four-year terms, and annually elect a Chairman and Vice-Chairman. The Supervisors represent five districts.

The First District includes areas within the cities of Riverside, Canyon Lake, Lake Elsinore, Wildomar and the unincorporated communities of Lakeland Village, Lake Mathews, Mead Valley, Santa Rosa Rancho, as well as portions of Gavilan Hills and Woodcrest.

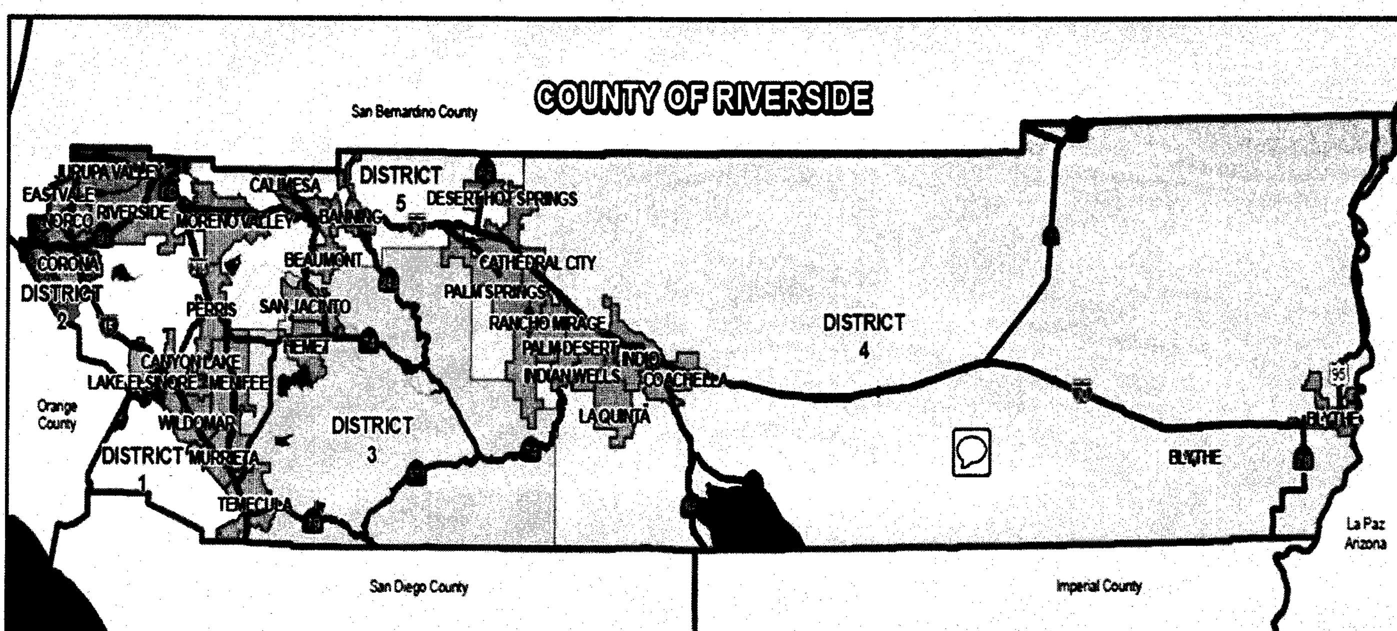
The Second District includes the cities of Corona, Norco, approximately one-third of the City of Riverside, Eastvale, and Jurupa Valley (the newest city as of July 1, 2011). The unincorporated communities consist of Home Gardens, El Cerrito, Coronita, and Highgrove.

District Three includes the cities of Hemet, Murrieta, San Jacinto, and Temecula. Major unincorporated areas in the District include Aguanga, Anza, Idyllwild, Valle Vista, Winchester, Wine Country, and Pinyon Pines.

District Four is the largest district, covering the eastern two-thirds of the County. Within this District are the cities of Palm Springs (except the northern portion which resides in District 5), Cathedral City, Rancho Mirage, Palm Desert, Indian Wells, La Quinta, Indio, Coachella, Desert Hot Springs, and Blythe. Major unincorporated areas include Bermuda Dunes, Thousand Palms, Sky Valley, Indio Hills, Desert Edge, Mecca, Thermal, Oasis, Vista Santa Rosa, North Shore, Chiriaco Summit, Desert Center, Lake Tamarisk, Mesa Verde, Colorado River Communities, and Ripley.

The Fifth District includes the cities of Banning, Beaumont, Calimesa, Menifee, Moreno Valley, Perris, and the northern portion of Palm Springs. The unincorporated areas include Nuevo, Lakeview, Juniper Flats, Meadowbrook, Good Hope, a portion of Mead Valley, Romoland, Homeland, Green Acres, Box Springs, Pigeon Pass, Reche Canyon, San Timoteo Canyon, Oak Valley, Cherry Valley, Banning Bench, Cabazon, Palm Springs Village, and Palm Springs West.

County Of Riverside by Supervisorial Districts



Source: Riverside County GIS

The County provides a full range of services. These services are outlined in the following table:

Certificate, Licenses and Permits	**Human Services**
Birth, marriage, and death certificates, animal licensing and building permits	Assistance for Families, Veteran Services, Utility Assistance, Assistance for the Elderly
Children's Services	**Libraries and Museums**
Child Support Services, Mentor programs, and Children Medical Services	Edward Dean Museum, Riverside County Law Library
Criminal Justice	**Parks and Recreation**
District Attorney, Probation, Public Defender, and Sheriff	Regional Parks
Education	**Pets and Animal Services**
Office of Education	Animal Control, Animal Shelters
Emergency Services	**Property Information**
Office of Emergency Services, Early Warning Notification System, Shelter Grant program, and Homeless program	Building permit report, obtain property information via GIS, pay property taxes online, track your property tax online, record map inquiry, information on new home owners and Riverside County land information
Environment	**Public and Official Records**
Solid waste, liquid waste, medical waste, sewage disposal, water systems, wells, backflow devices, food services, public pools and mobile home parks, vector control, hazardous materials services, fire protection services, waste reduction, and recycling	Official recorded documents, fictitious business names search, grantor/grantee search, vital records, and court records search
Flood Control	**Roads and Highways**
Flood Control and water conservation	Road maintenance, land development, engineering services, and survey
Health	**Taxes**
Family health centers, disease control, nutrition services, family planning, health education, injury prevention, emergency medical services, mental health services, industrial hygiene, laboratory, Epidemiology, medical marijuana identification cards	Property tax portal, tax bills, Assessor-County Clerk Recorder, Treasurer-Tax Collector, Auditor-Controller
Housing	
First time home buyer programs, low income housing, rental assistance program, homeless shelter, neighborhood stabilization program	

FACTORS AFFECTING ECONOMIC CONDITION

State Economy

The California economy continues to work towards recovery. The California Department of Finance reports continued gradual growth in statewide non-farm payroll employment through February. Six major industry sectors saw employment gains while five lost. The largest job gains were made in the information sector, followed by manufacturing, education, health services, and business services. Job losses occurred in government, trade, transportation, and utilities, among others. California's unemployment rate fell to 10.2 percent in September from 10.6 percent in August, posting one of the biggest drops of any state for the month. The decline took the rate to its lowest level since March 2009, during the worst recession in half a century.

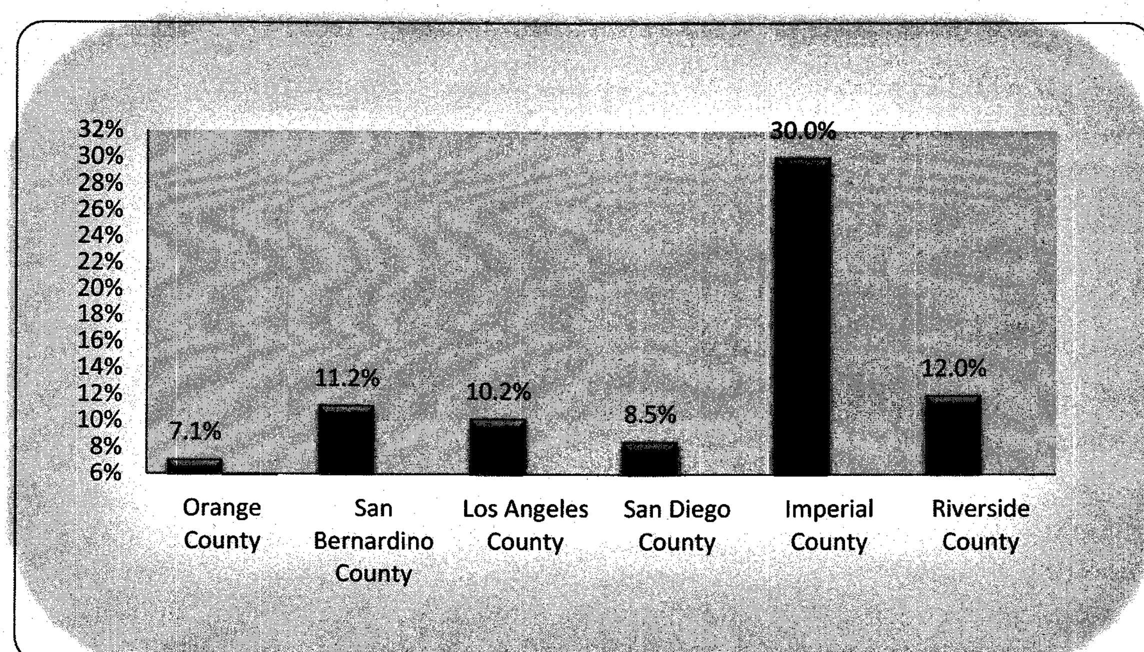
Statewide, issuance of residential construction permits increased 15 percent in January and February over the same period a year ago. Although home prices remain weak, sales improved modestly and inventory measures continue to improve.

Local Economy

Exceptional growth in the County's assessed property value began in fiscal year 2004-05, and started sharply declining in fiscal year 2007-08. For fiscal year 2011-12, assessed valuation decreased by 1.5 percent. The State Board of Equalization has confirmed that movement in the consumer price index for 2012 will permit return to the maximum two percent increase for properties subject to Prop. 13. Due in part to the incorporation of the cities of Eastvale and Jurupa, overall building permit volume for single-family, grading, plan check, in unincorporated Riverside County has dropped substantially.

Riverside County's unemployment rate has slightly improved from 12.6 percent in June 2012 to 12 percent in September 2012, compared to a year ago when unemployment stood at 14 percent.

Unemployment Comparison of Neighboring Counties



Source: Employment Development Department, September 2012.

Relevant Financial Information

Debt Advisory Committee provides advice to the Board on debt issuance and management.

Pension Advisory Committee provides an institutional framework to help guide policy decisions about retirement benefits.

Deferred Compensation Advisory Committee provides assurance of the financial stability of the Plan through prudent monitoring of investments and costs.

Investment Oversight Committee shall cause an annual audit to be performed, and review the annual audit report prior to submittal to the Board of Supervisors; and to review the County's investment policies.

Financial Reporting Awards

The Government Finance Officers Association (GFOA) of the United States and Canada has awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the County of Riverside for its *CAFR* for the fiscal year ended June 30, 2011. This was the twenty-fourth consecutive year the County has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for new certificate.

The County of Riverside has also been awarded for *Outstanding Achievement* in the preparation of the Popular Annual Financial Report (PAFR), which is also referred to as Financial Highlights for the fiscal year ended June 2011. In order to receive an award for *Outstanding Achievement in Popular Annual Financial Reporting*, a government entity must publish a PAFR, with contents conforming to program standards of creativity, presentation, understandability and reader appeal.

Acknowledgments

The preparation of this CAFR could not have been accomplished without the dedicated service of the entire staff of the Auditor-Controller's Office, especially the staff members of the General Accounting Division who consistently produce award winning financial reports. I would also like to thank the staff members of the contributing component units and departments for their participation in the preparation of this report.

Additionally, I would like to offer my appreciation to the Board of Supervisors and County Executive Office for their visionary leadership making Riverside County a great place to live, work, and to conduct business. Finally, I would like to thank our independent auditors, Brown Armstrong Certified Public Accountants, for their efforts throughout this audit engagement.

Respectfully submitted,

Paul Angulo

PAUL ANGULO, CPA, MA-Mgmt
AUDITOR-CONTROLLER

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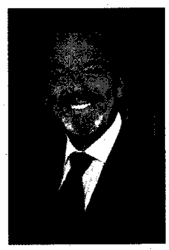
COUNTY OF RIVERSIDE

List of Principal Officials
As of June 30, 2012

ELECTED OFFICIALS

Board of Supervisors

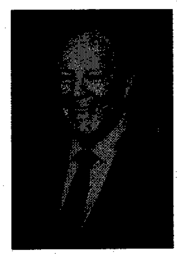
BOB BUSTER
First District



JOHN F.
TAVAGLIONE
Chairman
Second District

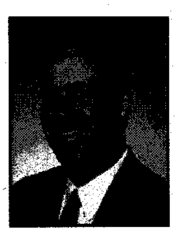
JEFF STONE
Third District

JOHN BENOIT
Vice Chairman
Fourth District



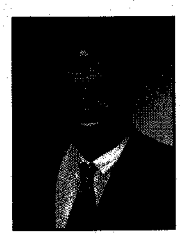
MARION ASHLEY
Fifth District

COUNTYWIDE ELECTED OFFICIALS

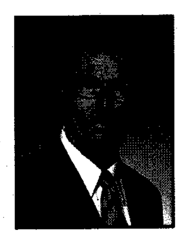


PAUL ZELLERBACH
District Attorney

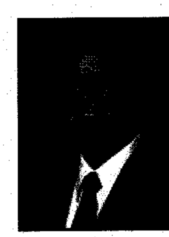
STANLEY SNIFF, JR.
Sheriff
Coroner
Public Administrator



PAUL ANGULO
Auditor
Controller



LARRY WARD
Assessor
Clerk
Recorder



DON KENT
Treasurer
Tax Collector

APPOINTED OFFICIALS

JAY ORR
County Executive Officer

PAMELA WALLS
County Counsel

County of Riverside Organization Chart

- CITIZENS OF RIVERSIDE COUNTY
  - *Elected* Board of Supervisors
    - County Executive Officer

Public Protection

- *Countywide Elected Official* Sheriff-Coroner-Public Administrator
- *Countywide Elected Official* District Attorney
- Public Defender
- Probation
- Agricultural Commissioner
- Fire
- Flood Control
- County Counsel
- Clerk of the Board

Health and Sanitation

- Community Health Agency
  - *Public Health*
  - *Environmental Health*
  - *Animal Control*
- Riverside County Regional Medical Center
- Mental Health
- Waste Management

Education

- Cooperative Extension

County Internal Support

- Purchasing
  - *Supply, Printing, Mail*
- Fleet Services
- Information Technology
- Records Management

Public Ways

- Transportation & Land Management Agency
  - *Transportation*
  - *Planning*
  - *Building Safety*
  - *Code Enforcement*
  - *Environmental Programs*

Public Assistance

- Public Social Services (DPSS)
- Office on Aging
- Veterans' Services

Recreation

- Regional Parks

General Government

- *Countywide Elected Official* Assessor-County Clerk-Recorder
- *Countywide Elected Official* Auditor-Controller
- *Countywide Elected Official* Treasurer-Tax Collector
- Economic Development Agency
  - *Housing Authority*
  - *RDA Successor Agency*
  - *Facilities Management*
- Human Resources
- Registrar of Voters

Certificate of Achievement for Excellence in Financial Reporting

Presented to

County of Riverside California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011

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

President

Executive Director

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BROWN ARMSTRONG

Certified Public Accountants

MAIN OFFICE
4200 TRUXTUN AVENUE
SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
560 CENTRAL AVENUE
SHAFTER, CALIFORNIA 93263
8050 N. PALM AVENUE
SUITE 300
790 E. COLORADO BLVD.
SUITE 908B
PASADENA, CALIFORNIA
5250 CLAREMENT AVENUE
SUITE 237
STOCKTON, CA

PKF

INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Supervisors
County of Riverside, California

We have audited the accompanying financial statements of governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Riverside, California, as of and for the year ended June 30, 2012, which collectively comprise the County of Riverside's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County of Riverside's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Riverside County Flood Control and Water Conservation District (the Flood Control District), Housing Authority of the County of Riverside (the Housing Authority), Riverside County Regional Park and Open-Space District (the Park District), Perris Valley Cemetery District (the Cemetery District), County of Riverside Redevelopment Agency (the RDA), and Children and Families First Commission of Riverside County (the Commission), which represent the following percentages, respectively, of the assets and revenues of the following opinion units:

Opinion Unit	Assets	Revenues
Governmental Activities	25%	6%
Business-Type Activities	6%	17%
Aggregate Remaining Fund Information	2%	1%
Discretely Presented Component Units	37%	72%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as it relates to the amounts included for the Flood Control District, the Housing Authority, the Park District, the Cemetery District, the RDA, and the Commission, are based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Riverside, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and the flood control special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 22 to the basic financial statements, in accordance with the State Assembly Bill 1X 26, the successor agency to the redevelopment agency has transferred the available assets that are not contractually committed to the designated public body. The County has reported an extraordinary net gain of $502.6 million in the governmental-wide financial statements of the County due to this transfer. Management has deemed obligations of the former redevelopment agency due to the County as valid enforceable obligations payable by the successor agency trust under the requirements of Assembly Bill 1X 26. The County's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2012, on our consideration of the County of Riverside's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress, listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Riverside's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements and schedules, the budgetary comparison schedules for major debt service and capital project funds, and statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules and the budgetary comparison schedules for major debt service and capital project funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 20, 2012

MANAGEMENT'S

DISCUSSION AND ANALYSIS

It is presented as required supplementary information for the benefit of the readers of the Comprehensive Annual Financial Report.

Management's Discussion & Analysis *(Unaudited)*

This section of the County of Riverside's Comprehensive Annual Financial Report presents a narrative overview and analysis of the County's financial activities for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with the Letter of Transmittal beginning on page V and the County's basic financial statements which begin on page 25.

OVERVIEW OF THE FINANCIAL STATEMENTS

This management's discussion and analysis (MD&A) is intended to serve as an introduction to the County's basic financial statements which are comprised of the following three components:

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

In addition to the Financial Statements, the following supplemental information has been included in this report:

- Other Required Supplementary Information – Retirement plan schedules of funding progress and employer contributions
- Combining Statements for Nonmajor Governmental, Nonmajor Enterprise, and Fiduciary funds
- Combining Statements and Schedules for Special Revenue, Debt Service, Capital Projects, Permanent, Internal Service, and Fiduciary funds
- Statistical Section

Government-wide Financial Statements are designed to provide readers with a broad overview of County finances in a manner similar to private-sector business.

The *Statement of Net Assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as *net assets.* Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or declining. The Statement of Net Assets in summary can be found on page 7, and in more detail on page 25.

The *Statement of Activities,* presented on page 9 in summary and on pages 26 - 27 in detail, provides information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods. For example, Property Tax revenues have been recorded that have been accrued but not yet collected, and expenditures for compensated absences have been accrued, but not paid.

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues *(governmental activities)* from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government, public protection, public ways and facilities, health and sanitation, public assistance, education, and recreation and culture services. Governmental activities include four major funds, twenty-one nonmajor funds, and a representative allocation of the County's internal service funds. The four major Governmental funds are the General Fund, Flood Control Special Revenue Fund, Teeter Debt Service Fund, and Public Facilities Improvements Capital Projects Fund. The business-type activities of the County include two major enterprise funds, and three nonmajor funds. The major enterprise funds are the Regional Medical Center and Waste Management.

The government-wide financial statements also provide information regarding the County's component units, entities for which the County (the primary government) is considered to be financially accountable. Although blended component units are legally separate entities, they are, in substance, part of the County's operations. Accordingly, the financial information from these units is combined with financial information of the primary government.

The financial information for the Palm Desert Financing Authority (PDFA) and the Children and Families Commission (the Commission), both legally separate component units whose governing bodies are appointed by and serve at the will of the County, are presented separately from the financial information of the primary government.

The blended component units are:

- County of Riverside Asset Leasing Corporation (CORAL)
- County of Riverside District Court Financing Corporation
- County of Riverside Bankruptcy Court Corporation
- Housing Authority of the County of Riverside
- In-Home Supportive Services Public Authority
- Riverside County Flood Control and Water Conservation District (Flood Control)
- Riverside County Regional Park and Open-Space District
- Riverside County Public Financing Authority (no activity for fiscal year 2011-12)
- Riverside County Service Areas
- Inland Empire Tobacco Securitization Authority
- Perris Valley Cemetery District

Fund Financial Statements, illustrated on pages 30 - 47, provide information regarding the three major categories of County funds – governmental, proprietary, and fiduciary. The focus of governmental and proprietary fund financial statements is on major funds. Major funds are determined based on minimum criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 34, as amended. Like other state and local governments, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund accounting is also used to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Governmental Funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. Unlike the government-wide financial statements, governmental fund financial statements often have a budgetary orientation, are prepared on the modified accrual basis of accounting, and focus primarily on the sources, uses, and balances of current financial resources.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The governmental funds' balance sheet and statement of revenues, expenditures, and changes in fund balances provided are accompanied by reconciliation to government-wide financial statements in order to facilitate this comparison between *governmental funds* and *governmental activities.*

The County maintains several individual governmental funds organized according to their type (general, special revenue, debt service, capital projects, and permanent funds). The governmental fund statements present the financial information of each major fund (the General Fund, Flood Control Special Revenue Fund, Teeter Debt Service Fund, Public Facilities Improvements Capital Projects Fund) in separate columns. Financial information for the remaining governmental funds (nonmajor funds) is combined into a single, aggregated presentation. Financial information for each of these nonmajor governmental funds is presented in the supplementary information section.

Budgetary comparison statements are also included in the fund financial statements. The statements present the County's annual estimated revenue and appropriation budgets for all governmental fund budgets except for CORAL, District Court Project, Bankruptcy Court, Inland Empire Tobacco Securitization Authority and the RDA Housing Successor Agency. The budgetary comparison statements have been provided to demonstrate compliance with their respective budgets.

Proprietary Funds are used to account for services for which the County charges customers, either outside customers or internal departments of the County. Proprietary funds statements, found on pages 42-45, provide the same type of information as shown in the government-wide financial statements with more detail. The County maintains the following two types of proprietary funds:

- *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for the Regional

Medical Center (RMC), Waste Management, County Service Areas, Housing Authority, and Flood Control. RMC and Waste Management financial statements are reported in separate columns of the proprietary fund statements due to the materiality criteria defined by GASB Statement No. 34. Financial information for the remaining enterprise funds (nonmajor funds) is combined into a single, aggregated presentation. Individual fund statements for County Service Areas, Housing Authority, and Flood Control are presented in the supplementary information section.

- *Internal service funds* are used to report activities that provide supplies and services for certain County programs and activities. The County uses internal service funds to account for its records and archive management, fleet services, information services, printing and mail services, supply services, OASIS (accounting and human resources information technology system), risk management, temporary assistance pool, and flood control equipment. Because these services predominantly benefit governmental rather than business-type functions, they have been included within the *governmental activities* in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund financial information for each internal service fund is provided in the supplementary information section.

Fiduciary Funds report assets held in a trustee or agency capacity for others and therefore cannot be used to support the County's programs nor be reflected in the government-wide financial statements. Fiduciary funds maintained by the County include a pension trust fund, investment trust funds, private-purpose trust funds, and agency funds. The fiduciary fund financial statements on pages 46 - 47, are presented on the economic resources measurement focus and the accrual basis of accounting.

Notes to the Basic Financial Statements provide additional information other than that displayed on the face of the financial statements and are essential for fair presentation of the financial information in the government-wide and fund financial statements. See pages 49 -113.

Required Supplementary Information, in addition to this MD&A, presents schedules of retirement plan funding progress and employer contributions. This additional information can be found beginning on page 115.

FINANCIAL HIGHLIGHTS

- At the close of the current fiscal year, the County's assets of $7.2 billion exceeded its liabilities of $2.8 billion resulting in $4.4 billion of net assets.
- Net assets includes $845.8 million of unrestricted net assets, which may be used to meet the County's ongoing obligations to citizens and creditors; $724.9 million of restricted net assets, which is required by external sources or through enabling legislation to be used for specific purposes; and $2.9 billion is invested in capital assets, net of related debt.
- During fiscal year 2011-12, the County's net assets increased by $591.0 million, or 15.2% including a restated amount of $4.5 million from prior fiscal year. Of this amount, an increase of $641.0 million was from governmental activities and an offset of a $50.0 million decrease from business-type activities. The increase in net assets was primarily due to an overall decrease in total liabilities. This decrease was largely due to $803.1 million in government activities from Redevelopment Agency Tax Allocation Bonds being transferred to its Successor Agency on February 1, 2012. Countywide expenses of $3.2 billion were offset by program revenues of $2.6 billion and general revenues of $764.3 million. Of the $2.6 billion, $1.4 billion, or 56.5%, was recognized through operating grants and contributions.
- On January 10, 2011, as part of a statewide budget process, Governor Brown proposed the elimination of Redevelopment Agencies (RDA's) throughout California starting fiscal year 2011-12. On December 29, 2011, after a period of litigation, the State of California Assembly Bill AB X1 26 was upheld by the California Supreme Court, and RDA's were officially dissolved as of February 1, 2012. The transfer of responsibility is described in Note 16 to the financial statements.
- As of June 30, 2012, the total fund balances of the governmental funds were $1.3 billion. This represents a decrease of $432.1 million, or 24.5%, in comparison with the prior year. This decrease was primarily the result of transferring assets and liabilities to the Riverside County Redevelopment Successor Agency, from the existing Redevelopment Agency, brought about by the legislation referred to above.

- As of June 30, 2012, fund balance for the General Fund was $336.6 million, or 15.0% of the total General Fund expenditures. This amount is comprised of the following fund balance categories: $1.8 million nonspendable, $101.7 million restricted, $52.4 million committed, $8.8 million assigned, and $171.9 million unassigned. The detail of these fund balances can be found in Note 13 to the financial statements.
- The County's long-term debt of $1.9 billion showed a net decrease of $834.0 million, or 31.0%, compared to the prior year. The decrease was mainly a result of the transfer of RDA's long term debt to RDA Successor Agency pursuant to the provisions of the Redevelopment Restructuring Act AB X1 26. These obligations are bonds payable, capital leases, certificates of participation, loans payable, and other long-term debt.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve as a useful indicator of a government's financial position. The Table below focuses on the net assets and changes in net assets in the County's governmental and business-type activities. It presents an analysis of the County's net assets as of June 30, 2012, in comparison to the prior fiscal year 2010-11. At the end of the current fiscal year, the County reported positive net assets in all three net assets categories, for both governmental and business-type activities. Total net assets, as indicated below, exceeded liabilities by $4.4 billion representing an increase of $591.0 million ($586.5 million as previously reported and restatement of $4.5 million, See Note 3), or 15.3% in comparison to the prior year's increase of $24.8 million or .07%. A more detailed statement can be found on Page 25 in the Government-Wide Financial Statements.

Statement of Net Assets
As of June 30
(in thousands)

	Governmental Activities		Business-type Activities		Total		Increase/ (Decrease)
	2012	[redacted]	2012	[redacted]	2012	[redacted]	%
Assets:							
Current and other assets	$ 2,903,152	[redacted]	$ 308,604	[redacted]	$ 3,211,756	[redacted]	-11.1%
Capital assets	3,704,789	[redacted]	269,673	[redacted]	3,974,462	[redacted]	5.6%
Total assets	6,607,941	[redacted]	578,277	[redacted]	7,186,218	[redacted]	-2.6%
Liabilities:							
Current liabilities	788,496	[redacted]	100,275	[redacted]	888,771	[redacted]	6.5%
Long-term liabilities	1,543,912	[redacted]	311,845	[redacted]	1,855,757	[redacted]	-31.0%
Total liabilities	2,332,408	[redacted]	412,120	[redacted]	2,744,528	[redacted]	-22.1%
Net assets:							
Invested in capital assets, net of related debt	2,740,429	[redacted]	130,510	[redacted]	2,870,939	[redacted]	59.4%
Restricted	683,835	[redacted]	41,103	[redacted]	724,938	[redacted]	3.6%
Unrestricted	851,269	[redacted]	(5,456)	[redacted]	845,813	[redacted]	-37.6%
Total net assets	$ 4,275,533	[redacted]	$ 166,157	[redacted]	$ 4,441,690	[redacted]	15.2%

Below are the three components of net assets and their respective fiscal year-end balances:

- **Invested in capital assets, net of related debt** represents $2.9 billion, or 64.5%, of the County's total net assets for fiscal year 2011-12 compared to $1.8 billion, or 46.7%, for fiscal year 2010-11. The increase is attributable to the completion of multiple construction projects including the Roy Wilson Fire Station, Lake Mathews Fire Station and Community Room Project, Highgrove Library, the installation of a 110 kilowatt solar shade system, the renovation of the Indio County Administrative Center, the resurfacing and widening of the Ramona Expressway, the construction of an underground storm drain and channel reconstruction, and a levee restoration project. This component consists of capital assets such as land and easements, structures and improvements, infrastructure, and equipment, net of accumulated depreciation. The amount is further reduced by any debt attributable to the acquisition, construction, or improvement of the assets. The County uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

- **Restricted net assets** account for $724.9 million, or 16.3%, of the County's total net assets for fiscal year 2011-12 compared to $699.4 million, or 18.1%, for fiscal year 2010-11. This component of net assets represents external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

- **Unrestricted net assets** account for $845.8 million, or 19.4%, of the County's total net assets for fiscal year 2011-12 compared to $1.4 billion, or 35.2%, for fiscal year 2010-11. This component of the County's total net assets may be used to meet the County's ongoing obligations to citizens and creditors. Of the unrestricted net assets for fiscal year 2011-12, $851.3 million is from governmental activities and $5.5 million deficit for business-type activities, compared to prior year whereas, $1.3 billion was from governmental activities and $59.6 million from business-type activities.

The following table provides information from the Statement of Activities of the County for the fiscal year 2011-12, as compared to the prior year:

STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30
(In thousands)

	Governmental Activities		Business-type Activities		Total		Increase/ (Decrease)
	2012	[redacted]	2012	[redacted]	2012	[redacted]	%
Revenues:							
Program revenues:							
Charges for services	$ 580,797	[redacted]	$ 505,665	[redacted]	$ 1,086,462	[redacted]	-2.9%
Operating grants and contributions	1,447,694	[redacted]	-	[redacted]	1,447,694	[redacted]	3.9%
Capital grants and contributions	27,909	[redacted]	335	[redacted]	28,244	[redacted]	-12.1%
General revenues:							
Property taxes	322,337	[redacted]	-	[redacted]	322,337	[redacted]	-12.4%
Sales and use taxes	26,744	[redacted]	-	[redacted]	26,744	[redacted]	-41.2%
Motor vehicle in-lieu taxes	226,384	[redacted]	-	[redacted]	226,384	[redacted]	-3.7%
Investment earnings	11,801	[redacted]	907	[redacted]	12,708	[redacted]	-36.6%
Other	176,113	[redacted]	-	[redacted]	176,113	[redacted]	11.1%
Total revenues	2,819,779	[redacted]	506,907	[redacted]	3,326,686	[redacted]	-1.3%
Expenses:							
General government	270,474	[redacted]	-	[redacted]	270,474	[redacted]	-9.2%
Public protection	1,047,202	[redacted]	-	[redacted]	1,047,202	[redacted]	2.5%
Public ways and facilities	84,797	[redacted]	-	[redacted]	84,797	[redacted]	-3.0%
Health and sanitation	374,950	[redacted]	-	[redacted]	374,950	[redacted]	1.3%
Public assistance	827,092	[redacted]	-	[redacted]	827,092	[redacted]	-8.8%
Education	10,376	[redacted]	-	[redacted]	10,376	[redacted]	-34.4%
Recreation and culture	15,806	[redacted]	-	[redacted]	15,806	[redacted]	68.8%
Interest on long-term debt	39,098	[redacted]	-	[redacted]	39,098	[redacted]	-56.1%
Regional Medical Center	-	[redacted]	417,074	[redacted]	417,074	[redacted]	4.0%
Waste Management	-	[redacted]	57,272	[redacted]	57,272	[redacted]	1.0%
Housing Authority	-	[redacted]	91,469	[redacted]	91,469	[redacted]	6.3%
Flood Control	-	[redacted]	2,306	[redacted]	2,306	[redacted]	-37.9%
County Service Areas	-	[redacted]	456	[redacted]	456	[redacted]	19.1%
Total expenses	2,669,795	[redacted]	568,577	[redacted]	3,238,372	[redacted]	-3.2%
Excess (deficiency) before Transfers	149,984	[redacted]	(61,670)	[redacted]	88,314	[redacted]	255.8%
Transfers in (out)	(11,702)	[redacted]	11,702	[redacted]	-	[redacted]	0.0%
Change in net assets, before extraordinary items	138,282	[redacted]	(49,968)	[redacted]	88,314	[redacted]	255.8%
Extraordinary Items	502,639	[redacted]	-	[redacted]	502,639	[redacted]	0.0%
Change in net assets	640,921	[redacted]	(49,968)	[redacted]	590,953	[redacted]	2281.0%
Net Assets, Beginning of Year, as Restated	3,634,612	[redacted]	216,125	[redacted]	3,850,737	[redacted]	0.5%
Net Assets, End of Year	$ 4,275,533	[redacted]	$ 166,157	[redacted]	$ 4,441,690	[redacted]	15.2%

The following are specific major factors that resulted in the net asset changes between fiscal years 2011-12 and 2010-11 as shown in the above table.

Governmental Activities

Revenues: The County's governmental activities rely on the following sources of revenue to finance ongoing operations:

- Operating Grants and Contributions are revenues received from parties outside of the County, such as state and federal agencies, and are generally restricted to one or more specific programs. These revenues were the largest governmental activities revenue source for fiscal year 2011-12 with a total of $1.4 billion being recognized. The increase of $54.7 million in current fiscal year is attributable to higher reimbursements from State and Federal funding for public assistance services, such as categorical aid, mental health services, and women, infants and children programs.

- A total of $580.8 million was earned as governmental activity charges for services compared to $591.7 million for fiscal year 2010-11. Charges for services are revenues that arise from charges to external customers or applicants who purchase, use, or directly benefit from the goods, services, or privileges provided. The decrease of $10.9 million was largely attributable to the establishment of AB109, California's Prison Realignment Plan, effective October 1, 2011. The implementation of this legislation caused a realignment of funding sources. One primary change effected the reimbursement of Trial Court Fees. In fiscal year 2011-12, trial court funding was received directly from the State rather than reimbursed through Superior Court. This change caused a decrease in revenue recognized in charges for services.

- Capital Grants and Contributions resulted in the least amount of program revenue from governmental activities with $27.9 million earned for fiscal year 2011-12 compared to $32.1 million earned for fiscal year 2010-11. This revenue category accounts for grants and contributions received for the restricted use of capital acquisition. In fiscal year 2011-12, $27.1 million, or 96.9% of the revenue, was received for public ways and facilities programs, as compared to $29.5 million, or 91.8%, for fiscal year 2010-11. This revenue is primarily related to the construction and acquisition of infrastructure capital assets.

- General revenue related to governmental activities primarily consists of taxes, other revenues, and investment earnings. Property tax revenue is the largest governmental activities general revenue with $322.3 million recognized during the year, as compared to $367.9 million for fiscal year 2010-11. Investment earnings decreased from $19.5 million to $11.8 million, or 39.5%, as a result of continual declines in interest earnings reflecting rate cuts by the Federal Reserve. Motor vehicle in-lieu of taxes revenue decreased 3.7% from $235.2 million in fiscal year 2010-11 to $226.4 million in fiscal year 2011-12.

Expenses: Total program expenses for governmental activities were $2.7 billion for the current fiscal year, a decrease of $128.3 million or 4.6%, as compared to prior fiscal year. Public Protection represents $1.0 billion or 39.2%, of the total governmental activities expenses; $827.1 million or 31.0%, for Public Assistance; $375.0 million or 14.0%, for Health and Sanitation; and $270.5 million or 10.1%, for General Government. An extraordinary loss of $300.5 million was a result of the transfer of the former RDA assets and liabilities to the Private Purpose Trust Fund.

Business-type Activities

Revenues: The County has two major business-type activities: The Riverside County Regional Medical Center (RMC) and Waste Management. In addition, Flood Control, County Service Areas, and Housing Authority are included in the business-type activities of the County. Business-type activities recover all or a significant portion of their costs through user fees and charges and provide services primarily to non-County entities. For the current year, $505.7 million or 99.9%, of business-type activities program revenue was received from charges for services, a percentage consistent with the prior fiscal year. The majority of this revenue, $371.8 million, was received by RMC as compared to $386.5 million for the prior fiscal year.

Expenses: Total expenses for business-type activities were $568.6 million for the fiscal year compared to $547.9 million for the prior fiscal year. This represents an increase of $20.6 million or 3.8%. Expenses of $417.1 million or 73.4% were incurred by RMC in current fiscal year, as compared to $401.1 million or 73.2%, for the prior fiscal year.

In addition, expenses for the Housing Authority were $91.5 million or 16.1% of total expenses for business-type activities, compared to prior fiscal year's expenses of $86.0 million or 15.7%; Waste Management Department expenses were $57.3 million or 10.1% , compared to $56.7 million or 10.4% the prior fiscal year. Flood Control and County Service Areas account for the remaining 0.5% of expenses consistent with the prior fiscal year.

FINANCIAL ANALYSIS OF FUND STATEMENTS

As noted earlier, the County uses *fund accounting* to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the County's governmental funds is to provide information on the sources, uses, and balances of spendable resources. Such information is useful in assessing the County's short-term financial requirements. In particular, the total fund balance less the nonspendable amount may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the County include the General Fund, Special Revenue Funds, Capital Project Funds, Debt Service Funds, and Permanent Funds.

As of June 30, 2012, the County's governmental funds reported combined fund balances of $1.3 billion, a decrease of $432.1 million, in comparison with the prior year. The components of total fund balance are as follows (See Note 13 - Fund Balances for additional information):

- Nonspendable fund balance – $4.1 million, are amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.
- Restricted fund balance – $682.9 million, are amounts that are constrained to being used for a specific purpose by external parties such as creditors, grantors, laws, or regulations.
- Committed fund balance – $319.9 million, are amounts that are committed for a specific purpose. These funds require action from the Board of Supervisors to remove or change the specified use.
- Assigned fund balance – $154.7 million, are amounts that have been set aside and are intended to be used for a specific purpose but are neither restricted nor committed. Assigned amounts cannot cause a deficit in unassigned fund balance.
- Unassigned fund balance – $171.9 million, are funds that are not reported in any other category and are available for any purpose within the General Fund.

Total governmental fund revenue decreased by $32.8 million or 1.2%, from the prior fiscal year with $2.8 billion being recognized for the fiscal year ended June 30, 2012. Expenditures decreased by $105.3 million or 3.5%, from the prior fiscal year with $2.9 billion being expended for governmental functions during fiscal year 2011-12. Overall, governmental fund balance decreased by $432.1 million or 24.5%. In comparison, fiscal year 2010-11 had a decrease in governmental fund balance of $27.5 million or 1.5%, over fiscal year 2009-10.

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, the General Fund's total fund balance was $336.6 million, as compared to $343.6 million for the prior fiscal year. The decrease of $7.0 million, or 2.0% was a result of a decline in tax revenues due to a decrease in assessed property values, a reduction in interest earnings attributable to a lower interest rate, a reduction on the State allocation for vehicle license fees and less cost reimbursement from civil cases within the District Attorney's Office. As a measure of the General Fund's liquidity, it is useful to compare both total fund balance and spendable fund balance to total fund expenditures. The nonspendable portion of fund balance was $1.8 million, and the spendable portion was $334.8 million. The current year unassigned fund balance is 7.6% of the total General Fund expenditures of $2.3 billion, as compared to 8.4% of the prior year expenditures total of $2.2 billion. The total fund balance of the General Fund for the current year is 14.9% of the total General Fund expenditures as compared to 15.3% for the prior year.

Flood Control fund balance increased by $5.3 million or 2.1%, from $251.0 million in fiscal year 2010-11 to $256.3 million in fiscal year 2011-12. This increase was a result of an excess of revenues over expenses in current year operating activities.

Public Facilities Improvements Capital Projects fund balance decreased from $293.1 million to $242.5 million, 17.3% or $50.6 million. The decrease is due to the completion of various construction projects and the utilization of the reserve for construction account to reimburse costs of multiple capital projects, such as the Roy Wilson Fire

Station, Lake Mathews Fire Station and Community Room Project, the installation of a 110 kilowatt solar shade system at the Riverside County Administrative Center parking structure, the renovation project converting the Indio County Administrative Center into a Criminal Justice Law building, and the resurfacing and widening of the Ramona Expressway. In addition, there was a slight decrease in other revenue and interest earnings due to low interest rates caused by slow recovery in the economy.

Proprietary Funds

The County's proprietary funds financial statements provide the same type of information as the government-wide financial statements, but in more detail. The Regional Medical Center and Waste Management are shown in separate columns of the fund statements due to materiality criteria as defined by GASB. In addition, the internal service funds are combined into a single, aggregated presentation in the proprietary fund statements with the individual fund data provided in the combining statements, which can be found in the supplemental information section.

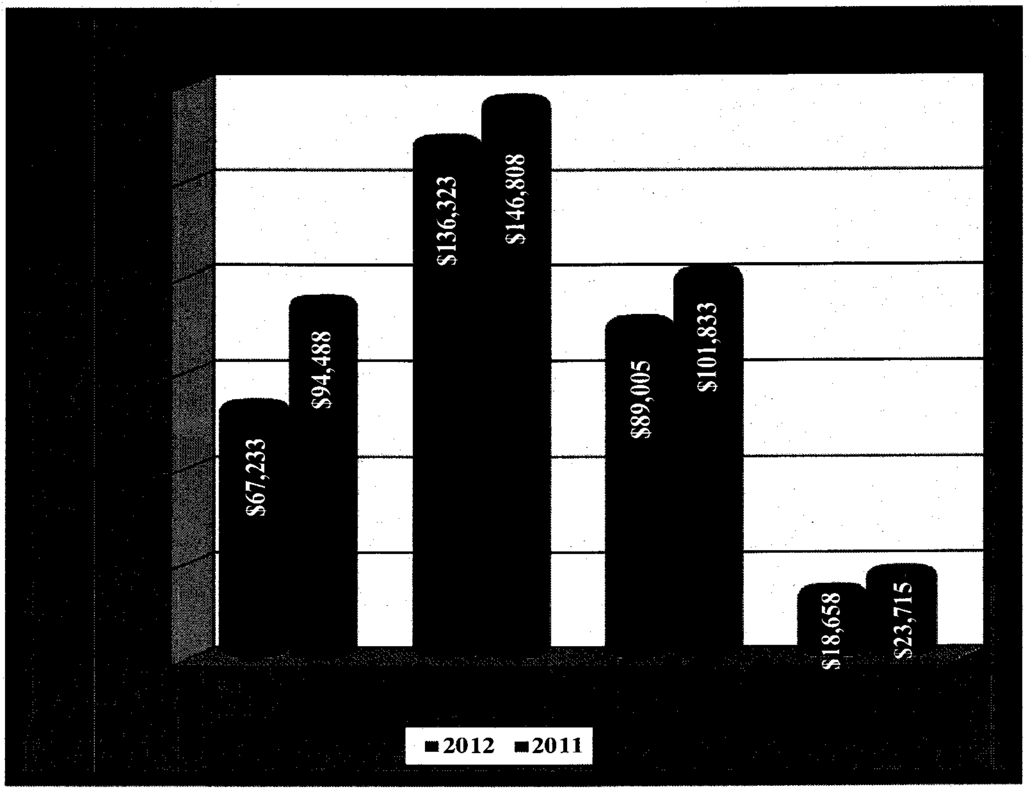
At the end of the fiscal year, total proprietary fund net assets were $311.2 million, compared to $366.8 million for prior fiscal year. Total proprietary fund net assets decreased by $55.6 million or 15.2%, compared to $17.1 million or 4.4%, decrease for the prior fiscal year.

Of the year-end balances, unrestricted net assets were as follows:

- Riverside County Regional Medical Center: -$11.9 million
- Waste Management: $54.8 million
- Other enterprise fund activities: $7.6 million
- Internal service fund activities: $68.4 million

RMC's net assets decreased $27.3 million or 28.9%, from $94.5 million to $67.2 million. The decrease is attributable to lower net patient revenue and an increase in operating expenses, as well as increased interest expense in fiscal year 2011-12.

Waste Management's net assets decreased from $146.8 million to $136.3 million. The decrease resulted primarily from the reclassification of closure, post-closure, and remediation funds into liability accounts.



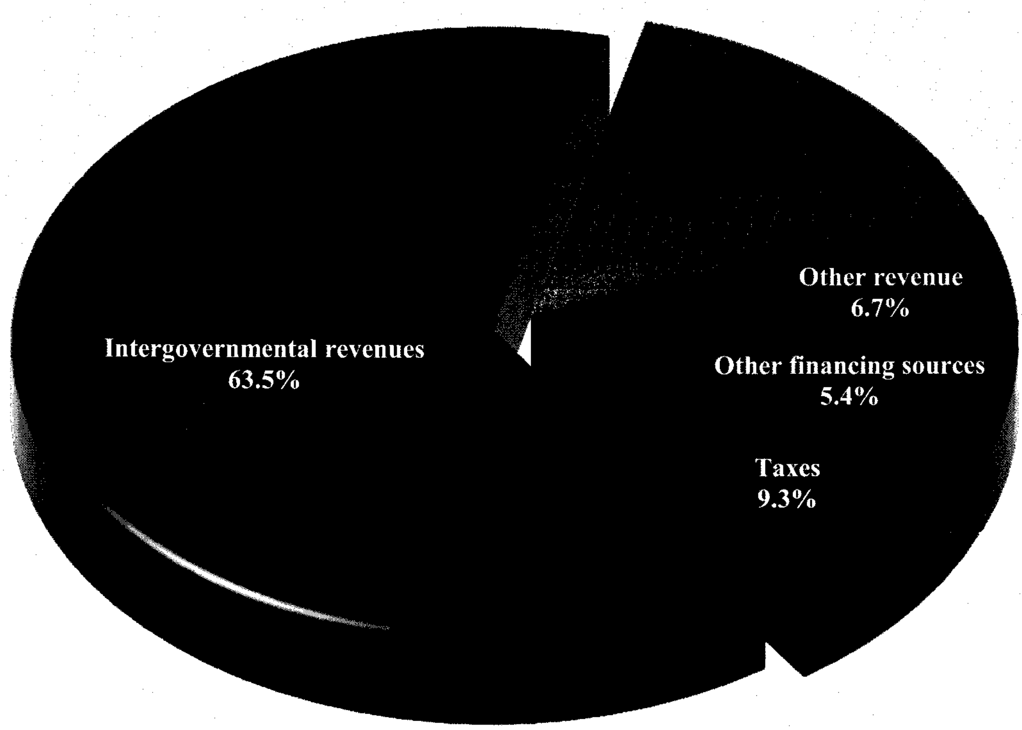
GENERAL FUND FINANCIAL ANALYSIS

Revenues and other financing sources for the General Fund, including comparative amounts from the preceding year are shown in the following tabulation (in thousands):

Revenues and Other Financing Sources	Fiscal Year 2011-12	Percent of Total	Fiscal Year 2010-11	Percent of Total	Variance
Taxes	$ 216,746	9.3%	$ 221,807	9.7%	-2.3%
Intergovernmental revenues	1,487,205	63.5%	1,428,562	62.2%	4.1%
Charges for services	354,451	15.1%	369,780	16.1%	-4.1%
Other revenue	156,017	6.7%	161,234	7.1%	-3.2%
Other financing sources	126,258	5.4%	114,368	4.9%	10.4%
Total	$ 2,340,677	100.0%	$ 2,295,751	100.0%	2.0%

The loss of tax revenue was attributable to a decline in sales tax revenue due to new cities of Eastvale & Jurupa Valley and a sharp decline in secured property taxes due to a decrease in assessed values. The increase in intergovernmental revenue was primarily attributable to realignment revenue from the State and an increase in expenditures towards the Mental Health Services Act (MHSA) leading to greater reimbursements. The realignment revenue includes an increase in revenue for Early Periodic Screening & Diagnosis Treatment (EPSDT); Mental Health managed care, and Proposition 10. With the establishment of the Local Revenue Fund, Sheriff, Probation, District Attorney, Public Defender, and Mental Health received more State revenue due to the criminal justice alignment from AB109. Also with AB109, trial court funding is received directly from the State rather than the Superior Court which decreased revenue from charges for services.

COUNTY OF RIVERSIDE
General Fund Revenues and Other Financing Sources
For The Year Ended June 30, 2012

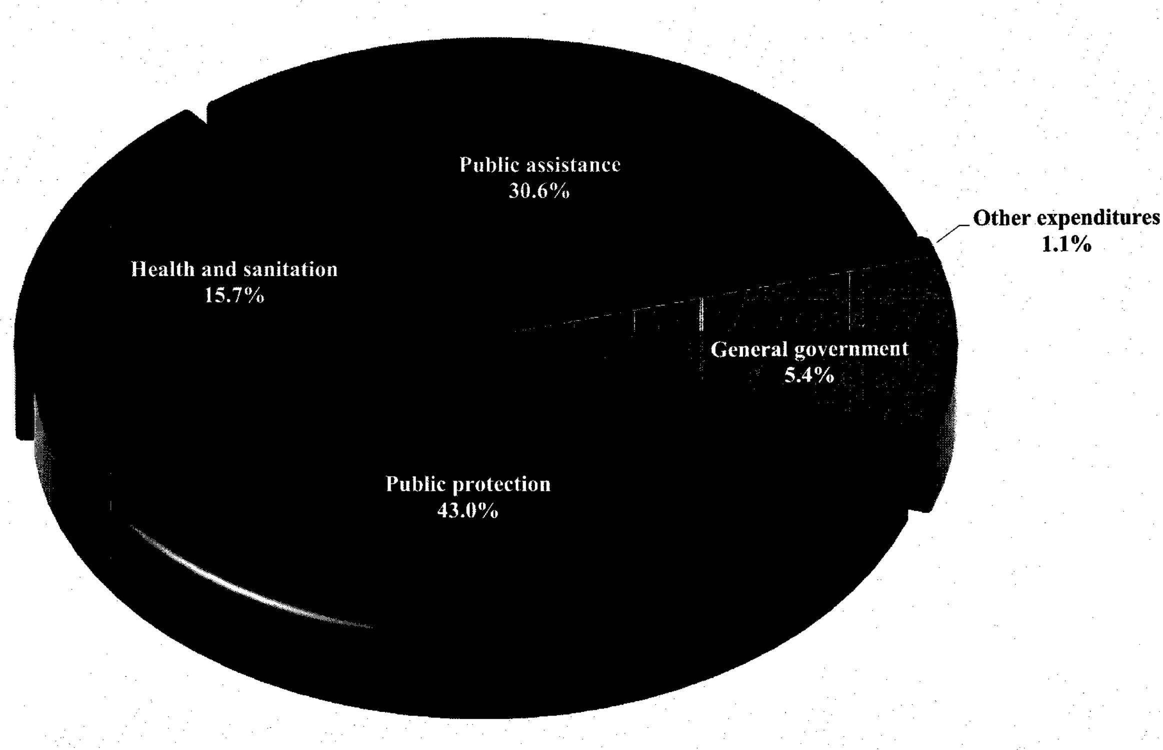


Expenditures and other financing uses for the General Fund, including comparative amounts from the preceding year, are shown in the following tabulation (in thousands):

Expenditures and Other Financing Uses	Fiscal Year 2011-12	Percent of Total	Fiscal Year 2010-11	Percent of Total	Variance
General government	$ 127,195	5.4%	$ 109,146	4.7%	16.5%
Public protection	1,010,999	43.0%	1,025,584	43.9%	-1.4%
Health and sanitation	369,165	15.7%	345,649	14.8%	6.8%
Public assistance	719,670	30.6%	731,017	31.3%	-1.6%
Other expenditures	25,000	1.1%	34,062	1.5%	-26.6%
Other financing uses	98,045	4.2%	93,217	3.9%	5.2%
Total	$2,350,074	100.0%	$2,338,675	100.0%	0.5%

The increase of expenditures in general government was attributable to contributions made to the Public Safety Enterprise Communication (PSEC) project and the County of Riverside Enterprise Solutions for Property Tax (CREST) project. Energy Management also consolidated utility accounts from other departments and increased expenditures for energy conservation projects under the Energy Efficiency and Conservation Block Grant (EECBG). The decrease of expenditures in public protection was mainly attributable to District Attorney, Sheriff, and Code Enforcement. District Attorney had a decrease in salaries and benefits due to attrition and a large payout of annual leave in prior year. Sheriff had a reduction in funding with direction to lower staffing levels. Code Enforcement had significant reductions in grant related abatements. The increase of expenditures in health and sanitation was attributable to Mental Health and the Community Health Agency. Mental Health had an increase due to additional administrative staffing resources supporting the new Behavioral Health Information System (BHIS), the implementation of prevention programs with consultant contracts, and high usage of the Institute of Mental Disease (IMD). The Community Health Agency had an increase of expenditures due to increased costs in California Children's Services (CCS) administration, CCS therapy programs, and the Healthy Families program with more assigned children. The decrease in public assistance was attributable to a reduction of CalWORKS benefits in categorical aid.

COUNTY OF RIVERSIDE
General Fund Expenditures and Other Financing Uses
For The Year Ended June 30, 2012



GENERAL FUND BUDGETARY HIGHLIGHTS

This section provides a summary of the primary factors attributing to the General Fund variances between 1) the original adopted and the final amended budget, and 2) the final amended budget and the actual revenue and expenditure amounts. The budgetary comparison statement displays the details of the comparison and is included in the governmental fund statements section.

Variance between General Fund Original Adopted and Final Amended Budget

Estimated Revenue Variances

The original adopted General Fund estimated revenue budget decreased by $43.8 million, or 1.8%, from $2.5 billion to the final amended revenue budget of $2.4 billion. The $43.8 million represents a decrease of $86.5 million in charges for current services offset by an increase of $47.8 million in state aid and $4.0 million in other revenue.

State Aid: The increase in state aid of $47.8 million, or 5.1%, was partially the result of increases of $23.5 million in total by Sheriff, Mental Health, Probation, Public Defender, and District Attorney for implementation of AB109 criminal justice alignment. Sheriff, District Attorney, Probation, and Fire received $8.5 million in additional allocations from Proposition 172 public safety sales tax. Mental Health had an increase of $6.7 million to acquire additional Myers building facilities with MHSA funds. The Executive Office had an increase of $4.0 million for the implementation of the Low Income Health Program. Probation had an increase of $2.9 million for the SB678 Community Corrections Performance Incentive Act for evidence-based practice incentive funds.

Charges for Current Services: The net decrease of $86.5 million, or 17.8%, for charges for current services was mainly the result of intergovernmental activities.

Other Revenue: The decrease in other revenue of $4.0 million, or 4.1%, was primarily the result of intergovernmental activities and a reclassification of operating transfers to other financing sources.

Expenditure Appropriation Variances

The original adopted General Fund appropriation budget of $2.6 billion decreased by $10.8 million, or 0.4%, during the fiscal year. The significant appropriation changes were an increase of $16.2 million in public protection, an increase of $12.7 million in health and sanitation, and an increase of $9.5 million in general government offset by a decrease of $40.1 million in debt service and a decrease of $9.2 million in public assistance. The major appropriation variances are described below.

General Government: The appropriation budget increased by $9.5 million, or 4.8%, from the original adopted budget of $198.2 million to $207.7 million. The following information describes the significant factors for the variances:

- Salaries and employee benefits increased by $1.6 million, or 1.9%, mainly due to intergovernmental activities and salary savings from furloughs and vacant positions.
- Services and supplies increased by $1.2 million, or 1.9%, mainly due to increases by the Economic Development Agency (EDA) Energy division and Human Resources. The EDA Energy division increased budget by $0.6 million to cover a rise in electricity costs. Human Resources increased budget by $0.6 million due to a rise in arbitration and communication services.
- Other charges increased by $3.7 million, or 4.8%, mainly due to Executive Office and the Board of Supervisors. Executive office had increases in legislative administration support by $9.0 million for the acquisition of property benefiting the Western Riverside County Multiple Species Habitat Conservation Plan (MSHCP) and increases in contributions to other funds by $4.7 million for legal expenses. The Board of Supervisors increased by $1.8 million for community improvement designations. These increases were offset by intergovernmental activities.
- Appropriation for contingencies increased by $3.3 million, or 16.5%. The contingency budget covers current and potential General Fund liabilities and shortfalls in discretionary revenue. The increase is due to a $10.8 million capital fund reappropriation. During the year, the contingency covered a shortfall of $6.2 million in discretionary revenue including property taxes, interest earnings, and contractual revenue. The major liability covered was the obligation to pay $1.0 million to CAL FIRE.

Public Protection: The appropriation budget increased by $16.2 million, or 1.5%, from the original adopted budget of $1.1 billion. The following information describes the significant factors for the variances:

- Salaries and employee benefits increased by $4.0 million, or 0.6%, primarily due to Sheriff, Probation, Public Defender, and District Attorney for positions to implement AB109 criminal justice alignment.
- Services and supplies increased by $9.1 million, or 3.0%, mainly due to Sheriff, Probation, Public Defender, and District Attorney for implementation of AB109 criminal justice alignment. Fire had an increase of over $0.7 million for carryover funds from Homeland Security grants.
- Other Charges decreased by $1.6 million, or 3.3%, mainly due to a decrease of $5.8 million for intergovernmental activities primarily offset by a $1.7 million increase in Sheriff for the following facilities management projects: a Blythe Jail and Colorado River Station generator, Smith Correction Facility warehouse construction, safety cell construction, and a window replacement. Sheriff also had an increase of $0.7 million for the fiscal year 2010 Homeland Security Grant Program and intergovernmental activity. Probation had an increase of $1.4 million primarily for a security camera system at Southwest Juvenile Hall, the Post Release Community Supervision Accountability Teams under AB109 criminal justice alignment, and the new secured Youthful Offender Program (YOP) facility.
- Capital assets increased by $5.5 million, or 236.8%, mainly due to Sheriff and Fire. Sheriff had an increase of $3.8 million primarily due to funding from the fiscal year 2011 Homeland Security Grant Program for mobile mapping and interoperable radio equipment for aircraft, mobile data computers (MDC) and digital imaging management system for patrol and due to funding from the fiscal year 2009-10 COPS grant for an Agency Data Management System, and night vision equipment. Fire had an increase of $1.3 million primarily for multiple mass shelters, a trailer, three pickup trucks, three sport utility vehicles, and a hazmat vehicle.

Health and Sanitation: The appropriation budget increased by $12.7 million, or 3.1%, from the original adopted budget of $411.9 million to $424.7 million. The following information describes the significant factors for the variances:

- Salaries and employee benefits decreased by $1.1 million, or 0.5%, primarily due to labor savings from unfilled vacancies and intergovernmental activities.
- Services and supplies increased by $6.9 million, or 6.2%, mainly due to the Community Health Agency Department of Public Health, the Low Income Health Program, and Detention Health Systems. Public Health had increases of over $2.2 million throughout the year to reflect grant funding additions for industrial hygiene, disease control, and the Public Health Emergency Preparedness and Response. The Low Income Health Program, with an increase of $2.0 million, was implemented midyear and began serving patients in January. Detention Health Systems increased by over $1.1 million for pharmaceuticals and prisoner hospital charges under the 340B program.
- Capital assets increased by $6.9 million, or 968.3%, primarily due to Mental Health's $6.7 million purchase of Myers building facilities to provide client care for children under MHSA funding.

Public Assistance: The appropriation budget decreased by $9.2 million, or 1.1%, from the original adopted budget of $802.9 million to $793.7 million. The decrease was due to intergovernmental activities and State changes in Stage 1 childcare services which decreased caseloads for the Department of Public Social Services (DPSS).

Variance between General Fund Actual Revenues and Expenditures and Final Amended Budget

During the year, the General Fund had a positive budget variance of approximately $85.8 million resulting from unexpended appropriations of $295.8 million, or 11.6%, and overestimated revenue of $210.1 million, or 8.7%. The following contributed to the variance:

Expenditure Variances

General Fund actual expenditures of $2.3 billion were 11.6%, or $295.8 million, less than the final amended appropriation budget of $2.6 billion. General government, public assistance, public protection, health and sanitation, and debt service were the five most significant factors attributing to the unexpended appropriations as follows:

General Government: Actual expenditures of $127.2 million were less than the final amended budget of $207.7 million by $80.5 million, or 38.8%. The following describes the significant factors for the variances:

- Salaries and employee benefits were $5.7 million, or 6.5%, below budget primarily due to vacant positions and attrition for savings at EDA with $2.5 million, at Auditor-Controller with $0.9 million, and at Assessor with $0.6 million. Other general government departments had similar savings of a lesser proportion.
- Services and supplies were $4.7 million, or 7.1%, less than budgeted mainly due to EDA, Executive Office, and Assessor. EDA accounts for approximately $2.9 million of the variance mainly due to a $2.1 million savings in electricity costs. Executive Office accounts for $1.3 million mainly due to savings in professional services. Assessor had savings of $0.6 million due to intergovernmental activity.
- Other charges were $48.4 million, or 59.8%, less than budgeted primarily due to intergovernmental activities. Executive Office had savings of $8.2 million mainly due to less than projected costs for contributions to other funds and legal administration and support. EDA had savings of $0.5 million mainly due to lower costs for salary reimbursements and general office expenditures.
- Appropriation for contingencies resulted in a budget of $23.3 million. This is budgeted for potential liabilities from unexpected General Fund expenditures or shortfall of discretionary revenue.

Public Protection: Actual expenditures of $1.0 billion were less than the final amended budget of $1.1 billion by $65.3 million, or 6.1%. The following describes the significant factors for the variances:

- Salaries and employee benefits were $33.7 million, or 4.7%, less than budgeted primarily due to Sheriff, Probation, Public Defender, Department of Child Support Services (DCSS), Fire, and $7.2 million in savings from intergovernmental activities. Sheriff had savings of $11.0 million mainly due to new AB109 funded positions, attrition, and newly negotiated contracts with the Riverside Sheriffs' Association (RSA) and the Law Enforcement Management Unit (LEMU). Probation had savings of $8.9 million and Public Defender had savings of $2.1 million mainly due to unfilled positions including those received with new funding for AB109 criminal justice alignment. Due to vacant positions, DCSS had savings of $1.6 million and Fire had savings of $0.8 million.
- Services and supplies were $18.8 million, or 5.9%, less than budgeted mainly due to Sheriff, Fire, District Attorney, Probation, Animal Services, Code Enforcement, and Executive Office. Sheriff had savings of $6.1 million primarily due to less than anticipated costs for a cellular vehicle project, liability insurance, carpool expense, conference and registration fees, professional services, and cleaning services. Fire had savings of $5.1 million due to less than expected costs to CAL FIRE for contract city partners, weed abatement, and equipment usage. District Attorney had savings of $2.4 million due to less than expected cost for software maintenance, office supplies, and other miscellaneous expenditures. Probation had savings of $1.5 million primarily due to the implementation of AB109 criminal justice alignment. For AB109, Probation planned for new leases to accommodate the anticipated growth and additional Post Release Community Supervision Accountability Teams (PRCSAT) related expenditures. Animal Services had savings of $0.9 million in utilities, pharmaceuticals, and administrative support. Code Enforcement had savings of $0.9 million mainly due to fewer than expected abatements. Executive Office had savings of $0.8 million primarily from less than expected projects costs for AB233 in trial court funding.
- Other charges were $8.3 million, or 17.5%, less than budgeted primarily due to County Clerk-Recorder, Executive Office, and Probation. County Clerk-Recorder had savings of $4.4 million mainly due to the delay in replacement of the main records system, related computer infrastructure, and hardware. Executive Office had savings of $2.3 million due to less expenditure for AB233 in trial court funding. Probation's Juvenile Hall Division had savings of $1.7 million mainly due to less than anticipated costs for medical services and a delay in projects including a security camera system for Southwest Juvenile Hall, a boiler replacement at Indio Juvenile Hall, and Air Quality Management District (AQMD) compliance preparation at Riverside Juvenile Hall.
- Capital assets were $3.4 million, or 43.6%, less than budgeted due to Fire and Sheriff. Fire had savings of $1.4 million mainly due to the purchase deferral of a fire engine and other equipment. Sheriff had savings of $1.6 million mainly due to less than expected purchases in communications and computer equipment. Also, Sheriff Corrections delayed purchase of a steam kettle, a visitation area security system, and a fork lift at the Smith Correctional Facility and a security system and combination oven at the Southwest Detention Center.

- Health and Sanitation: Actual expenditures of $369.2 million were less than the final amended budget of $424.7 million by $55.5 million, or 13.1%. The following describes the significant factors for the variances:

- Salaries and employee benefits were $22.1 million, or 10.7%, less than budgeted primarily due to vacant positions in Mental Health with savings of $11.0 million, the Community Health Agency with savings of $6.6 million, and Detention Health Systems with savings of $1.4 million. Savings of $3.0 million was also achieved through intergovernmental activities.
- Services and supplies were $20.4 million, or 17.3%, less than budgeted primarily due to a $14.8 million savings in the Community Health Agency and a $4.4 million savings in Mental Health. The Community Health Agency (the Agency) had not fully expensed professional services as anticipated for industrial hygiene, disease control, and the Public Health Emergency Preparedness and Response. The Agency's administration had savings in payments for the Maddy Emergency Medical Services (EMS) program to County physicians and hospitals for their share of uncompensated emergency medical costs. The Agency also had savings in janitorial services and administrative support. Mental Health administration had savings due to budgeted lease payments for AB109 criminal justice alignment and a program in Perris that did not materialize within the year. Mental Health Treatment had savings in professional services and medical supplies.
- Other charges were $30.0 million, or 15.6%, less than budgeted primarily due to Executive Office, Mental Health, and the Medical Indigent Services Program (MISP). Executive Office received $15.0 million less than expected allocation from the State which was based on actual vehicle license revenue. Therefore, less was available to distribute for the Executive Office's contribution to health and mental health. Mental Health had savings of $14.9 million mainly due to gradual implementation of private care provider contracts for the prevention program. Also, Mental Health clinics had less dependence on client assistance than anticipated.
- Intrafund transfers were $17.4 million, or 17.6%, less than budgeted primarily due to Mental Health and the Community Health Agency. Mental Health had a shortfall of $10.4 million with Vehicle License Fee (VLF) revenue no longer being received. The Community Health Agency administration had a variance of $4.8 million attributed to lower reimbursements due to cost reductions within the department. Also, the Agency's Public Health department had savings of $1.2 million mainly due to a delay in utilizing grant funding for DPSS and Mental Health programs.

Public Assistance: Actual expenditures of $719.7 million were less than the final amended budget of $793.7 million by $74.1 million, or 9.3%. The following describes the significant factors for the variances:

- Salaries and employee benefits were $5.9 million, or 2.5%, less than budgeted mainly due to lower staffing levels in DPSS and intergovernmental activities.
- Services and supplies were $10.7 million, or 13.7%, less than budgeted primarily due to DPSS with less funding coming in from the Supplemental Nutrition Assistance Program Education (SNAP Ed) Grant, the cancellation of funds needed for the Case Management Information Payrolling System (CMIPS) II, and lower than expected facility charges with the cancellation or delay of large projects including Norco and Perris Self Sufficiency.
- Other charges were $56.7 million, or 11.9%, less than budgeted primarily due to a $42.6 million categorical aid reduction of CalWORKS benefits from 60 months to 48 months, a 25% decrease. Also, DPSS had savings of $9.2 million due to a decrease in caseloads for Stage 1 childcare services. DPSS also had a $4.7 million savings with decreases in contracted expenditures, C-IV costs, and wraparound placements.

Debt Service: Actual expenditures of $21.4 million were less than the final amended budget of $44.5 million by $23.1 million, or 51.9%, primarily due to a decrease in principal and interest payments for capital asset leases for buildings and other purchases.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2012, the County's capital assets for both its governmental and business-type activities amounted to $4.0 billion (net of accumulated depreciation). The capital assets include land and easements, land improvements, construction in progress, equipment, and infrastructure. The County's infrastructure is comprised of channels, storm drains, levees, basins, roads, traffic signals, bridges, runways, parks, park trails, and landfill liners. The County's capital assets increased by 5.6%, or $209.4 million, from $3.8 billion in fiscal year 2010-11 to $4.0 billion in fiscal year 2011-12.

Construction in progress experienced an upturn from a negative 7.2% in fiscal year 2010-11 to a positive 24.1% increase in fiscal year 2011-12, as the last major projects funded with capital improvement plan funds are underway or nearing completion and no new redevelopment projects were initiated. During current economic conditions, shrinking department budgets must maintain a fine balance between providing services and assuming new costs, as we see in a 13.5% decrease in land and improvements and a decrease of 5.3% in equipment.

In fiscal year 2011-12, new major projects budgeted for construction and design included the following: East County Detention Center with a budgeted amount of $237 million, which entails the expansion of the Indio Jail capacity of the correctional system by approximately 1,200 beds and is expected to be completed within six years. The County Transportation Improvement Program provides for improvement to State Route 79N (Winchester Road) by widening it from two to four lanes between Thompson Road and Scott Road at $18.3 million. This expansion represents phase two and is intended to relieve congestion and improve safety. The second project funded under this program consists of $2.1 million, earmarked for phase four of road improvements to ten existing roads in Mead Valley. Additional projects include $1.4 million for the Palomar Street sewer improvements and $1.1 million for the pedestrian sidewalk construction and associated improvements to Krameria Avenue in the Woodcrest area. A budget of $1.6 million has been established by the Economic Development Agency (EDA), for the tenant improvement project to the second floor of the Riverside Centre Building. This facility will be occupied by the U.S. Attorney and is to be reimbursed by the Federal Government. To increase the effectiveness of perimeter security, the Sheriff Department budgeted $1.0 million for the 911 Dispatch Center Security Upgrade Project, as this center provides emergency services to a population of more than two million people.

Construction in Progress

Additions to Construction in Progress for Fiscal Year 2011-12:

In fiscal year 2011-12, additions in the amount of $224.2 million consisted of costs related to existing projects and new projects.

Existing project costs include the following:

- Roads and signal infrastructure additions were $73.5 million.
- The EDA incurred $59.2 million in costs for projects such as the Cabazon Civic Center, which will include a library, a child care center, an administration building for Cabazon Water District, basketball courts, and many other amenities. An additional venture includes the Leadership in Energy and Environmental Design (LEED) certified Mead Valley Community Center. This project is envisioned to enhance numerous programs to foster social, health, and recreational services for approximately 3,500 residents every month. Further, the Big League Dreams Perris Valley Sports Park is in progress and provides much needed recreational facilities and encourages economic growth by bringing thousands of athletes to the City of Perris.
- Riverside County Regional Medical Center experienced $10.3 million in projects, such as the 1,092 additional parking spaces surrounding the existing facility for $6.6 million and $2.6 million for its Siemens Hospital Information System.
- Library projects include the 20,000 square feet Mead Valley Library for $6.8 million and the conversion of two existing business suites into the Idyllwild Library for $2.1 million.

New project costs include the following:

- Transportation and Land Management Agency experienced the addition of $23.5 million in infrastructure.
- The EDA implemented several new projects in the amount of $11.2 million, such as the Rubidoux Child Development Center. This facility will provide 168 licensed child care slots for children ages zero through five. Perris-Menifee Valley Aquatic Center, one of the last redevelopment projects, will consist of an Olympic sized swimming pool, a children's water playground, a lazy river, water slides and volleyball courts.

- Flood Control incurred new costs for the year in the amount of $8.1 million for storm drains and channel projects.
- Public Safety Enterprise Communication (PSEC) sustained approximately $2.7 million in costs. The PSEC team is finalizing plans for system implementation tasks such as Sheriff mobile vehicle radio installation, coverage testing, dispatch console implementation, and subscriber radio operational design. This system will be the first system in the nation that utilizes multiple frequencies and the latest in Motorola land mobile radio technology.

Construction in Progress Transfers:

Completed construction in progress projects of approximately $68.7 million were transferred from construction in progress to other designated capital asset accounts during fiscal year 2011-12. The major projects were as follows:

- $39.5 million was transferred to structures and improvements. Examples include, the Roy Wilson Fire Station in Thousand Palms, consisting of a three bay, heavy urban 7,800 square foot station with a four story training tower for $11.0 million. The completion of a 9,400 square foot state of the art Lake Mathews Fire Station and Community Room project, in the amount of $5.2 million, containing a two apparatus bay, and an eight person station that is fully expandable to accommodate three fire apparatus and up to 12 firefighters. Parks and Recreation incurred $5.1 million for improvements to Lake Skinner Park. The construction of the Highgrove Library cost $4.0 million. The installation of a 110 kilowatt solar shade system on the upper level of the Riverside County Administrative Center parking structure, incurred expenditures in the amount of $1.3 million. This system has the potential of reducing energy cost by $84,013 annually, reduce energy used, and lessen the amount of greenhouse gas emissions. The renovation project cost of $1.3 million for the conversion of the Indio County Administrative Center into a criminal justice law building housing offices for the District Attorney and Public Defender.
- $27.6 million was transferred to infrastructure. Transportation and Land Management Agency incurred a $13.1 million expense on the resurfacing and widening of road projects, which included the Ramona Expressway for $4.1 million. This project entailed rehabilitation and safety improvement of a 3.5 mile segment from 5th Street to Warren Road in the Lakeview and San Jacinto area. The Flood Control District transferred $6.5 million for storm drains, such as the Corona Drains East Ontario Avenue Storm Drain that involved the construction of about one mile of underground storm drain and channel reconstruction, as well as the East Cathedral Canyon Channel Levee Restoration project. A transfer from Aviation in the amount of $3.7 million, for runway and taxiway rehabilitation projects such as the pavement project at the Jacqueline Cochran Regional Airport.

Land and Easements

Additions of $26.7 million in land were processed this fiscal year. Flood Control had $13.6 million in land additions, in which $8.6 million was obtained through cooperative agreements between Flood Control, the Cities of Menifee and Perris, where the Riverside Flood Control & Water Conservation District will assume operation and maintenance at the completion of the Paloma Wash Channel and the Perris Valley Channel Stage 4 projects. Land was acquired for the Palm Springs Master Drainage Plan line 41 project in the amount of $1.4 million. Approximately $9.0 million was acquired by the EDA for projects such as the Myers Mental Health land purchase and $3.4 million by the Transportation Department for the relocation of the main Washington Yard. The County experienced $17.5 million in land retirements, which included an agreement with the City of Hemet for $10.4 million, for which the County assisted in the acquisition and conveyance of land to the Western Riverside County Regional Conservation Authority for the vernal pool habitat and $6.6 million for the incorporation of Jurupa Valley.

Depreciable Capital Assets

The following is a breakdown of the additions, retirements, and transfers which make up the balance of depreciable capital assets:

Additions to Depreciable Assets:

Total fiscal year 2011-12 depreciable capital asset current year additions of $124.6 million were comprised of the following:

- Infrastructure in the amount of $76.8 million consisting of donated roads in the amount of $45.0 million and $31.5 million in flood storm drains and channels.
- Equipment in the amount of $24.6 million distributed as follows:

Equipment leased	$ 13.1 million
Equipment field	3.9 million
Computer and office equipment	2.9 million
Miscellaneous equipment	2.7 million
Equipment vehicles	2.0 million

- Structures and improvements amounted to $23.2 million in assets, such as the purchase of two buildings and a parking lot on behalf of Mental Health located at 3075 and 3125 Myers Street to accommodate the increasing new client cases and additional staff implemented by the Mental Health Services Act.

Retirements of Depreciable Assets:

Retirement of depreciable assets totaled $125.6 million. Infrastructure in the amount of $97.0 million was retired from the Transportation and Land Management Agency for the transfer of roads and traffic signals to the newly incorporated City of Jurupa Valley. Equipment was retired ranging from the categories of computer and office equipment to vehicle and leased equipment in the amount of $28.2 million, which includes $11.0 million in vehicles sent to surplus for auction sales and $8.7 million in equipment from the Riverside County Regional Medical Center.

Depreciable Transfers:

Completed construction in progress transferred for approximately $61.5 million as noted above.

Depreciation Note:

In the government-wide financial statements, depreciable capital assets are depreciated from the acquisition date to the end of the fiscal year. However, in the fund financial statements of the governmental funds, depreciable capital assets are accounted for as expenditures when payments are made. This fiscal year, depreciable capital assets for governmental and business-type activities combined incurred $137.4 million in depreciation.

Analysis of Capital Assets:

Capital assets for the governmental and business-type activities are presented below to illustrate changes from the prior year:

Capital Assets (net of depreciation, in thousands)

	Governmental Activities		Business-type Activities		Total		Increase/ (Decrease)
	2012	[redacted]	2012	[redacted]	2012	[redacted]	%
Infrastructure	$1,436,036	[redacted]	$ 47,366	[redacted]	$1,483,402	[redacted]	1.4%
Land and easements	449,978	[redacted]	21,351	[redacted]	471,329	[redacted]	3.6%
Land improvements	88	[redacted]	3,662	[redacted]	3,750	[redacted]	-13.5%
Structures and improvements	988,262	[redacted]	126,899	[redacted]	1,115,161	[redacted]	2.1%
Equipment	84,889	[redacted]	14,206	[redacted]	99,095	[redacted]	-5.3%
Construction in progress	745,536	[redacted]	56,189	[redacted]	801,725	[redacted]	24.1%
Total	$3,704,789	[redacted]	$269,673	[redacted]	$3,974,462	[redacted]	5.6%

Additional information on the County's capital assets can be found in Note 8 of this report.

Debt Administration

Per Board of Supervisors policy, the County's Debt Advisory Committee reviews all debt issuances of the County and its financing component unit organizations and advises the Board of Supervisors accordingly. As of fiscal year-end June 30, 2012, the County had numerous debt issues outstanding. (See Note 12)

Net bonded debt per capita equaled $356.0 million as of June 30, 2012. The calculated legal debt limit for the County is $2.5 billion.

The following are credit ratings maintained by the County:

	Moody's Investors Service, Inc.	Standard & Poor's Corp.	Fitch
Long-term lease debt	Aa3	AA	AA-
Issuer credit	Aa3	AA	AA-

The County issued tax-exempt Tax and Revenue Anticipation Notes (TRANs) to provide needed cash to cover the projected intra-period cash flow deficits of the County's General Fund during the fiscal year July 1 through June 30. In fiscal year 2011-12, the County issued $250.0 million in TRANs to satisfy short-term cash flow needs.

In December 1993, the Board of Supervisors formally passed a resolution necessary for the County to adopt the Teeter Plan (the alternate method of property tax distribution). The plan required the "buy-out" of delinquent taxes and the annual advance of unpaid taxes to participating agencies. For fiscal year 2011-12, funding for the County's ongoing obligations under Teeter was accomplished through the sale of Tax-Exempt Commercial Paper Notes. During fiscal year 2011-12, the County retired $100.2 million of the $206.8 million principal amount outstanding at June 30, 2011. The County then issued $64.7 million of Series B notes, leaving an outstanding balance of $171.3 million at June 30, 2012. This amount includes funding to advance $64.5 million fiscal year 2010-11 delinquencies and refunding of $106.5 million of prior years' property taxes that remain delinquent. The County's General Fund is pledged to the repayment of the Series B delinquent taxes.

The table below provides summarized information (including comparative amounts from the preceding year) for the County's outstanding long-term liabilities at June 30, 2012.

County's Outstanding Debt Obligations
(In Thousands)

	Governmental Activities		Business-Type Activities		Total		Increase/ (Decrease
	2012	[redacted]	2012	[redacted]	2012	[redacted]	%
Loans payable	$ 4,925	[redacted]	$ -	[redacted]	$ 4,925	[redacted]	-8.0%
Bonds payable	750,492	[redacted]	121,061	[redacted]	871,553	[redacted]	-48.3%
Certificates of participation	309,511	[redacted]	-	[redacted]	309,511	[redacted]	-15.7%
Capital leases	100,995	[redacted]	12,055	[redacted]	113,050	[redacted]	-11.0%
Total Outstanding	$ 1,165,923	[redacted]	$ 133,116	[redacted]	$ 1,299,039	[redacted]	-40.6%

<u>Outstanding Debt</u>: The County of Riverside's total debt decreased by 40.6%, or $886.9 million ($869.2 million in governmental funds and a decrease of $17.7 million in business-type), during the current fiscal year. The decrease in governmental activities was a result of RDA Tax Allocation Bonds, Loans Payable, and Bond Anticipation Notes being transferred to Successor Agency as of February 1, 2012. The decrease in business-type activities was a result of the annual principal payments.

Additional information on the County's long-term debt can be found in Note 12 of this report.

ECONOMIC FACTORS AND THE FISCAL YEAR 2012-13 BUDGET OUTLOOK

Economists' forecasts remain relatively unchanged for the upcoming fiscal year. There will be slow growth, if any, over the near future. Riverside County's budget plans for fiscal year 2012-13 eliminate the use of one-time reserves to fund ongoing operating costs. Reports of improving job and housing markets produce confirmation that economic recovery is under way and that the worst is in the past.

Fiscal year 2012-13 discretionary revenue is expected to decline by approximately 2.6% ($15.0 million) when compared to fiscal year 2011-12. The following table reflects anticipated discretionary revenue totals and sources for fiscal year 2012-13.

Source	Final Budget Estimate (In Thousands)
Taxes	$ 212,114
Other Taxes	32,498
Licenses, Permits, Franchise Taxes	5,000
Fines, Forfeitures, Penalties	27,796
Use of Money and Property	3,098
State	190,355
Federal	2,050
Charges for Services	1,066
Miscellaneous	96,258
Total	$ 570,235

The County's employee retirement benefit contribution rate for fiscal year 2012-13 for miscellaneous members is 13.5% and the Safety contribution rate is 22.5%. The employer rate for both plans is subject to changes in future years, as it continues to reflect changes in investment return and the County's growth rate, among other factors. Fiscal year 2013-14 rates are projected at 15.0% (Miscellaneous) and 23.4% (Safety). Additional information regarding the County's retirement plans are included in Notes 17, 18, and 19 of the financial statements and schedules of retirement funding progress are included in the required supplementary information section.

On June 2012, the County presented to the board the intention to adopt an amendment to the CalPERS contract set forth in the Resolution of Intention to Approve an Amendment to Contract to provide 2% @60 for Local Miscellaneous members, and 2% @50 for Local Safety members, each with Three-Year Final Compensation, for employees' first entering CalPERS membership with the County after the contract amendment effective date

The fiscal year 2012-13 assessment roll value declined by 0.15%, yielding a total property tax roll of $204.9 billion, compared to $205.2 billion in fiscal year 2011-12. The $300.0 million decrease in assessment roll value reflected the continuing decline of the commercial market, as well as a minor recovery in residential housing prices affecting the reassessment of property per Proposition 8; and the continuing lack of construction of the new residential, commercial, and industrial development.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the County of Riverside, Office of the Auditor-Controller, County Administrative Center, 4080 Lemon Street - 11th Floor, P.O. Box 1326, Riverside, CA 92502-1326 Phone: (951) 955-3800; Fax: (951) 955-3802; website: www.auditorcontroller.org.

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COUNTY OF RIVERSIDE

Statement of Net Assets
June 30, 2012
(Dollars in Thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Children and Families Commission	Palm Desert Financing Authority
ASSETS:					
Cash and investments (Note 4)	$ 1,245,887	$ 137,819	$ 1,383,706	$ 42,212	$ -
Receivables, net (Notes 1 and 6)	520,549	131,706	652,255	5,201	390
Inventories	5,811	7,726	13,537	-	-
Internal balances (Note 7)	55,516	(55,516)	-	-	-
Prepaid items and deposits	4,769	6,234	11,003	19	-
Restricted cash and investments (Notes 4 and 5)	485,424	78,732	564,156	-	15,058
Other noncurrent receivables (Note 6)	39,135	-	39,135	-	63,100
Pension asset, net (Notes 17 and 18)	442,865	1,082	443,947	-	-
OPEB asset, net (Note 19)	23,596	-	23,596	-	-
Land held for resale	34,368	-	34,368	-	-
Unamortized bond issuance costs	10,047	821	10,868	-	1,040
Deferred outflows of resources (Note 12)	35,185	-	35,185	-	-
Capital assets (Note 8):					
Nondepreciable assets	1,195,514	77,540	1,273,054	-	-
Depreciable assets, net	2,509,275	192,133	2,701,408	-	-
Total assets	6,607,941	578,277	7,186,218	47,432	79,588
LIABILITIES:					
Current Liabilities:					
Accounts payable	136,185	17,918	154,103	1,799	9
Salaries and benefits payable	66,408	12,070	78,478	96	-
Due to other governments	56,413	66,792	123,205	342	-
Interest payable	8,996	416	9,412	-	709
Deposits payable	331	87	418	-	-
Notes payable (Note 11)	171,324	-	171,324	-	-
Other liabilities	394	2,992	3,386	-	-
Deferred revenue (Note 6)	313,260	-	313,260	-	-
Interest rate swap (Note 12)	35,185	-	35,185	-	-
Long-term liabilities (Note 12) :					
Due within one year	203,495	36,011	239,506	130	5,485
Due beyond one year	1,340,417	275,834	1,616,251	125	73,314
Total liabilities	2,332,408	412,120	2,744,528	2,492	79,517
NET ASSETS:					
Invested in capital assets, net of related debt	2,740,429	130,510	2,870,939	-	-
Restricted for:					
Children's programs	-	-	-	44,940	-
Community development	307,843	-	307,843	-	-
Debt service	119,661	23,697	143,358	-	-
Health and sanitation	19,876	14,188	34,064	-	-
Public protection	38,085	-	38,085	-	-
Public ways and facilities	156,088	-	156,088	-	-
Other programs	42,282	3,218	45,500	-	-
Unrestricted	851,269	(5,456)	845,813	-	71
Total net assets	$ 4,275,533	$ 166,157	$ 4,441,690	$ 44,940	$ 71

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

COUNTY OF RIVERSIDE

Statement of Activities

For the Fiscal Year Ended June 30, 2012

(Dollars in Thousands)

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
FUNCTION/PROGRAM ACTIVITIES:				
Primary government:				
Governmental activities:				
General government	$ 270,474	$ 147,510	$ 156,223	$ -
Public protection	1,047,202	316,778	233,652	281
Public ways and facilities	84,797	56,690	56,521	27,046
Health and sanitation	374,950	48,779	240,081	-
Public assistance	827,092	2,497	743,612	-
Education	10,376	143	17,091	-
Recreation and cultural services	15,806	8,400	514	582
Interest on long-term debt	39,098	-	-	-
Total governmental activities	2,669,795	580,797	1,447,694	27,909
Business-type activities:				
Regional Medical Center	417,074	371,827	-	335
Waste Management Department	57,272	45,332	-	-
Housing Authority	91,469	86,201	-	-
Flood Control	2,306	1,906	-	-
County Service Areas	456	399	-	-
Total business-type activities	568,577	505,665	-	335
Total primary government	$ 3,238,372	$ 1,086,462	$ 1,447,694	$ 28,244
Component units:				
Children and Families Commission	$ 23,793	$ -	$ 24,111	$ -
Palm Desert Financing Authority	8,658	10,088	-	-
Total Component Units	$ 32,451	$ 10,088	$ 24,111	$ -

General revenues:

Taxes:

Property taxes

Sales and use taxes

Other taxes

Motor vehicle in-lieu of taxes

Investment earnings

Other

Transfers

Total general revenues and transfers

Changes in net assets before extraordinary items

Extraordinary items:

Extraordinary Item -AB99 Reversal

RDA dissolution

Changes in net assets

NET ASSETS, BEGINNING OF YEAR, AS RESTATED (Note 3)

NET ASSETS, END OF YEAR

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

Net (Expenses) Revenues and Changes in Net Assets					
Primary Government			Component Units		
Governmental Activities	Business-type Activities	Total	Children and Families Commission	Palm Desert Financing Authority	
					FUNCTION/PROGRAM ACTIVITIES:
					Primary government:
					Governmental activities:
$ 33,259	$ -	$ 33,259			General government
(496,491)	-	(496,491)			Public protection
55,460	-	55,460			Public ways and facilities
(86,090)	-	(86,090)			Health and sanitation
(80,983)	-	(80,983)			Public assistance
6,858	-	6,858			Education
(6,310)	-	(6,310)			Recreation and cultural services
(39,098)	-	(39,098)			Interest on long-term debt
(613,395)	-	(613,395)			Total governmental activities
					Business-type activities:
-	(44,912)	(44,912)			Regional Medical Center
-	(11,940)	(11,940)			Waste Management Department
-	(5,268)	(5,268)			Housing Authority
-	(400)	(400)			Flood Control
-	(57)	(57)			County Service Areas
-	(62,577)	(62,577)			Total business-type activities
(613,395)	(62,577)	(675,972)			Total primary government
					Component units:
			$ 318	$ -	Children and Families Commission
			-	1,430	Palm Desert Financing Authority
			318	1,430	Total Component Units
					General revenues:
					Taxes:
322,337	-	322,337	-	-	Property taxes
26,744	-	26,744	-	-	Sales and use taxes
6,715	-	6,715	-	-	Other taxes
226,384	-	226,384	-	-	Motor vehicle in-lieu of taxes
11,801	907	12,708	196	32	Investment earnings
169,399	-	169,399	37	-	Other
(11,702)	11,702	-	-	-	Transfers
751,678	12,609	764,287	233	32	Total general revenues and transfers
138,283	(49,968)	88,315	551	1,462	Changes in net assets before extraordinary items
					Extraordinary items:
-	-	-	30,090	-	Extraordinary Item -AB99 Reversal
502,638	-	502,638	-	-	RDA dissolution
640,921	(49,968)	590,953	30,641	1,462	Changes in net assets
3,634,612	216,125	3,850,737	14,299	(1,391)	NET ASSETS, BEGINNING OF YEAR, AS RESTATED (Note 3)
$ 4,275,533	$ 166,157	$ 4,441,690	$ 44,940	$ 71	NET ASSETS, END OF YEAR

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

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COUNTY OF RIVERSIDE

Balance Sheet
Governmental Funds
June 30, 2012
(Dollars in Thousands)

	General	Flood Control	Teeter Debt Service	Public Facilities Improvements Capital Projects
ASSETS:				
Cash and investments (Note 4)	$ 151,845	$ 258,649	$ -	$ 247,348
Accounts receivable (Notes 1 and 6)	9,196	496	-	-
Interest receivable (Note 6)	643	129	23	114
Taxes receivable (Note 6)	14,046	2,141	100,397	-
Due from other governments (Note 6)	328,817	164	-	166
Inventories	1,187	-	-	-
Due from other funds (Note 7)	14,227	8	35	3
Prepaid items and deposits	298	809	-	-
Restricted cash and investments (Notes 4 and 5)	299,673	4,815	79,630	-
Advances to other funds (Note 7)	3,342	-	-	-
Notes receivable (Note 6)	-	-	-	-
Land held for resale	-	-	-	-
Total assets	$ 823,274	$ 267,211	$ 180,085	$ 247,631
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts payable	$ 75,996	$ 7,397	$ -	$ 4,390
Salaries and benefits payable	57,391	886	-	-
Due to other governments	40,804	565	-	-
Due to other funds (Note 7)	1,466	34	8,761	733
Deposits payable	16	-	-	-
Teeter notes payable (Note 11)	-	-	171,324	-
Advances from other funds (Note 7)	-	-	-	-
Deferred revenue (Note 6)	311,003	2,070	-	-
Total liabilities	486,676	10,952	180,085	5,123
Fund balances (Note 13):				
Nonspendable	1,834	1	-	-
Restricted	101,651	-	-	131,184
Committed	52,439	252,368	-	-
Assigned	8,764	3,890	-	111,324
Unassigned	171,910	-	-	-
Total fund balances	336,598	256,259	-	242,508
Total liabilities and fund balances	$ 823,274	$ 267,211	$ 180,085	$ 247,631

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

Redevelopment Capital Projects	Other Governmental Funds	Total Governmental Funds	
			ASSETS:
$ -	$ 364,874	$ 1,022,716	Cash and investments (Note 4)
-	2,207	11,899	Accounts receivable (Notes 1 and 6)
-	240	1,149	Interest receivable (Note 6)
-	2,003	118,587	Taxes receivable (Note 6)
-	94,482	423,629	Due from other governments (Note 6)
-	1,002	2,189	Inventories
-	1,472	15,745	Due from other funds (Note 7)
-	3,215	4,322	Prepaid items and deposits
-	100,306	484,424	Restricted cash and investments (Notes 4 and 5)
-	1,500	4,842	Advances to other funds (Note 7)
-	-	-	Notes receivable (Note 6)
-	34,368	34,368	Land held for resale
$ -	$ 605,669	$ 2,123,870	Total assets
			LIABILITIES AND FUND BALANCES:
			Liabilities:
$ -	$ 30,869	$ 118,652	Accounts payable
-	4,273	62,550	Salaries and benefits payable
-	14,986	56,355	Due to other governments
-	5,406	16,400	Due to other funds (Note 7)
-	315	331	Deposits payable
-	-	171,324	Teeter notes payable (Note 11)
-	1,500	1,500	Advances from other funds (Note 7)
-	50,241	363,314	Deferred revenue (Note 6)
-	107,590	790,426	Total liabilities
			Fund balances (Note 13):
-	2,255	4,090	Nonspendable
-	450,019	682,854	Restricted
-	15,107	319,914	Committed
-	30,698	154,676	Assigned
-	-	171,910	Unassigned
-	498,079	1,333,444	Total fund balances
$ -	$ 605,669	$ 2,123,870	Total liabilities and fund balances

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

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COUNTY OF RIVERSIDE

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
June 30, 2012
(Dollars in Thousands)

Fund balances - total governmental funds (page 31)		$ 1,333,444
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.		3,669,129
Bond issuance costs are not current financial resources and therefore are not reported in the governmental funds.		10,047
Net OPEB and pension assets are not current financial resources and therefore are not reported in the governmental funds.		466,461
Under the modified accrual basis of accounting, revenue cannot be recognized until it is available to liquidate liabilities of the current period; under accrual accounting, revenue must be recognized as soon as earned, regardless of its availability. Any liability of earned but unavailable revenue must be eliminated in the government-wide financial statements.		50,054
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.		
Bonds Payable	$ 750,492	
Capital lease obligations	85,895	
Certificates of participation	309,511	
Loans payable	4,925	
Accrued interest payable	8,996	
Accreted interest payable	78,823	
Accrued remediation cost	2,398	
Compensated absences	157,622	(1,398,662)
Internal service funds are used by management to charge the costs of equipment, fleet management, printing, information technology, supply services, risk management, and temporary assistance to individual funds. Since internal service funds predominantly service government activities, the assets and liabilities of these funds are included as governmental activities in the statement of net assets.		145,060
Net assets of governmental activities (page 25)		$ 4,275,533

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

COUNTY OF RIVERSIDE

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2012
(Dollars in Thousands)

	General	Flood Control	Teeter Debt Service	Public Facilities Improvements Capital Projects
REVENUES:				
Taxes	$ 216,746	$ 39,727	$ -	$ -
Licenses, permits, and franchise fees	17,648	-	-	-
Fines, forfeitures, and penalties	88,979	-	-	-
Use of money and property:				
Interest	4,740	1,141	183	1,490
Rents and concessions	3,798	222	-	331
Aid from other governmental agencies:				
Federal	475,221	-	-	-
State	931,652	627	-	-
Other	80,332	-	-	33,179
Charges for services	354,451	4,039	-	11,081
Other revenue	40,852	10,925	-	492
Total revenues	2,214,419	56,681	183	46,573
EXPENDITURES:				
Current:				
General government	127,195	-	613	30,235
Public protection	1,010,999	50,067	-	-
Public ways and facilities	-	-	-	1,066
Health and sanitation	369,165	-	-	-
Public assistance	719,670	-	-	-
Education	579	-	-	-
Recreation and culture	324	-	-	-
Debt service:				
Principal	16,142	-	-	-
Interest	5,284	-	767	-
Cost of issuance	-	-	-	-
Capital outlay	2,671	-	-	-
Total expenditures	2,252,029	50,067	1,380	31,301
Excess (deficiency) of revenues over (under) expenditures	(37,610)	6,614	(1,197)	15,272
OTHER FINANCING SOURCES (USES):				
Transfers in	123,587	-	1,253	9,344
Transfers out	(98,045)	(1,308)	(56)	(71,093)
Issuance of refunding bonds	-	-	-	-
Premium on long-term debt	-	-	-	-
Redemption of refunded debt	-	-	-	-
Capital leases	2,671	-	-	-
Total other financing sources (uses)	28,213	(1,308)	1,197	(61,749)
Net change in fund balances before extraordinary items	(9,397)	5,306	-	(46,477)
EXTRAORDINARY ITEMS				
RDA dissolution asset transfers	-	-	-	-
RDA dissolution liability transfers	-	-	-	-
Total extraordinary items	-	-	-	-
NET CHANGE IN FUND BALANCES	(9,397)	5,306	-	(46,477)
Fund balances, beginning of year, as previously reported	343,562	250,953	-	293,102
Adjustments to beginning fund balances (Note 3)	2,433	-	-	(4,117)
Fund balances, beginning of year, as restated	345,995	250,953	-	288,985
FUND BALANCES, END OF YEAR	$ 336,598	$ 256,259	$ -	$ 242,508

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

Redevelopment Capital Projects	Other Governmental Funds	Total Governmental Funds	
			REVENUES:
$ -	$ 99,323	$ 355,796	Taxes
-	1,865	19,513	Licenses, permits, and franchise fees
-	1,184	90,163	Fines, forfeitures, and penalties
			Use of money and property:
344	2,929	10,827	Interest
220	15,017	19,588	Rents and concessions
			Aid from other governmental agencies:
-	102,433	577,654	Federal
-	54,379	986,658	State
-	43,167	156,678	Other
249	80,068	449,888	Charges for services
132	42,718	95,119	Other revenue
945	443,083	2,761,884	Total revenues
			EXPENDITURES:
			Current:
59,060	74,124	291,227	General government
-	11,376	1,072,442	Public protection
-	166,949	168,015	Public ways and facilities
-	6,503	375,668	Health and sanitation
-	82,434	802,104	Public assistance
-	18,363	18,942	Education
-	14,896	15,220	Recreation and culture
-			Debt service:
-	48,860	65,002	Principal
-	42,990	49,041	Interest
-	15	15	Cost of issuance
-	19,912	22,583	Capital outlay
59,060	486,422	2,880,259	Total expenditures
(58,115)	(43,339)	(118,375)	Excess (deficiency) of revenues over (under) expenditures
			OTHER FINANCING SOURCES (USES):
8,019	180,849	323,052	Transfers in
(11,960)	(150,262)	(332,724)	Transfers out
-	33,360	33,360	Issuance of refunding bonds
-	2,840	2,840	Premium on long-term debt
-	(32,797)	(32,797)	Redemption of refunded debt
-	-	2,671	Capital leases
(3,941)	33,990	(3,598)	Total other financing sources (uses)
(62,056)	(9,349)	(121,973)	Net change in fund balances before extraordinary items
			EXTRAORDINARY ITEMS
(216,781)	(97,795)	(314,576)	RDA dissolution asset transfers
10,725	3,359	14,084	RDA dissolution liability transfers
(206,056)	(94,436)	(300,492)	Total extraordinary items
(268,112)	(103,785)	(422,465)	NET CHANGE IN FUND BALANCES
271,554	606,405	1,765,576	Fund balances, beginning of year, as previously reported
(3,442)	(4,541)	(9,667)	Adjustments to beginning fund balances (Note 3)
268,112	601,864	1,755,909	Fund balances, beginning of year, as restated
$ -	$ 498,079	$ 1,333,444	FUND BALANCES, END OF YEAR

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

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COUNTY OF RIVERSIDE

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Fiscal Year Ended June 30, 2012

(Dollars in Thousands)

Net change in fund balances - total governmental funds (page 35)		$ (422,465)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay and other capital projects as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Expenditures for capital assets	$ 347,504	
Less loss on disposal of capital assets	(28,853)	
Less current year depreciation	(108,454)	210,197
Prepaid pension costs and OPEB costs are expended in the governmental funds when paid but are recognized as a financial resource in the statement of net assets.		11,427
Bond issuance costs are expended in the governmental funds when paid but are capitalized and amortized in the statement of net assets. This is the net amount of capitalized bond issuance cost.		(17,270)
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Proceeds in excess of principal payments	66,017	
Bonds payable retirement - RDA Dissolution	803,131	
Current amortization of bond premiums	7,328	876,476
Under the modified accrual basis of accounting, revenue cannot be recognized until it is available to liquidate liabilities of the current period; under accrual accounting, revenue must be recognized as soon as earned, regardless of its availability. Also, any liability of earned but unavailable deferred revenue must be eliminated in the government-wide financial statements.		4,278
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in accrued interest	11,296	
Change in accreted interest	(16,860)	
Change in long-term compensated absences	(5,932)	(11,496)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net income (loss) of the internal service funds is reported with governmental activities.		(10,226)
Change in net assets of governmental activities (page 27)		$ 640,921

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

COUNTY OF RIVERSIDE
Budgetary Comparison Statement
General Fund
For the Fiscal Year Ended June 30, 2012
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Taxes	$ 214,878	$ 216,158	$ 216,746	$ 588
Licenses, permits, and fees	18,130	19,572	17,648	(1,924)
Fines, forfeitures, and penalties	91,733	91,733	88,979	(2,754)
Use of money and property:				
Interest	5,462	4,162	4,740	578
Rents and concessions	25,479	25,480	3,798	(21,682)
Aid from other governmental agencies:				
Federal	506,686	508,060	475,221	(32,839)
State	936,324	984,161	931,652	(52,509)
Other government	85,195	81,281	80,332	(949)
Charges for services	485,105	398,608	354,451	(44,157)
Other revenue	98,204	94,201	40,852	(53,349)
Total revenues	2,467,196	2,423,416	2,214,419	(208,997)
EXPENDITURES:				
Current:				
General government:				
Salaries and employee benefits	85,937	87,550	81,868	(5,682)
Services and supplies	65,064	66,287	61,592	(4,695)
Other charges	77,245	80,942	32,517	(48,425)
Capital assets	4,095	3,760	3,064	(696)
Intrafund transfers	(54,108)	(54,155)	(51,846)	2,309
Appropriation for contingencies	20,000	23,305	-	(23,305)
Total general government	198,233	207,689	127,195	(80,494)
Public protection:				
Salaries and employee benefits	707,045	710,995	677,293	(33,702)
Services and supplies	307,228	316,301	297,501	(18,800)
Other charges	48,966	47,343	39,080	(8,263)
Capital assets	2,330	7,848	4,426	(3,422)
Intrafund transfers	(5,524)	(6,230)	(7,301)	(1,071)
Total public protection	1,060,045	1,076,257	1,010,999	(65,258)
Health and sanitation:				
Salaries and employee benefits	207,678	206,542	184,394	(22,148)
Services and supplies	110,553	117,457	97,106	(20,351)
Other charges	190,202	191,665	161,700	(29,965)
Capital assets	712	7,606	7,186	(420)
Intrafund transfers	(97,212)	(98,614)	(81,221)	17,393
Total health and sanitation	$ 411,933	$ 424,656	$ 369,165	$ (55,491)

(Continued)

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

COUNTY OF RIVERSIDE
Budgetary Comparison Statement
General Fund (Continued)
For the Fiscal Year Ended June 30, 2012
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final	Amounts	Over (Under)
Public assistance:				
Salaries and employee benefits	$ 241,519	$ 237,743	$ 231,887	$ (5,856)
Services and supplies	78,391	78,012	67,350	(10,662)
Other charges	483,130	478,075	421,402	(56,673)
Capital assets	190	190	29	(161)
Intrafund transfers	(293)	(293)	(998)	(705)
Total public assistance	802,937	793,727	719,670	(74,057)
Education:				
Salaries and employee benefits	266	274	270	(4)
Services and supplies	321	309	305	(4)
Other charges	-	-	4	4
Total education	587	583	579	(4)
Recreation and culture:				
Salaries and employee benefits	105	109	103	(6)
Services and supplies	252	321	225	(96)
Other charges	28	2	1	(1)
Capital assets	1	1	-	(1)
Intrafund transfers	(1)	(6)	(5)	1
Total recreation and culture	385	427	324	(103)
Debt service:				
Principal	79,596	39,537	16,142	(23,395)
Interest	5,001	5,001	5,284	283
Total debt service	84,597	44,538	21,426	(23,112)
Capital outlay	-	-	2,671	2,671
Total expenditures	2,558,717	2,547,877	2,252,029	(295,848)
Excess (deficiency) of revenues over (under) expenditures	(91,521)	(124,461)	(37,610)	86,851
OTHER FINANCING SOURCES (USES):				
Transfers in	-	123,587	123,587	-
Transfers out	-	(98,045)	(98,045)	-
Capital leases	-	-	2,671	2,671
Total other financing sources (uses)	-	25,542	28,213	2,671
NET CHANGE IN FUND BALANCE	(91,521)	(98,919)	(9,397)	89,522
Fund balance, beginning of year	345,995	345,995	345,995	-
FUND BALANCE, END OF YEAR	$ 254,474	$ 247,076	$ 336,598	$ 89,522

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

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COUNTY OF RIVERSIDE

Budgetary Comparison Statement
Flood Control Special Revenue Fund
For the Fiscal Year Ended June 30, 2012
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Taxes	$ 42,321	$ 42,321	$ 39,727	$ (2,594)
Use of money and property:				
Interest	1,087	1,087	1,141	54
Rents and concessions	158	158	222	64
Aid from other governmental agencies:				
Federal	1	1	-	(1)
State	635	635	627	(8)
Charges for services	4,261	4,261	4,039	(222)
Other revenue	16,729	16,729	10,925	(5,804)
Total revenues	65,192	65,192	56,681	(8,511)
EXPENDITURES:				
Current:				
Public protection	145,320	144,432	50,067	(94,365)
Total expenditures	145,320	144,432	50,067	(94,365)
Excess (deficiency) of revenues over (under) expenditures	(80,128)	(79,240)	6,614	85,854
OTHER FINANCING SOURCES (USES):				
Transfers out	-	(1,308)	(1,308)	-
Total other financing sources (uses)	-	(1,308)	(1,308)	-
NET CHANGE IN FUND BALANCE	(80,128)	(80,548)	5,306	85,854
Fund balance, beginning of year	250,953	250,953	250,953	-
FUND BALANCE, END OF YEAR	$ 170,825	$ 170,405	$ 256,259	$ 85,854

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

COUNTY OF RIVERSIDE
Statement of Net Assets
Proprietary Funds
June 30, 2012
(Dollars in Thousands)

	Business-type Activities - Enterprise Funds				Governmental Activities
	Regional Medical Center	Waste Management	Other	Total	Internal Service Funds
ASSETS:					
Current assets:					
Cash and investments (Note 4)	$ 21,373	$ 102,761	$ 13,685	$ 137,819	$ 223,171
Accounts receivable - net (Notes 1 and 6)	55,540	4,070	361	59,971	2,968
Interest receivable (Note 6)	-	80	4	84	103
Taxes receivable (Note 6)	-	-	14	14	-
Due from other governments (Note 6)	65,695	5,040	902	71,637	1,349
Inventories	7,451	274	-	7,725	3,622
Due from other funds (Note 7)	767	4	-	771	200
Restricted cash and investments (Notes 4 and 5)	23,890	51,957	2,885	78,732	1,000
Prepaid items and deposits	6,232	-	2	6,234	447
Total current assets	180,948	164,186	17,853	362,987	232,860
Noncurrent assets:					
Bond issuance costs	821	-	-	821	-
Pension asset, net (Note 17)	-	1,082	-	1,082	-
Capital assets (Note 8):					
Nondepreciable assets	62,331	10,885	4,324	77,540	896
Depreciable assets	125,264	56,359	10,510	192,133	34,764
Total noncurrent assets	188,416	68,326	14,834	271,576	35,660
Total assets	369,364	232,512	32,687	634,563	268,520
LIABILITIES:					
Current liabilities:					
Accounts payable	12,731	2,410	2,777	17,918	17,533
Salaries and benefits payable	11,339	693	38	12,070	3,858
Due to other funds (Note 7)	227	-	2	229	86
Due to other governments	66,759	5	28	66,792	58
Interest payable	409	-	7	416	-
Deposits payable	-	38	49	87	-
Other liabilities	93	567	2,332	2,992	392
Accrued closure and post-closure costs (Notes 9 and 2)	-	5,390	-	5,390	-
Accrued remediation costs (Note 20)	-	1,598	-	1,598	-
Compensated absences (Notes 1 and 12)	12,026	1,004	130	13,160	4,751
Capital lease obligations (Note 12)	5,189	-	-	5,189	7,293
Bonds payable (Note 12)	10,539	-	135	10,674	-
Estimated claims liabilities (Notes 12 and 14)	-	-	-	-	34,071
Total current liabilities	119,312	11,705	5,498	136,515	68,042
Noncurrent liabilities:					
Compensated absences (Note 2)	6,195	1,506	1,123	8,824	3,957
Advances from other funds (Note 7)	-	-	-	-	3,342
Accrued closure and post closure care costs (Note 9)	-	47,147	-	47,147	-
Accrued remediation costs (Note 9 & 20)	-	35,831	-	35,831	-
Capital lease obligations (Notes 1 and 2)	6,866	-	-	6,866	7,807
Bonds payable (Note 12)	109,774	-	613	110,387	-
Estimated claims liabilities (Notes 12 and 14)	-	-	-	-	96,367
Other long-term liabilities (Note 12)	59,984	-	6,795	66,779	-
Total noncurrent liabilities	182,819	84,484	8,531	275,834	111,473
Total liabilities	302,131	96,189	14,029	412,349	179,515
NET ASSETS:					
Invested in capital assets, net of related debt	55,227	67,244	8,039	130,510	20,560
Restricted for debt service	23,697	-	-	23,697	-
Restricted for health and sanitation	-	14,188	-	14,188	-
Restricted other	193	-	3,025	3,218	-
Unrestricted	(11,884)	54,891	7,594	50,601	68,445
Total net assets	$ 67,233	$ 136,323	$ 18,658	222,214	$ 89,005
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds				(56,057)	
Net assets of business-type activities				$ 166,157	

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

COUNTY OF RIVERSIDE

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2012
(Dollars in Thousands)

	Business-type Activities - Enterprise Funds				Governmental Activities
	Regional Medical Center	Waste Management	Other	Total	Internal Service Funds
OPERATING REVENUES:					
Net patient revenue (Notes 1 and 16)	$ 330,624	$ -	$ -	$ 330,624	$ -
Charges for services	32,921	43,763	4,536	81,220	215,602
Other revenue	8,282	1,569	83,970	93,821	31,092
Total operating revenues	371,827	45,332	88,506	505,665	246,694
OPERATING EXPENSES:					
Cost of material used	-	183	-	183	1,731
Personnel services	235,202	16,017	10,513	261,732	78,704
Communications	2,500	292	-	2,792	3,351
Insurance	1,034	195	374	1,603	8,067
Maintenance of building and equipment	10,540	1,719	2,631	14,890	15,366
Insurance claims	-	-	-	-	102,005
Supplies	53,564	1,875	26	55,465	31,023
Purchased services	71,780	15,370	672	87,822	21,147
Depreciation and amortization	9,472	5,439	1,330	16,241	12,708
Rents and leases of equipment	3,780	21	3	3,804	50,519
Public assistance	-	2	75,735	75,737	-
Utilities	3,585	260	702	4,547	1,781
Other	8,160	16,049	1,360	25,569	5,083
Total operating expenses	399,617	57,422	93,346	550,385	331,485
Operating income (loss)	(27,790)	(12,090)	(4,840)	(44,720)	(84,791)
NONOPERATING REVENUES (EXPENSES):					
Investment income	127	711	69	907	917
Interest expense	(11,911)	-	(162)	(12,073)	(1,353)
Gain (loss) on disposal of capital assets	(49)	1,088	11	1,050	39
Total nonoperating revenues (expenses)	(11,833)	1,799	(82)	(10,116)	(397)
Income (loss) before capital contributions and transfers	(39,623)	(10,291)	(4,922)	(54,836)	(85,188)
Premium contributions	335	-	-	335	69,823
Transfers in	15,000	-	-	15,000	1,903
Transfers out	(2,968)	(195)	(135)	(3,298)	(3,933)
CHANGE IN NET ASSETS	(27,256)	(10,486)	(5,057)	(42,799)	(17,395)
Net assets, beginning of the year, as previously reported	94,489	146,809	23,715		101,833
Adjustments to beginning net assets (Note 3)	-	-	-		4,567
Net assets, beginning of the year	94,489	146,809	23,715		106,400
NET ASSETS, END OF YEAR	$ 67,233	$ 136,323	$ 18,658		$ 89,005
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				(7,169)	
Change in net assets of business-type activities				$ (49,968)	

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

COUNTY OF RIVERSIDE
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ending June 30, 2012
(Dollars in Thousands)

	Business-type Activities - Enterprise Funds				Governmental Activities
	Regional Medical Center	Waste Management	Other	Total	Internal Service Funds
Cash flows from operating activities					
Cash receipts from customers / other funds	$ 374,399	$ 40,601	$ 88,612	$ 503,612	$ 248,879
Cash paid to suppliers for goods and services	(126,111)	(19,502)	(81,554)	(227,167)	(235,794)
Cash paid to employees for services	(231,754)	(15,549)	(10,528)	(257,831)	(78,489)
Net cash provided by (used in) operating activities	16,534	5,550	(3,470)	18,614	(65,404)
Cash flows from noncapital financing activities					
Advances from other funds	-	-	-	-	3,342
Transfers received	15,000	-	-	15,000	1,903
Transfers paid	(2,968)	(195)	(135)	(3,298)	(3,933)
Net cash provided by (used in) noncapital financing activities	12,032	(195)	(135)	11,702	1,312
Cash flows from capital and related financing activities					
Proceeds from sale of capital assets	76	1,088	11	1,175	39
Acquisition and construction of capital assets	(13,807)	(1,125)	(814)	(15,746)	(11,926)
Principal paid on capital leases	(3,775)	-	-	(3,775)	(2,372)
Premium contributions	335	-	-	335	69,823
Principal paid on bonds payable	(13,866)	-	(56)	(13,922)	-
Interest paid on long-term debt	(12,086)	-	(162)	(12,248)	(1,353)
Net cash provided by (used in) capital and related financing activities	(43,123)	(37)	(1,021)	(44,181)	54,211
Cash flows from investing activities					
Interest received on investments	127	746	71	944	981
Net cash provided by investing activities	127	746	71	944	981
Net increase (decrease) in cash and cash equivalents	(14,430)	6,064	(4,555)	(12,921)	(8,900)
Cash and cash equivalents, beginning of year	59,693	148,654	21,125	229,472	233,071
Cash and cash equivalents, end of year	$ 45,263	$ 154,718	$ 16,570	$ 216,551	$ 224,171

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

COUNTY OF RIVERSIDE
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ending June 30, 2012
(Dollars in Thousands)

	Business-type Activities - Enterprise Funds				Governmental Activities
	Regional Medical Center	Waste Management	Other	Total	Internal Service Funds
Reconciliation of operating income (loss) to net cash provided (used) by operating activities					
Operating income (loss)	$ (27,790)	$ (12,090)	$ (4,840)	$ (44,720)	$ (84,791)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities					
Depreciation and amortization	9,472	5,439	1,330	16,241	12,708
Decrease (Increase) accounts receivable	2,913	32	127	3,072	(326)
Decrease (Increase) taxes receivable	-	-	(2)	(2)	-
Decrease (Increase) bond issuance cost	125	-	-	125	-
Decrease (Increase) due from other funds	(452)	20	11	(421)	2,508
Decrease (Increase) due from other governments	(14)	(4,783)	(30)	(4,827)	3
Decrease (Increase) inventories	(663)	32	-	(631)	48
Decrease (Increase) prepaid items and deposits	(1,518)	-	31	(1,487)	(49)
Increase (Decrease) accounts payable	634	(252)	(196)	186	521
Increase (Decrease) due to other funds	5	-	(17)	(12)	(4,113)
Increase (Decrease) due to other governments	24,530	(46)	(8)	24,476	41
Increase (Decrease) accrued closure costs	-	9,069	-	9,069	-
Increase (Decrease) accrued remediation costs	-	7,652	-	7,652	-
Increase (Decrease) other liabilities	5,844	9	139	5,992	(4,890)
Increase (Decrease) estimated claims liability	-	-	-	-	12,721
Increase (Decrease) salaries and benefits payable	1,778	(37)	6	1,747	157
Increase (Decrease) compensated absences	1,670	71	(21)	1,720	58
Decrease (Increase) pension assets, net	-	434	-	434	-
Net cash provided (used) by operating activities	$ 16,534	$ 5,550	$ (3,470)	$ 18,614	$ (65,404)
Noncash investing, capital, and financing activities:					
Capital lease obligations	$ 2,382			$ 2,382	$ 9,955

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

COUNTY OF RIVERSIDE
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012
(Dollars in Thousands)

	Pension Trust	Investment Trust	Private-Purpose Trust	Agency Funds
ASSETS:				
Cash and investments (Note 5)	$ -	$ -	$ 203,638	$ 242,968
Federal agency	20,455	2,299,151	-	-
Cash and equivalent	925	104,000	-	-
Commercial paper	723	81,264	-	-
Repos	414	46,481	-	-
Municipal bonds	395	44,384	-	-
Bond - U.S. Treasury	854	95,991		-
Local agency obligation	261	29,361	-	-
Accounts receivable	99	12,807	1,446	-
Interest receivable	-	1,483	25	43
Taxes receivable	-	14	-	45,202
Due from other governments	-	-	16,200	334
Land held for sale	-	-	50,386	-
Total assets	24,126	2,714,935	271,695	288,547
LIABILITIES:				
Accounts payable	-	-	17,072	135,480
Salaries and benefits payable	-	-	-	6
Due to other governments	-	-	-	153,061
Note payable	-	-	803,131	-
Total liabilities	-	-	820,203	$ 288,547
NET ASSETS:				
Held in trust for pension benefits, external pool participants, and other purposes	$ 24,126	$ 2,714,935	$ (548,508)	

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

COUNTY OF RIVERSIDE

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2012
(Dollars in Thousands)

	Pension Trust	Investment Trust	Private-Purpose Trust
ADDITIONS:			
Employer contributions	$ 559	$ -	$ -
Employee contributions	1,512	-	-
Contributions to pooled investments	-	18,752,365	-
Contributions to private-purpose trust	-	-	38,994
Investment income	1	-	1,128
Total additions	2,072	18,752,365	40,122
DEDUCTIONS:			
Distributions from pension trust	-	-	-
Distributions from pooled investments	-	18,847,032	-
Distributions from private-purpose trust	-	-	63,221
Administrative and other expenses	211	-	-
Total deductions	211	18,847,032	63,221
Change in net assets before extraordinary items	1,861	(94,667)	(23,099)
EXTRAORDINARY ITEMS:			
Assets of Redevelopment Agency	-	-	283,749
Liabilities of Redevelopment Agency	-	-	(817,176)
Total extraordinary items	-	-	(533,427)
Change in net assets			
Net assets held in trust, beginning of the year	22,265	2,809,602	8,018
Net assets held in trust, end of the year	24,126	2,714,935	(548,508)

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

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The County of Riverside (the County) is a legal subdivision of the State of California charged with general governmental powers. The County's powers are exercised through a five member Board of Supervisors (the Board), which, as the governing body of the County, is responsible for the legislative and executive control of the County. Services provided by the County include general government, public protection, public ways and facilities, health and sanitation, public assistance, education, and recreation and culture.

Component Units are legally separate organizations for which the elected officials of the County are either financially accountable or for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Blended component units, although legally separate entities, are, in substance, part of the County's operations. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the County.

In conformity with generally accepted accounting principles, the financial statements of fourteen component units have been included and combined with financial data of the County. Eleven component units have an integral relationship with and serve as an extension of the County. Using the criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, management has determined that each entity is presented as a blended component unit due to the composition of each Governing Board and the control of the day-to-day activities through the budget process. Three component units are presented discretely. Each blended and discretely presented component unit has a June 30 fiscal year-end.

Blended Component Units

Housing Authority of the County of Riverside (Housing Authority) The Board is the governing body of the Housing Authority. Among its duties, it approves the Housing Authority's budget, rates and charges for the use of facilities, and appoints the management. The Housing Authority is reported as a proprietary fund type.

Riverside County Flood Control and Water Conservation District (Flood Control) The Board is the governing body of Flood Control. Among its duties, it approves Flood Control's budget, tax rates, contracts, and appoints the management. Flood Control is reported as both governmental and proprietary fund types.

Riverside County Regional Park and Open-Space District (Park District) The Board is the governing board of the Park District. Among its duties, it approves the Park District's budget, contracts, fees and charges for park use, and appoints the management. The Park District is reported as both governmental and fiduciary fund types.

County of Riverside Asset Leasing Corporation (CORAL) The Board appoints the governing board of CORAL and CORAL provides services entirely to the County through the purchase of land and construction of facilities, which are then leased back to the County. CORAL is reported as a governmental fund type.

Riverside County Service Areas (CSAs) The Board is the governing body of the CSAs. Among its duties, it approves the CSAs' budgets, approves parcel fees, and appoints the management. The CSAs are reported as either governmental or proprietary fund types.

Riverside County Public Financing Authority (Public Financing Authority) The Board is the governing body of the Public Financing Authority. The Public Financing Authority was formed for the purpose of assisting in financing public improvements of the County, the Redevelopment Agency (RDA), and other local agencies. The Public Financing Authority is reported as a governmental fund type.

County of Riverside District Court Financing Corporation (District Corporation) The Board is the governing body of the District Corporation. The District Corporation assists the County by providing for the acquisition, construction and renovation of U.S. District Court facilities. The District Corporation is reported as a governmental fund type.

County of Riverside Bankruptcy Court Corporation (Bankruptcy Court) The Board is the governing body of the Bankruptcy Court. The Bankruptcy Court assists the County by providing for the acquisition, construction and renovation of public facilities and improvements. The Bankruptcy Court is reported as a governmental fund type.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Blended Components (Continued)

In-home Support Services Public Authority (IHSS PA) The Board is the governing body of the IHSS PA. The IHSS PA acts as the employer of record for purposes of collective bargaining for Riverside In-home Supportive Services providers and performs other IHSS functions as required and retained by the County. The IHSS PA is reported as a governmental fund type.

Perris Valley Cemetery District (the District) The Board is the governing body of the District. The District is a public cemetery district operating under the provisions of the Health and Safety Code of the State of California. The District was created in July 1927 for the purpose of operating a public cemetery for the residents of Perris Valley. The District is reported as a governmental fund type.

Inland Empire Tobacco Securitization Authority (the Authority) The Board appoints two of the three members of the governing board of the Authority. The San Bernardino County Board of Supervisors appoints the third member. The Authority was created by a Joint Exercise of Powers Agreement (the Agreement) effective as of July 18, 2007 between Riverside County and San Bernardino County. The Authority was created for the purpose of securitizing the payments to be received by the County of Riverside from the nation-wide Tobacco Settlement Agreement (the Payments) for such purposes, but not limited to, issuance, sale, execution and delivery of bonds secured by those Payments or the lending of money based on thereof, or to securitize, sell, purchase or otherwise dispose of some or all of such Payments of the County. The Authority is a blended component unit of the County because the Authority is providing services solely to the County and the County's Board has the ability to impose its will by removing the Authority's governing Board at will. The Authority is reported as a governmental fund type.

Discretely Presented Component Units

Riverside County Children and Families Commission (the Commission) The Riverside County Board of Supervisors established First 5 Riverside, also known as Riverside County Children and Families Commission, in 1999 under the provisions of the California Children and Families Act of 1998. The Commission was formed to develop, adopt, promote, and implement early childhood development programs.

A governing Board of nine members, that administers the Commission, is appointed by the County Board of Supervisors. The Commission includes one member of the County Board of Supervisors. The Commission is a component unit of the County because the County's Board has the ability to remove some of the Commission's governing Board at will. It is discretely presented because its governing body is not substantially the same as the County's governing body and it does not provide services entirely or exclusively to the County.

Palm Desert Financing Authority The Palm Desert Financing Authority (the Authority) is a joint powers authority between the County of Riverside and Palm Desert Redevelopment Agency (PDRDA) established on January 1, 2002 under Section 6502 of the Joint Powers Act, California Government Code Section 6500. The County and the PDRDA agreed to create the Authority for the purpose of establishing a vehicle to reduce local borrowing costs, promote greater use of existing and new financial instruments and mechanisms, and assist local agencies in the financing of public capital improvements. Although the Authority is a legally separate entity, in substance under Governmental Accounting Standards Board Statement (GASB) No.14, the County is financially accountable for the Authority's issuance of both lease revenue bonds that are under the Authority's management (2003 Series A and 2008 Series A).

County of Riverside Redevelopment Successor Agency Housing (RDA Successor Agency Housing) Pursuant to the provisions of the Redevelopment Restructuring Act, the Riverside County Redevelopment Successor Agency (Successor Agency) and Redevelopment Housing Successor Agency were created and all of the assets, liabilities and obligations of the former RDA were transferred to the Successor Agency on February 1, 2012. For reporting purposes, the Successor Agencies were reported as if they were part of the County's operations.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Presentation of Financial Information Related to County Fiduciary Responsibilities

The Authority's Commission is the governing body of the Authority, which consists of the County Executive Officer, one member of the County Board of Supervisors, the Executive Director of the PDRDA and a member of the PDRDA's Board. It is discretely presented because its governing body is not substantially the same as the County's governing body.

Additional detailed financial information for each of the discretely presented component units can be obtained from the Auditor-Controller's Office at the Robert T. Anderson Administrative Center, 4080 Lemon Street - 11th Floor, P.O. Box 1326, Riverside, CA 92502-1326.

The basic financial statements also include an Investment Trust fund to account for cash and investments held by the County Treasurer for numerous self-governed school and special districts. The financial reporting for these governmental entities, which are independent of the County, is limited to the total amount of cash and investments and other assets. School and special district boards that are separately elected and that are independent of the County Board of Supervisors, administer activities of the school districts and special districts. The County Auditor-Controller makes disbursements upon the request of the responsible self-governed special district officers. The Board has no effective authority to govern, manage, approve budgets, assume financial accountability, establish revenue limits, or appropriate surplus funds available in these entities. Therefore, these entities are fiscally independent of the County. Twenty-eight cities and numerous self-governed special districts provide services to the residents of the County. The operations of these entities have been excluded from the basic financial statements since each entity conducts its own day-to-day operations and is controlled by its own governing board.

Basis of Presentation

Government-wide Financial Statements

The statement of net assets and statement of activities display information about the primary government (the County) and its component units. These statements include the financial activities of the overall government, excluding fiduciary activities. These statements distinguish between the *governmental* and *business-type activities* of the County and between the County and its discretely presented component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities that rely, to a significant extent, on fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the County and for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Expenses by function have been adjusted for any internal service profit/loss existing at fiscal year-end. In addition, 36.9% or $17.6 million, of the County's $47.7 million indirect costs, allocated through the Countywide Cost Allocation Program (COWCAP), have been included in the expenses of those functions which can obtain reimbursement through State and Federal Programs or other charges. Program revenues include (1) charges paid by the recipients of goods or services offered by the programs and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

Fund Financial Statements

The fund financial statements provide information about the County's funds, including fiduciary funds and blended component units. Separate statements for each fund category – *governmental, proprietary, and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are separately aggregated and reported as nonmajor funds.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities. *Operating* expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All expenses not meeting this definition are reported as *nonoperating* expenses.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

The County reports the following major governmental funds:

General Fund is the County's primary operating fund. It is used to account for all revenues and expenditures necessary to carry out the basic governmental activities of the County that are not accounted for through other funds. For the County, the General Fund includes such activities as general government, public protection, health and sanitation, public assistance, education, and recreation and culture services.

Flood Control Special Revenue Fund accounts for revenues and expenditures related to providing flood control in various geographical zones. The fund is primarily financed by ad valorem property taxes, developer fees, and local cooperative agreements.

Teeter Debt Service Fund accounts for revenue from collection of delinquent taxes, which is then used to pay principal of the debt issued to finance the Teeter Plan.

Public Facilities Improvements Capital Project Fund accounts for revenues and expenditures related to the acquisition and construction of public buildings and park or recreational facilities. Revenues are obtained from State funding, sale of capital assets, contributions, and from other funds when allocated by the Board of Supervisors.

Redevelopment Agency Capital Projects Fund accounts for tax increment revenue used to pay principal and interest for Redevelopment Agency tax allocation bonds. These bonds are legal obligations of the Redevelopment Agency issued to finance construction of infrastructure and public facilities for various project areas. Pursuant to the provisions of the Redevelopment Restructuring Act, the Riverside County Redevelopment Successor Agency (Successor Agency) was created and all of the assets, liabilities and obligations of the former RDA were transferred to the Successor Agency on February 1, 2012.

The County reports the following major enterprise funds:

Regional Medical Center (RMC) accounts for the maintenance of physical plant facilities and quality care to all patients in accordance with accreditation standards, the bylaws, rules and regulations of the medical staff, and the RMC. Revenue for this fund is primarily from charges for services, and secondarily from the County's General Fund.

Waste Management Department (Waste Management) accounts for solid waste revenues, expenses, and the allocation of net income for solid waste projects initiated for the public's benefit. The fund facilitates management and accounting of solid waste projects. Waste Management prepares and maintains the County's Solid Waste Management Plan, provides environmental monitoring in accordance with State and Federal mandates, and administers landfill closure and acquisition.

The County reports the following additional fund types:

Internal Service Funds account for the County's records management and archives, fleet services, information services, printing services, supply services, purchasing, OASIS project (accounting, purchasing, and human resources information system), risk management, temporary assistance pool, custodial services, maintenance services, real estate, and flood control equipment on a cost-reimbursement basis. Internal Service Funds are presented in summary form as part of the proprietary fund financial statements. In the government-wide financial statements, the changes in net assets at the end of the fiscal year, as presented in the Statements of Activities, were allocated to the functions of both the governmental and business-type activities, to reflect the entire activity for the year. Since the predominant users of the internal services are the County's governmental activities, the asset and liability balances of the internal service funds are consolidated into the governmental activities column at the government-wide level.

Pension Trust Fund accounts for resources held in trust for the members and beneficiaries of a defined benefit pension plan for County employees not eligible for social security or California Public Employees' Retirement System (CalPERS) participation. The County's pension trust fund uses the economic resources measurement focus and accrual basis of accounting.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Investment Trust Fund accounts for the external portion of the County Treasurer's investment pool. External investment pool participants include entities legally separate from the County, such as school and special districts governed by local boards, regional boards, and authorities. This fund accounts for assets, primarily cash and investments, held or invested by the County Treasurer and the related County liability to disburse these monies on demand to the related external entities. The County's investment trust fund uses the economic resources measurement focus and accrual basis of accounting.

Private-Purpose Trust Fund accounts for resources held and administered by the County in a fiduciary capacity for individuals, private organizations, or other governments based on trust arrangements. The fund includes the public guardian conservatorship, public social service foster care, and maintenance and children's trust. The County's private-purpose trust fund uses the economic resources measurement focus and accrual basis of accounting.

Agency Funds account for assets held by the County in a custodial capacity. These funds only involve the receipt, temporary investment, and remittance to individuals, private organizations, or other governments and include property taxes and special assessments collected on behalf of cities, special districts, and other taxing agencies. The County's agency funds have an accrual basis of accounting but no measurement focus.

The government-wide, proprietary, pension trust, investment trust, and private-purpose trust fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements, and donations. On an accrual basis of accounting, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales taxes are recognized when the underlying transactions occur. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

Governmental fund type financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues and other governmental fund type financial resources (e.g., bond issuance proceeds) are recognized when they become both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property and sales taxes are considered available for the year levied and are accrued when received within sixty days after fiscal year-end. Revenue received from expenditure driven (cost-reimbursement) grants, as defined by GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, are considered available and accrued if expected to be received within twelve months after fiscal year-end. All other revenue streams are considered available and accrued if they are expected to be received within ninety days after the fiscal year-end. Since revenue from these sources are not available to meet current period liabilities, these sources are financed through proceeds received from Tax and Revenue Anticipation Notes (TRANs) which are outstanding for a twelve month period. General capital assets acquisitions are reported as expenditures in governmental fund statements. Proceeds of general long-term debt and capital leases are reported as other financing sources.

For business-type activities reported on the government-wide financial statements and proprietary fund financial statements, the County has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

Reconciliations are presented to explain the adjustments necessary to reconcile the fund financial statements to the government-wide financial statements. These reconciliations are presented because governmental fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide financial statements for governmental activities.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Cash and Investments

The County pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance of the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the County's pooled investments.

For purposes of the statement of cash flows, the County considers all highly liquid investments (including restricted cash and investments) with an original maturity of three months or less when purchased to be cash equivalents.

Securities, including U.S. Treasury and Agency securities, are carried at fair value/cost based on current market prices on a monthly basis. Repurchase agreements are carried at fair value based on quoted market prices, except for repurchase agreements maturing within 90 days of June 30, 2012, which are carried at cost. Bond anticipation notes are carried at fair value/cost. Commercial paper is carried at amortized cost/cost. Investments in bankers' acceptances and nonparticipating guaranteed investment contracts are carried at cost. Participating guaranteed investment contracts are carried at fair value based on net realizable value. Mutual funds are carried at fair value based on the funds' share price. Local Agency Obligations are carried at cost based on the value of each participating dollar.

The fair value of a participants' position in the pool is not the same as the value of the pooled shares. The method used to determine the value of participants' equity withdrawn is based on the book value, amortized cost, and accrued interest of the participants' percentage participation at the date of such withdrawal.

State law requires that the County Treasurer hold all operating monies of the County, school districts, and certain special districts. Collectively, these mandatory deposits constituted approximately 67.8% of the funds on deposit in the County Treasury. In addition, the Auditor-Controller determined districts and agencies constituting approximately 32.2% of the total funds on deposit in the County Treasury represented discretionary deposits.

Receivables

The RMC accounts receivable are reported at their gross value and, where appropriate, are reduced by contractual allowances and the estimated uncollectible amounts. The estimated allowance for uncollectibles and allowance for contractuals are $207.6 million and $1.3 billion, respectively. The RMC has contracted with a Medi-Cal managed care plan to provide services to patients enrolled with Medicare and Medi-Cal programs. The RMC receives a fixed monthly premium payment for each patient enrolled. Revenue under this agreement is recognized in the period in which the RMC is required to provide services.

Property Taxes

All jurisdictions within California derive their taxing authority from the State Constitution and various legislative provisions contained in the Government Code and the Revenue and Taxation Code. Property is assessed by the County Assessor and State Board of Equalization at 100% of full cash or market value (with some exceptions) pursuant to Article XIIIA of the California State Constitution and statutory provisions. The total fiscal year 2011-12 gross assessed valuation of the County was $205.8 billion.

In order to lessen the fiscal impact of the tax increment financing of redevelopment projects on other units of local governments, the RDA has entered into pass-through agreements with various governmental agencies to "pass-through" portions of tax increment funds received by the RDA, attributable to the area within the territorial limits of other agencies.

The property tax levy to support general operations of the various local government jurisdictions is limited to one percent (1.0%) of the full cash value of taxable property and distributed in accordance with statutory formulas.

Amounts needed to finance the annual requirements of voter-approved debt (approved by the electorate prior to June 30, 1978) are excluded from this limitation and are calculated and levied each fiscal year. The rates are formally adopted by either the Board or the city councils and, in some instances, the governing board of a special district.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

The County is divided into tax rate areas, which are unique combinations of various jurisdictions servicing a specific geographic area. The rates levied within each tax rate area vary only in relation to levies assessed as a result of voter-approved indebtedness.

Property taxes are levied on both real and personal property and are recorded as receivables at the date of levy. Secured property taxes are levied on or before the first business day of September of each year. These taxes become a lien on real property on January 1 proceeding the fiscal year for which taxes are levied. Tax payments can be made in two equal installments; the first is due November 1 and are delinquent with penalties after December 10; the second is due February 1 and are delinquent with penalties after April 10. Secured property taxes that are delinquent and unpaid as of June 30th are declared to be tax defaulted and are subject to redemption penalties, costs, and interest when paid. If the delinquent taxes are not paid at the end of five (5) years, the property is sold at public auction and the proceeds are used to pay the delinquent amounts due and any excess is remitted, if claimed, to the taxpayer.

Supplemental tax liens are created when there is a change in ownership of property or upon completion of new construction. Tax bills for these new tax liens are issued throughout the fiscal year and contain various payments and delinquent dates but are generally due within one year. If the new tax liens are lower, the taxpayer receives a tax refund rather than a tax bill.

Unsecured personal property taxes are not a lien against real property. These taxes are due on January 1, and become delinquent, if unpaid, on August 31.

During the 1993-94 fiscal year, the County authorized an alternative property tax distribution method referred to as the "Teeter Plan." This method allows for a 100% distribution of the current secured property tax levy to entities electing the alternative method, as compared to the previous method where only the current levy less any delinquent taxes was distributed. This results in the General Fund receiving distributions of approximately 50-55% in December, 40-45% in April and the remaining balance in the fall of each year. The Teeter Plan also provides that all of the payments of redemption penalties and interest on delinquent secured property taxes of participating agencies flow to a tax loss reserve fund (TLRF). Any amounts on deposit in the TLRF greater than one percent (1%) of the tax levy for participating entities may flow to the County General Fund. For fiscal year 2011-12, $37.1 million was transferred from the TLRF to the General Fund.

Prepaid Items and Inventories

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The prepaid assets recorded in the governmental funds do not reflect current appropriable resources and thus, an equivalent portion of fund balance is reserved.

Inventories, which consist of materials and supplies held for consumption, are valued at the lower of cost (on a first-in, first-out basis) or market in the proprietary funds. Inventories for all governmental funds are valued at average cost. The consumption method is used to account for inventories. Under the consumption method, inventories are recorded as expenditures when consumed rather than when purchased. Material amounts of inventory are reported as assets of the respective fund. Reported inventories of governmental funds are equally offset by a fund balance reservation to indicate that portion of fund balance not available for future appropriation.

Capital Assets

Capital assets (including infrastructure) are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. Capital assets include public domain (infrastructure) general capital assets consisting of certain improvements including roads, bridges, traffic signals, park trails and improvements, flood control channels, storm drains, dams, and basins. The capitalization threshold for equipment is $5.0 thousand; buildings, land and land improvements are $1.0 dollar; and, infrastructure and intangibles are $150.0 thousand. Betterments result in more productive, efficient or long-lived assets. Significant betterments are considered capital assets when they result in an improvement of $2.5 thousand or more.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Capital Assets (Continued)

Capital assets used in operations are depreciated or amortized (assets under capital leases) using the straight-line method over the lesser of the capital lease period or their estimated useful lives in the government-wide statements and proprietary funds.

The estimated useful lives are as follows:

Infrastructure	
Flood channels	99 years
Flood storm drains	65 years
Flood dams and basins	99 years
Roads	20 years
Traffic signals	10 years
Parks trails and improvements	20 years
Bridges	50 years
Buildings	25-50 years
Improvements	10-20 years
Equipment	3-20 years

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements, which significantly increase values, change capacities, or extend useful lives, are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the changes in financial position.

Interest is capitalized on construction in progress in the proprietary funds. Interest capitalized is the total interest cost from the date of the borrowing net of any allowable interest carried on temporary investments of the proceeds of those borrowings until the specified asset is ready for its intended use. The RMC capitalizes net interest expense as a cost of property constructed. The RMC capitalized $94.5 thousand for the year ending June 30, 2012.

Leases

The County leases various assets under both operating and capital lease agreements. For governmental funds, assets under capital leases and the related lease obligations are reported in the government-wide financial statements. For proprietary funds, the assets and related lease obligations are recorded in the appropriate enterprise or internal service fund and the government-wide financial statements.

Restricted Assets

The County maintains various restricted asset accounts as a result of debt agreements and certain State statutes. The agreements authorizing the issuance of CORAL and Housing Authority obligations include certain covenants pertaining to the disposition of bond proceeds for construction, acquisition, and bond redemption purposes. Waste Management has restricted assets to meet requirements of State and Federal laws and regulations to finance closure and post-closure maintenance activities at landfill sites. The General Fund has restricted assets for program money where use is legally or contractually restricted.

Land Held for Resale

These assets, held by the County's Redevelopment Agency, are invested in various programs and are intended primarily for development and subsequent resale. These assets had a fair value of $84.5 million at January 31, 2012. Pursuant to the provisions of the Redevelopment Restructuring Act, the Riverside County RDA Housing Successor Agency (Successor Agency) was created and all of the assets, liabilities and obligations of the former RDA were transferred to the Successor Agency on February 1, 2012. Land held for resale of $50.1 was transferred to RDA Successor Agency and $34.4 million to RDA Housing Successor Agency.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Employee Compensated Absences

County policy permits employees in some bargaining units to accumulate earned, but unused vacation, holiday, and sick pay benefits. Vacation and holiday pay are accrued when incurred. For other bargaining units, annual leave is earned and accrued, but not vacation or sick leave. Proprietary funds report accrued vacation and holiday pay as a liability of the individual fund while governmental funds record amounts that are due and payable at year-end as a liability of the fund and amounts due in the future as a liability in the government-wide financial statements. At June 30, 2012, the amount of accrued vacation, holiday pay, and sick leave reported in the government-wide statement of net assets was $188.3 million.

The County allows unlimited accumulation of sick leave. Upon service retirement, disability retirement, or death of an employee or officer, and subject to the provisions of any applicable agreement between the employing agency and the Public Employees' Retirement System, unused accumulated sick leave for most employees with at least five (5) but less than 15 years of service shall be credited at the rate of fifty percent (50%) of current salary value thereof provided however, that the total payment shall not exceed a sum equal to 960 hours of full pay. Unused accumulated sick leave for employees with more than fifteen or more years of service shall be credited at the rate of the current salary value provided however, that the total payment shall not exceed a sum equal to 960 hours of full pay. In addition, the employee may also elect to place the payable amount of sick leave into a VEBA (Voluntary Employee Beneficiary Association) account which may be used for future health care costs.

Deferred Revenue

Deferred revenue arises when a potential revenue transaction does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenue also arises when resources are received before the County has a legal claim to them, such as grants received in advance of incurring qualified expenditures.

Long-term Debt

The County reports long-term debt of governmental funds in the government-wide statement of net assets. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the government-wide statement of net assets. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary fund and the government-wide statement of net assets.

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, bond issuance costs, and deferred losses on refundings are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount, and deferred losses on refundings.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Issuance costs are reported as debt service expenditures whether or not withheld from the actual debt proceeds received.

Bond Issuance Costs

Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Landfill Closure and Post-Closure Care Costs

Waste Management provides for closure and post-closure care costs over the life of the operating landfills as the permitted airspace of the landfill is used. Accordingly, the entire closure and post-closure care cost is recognized as expense by the time the landfills are completely filled. Waste Management also recognizes as expense closure and post-closure care costs for inactive landfills that have been closed under State and Federal regulations.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Waste Management, under State and Federal regulations, may be required to perform corrective action for contaminate releases at any of its active or inactive landfills. Waste Management provides for remediation costs for landfills upon notification from the local water quality board that a specific landfill is considered to be in the evaluation monitoring phase. Upon notification, Waste Management provides for these costs based on the most recent cost study information available.

Interfund Transactions

Interfund transactions are reflected as loans, services provided reimbursements, or transfers. Loans are reported as receivables and payables, as appropriate. These transactions are subject to elimination upon consolidation and are referred to as either "due to/due from other funds" (the current portion of interfund loans) or "advances to/advances from other funds" (the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." Advances between funds, as reported in the governmental fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are neither available for appropriation nor available as financial resources.

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

Net Assets

The government-wide financial statements and proprietary fund financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted net assets, or unrestricted net assets.

Invested In Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

Restricted Net Assets – This category presents external restrictions imposed by creditors, grantors, contributors, laws and regulations of other governments, or restrictions imposed by law through constitutional provisions or legislation.

Unrestricted Net Assets – This category represents net assets of the County, not restricted for any project or other purpose.

Fund Equity

In the fund financial statements, fund equity may be categorized as nonspendable, restricted, committed, assigned, and unassigned. All of the County's governmental fund balances will be comprised of the following categories:

- Nonspendable fund balance – amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.
- Restricted fund balance – amounts that are constrained to being used for a specific purpose by external parties such as creditors, grantors, laws, or regulations.
- Committed fund balance – amounts that are committed can only be used for specific purposes determined by formal action from the County's highest level of decision-making authority (the Board of Supervisors).
- Assigned fund balance – amounts that have been set aside and are intended to be used for a specific purpose but are neither restricted nor committed. The intent can be established within the General Fund by the County Executive Officer, or by an Executive Officer designee. Assigned amounts cannot cause a deficit in unassigned fund balance.
- Unassigned fund balance – funds that are not reported in any other category and are available for any purpose within the General Fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

As the highest level of decision-making authority, the Board of Supervisors approval is required to establish, change, or remove a commitment. Commitments will only be used for specific purposes pursuant to a formal action by the Board of Supervisors.

No formal action is required to remove an assignment. Assignments within the General Fund must be established by the County Executive Officer or an Executive Officer designee.

The General Fund is the only fund that will have an unassigned fund balance.

Fund Balance Policy

On September 13, 2011, the Board of Supervisors approved Policy B-30, *Governmental Fund Balance and Reserve Policy* to ensure fund balance is accurately classified and reported on the annual financial statements per GASB Statement No. 54. This policy applies to governmental fund types which include the General Fund, special revenue funds, capital projects funds, debt service funds, and permanent funds.

The purpose of this policy is to establish the guidelines for:

- The use of reserves with a restricted purpose versus an unrestricted purpose when both are available for expenditures.
- The establishment of stabilization arrangements for governmental funds.
- The minimum fund balance allowable for governmental funds.

Spending Prioritization for Fund Categories

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the Board to consider restricted amounts to be reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the Board that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts.

Minimum Fund Balance Policy for Governmental Funds

Establishing guidelines for minimum fund balance for governmental funds is essential to ensuring a prudent level of fund balance is maintained for unanticipated expenditures, delays in revenue receipt, or revenue shortfalls.

Unassigned Fund Balance - General Fund

The County shall maintain a minimum unassigned fund balance in its General Fund of at least 25 percent of the fiscal year's estimated discretionary revenue. A significant portion of the minimum unassigned fund balance may be used for one-time or short-term expenditures caused by an economic crisis and should be designated within an "Economic Uncertainty" account. Use of these funds should be as the last resort in balancing the County budget.

During the initial implementation of this policy, the Executive Office will develop a plan to ensure fund balance is at the minimum level within three years. The plan for accomplishing this will be included with the recommended budget submitted to the Board for approval each fiscal year. Following the initial implementation of the policy, if fund balance drops below the established minimum levels, the Executive Office will develop a plan to replenish the balance to established minimum levels within two years and submit the plan to the Board for approval.

Fund Balance - Special Revenue Funds

Special Revenue fund balances shall be kept at the higher of the minimum level dictated by the funding source or an amount that does not fall below zero. In the event that the fund balance drops below the established minimum levels, the department with primary responsibility for expending the special revenue will develop a plan to replenish the balance to established minimum levels within two years and submit the plan to the Board for approval.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Committed Fund Balance - Disaster Relief

The County shall commit a portion of the General Fund for Disaster Relief. The use of these funds will be restricted to one-time or short-term expenditures that are the result of a natural disaster or act of terrorism. The funds restricted for this purpose shall be at least two percent of discretionary revenue or $15 million, whichever is greater.

Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Current Governmental Accounting Standards Board Statements

Governmental Accounting Standards Board Statement No. 57

In December of 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other post employment benefit (OPEB) plans (that is, agent employers). This Statement clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers, those measures should be determined as of a common date and at a minimum frequency to satisfy the agent multiple-employer OPEB plan's financial reporting requirements. The provisions related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. This implementation has no financial impact to the County of Riverside.

Governmental Accounting Standards Board Statement No. 64

In June of 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53*. Statement No. 64 provides guidance for accounting and reporting when interest rate swap agreements and commodity swap agreements in which a swap counterparty, or the swap counterparty's credit support provider, commits or experiences either an act of default or a termination event as both are described in the swap agreement. Many of those governments have replaced their swap counterparty, or swap counterparty's credit support providers, either by amending existing swap agreements or by entering into new swap agreements. When these swap agreements have been reported as hedging instruments, questions have arisen regarding the application of the termination of hedge accounting provisions in Statement No. 53. Those provisions require a government to cease hedge accounting upon the termination of the hedging derivative instrument, resulting in the immediate recognition of the deferred outflows of resources or deferred inflows of resources as a component of investment income. Statement No. 64 clarifies the accounting treatment when this occurs. In addition, GASB released a mid-year supplement to its *Comprehensive Implementation Guide*. Within this guide, a new question and answer has been included clarifying the disclosure of federal investments that have implicit and explicit subsidies.

Future Governmental Accounting Standards Board Statements

Governmental Accounting Standards Board Statement No. 60

In November of 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The provisions of

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future Governmental Accounting Standards Board Statements (Continued)

Governmental Accounting Standards Board Statement No. 60 (Continued)

this Statement generally is required to be applied retroactively for all periods presented. The County has elected not to early implement GASB Statement No. 60 and has not determined its effect on the County's financial statements.

Governmental Accounting Standards Board Statement No. 61

In November of 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34.* The objective of this Statement is to improve guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. The County has elected not to early implement GASB Statement No. 61 and has not determined its effect on the County's financial statements.

Governmental Accounting Standards Board Statement No.62

In December of 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance*. The codification incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. No new generally accepted accounting principles were released in this statement. Statement No. 62 is effective for periods beginning after December 15, 2011. The County has elected not to early implement this statement.

Governmental Accounting Standards Board Statement No. 63

In June of 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previously, GASB Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. Statement No. 63 amends the net asset reporting requirements in Statement No. 34 and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. Statement No. 63 is effective for periods beginning after December 15, 2011. The County has elected not to early implement this statement.

Governmental Accounting Standards Board Statement No. 65

In March of 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future Governmental Accounting Standards Board Statements (Continued)

Governmental Accounting Standards Board Statement No. 65 (Continued)

liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Concept Statement No. 4 introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, it provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 is effective for periods beginning after December 15, 2012. The County has elected not to early implement this statement.

Governmental Accounting Standards Board Statement No. 66

In March of 2012, GASB issued Statement No. 66, *Technical Correction – 2012 – an amendment of GASB Statement No. 10 and No. 62.* The objective of Statement No. 66 is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Statement No. 66 amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provisions that limits fund based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, it will create governments to base their decisions about fund type classification on the nature of the activity to be reported. Statement No. 66 also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. Statement No. 66 is effective for periods beginning after December 15, 2012. The County has elected not to early implement this statement.

Governmental Accounting Standards Board Statement No. 67

In June of 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans- an amendment of GASB Statement No. 25.* The objective of GASB Statement No. 67 is to improve financial reporting by state and local governmental pension plans. This resulted from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. Statement No. 67 amends the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. Statement No. 67 is effective for periods beginning after June 15, 2013. The County has elected not to early implement this statement.

Governmental Accounting Standards Board Statement No. 68

In June of 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions- an amendment of GASB Statement No. 27.* The objective of Statement No. 68 is to improve accounting and financial reporting by state and local governments for pensions. The Statement also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This resulted from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. Statement No. 68 is effective for periods beginning after June 15, 2014. The County has elected not to early implement this statement.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Data

On or before October 2 of each fiscal year, after conducting public hearings concerning the proposed budget, the County Board of Supervisors (the Board) adopts a budget in accordance with the provisions of Sections 29000-29144 and 30200 of the Government Code of the State of California (the Government Code), commonly known as the County Budget Act, and Board Resolution No. 90-338. Annual budgets are adopted on the modified accrual basis of accounting in conformity with generally accepted accounting principles. Budgeted governmental funds consist of the General Fund, major funds, and some nonmajor funds (all special revenue funds, certain debt service funds, and certain capital projects funds). Annual budgets are not adopted for the following debt service funds: CORAL, District Court Financing Corporation, Bankruptcy Court, Inland Empire Tobacco Securitization Authority; the CORAL Capital Projects Fund; RDA Housing Successor Agency; and the Perris Valley Cemetery Permanent Fund.

As adopted by the Board, expenditures are controlled by the County at the budgetary unit level, which is the organization level, for each appropriation (object) class. The appropriation classes are salaries and benefits, services and supplies, other charges, capital assets, transfers out, and intrafund transfers. The separately prepared Expenditure by Appropriation – Budget and Actual report, showing budgetary comparisons at the object level of control, is available in the Auditor-Controller's Office.

Each year the original budget, as published in a separate report titled the "Adopted Budget," is adjusted to reflect increases or decreases in revenues and changes in fund balance. These changes are offset by an equal change in available appropriations. The County Executive Officer is authorized by the Board to transfer appropriations between appropriation classes within the same budgetary unit. Transfers of appropriations between budgetary units require approval of the Board (legal level of control). Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act. All annual appropriations lapse at year-end.

Budgetary comparison statements are prepared for the General Fund, special revenue funds, certain debt service funds, and certain capital projects funds. The budgetary comparison statements are a part of the basic financial statements. Each budgetary comparison statement provides three separate types of information: (1) the original budget; (2) the final amended budget, which included legally authorized changes regardless of when they occurred; and (3) the actual amount of inflows and outflows in the budget-to-actual comparison.

Excess of expenditures over appropriations

For the year ended June 30, 2012, expenditures exceeded appropriations in capital outlay by $2.7 million in the General Fund. This excess of expenditures resulted from the acquisition of $2.7 million of capital leases. Accordingly, this is being funded by other financing sources-capital leases.

NOTE 3 – RESTATEMENTS OF BEGINNING FUND BALANCES / NET ASSETS

The County's beginning fund balances/net assets have been restated to reflect the cumulative effect of prior year adjustments and reclassifications. A summary of the restatements as of June 30, 2012 is as follows (in thousands):

Government-wide:

	Primary Government	
	Governmental Activities	Business-Type Activities
Government-wide net assets, as of June 30, 2011,		
as previously reported, Fund financial statements:	$ 3,639,132	$ 216,125
Adjustments to cash held in escrow by Palm Desert RDA	(4,117)	-
Adjustments for loan receivable	(7,983)	-
Government-wide finanical statements:		
Acquisition of Capital Assets, not previously reported	3,149	-
Accumulated deprecation was understated in prior years	(2,569)	-
Adjustment for estimated claim liabilities	7,000	-
Net assets as of June 30, 2011, as restated	$ 3,634,612	$ 216,125

Fund Financials:

	Governmental Funds				Proprietary Fund	
	Major Funds			Non Major Fund	Internal Service Fund	
Description	General Fund	Public Facilities Improvements Capital Projects Fund	RDA Capital Project Fund	RDA Special Revenue Fund	EDA Public Facilities Internal Service Fund	Risk Management
Fund balances as of June 30, 2011, as previously reported	$343,562	$ 293,102	$271,554	$189,179	$ 2,173	$ 37,713
Prior Period Adjustments:						
Capital Lease payments previously reported in General Fund	2,433	-	-	-	(2,433)	-
Adjustments to cash held in escrow by Palm Desert RDA	-	(4,117)	-	-	-	-
Adjustments for loan receivable	-	-	(3,442)	(4,541)	-	-
Adjustments for estimated claim liabilities	-	-	-	-	-	7,000
Fund balances, as of June 30, 2011, as restated	$345,995	$ 288,985	$268,112	$184,638	$ (260)	$ 44,713

NOTE 4 – CASH AND INVESTMENTS

As of June 30, 2012, cash and investments are classified in the accompanying financial statements as follows (in thousands):

	Governmental Activities	Business-Type Activities	Discretely Presented Component Unit	Fiduciary Funds	Total
Cash and investments	$ 1,245,887	$ 137,819	$ 42,212	$ 3,171,265	$4,597,183
Restricted cash and investments	485,424	78,732	15,058	-	579,214
Total cash and investments	$ 1,731,311	$ 216,551	$ 57,270	$ 3,171,265	$5,176,397

As of June 30, 2012, cash and investments consist of the following (in thousands):

Deposits	$ 206,038
Investments	4,970,359
Total Cash and Investments	$ 5,176,397

Investments Authorized by the California Government Code and the County's Investment Policy

The table below identifies the investment types that are authorized for the County by the California Government Code or the County's investment policy, whichever is more restrictive. The table also identifies certain provisions of the California Government Code or the County's investment policy, (where more restrictive that address interest rate, credit risk, and concentration of credit risk.) A copy of the County's investment policy can be found at www.treasurer-tax.co.riverside.ca.us.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Public Agency Bonds	3 Years	15%	5% **
U.S. Treasury	5 Years	100%	N/A
Local Agency Obligations	3 Years	2.5%	2.50%
Federal Agencies	5 Years	100%	N/A
Commercial Paper	270 Days	40%	4% *
Negotiable Certificates of Deposits	1 Year	25%	4% *
Time Deposits	1 Year	2%	N/A
Repurchase Agreements	45 Days	40% / 25%	20%
Reverse Repurchase Agreements ***	60 Days	10%	10%
Medium-Term Notes	3 Years	20%	4% *
CalTRUST Short-Term Fund	Daily Liquidity	1%	1%
Money Market Mutual Funds	Daily Liquidity	20%	None
Local Agency Investment Fund	Daily Liquidity	Max $50M	N/A
Cash/Deposit Account	N/A	N/A	N/A

* Maximum of 4% per issuer in combined commercial paper, certificate & time deposits, and medium-term notes.

** For credit rated below AA-/Aa3 2% maximum in one issuer only for State of California debt.

*** Only for emergency liquidity purposes

NOTE 4 – CASH AND INVESTMENTS (Continued)

Investments Authorized by the California Government Code and the County's Investment Policy (Continued)

As of June 30, 2012, the County and Component Units had the following investments (in thousands):

	Fair Market Value	Interest Rate Range	Maturity	Weighted Average Maturity (Years)	Minimum Legal Rating	Rating (1) June 30, 2012	% of Portfolio
County Treasurer Investments							
Federal Home Loan Bank	$ 1,912,816	.140 - 1.612%	07/12 - 05/17	0.95	N/A	AA+/Aaa	41.15%
Federal National Mortgage Association	851,326	.140 - 1.317%	07/12 - 03/17	2.13	N/A	AA+/Aaa	18.32%
Federal Home Loan Mortgage	624,927	.203 - 1.750%	07/12 - 3/17	1.83	N/A	AA+/Aaa	13.44%
US Treasury Bills and Bonds	165,215	.151 - .327%	09/12 - 05/13	0.66	N/A	AA+/Aaa	3.55%
Federal Farm Credit Bonds	522,542	.140 - 1.300%	07/12 - 04/16	0.89	N/A	AA+/Aaa	11.24%
Repurchase Agreements	80,000	0.110%	07/12	0.01	A1/P1	N/R	1.72%
Commercial Paper	139,867	.150 - .331%	7/12 - 11/12	0.19	A1/P1	AA+/Aa3	3.01%
Money Market Mutual Funds	125,000	.013 - .053%	07/12	0.00	AAA	AAA/Aaa	2.69%
Municipal Bonds	76,391	.284 - 1.240%	07/12 - 04/15	0.70	AA-/Aa3	AA/Aa2	1.64%
Farmer Mac	45,563	.210 -.760%	07/12 - 05/13	0.70	N/R	N/R	0.98%
CalTRUST	54,000	.444%	07/12	0.00	N/A	AAA/Aaa	1.16%
Local Agency Obligations	535	.957%	06/20	7.96	N/A	N/R	0.01%
Local Agency Investment Funds	50,000	.378%	07/12	0.00	N/A	N/R	1.08%
Total County Treasurer Investments	4,648,181						100.00%
Investments Outside the County Treasury							
Blended Component Unit Investments							
Money Market Mutual Funds (2)	52,299	0.00 - 0.45%	07/12	0.00	AA-	AA-	17.03%
Commercial Paper	15,371	0.07 - 0.14%	07/12 - 08/12	0.12	AA+/A1	AA+/A1	5.00%
Investment Agreements	214,148	2.38 - 4.46%	12/14 - 11/36	8.47	AA-/Aa2	AA-/Aa2	69.73%
Money Market Mutual Funds (3)	20,084	0.00 - 0.09%	N/A	0.00	N/R	N/R	6.54%
Local Agency Investment Funds	5,218	0.00 - 0.36%	N/A	0.00	N/A	N/R	1.70%
Total Blended Component Units	307,120						100.00%
Discretely Presented Component Units							
Palm Desert Financing Authority							
Money Market Mutual Funds (2)	15,058	0.01 - 0.30%	N/A	0.59	AAA	AAA	100.00%
Total Discretely Presented Component Units	15,058						100.00%
Total Investments	$ 4,970,359						

(1) Investment ratings are from S&P and Moody's
(2) Government Code requires money market mutual funds to be rated
(3) Housing Authority and Inland Empire Tobacco Securitization Authority do not require money market mutual funds to be rated

Investment in State Investment Pool

The County of Riverside is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The State Treasurer's Office reports its investments at fair value. The fair value of securities in the State Treasurer's pooled investment program, including LAIF, generally is based on quoted market prices. The State Treasurer's Office performs a quarterly fair market valuation of the pooled investment program portfolio and a monthly fair market valuation of all securities held against carrying cost. These valuations and financial statements are posted to the State Treasurer's Office website at www.treasurer.ca.gov. The fair value of the County's investment in this pool is reported in the accompanying financial statements at amounts based upon the County's prorate share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio).

NOTE 4 – CASH AND INVESTMENTS (Continued)

Investment in State Investment Pool (Continued)

The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. As of June 30, 2012, the Treasurer's Investment Pool has $50.0 million in LAIF, CORAL has $2.5 million, Housing Authority has $2.0 million and the Riverside Regional Medical Center has $0.7 million in LAIF.

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements of respective component units, rather than the general provisions of the California Government Code or the County's investment policy. These provisions allow for the acquisition of investment agreements with maturities of up to 30 years.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the measurement of how changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the more sensitive to changes in market interest rates of its fair value. One of the ways the County Treasurer manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so a portion of the portfolio is maturing or coming close to maturity to ensure the cash flow and liquidity required for operations.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will be able to recover the value of its investment or collateral securities that are in the possession of another party. Neither the California Government Code nor the County's investment policy contain legal or policy requirements that would limit the County's exposure to custodial credit risk for deposits or investments except for the following provision for deposits: the California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure County deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. GASB Statement No. 40 requires that a disclosure is made with respect to custodial credit risks relating to deposits. The County has cash deposits with fiscal agents in excess of federal depository insurance limits held in collateralized accounts with securities held by Union Bank in the amount of $161.2 million. Investment securities are registered and held in the name of Riverside County.

Concentration of Credit Risk

The investment policy of the County contains certain limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. In accordance with GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, the County should provide information about the concentration of credit risk associated with their investments in any one issuer that represent 5% or more of total County investments. These investments are identified on the investment table on page 66.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

NOTE 5 – RESTRICTED CASH AND INVESTMENTS

The amount of assets restricted by legal and contractual requirements at June 30, 2012 is as follows (in thousands):

General Fund	
Restricted Program Money	$ 299,673
Total General Fund	299,673
Flood Control	
Restricted Program Money	4,815
Total Flood Control Special Revenue	4,815
Teeter Debt	
Teeter Commercial Paper Notes	79,630
Total Teeter Debt	79,630
Nonmajor Governmental Funds	
1985 Certificates	20,796
1990 Monterey Avenue	134
1997 Historic Court House	280
2000 Southwest Justice Center	543
2003 A Historic Courthouse	1,355
2003 B Capital Facilities	423
2005 A Capital Improvement Family Law	3,523
2005 B Historic Refunding	2,698
2006 A Capital Improvements	2,187
2007 A Public Safety & Refunding	26,931
2008A Southwest Justice Center	794
2009 Larson Justice Center	2,610
2009 Public Safety & Woodcrest Lib Refunding	4,756
2012 CAC Annex	5,574
Bankruptcy Court	6,713
District Court Financing Corporation	1,099
Inland Empire Tobacco Securitization Authority	19,890
Total Nonmajor Governmental Funds	100,306
Regional Medical Center	
1993 Hospital Bonds	23,890
Total Regional Medical Center	23,890
Waste Management Department	
Remediation costs	51,957
Closure and post-closure care costs	-
Total Waste Management Department	51,957
Nonmajor Enterprise Funds	
Housing Authority Bond	194
Restricted Program Money - Flood	2,691
Total Non major Enterprise Funds	2,885
Internal Service Funds	
Flood Control Equipment	1,000
Total Internal Service Funds	1,000
Discretely Presented Component Unit	
Palm Desert Financing Authority	15,058
Total Restricted Assets	$ 579,214

NOTE 6– RECEIVABLES AND DEFERRED REVENUE

Receivables at year-end of major individual funds, nonmajor funds, and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows (in thousands):

Receivables Governmental Activities:	Accounts	Interest	Taxes	Due From Other Govts	Notes	Total Governmental Activities
General Fund	$ 9,196	$ 643	$ 14,046	$ 328,817	$ -	$ 352,702
Flood Control	496	129	2,141	164	-	2,930
Teeter Debt Service	-	23	100,397	-	-	100,420
Public Facilities Improvements	-	114	-	166	-	280
Nonmajor Governmental Funds	2,207	240	2,003	94,482	-	98,932
Internal Service Funds	2,968	103	-	1,349	-	4,420
Total receivables	$ 14,867	$1,252	$118,587	$ 424,978	$ -	$ 559,684

Receivables Business-type Activities:	Accounts	Interest	Taxes	Due From Other Govts	Allowance for uncollectibles	Total Business-type Activities
Regional Medical Center	$1,518,086	$ -	$ -	$ 65,695	$(1,462,546)	$ 121,235
Waste Management	4,074	80	-	5,040	(4)	9,190
Nonmajor Funds	361	4	14	902	-	1,281
Total receivables	$1,522,521	$ 84	$ 14	$ 71,637	$(1,462,550)	$ 131,706

Deferred Revenue

Of the total governmental receivable of $559.7 million, $39.1 million is SB90 (state mandated claims) long-term receivable, which has been deferred as of June 30, 2012. Governmental funds defer revenue when receivables are not available to liquidate liabilities of the current period. Governmental and enterprise funds also defer revenue when resources received, but not yet earned. At June 30, 2012, the components of deferred revenue were as follows (in thousands):

Governmental Activities:	Deferred
General Fund:	
Due from other governments	$ 50,034
Resources received that do not yet meet the criteria for revenue recognition	260,969
Flood Control Special Revenue	
Resources received that do not yet meet the criteria for revenue recognition	2,070
Nonmajor funds:	
Due from other governments	20
Resources received that do not yet meet the criteria for revenue recognition	50,221
Total deferred revenue Governmental Activities	$ 363,314

NOTE 7 – INTERFUND TRANSACTIONS

(a) Interfund Receivables/ Payables

The composition of interfund balances as of June 30, 2012 is as follows (in thousands):

Due to/from other funds:

	Receivable Fund				
Payable Fund	General Fund	Flood Control	Teeter Debt Service	Public Facilities Improvements Capital Projects	Other Governmental Funds
General Fund					
Delinquent property tax	$ -	$ -	$ 35	$ -	$ -
Interfund activity	-	-	-	3	506
Medical services	-	-	-	-	-
Total General Fund					
Flood Control					
Interfund activity	-	-	-	-	-
Total Flood Control					
Teeter Debt Service					
Delinquent property tax	8,761	-	-	-	-
Total Teeter Debt Service					
Public Facilities Improvements Capital Projects					
Capital projects	-	-	-	-	733
Total Public Facilities Imprv Cap Proj					
Nonmajor Governmental Funds					
Fire	4,184	-	-	-	-
Interfund activity	977	-	-	-	232
Total Nonmajor Governmental Funds					
Regional Medical Center					
Law Enforcement	227	-	-	-	-
Total Regional Medical Center					
Other Enterprise Funds					
Interfund activity	-	2	-	-	-
Total Other Enterprise Funds					
Internal Service Funds					
Interfund activity	78	6	-	-	-
Total Internal Service Funds					
Total Receivable	$ 14,227	$ 8	$ 35	$ 3	$ 1,471

These interfund balances result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, and (2) payments between funds are made.

Advances to/from other funds:

The General Fund advanced $3.3 million to the Economic Development Agency for the internal service fund start up costs.

The Regional Park and Open-Space District Special Revenue Fund advanced $1.5 million to the Regional Park and Open-Space District Capital Projects Fund for the purpose of land improvements being constructed throughout the County Parks.

NOTE 7 – INTERFUND TRANSACTIONS (Continued)

(a) Interfund Receivables/ Payables (Continued)

Receivable Fund					
Regional Medical Center	Waste Management	Other Enterprise Funds	Internal Service Funds	Total Payable	
					General Fund
$ -	$ -	$ -	$ -	$ 35	Delinquent property tax
56	4	-	151	720	Interfund activity
711	-	-	-	711	Medical services
				1,466	**Total General Fund**
					Flood Control
-	-	-	34	34	Interfund activity
				34	**Total Flood Control**
					Teeter Debt Service
-	-	-	-	8,761	Delinquent property tax
				8,761	**Total Teeter Debt Service**
					Public Facilities Improvements Capital Projects
-	-	-	-	733	Capital projects
				733	**Total Public Facilities Imprv Cap Proj**
					Nonmajor Governmental Funds
-	-	-	-	4,184	Fire
-	-	-	13	1,222	Interfund activity
				5,406	**Total Nonmajor Governmental Funds**
					Regional Medical Center
-	-	-	-	227	Law Enforcement
				227	**Total Regional Medical Center**
					Other Enterprise Funds
-	-	-	-	2	Interfund activity
				2	**Total Other Enterprise Funds**
					Internal Service Funds
-	-	-	2	86	Interfund activity
				86	**Total Internal Service Funds**
$ 767	$ 4	$ -	$ 200	$ 16,715	**Total Receivable**

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2012

NOTE 7 – INTERFUND TRANSACTIONS (Continued)

Transfers

(b) Between Funds within the Governmental Activities:[1]

Transfer Out	Transfer In: General Fund	Teeter Debt Service	Public Facilities Improvements Capital Projects	Redevelopment Capital Projects
General Fund				
Capital Projects	$ -	$ -	$ 8,376	$ 120
Debt Service	-	1,253	-	-
Operating Contribution	-	-	-	-
Pension Obligation	-	-	-	-
Reimbursement	-	-	-	251
Total General Fund				
Flood Control				
Capital Projects	-	-	-	-
Reimbursement	-	-	-	-
Total Flood Control				
Teeter Debt Service				
Reimbursement	56	-	-	-
Total Teeter Debt Service				
Public Facilities Improvements Capital Projects				
Capital Projects	31,175	-	-	1,964
Debt Service	17,220	-	-	-
Reimbursement	3,378	-	-	-
Total Public Facilities Imprv Cap Proj				
Redevelopment Capital Projects				
Capital Projects	78	-	92	-
Debt Service	-	-	-	-
Reimbursement	3,016	-	-	-
Total Redevelopment Capital Projects				
Nonmajor Governmental Funds				
Capital Projects	312	-	876	5,213
Debt Service	411	-	-	-
Fire	55,065	-	-	-
Pension Obligation	164	-	-	-
Reimbursement	11,833	-	-	471
Total Nonmajor Governmental Funds				
Regional Medical Center				
Debt Service	-	-	-	-
Pension Obligation	-	-	-	-
Total Regional Medical Center	-	-	-	-
Waste Management				
Pension Obligation	-	-	-	-
Total Waste Management	-	-	-	-
Other Enterprise Funds				
Pension Obligation	-	-	-	-
Total Other Enterprise Funds	-	-	-	-
Internal Service Funds				
Business Services	-	-	-	-
Pension Obligation	-	-	-	-
Reimbursement	879	-	-	-
Total Internal Service Funds				
Total Transfers In	123,587	1,253	9,344	8,019

1) These transfers were eliminated in the consolidation, by column, for the Governmental and Business-type Activities.

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2012

NOTE 7 – INTERFUND TRANSACTIONS (Continued)

Transfers (Continued)

(b) Between Governmental and Business-type Activities:

Transfer In: Other Governmental Funds	Regional Medical Center	Internal Service Funds	Total Transfers Out	
				General Fund
$ -	$ -	$ -	$ 8,496	Capital Projects
40,036	-	-	41,289	Debt Service
10,371	10,000	-	20,371	Operating Contribution
15,395	-	-	15,395	Pension Obligation
12,213	-	30	12,494	Reimbursement
			98,045	**Total General Fund**
				Flood Control
1,302	-	-	1,302	Capital Projects
-	-	6	6	Reimbursement
			1,308	**Total Flood Control**
				Teeter Debt Service
-	-	-	56	Reimbursement
			56	**Total Teeter Debt Service**
				Public Facilities Improvements Capital Projects
8,744	5,000	-	46,883	Capital Projects
-	-	-	17,220	Debt Service
3,570	-	42	6,990	Reimbursement
			71,093	**Total Public Facilities Imprv Cap Proj**
				Redevelopment Capital Projects
4,380	-	-	4,550	Capital Projects
3,424	-	-	3,424	Debt Service
970	-	-	3,986	Reimbursement
			11,960	**Total Redevelopment Capital Projects**
				Nonmajor Governmental Funds
-	-	-	6,401	Capital Projects
49,676	-	-	50,087	Debt Service
-	-	-	55,065	Fire
1,284	-	-	1,448	Pension Obligation
24,957	-	-	37,261	Reimbursement
			150,262	**Total Nonmajor Governmental Funds**
				Regional Medical Center
-	-	-	-	Debt Service
2,968	-	-	2,968	Pension Obligation
-	-	-	2,968	**Total Regional Medical Center**
				Waste Management
195	-	-	195	Pension Obligation
-	-	-	195	**Total Waste Management**
				Other Enterprise Funds
135	-	-	135	Pension Obligation
-	-	-	135	**Total Other Enterprise Funds**
				Internal Service Funds
-	-	1,825	1,825	Business Services
1,229	-	-	1,229	Pension Obligation
-	-	-	879	Reimbursement
			3,933	**Total Internal Service Funds**
180,849	15,000	1,903	339,955	**Total Transfers In**

NOTE 8 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows (in thousands):

	Balance July 1, 2011	Prior Period Adjustments	Additions	Retirements	Transfers	Balance June 30, 2012
Governmental activities:						
Capital assets, not being depreciated:						
Land & easements	$ 433,594	$ -	$ 26,702	$ (17,525)	$ 7,207	$ 449,978
Construction in progress	601,825	-	211,173	-	$ (67,462)	745,536
Total capital assets, not being depreciated	1,035,419	-	237,875	(17,525)	(60,255)	1,195,514
Capital assets, being depreciated:						
Infrastructure						
Flood channels	240,344	-	10,959	-	1,666	252,969
Flood storm drains	350,943	-	20,570	-	4,812	376,325
Flood dams and basins	31,215	-	-	-	-	31,215
Roads	1,636,544	-	45,014	(93,861)	15,067	1,602,764
Traffic signals	21,665	-	66	(3,115)	356	18,972
Bridges	104,723	-	260	-	-	104,983
Runways	18,463	-	-	-	3,685	22,148
Parks trails and improvements	9,964	-	-	-	1,290	11,254
Land improvements	110	-	-	-	-	110
Structures and improvements	1,270,657	2,090	23,135	(354)	32,575	1,328,103
Equipment	372,093	1,059	21,970	(13,875)	794	382,041
Total capital assets, being depreciated	4,056,721	3,149	121,974	(111,205)	60,245	4,130,884
Less accumulated depreciation for:						
Infrastructure	(1,001,931)	(11)	(68,946)	86,294	-	(984,594)
Land improvements	(21)	-	(1)	-	-	(22)
Structures and improvements	(310,213)	(2,481)	(27,260)	113	-	(339,841)
Equipment	(285,181)	(77)	(24,955)	13,051	10	(297,152)
Total accumulated depreciation	(1,597,346)	(2,569)	(121,162)	99,458	10	(1,621,609)
Total capital assets, being depreciated, net	2,459,375	580	812	(11,747)	60,255	2,509,275
Governmental activities capital assets, net	$ 3,494,794	$ 580	$ 238,687	$ (29,272)	$ -	$ 3,704,789

NOTE 8 – CAPITAL ASSETS (Continued)

Capital asset activity for the year ended June 30, 2012 was as follows (in thousands):

	Balance July 1, 2011	Prior Period Adjustments	Additions	Retirements	Transfers	Balance June 30, 2012
Business-type activities:						
Capital assets, not being depreciated:						
Land & easements	$ 21,325	$ -	$ 26	$ -	$ -	$ 21,351
Construction in progress	44,368	-	13,076	-	(1,255)	56,189
Total capital assets, not being depreciated	65,693	-	13,102	-	(1,255)	77,540
Capital assets, being depreciated:						
Land improvements	11,662	-	-	-	-	11,662
Infrastructure-landfill liners	55,226	-	-	-	-	55,226
Infrastructure-other	22,551	-	-	-	772	23,323
Structures and improvements	219,336	-	83	-	483	219,902
Equipment	89,334	-	2,586	(14,366)	-	77,554
Total capital assets, being depreciated	398,109	-	2,669	(14,366)	1,255	387,667
Less accumulated depreciation for:						
Land improvements	(7,418)	-	(582)	-	-	(8,000)
Infrastructure-landfill liners	(21,222)	-	(2,721)	-	-	(23,943)
Infrastructure-other	(6,134)	-	(1,106)	-	-	(7,240)
Structures and improvements	(87,108)	-	(5,895)	-	-	(93,003)
Equipment	(71,627)	-	(5,937)	14,216	-	(63,348)
Total accumulated depreciation	(193,509)	-	(16,241)	14,216	-	(195,534)
Total capital assets, being depreciated, net	204,600	-	(13,572)	(150)	1,255	192,133
Business-type activities capital assets, net	$ 270,293	$ -	$ (470)	$ (150)	$ -	$ 269,673

Depreciation

Depreciation expense was charged to governmental functions as follows (in thousands):

General government	$ 25,048
Public protection	15,939
Health and sanitation	1,279
Public assistance	1,277
Public ways and facilities	61,660
Recreation and culture	1,272
Education	1,979
Depreciation on capital assets held by the County's internal service funds is charged to the various functions based on their use of the assets	12,708
Total depreciation expense – governmental functions	$ 121,162

NOTE 8 – CAPITAL ASSETS (Continued)

Depreciation expense was charged to the business-type functions as follows (in thousands):

Regional Medical Center	$	9,472
Waste Management		5,439
Housing Authority		1,316
County Service Areas		3
Flood Control		11
Total depreciation expense – business-type functions	$	16,241

Capital Leases

Leased Property under capital leases by major class (in thousands):

	Governmental	Business-Type
Land	$ 2,223	$ -
Structures and Improvements	99,619	-
Equipment	141,574	15,981
Less: Accumulated amortization	(116,199)	(8,379)
Total leased property, net	$ 127,217	$ 7,602

Discretely Presented Component Unit

Activity for the Riverside County Children and Families Commission for the year ended June 30, 2012,

	Balance July 1, 2011	Additions	Retirements	Balance June 30, 2012
Capital assets, being depreciated:				
Equipment	$ 77	$ -	$ -	$ 77
Total capital assets, being depreciated	77	-	-	77
Less accumulated depreciation for:				
Equipment	(77)		-	(77)
Total accumulated depreciation	(77)	-	-	(77)
Total capital assets, net	$ -	$ -	$ -	$ -

NOTE 9 - LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS

State and Federal laws and regulations require Waste Management to place a final cover on all active landfills when closed and to perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. Waste Management will recognize the remaining estimated cost of $21.8 million as the remaining estimated capacity of 17.4 million tons is filled. Waste Management expects all currently permitted landfill capacities to be filled by 2087. The total estimate of $72.5 million is based on what it would cost to perform all closure and post-closure care costs at present value. Actual costs may be different due to inflation, changes in technology, or changes in regulations.

Cumulative expenses, percentage of landfill capacity used to date, and the estimated remaining landfill life by operating landfill are as follows (in thousands):

Facility Name (City)	Cumulative Expense	Capacity Used as of June 30, 2012 %	Estimated Years Remaining
Anza (Anza)	$ 2,426	100.0	-
Badlands (Moreno Valley)	12,413	53.5	12
Blythe (Blythe)	8,027	34.5	35
Coachella (Coachella)	3,444	100.0	-
Desert Center (Desert Center)	1,508	69.5	75
Double Butte (Winchester)	3,158	100.0	-
Edom Hill (Cathedral City)	10,823	100.0	-
Highgrove (Riverside)	1,769	100.0	-
Lamb Canyon (Beaumont)	18,520	49.8	9
Mead Valley (Perris)	3,179	100.0	-
Mecca II (Mecca)	3,539	99.4	25
Oasis (Oasis)	3,657	72.7	9
	$ 72,463		

Waste Management is required by State and Federal laws and regulations to make annual contributions to a trust fund to finance closure and post-closure care. Title 14 of the California Code of Regulations (CCR) requires solid waste landfill operators to demonstrate the availability of financial resources to conduct closure and post-closure maintenance activities.

In accordance with sections 18283 and 18290 of the CCR, the County has implemented Pledge of Revenue agreements between the County and the California Integrated Waste Management Board (CIWMB) for six active landfills and six closed landfills to demonstrate financial responsibility for post-closure maintenance costs. Waste Management has determined that the projected net revenues, after current operating costs, from tipping fees during the thirty-year period of post-closure care maintenance will, during each year of this period, be greater than the yearly monitoring and post-closure care maintenance costs for each landfill. It is agreed that the amount of these Pledge of Revenue agreements may increase or decrease to match any adjustments to the identified cost estimates, which is mutually agreed to by the Waste Management and the CIWMB. Waste Management complies with these requirements and investments of $52.0 million are held for these purposes at June 30, 2012 and are classified as Restricted Assets in the Statement of Net Assets. Waste Management expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional post-closure requirements are determined (due to changes in technology or applicable laws or regulations) these costs may need to be covered by charges to future landfill users.

NOTE 10 – OPERATING LEASES

The following is a year by year schedule of future minimum rental payments primarily for facilities leases. The schedule includes an average 4.5% per annum rental increase, principally for the General Fund, required under operating leases entered into by the County that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2012 (in thousands):

Year Ending June 30		
2013	$	36,529
2014		28,933
2015		23,670
2016		18,486
2017		16,038
2018-2022		16,044
2023-2027		1,095
2028-2032		1,025
2033-2037		1,047
2038-2042		679
Total Minimum Payments	$	143,546

Total rental expenditure/expense for the year ended June 30, 2012 was $93.7 million, of which $3.8 million was recorded in the Enterprise Funds.

NOTE 11 – SHORT-TERM DEBT

Tax and Revenue Anticipation Notes (TRANs)

On July 1, 2011, the County issued $250.0 million of tax exempt Tax and Revenue Anticipation Notes (TRANs), which were repaid June 29, 2012. The Notes were issued with a yield rate of 0.26% for Series Bond A and 0.32% for Series Bond B. This was to provide needed cash to cover the projected intra-period cash-flow deficits of the County's General Fund during the fiscal year July 1 through June 30.

Tax-Exempt Commercial Paper Notes (Teeter)

In December 1993, the County adopted the Teeter Plan, the alternative method for the distribution of secured property taxes and other assessments. In order to fulfill the requirements of the plan, the County obtained cash for the "buyout" of delinquent secured property taxes and the annual advance of current unpaid taxes to all entities that elected to participate in the Teeter Plan. The current financing takes place through the sale of Tax-Exempt Commercial Paper Notes (Teeter Notes). During fiscal year 2011-12, the County retired $100.2 million of the $206.8 million principal amount outstanding at June 30, 2011. The County then issued $64.7 million of Series B notes, leaving an outstanding balance of $171.3 million at June 30, 2012.

Short-term debt activity for the year ended June 30, 2012, was as follows (in thousands):

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012
Fiscal year 2011-12				
TRANs	$ -	$ 250,000	$ (250,000)	$ -
Teeter Notes	206,805	64,739	(100,220)	171,324
Total	$ 206,805	$ 314,739	$ (350,220)	$ 171,324

NOTE 12 – LONG-TERM OBLIGATIONS

Long-term obligations of the County consist of capital lease obligations, bonds, notes, and other liabilities which are payable from the General, Debt Service, Enterprise, and Internal Service Funds. The calculated legal debt limit for the County is $2.5 billion.

Capital Leases

Capital leases for governmental funds are recorded both as capital expenditures and as other financing sources at inception in the fund financial statements, with the liability and the asset recorded in the government-wide statement of net assets. Capital leases are secured by a pledge of the leased equipment.

See Note 8 (Capital Assets) for Assets under Capital Leases and related disclosure information by major asset class.

The following is a schedule by year of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of June 30, 2012 (in thousands):

Year Ending June 30	Palm Desert Financing Authority	Other Governmental Activities	Total Governmental Activities	Business-type Activities
2013	$ 7,547	$ 15,685	$ 23,232	$ 5,755
2014	7,546	11,881	19,427	4,002
2015	7,551	7,087	14,638	2,118
2016	7,540	4,312	11,852	596
2017	7,541	1,648	9,189	207
2018-2022	37,706	1,151	38,857	-
2023-2027	6,900	619	7,519	-
2028-2032	4,973	122	5,095	-
2033-2037	997	-	997	-
Total minimum payments	88,301	42,505	130,806	12,678
Less amount representing interest	(25,201)	(4,610)	(29,811)	(623)
Present value of net minimum lease	$ 63,100	$ 37,895	$ 100,995	$ 12,055

The statement of net assets includes the Palm Desert Financing Authority capital lease of $63.1 million for the construction and acquisition of certain public facilities within the County, including the Palm Desert Sheriff's Station, community centers, the Blythe County Administrative Center, an animal shelter and a clinic facility.

The following schedules provide details of all certificates of participation, bonds payable, and notes payable for the County of Riverside that are outstanding as of June 30, 2012 (in thousands):

Governmental Activities

Type of indebtedness (purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2012
Certificates of Participation:					
CORAL					
1985 Serial Certificates	12/09 – 12/15	Variable	$7,600 - $14,800	$ 169,400	$ 50,400
				169,400	50,400

NOTE 12 – LONG-TERM OBLIGATIONS (Continued)

Type of indebtedness (purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2012
Certificates of Participation (Continued):					
CORAL					
1990 Monterey Avenue:					
Serial Certificate	11/09 – 11/20	Variable	\$300 - \$800	\$ 8,800	\$ 5,200
				8,800	5,200
CORAL					
2001 CAC Annex:					
Serial Certificates	11/09 – 11/26	5.13%	\$815 - \$1,880	27,120	-
Term Certificate	11/27 – 11/30	5.13%	\$1,980 - \$2,295	8,540	-
Term Certificate	11/31	5.75%	\$2,415	2,415	-
				38,075	-
CORAL					
2003 A - Historic Court Project:					
Serial Certificates	11/09 – 11/18	3.00% - 5.00%	\$280 - \$400	4,125	2,465
Term Certificate	11/19 – 11/23	5.00%	\$420 - \$510	2,320	2,320
Term Certificate	11/24 – 11/28	5.00%	\$535 - \$650	2,955	2,955
Term Certificate	11/29 – 11/33	5.13%	\$685 - \$835	3,790	3,790
				13,190	11,530
CORAL					
2003 B –Capital Facilities Refunding:					
Serial Certificates	12/03 – 11/18	2.00% - 4.20%	\$300 - \$900	8,685	2,470
				8,685	2,470
CORAL					
2005 A - Capital Improvement & Family Law Court Refunding:					
Serial Certificates	11/09 – 11/25	3.00% - 5.00%	\$1,090 - \$2,160	28,495	22,605
Term Certificate	11/26 –11/33	5.00%	\$2,255 - \$2,145	9,905	9,905
Term Certificate	11/34 – 11/36	5.00%	\$2,040 - \$2,490	13,265	13,265
				51,665	45,775
CORAL					
2005 B - Historic Courthouse Refunding Project:					
Serial Certificates	11/09 – 11/25	3.00% - 5.00%	\$325 - \$1,740	18,835	15,585
Term Certificate	11/26 – 11/27	5.00%	\$1,860 - \$1,915	3,775	3,775
				22,610	19,360
CORAL					
2006 Series A - Cap Imp Project:					
Serial Certificates	11/09 – 11/26	3.75% - 5.13%	\$610 - \$1,235	16,425	13,935
Term Certificate	11/27 – 11/31	4.75%	\$1,295 - \$1,560	7,130	7,130
Term Certificate	11/32 – 11/35	5.00%	\$1,635 - \$1,895	7,050	7,050
Term Certificate	11/36 – 11/37	4.63%	\$1,990 - \$2,080	4,070	4,070
				34,675	32,185
CORAL					
2007 A & B Public Safety Communication and Refunding Projects:					
Series A & B	11/10 – 11/17	3.85% - 5.00%	\$1,525 - \$10,850	111,125	58,385
				111,125	58,385
CORAL					
2009 Public Safety Communication and Woodcrest Library Refunding Projects:					
Series A	12/10 – 11/39	Variable	\$70 - \$4,200	45,685	45,530
				45,685	45,530

NOTE 12 – LONG-TERM OBLIGATIONS (Continued)

Type of indebtedness (purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2012
Certificates of Participation (Continued):					
CORAL					
2009 Larson Justice Center Refunding:					
Serial Certificates	12/10 – 12/21	Variable	$1,050 - $4,860	$ 24,680	$ 22,080
				24,680	22,080
Court Financing Corporation					
Bankruptcy Courthouse:					
Acquisition Project Term Certificate	11/09 – 11/20	7.50%	$835 - $1,385	16,120	9,260
				16,120	9,260
District Court Financing Corporation					
U.S. District Court Project:					
Term /Series 1999	6/14/2017	7.59%	$902 - $1,263	2,165	2,165
Term /Series 1999	6/15/2015	1.93%	$1,187 - $1,658	17,635	4,661
Term /Series 2002	6/15/2020	3.00%	$50 - $75	925	510
				20,725	7,336
Total Certificates of Participation				$ 565,435	$ 309,511
Bonds Payable:					
CORAL					
2000 A Southwest Justice Center:					
Term Certificate	11/09 – 11/13	4.88% - 5.40%	$1,830 - $2,240	$ 17,945	$ 4,300
				17,945	4,300
CORAL					
2012 CAC Annex Refunding Project	11/12-11/31	2.00%-5.00%	$1,120-$2,435	33,360	33,360
CORAL					
2008 A Southwest Justice Center:					
Term Certificate	12/08 – 11/32	Variable	$2,480 - $6,410	78,895	78,895
				78,895	78,895
CORAL					
1997 B & C (Hospital):					
Term Bonds (Series C)	6/1/2019	5.81%	$1,733	1,733	1,733
				1,733	1,733
Taxable Pension Obligation Bond					
Pension Obligation Bonds (Series 2005-A)	8/09 – 8/35	4.91% - 5.04%	$3,425 - $5,530	400,000	357,540
				400,000	357,540
Inland Empire Tobacco Securitization Authority					
Series 2007 A	06/17 – 06/21	4.63% - 5.10%		87,650	68,230
Series 2007 B	06/20 – 06/26	5.75%		53,758	53,758
Series 2007 C-1	06/26 – 06/36	6.63%		53,542	53,542
Series 2007 C-2	06/33 – 06/45	6.75%		29,653	29,653
Series 2007 D	06/32 – 06/57	7.00%		23,457	23,457
Series 2007 E	06/35 – 06/57	7.63%		18,948	18,948
Series 2007 F	06/42 – 06/57	8.00%		27,076	27,076
				294,084	274,664
Total Bonds Payable				$ 826,017	$ 750,492

NOTE 12 – LONG-TERM OBLIGATIONS (Continued)

Type of indebtedness (purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2012
Loans Payable:					
CORAL					
2011 Monroe Park Building Refunding	2/11 - 12/20	3.54%	$180 - $330	$ 5,535	$ 4,925
Total Loans Payable				$ 5,535	$ 4,925
Total Governmental Activities				$ 1,396,987	$ 1,064,928
Business-Type Activities					
Bonds Payable:					
Regional Medical Center					
1993 A & B (Hospital):					
Term Bonds (Series A)	12/09– 06/12	5.41%	$12,230 - $13,870	$ 81,135	$ -
Term Bonds (Series B)	12/09 – 06/14	5.41%	$7,050 - $7,475	14,525	14,525
				95,660	14,525
Regional Medical Center					
1997 A (Hospital): Serial Capital Cap Apprec. Bonds (net of future cap apprec $130,470)	06/13 – 06/26	5.70% - 6.01%	$1,081 - $4,981	41,170	41,170
				41,170	41,170
Regional Med Center 1997					
Serial Bonds (Series B)	06/10 – 06/13	4.38% - 5.15%	$395 - $455	4,785	1,734
Term Bonds (Series B)	06/14 – 06/19	5.00% - 5.70%	$475 - $13,007	63,935	62,656
Term Bonds (Series C)	6/19	6.25%	$3,265	3,265	3,265
Less: Sheriff's Part (Series C)				(1,733)	(1,733)
Bond Discount				-	(9)
Loss on Defeasance (net)				-	(1,295)
				70,252	64,618
Housing Authority					
1998 Series A:					
Term Bonds	12/09 – 12/18	6.85%	$110 - $200	2,405	1,165
Deferred Charges				-	(417)
				2,405	748
Total Bonds Payable				$ 209,487	$ 121,061
Total Business-Type Activities				$ 209,487	$ 121,061

NOTE 12 – LONG-TERM OBLIGATIONS (Continued)

Type of indebtedness (purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2012
Discretely Presented Component Unit					
Bonds Payable:					
Palm Desert Financing Authority					
2003 Lease Rev Bonds Series A:					
Serial Certificates	05/09 – 05/23	2.25% - 4.70%	$595 - $995	$ 13,270	$ 8,895
Term Certificate	05/24 – 05/27	4.75%	$1,035 - $715	3,975	3,975
Term Certificate	05/28 – 05/33	4.75% - 5.00%	$750 - $950	5,065	5,065
Bond Discount				-	(162)
				22,310	17,773
2008 Lease Rev Bonds Series A:					
Serial Certificates	05/10 – 05/18	4.00% - 5.50%	$1,935 - $6,200	43,845	32,880
Term Certificate	05/19 – 05/22	6.00%	$6,540 - $7,790	28,600	28,600
Bond Discount				-	(454)
				72,445	61,026
Total Bonds Payable				$ 94,755	$ 78,799
Total Discretely Presented Component Unit				$ 94,755	$ 78,799

As of June 30, 2012, annual debt service requirements of governmental activities to maturity are as follows (in thousands):

Governmental	Loans Payable		Certificates of Participation	
Year ending June 30	Principal	Interest	Principal	Interest
2013	$ 505	$ 170	$ 27,416	$ 17,097
2014	530	152	28,772	15,642
2015	540	133	31,168	12,710
2016	560	114	33,133	10,747
2017	585	94	18,912	8,914
2018-2022	2,205	159	92,375	29,379
2023-2027	-	-	27,640	15,727
2028-2032	-	-	23,265	9,179
2033-2037	-	-	19,080	3,376
2038-2042	-	-	7,750	326
Total	$ 4,925	$ 822	$ 309,511	$ 123,097

Governmental	Bonds Payable	
Year ending June 30	Principal	Interest
2013	$ 34,985	$ 30,484
2014	27,460	28,611
2015	30,370	27,337
2016	19,775	20,958
2017	21,965	20,033
2018-2022	228,706	97,942
2023-2027	133,744	40,206
2028-2032	69,840	17,709
2033-2037	30,425	2,420
2038-2042	53,542	3,147
2043-2047	-	-
2048-2052	29,653	1,945
2053-2057	70,027	4,671
Total	$ 750,492	$ 295,463

NOTE 12 – LONG-TERM OBLIGATIONS (Continued)

As of June 30, 2012, annual debt service requirements of business-type activities to maturity are as follows (in thousands):

Business-type Year ending June 30	Bonds Payable Principal	Bonds Payable Interest	Other Long-term Liabilites Principal	Other Long-term Liabilites Interest
2013	$ 10,674	$ 10,406	$ -	$ -
2014	10,930	9,920	-	-
2015	13,516	9,416	-	-
2016	14,119	8,848	6,795	-
2017	14,765	8,245	-	-
2018-2022	43,676	32,055	-	-
2023-2027	15,102	10,264	-	-
Total Requirements	122,782	89,154	$ 6,795	$ -
Bond Discount/Premium, net	(9)	-		
Deferred Charges (Housing)	(417)	-		
Loss on Defeasance (net)	(1,295)	-		
Total	$ 121,061	$ 89,154		

Discretely Presented Component Unit Year ending June 30	Bonds Payable Principal	Bonds Payable Interest
2013	$ 5,485	$ 4,254
2014	5,750	3,989
2015	6,035	3,709
2016	6,315	3,415
2017	6,640	3,093
2018-2022	39,155	7,967
2023-2027	4,970	1,930
2028-2032	4,115	858
2033-2037	950	47
Total Requirements	79,415	29,262
Bond Discount/Premium, net	(616)	-
Total	$ 78,799	$ 29,262

Accreted Interest Payable

The following is a summary of the changes in accreted interest payable for the year ended June 30, 2012 (in thousands):

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012
Governmental Activities:				
Certificates of Participation:				
Court Financing (U.S. District Court Project)	$ 3,179	$ 413	$ -	$ 3,592
Bonds:				
Inland Empire Tobacco Securitization Authority	58,784	16,447	-	75,231
Total governmental-type activities	$ 61,963	$ 16,860	$ -	$ 78,823
Business-type Activities:				
Lease Revenue Bonds:				
Regional Medical Center (1997A Hosp)	$ 54,233	$ 5,751	$ -	$ 59,984
Total business-type activities	$ 54,233	$ 5,751	$ -	$ 59,984

NOTE 12 – LONG-TERM OBLIGATIONS (Continued)

Accreted Interest Payable (Continued)

The accreted interest payable balances at June 30, 2012 represent accreted interest on the U.S. District Court Project, the 2007 Inland Empire Tobacco Securitization Authority Bonds, and the 1997 A Hospital Serial Capital Appreciation Bonds. The original issues were $2.2 million for the U.S. District Court Project, $294.1 million for the 2007 Inland Empire Tobacco Securitization Authority Bonds, and $41.2 million for the 1997 A Hospital Serial Capital Appreciation Bonds. The total accreted value on the bonds and certificates upon maturity will be $7.2 million for the U.S. District Court Project, $171.6 million for the 1997 A Hospital Serial Capital Appreciation Bonds, and $3.5 billion for the 2007 Inland Empire Tobacco Securitization Authority Bonds. The County is under no obligation to make payments of accreted value of or redemption premiums, if any, or interest on the Series 2007 Bonds.

The increases of $16.9 million and $5.8 million represent current year's accretion for governmental activities and business-type activities respectively. The accumulated accretion for business-type activities is $60.0 million at June 30, 2012. The accumulated accretion for U.S. District Court Financing and the Inland Empire Tobacco Securitization Authority in governmental activities is $78.8 million. The un-accreted balances at June 30, 2012 are $70.4 million for the 1997-A Hospital Riverside County Regional Medical Center (RCRMC) project, $3.6 million for the U.S. District Court, and $3.4 billion for the Inland Empire Tobacco Securitization Authority Capital Appreciation Bonds.

Bonds, Certificates of Participation / Refunding

On February 1, 2012, the Redevelopment Agency was dissolved due to changes in legislation affecting California Redevelopment Agencies. The remaining Tax Allocation Bonds for financing projects and for financing low and moderate income housing projects of the County Redevelopment Agency were transferred to the Successor Agency.

On February 28, 2012, CORAL issued $33.4 million in lease revenue bonds to provide funds to refund and prepay the certificates of participation relating to 2001 County Administrative Center (CAC) Annex. The new bonds have an interest rate of 2.0% to 5.0% and the principal balance outstanding at June 30, 2012, was $33.4 million.

Defeasance of Debt

In April 2005, CORAL issued $22.6 million of Certificates of Participation, Series B (2005 Series B – Historic Courthouse Refunding). The proceeds from the sale of the certificates were used to advance refund $21.1 million of the Historic Courthouse Certificates of Participation. Accordingly, the refunded certificates have been eliminated and the advance refunding certificates have been included in the financial statements. The amount of the defeased debt outstanding at June 30, 2012, was $2.0 million.

On December 2009, CORAL issued $24.7 million certificates of participation (2009 Larson Justice Center Project Refunding COP) to provide funds to refund and prepay the certificates of participation relating to 1998 Larson Justice Center Project with an outstanding principal amount of $23.7 million; to fund the reserve fund; and to pay certain cost of issuance incurred in connection with this refunding. The requisition price exceeded the net carry amount of the old debt by $1.0 million. This amount is being netted against the new debt and amortized over the new debt's life. The transaction resulted in an economic gain of $3.7 million and a reduction of $1.5 million in future debt service payments.

In December 2009, CORAL also issued $45.7 million certificates of participation (2009 Public Safety Communication and Woodcrest Library Projects Refunding COP) to provide funds to refund and redeem the certificates of participation relating to 2007 Series B Public Safety Communication Project with an outstanding principal amount of $37.4 million; to provide funds to refund; and retire the series 2006 Certificates of Participation Anticipation Note relating to Woodcrest Library Project with an outstanding principal amount of $6.0 million; to fund capitalized interest on a portion of the certificates of participation through July 1, 2012; to fund a security deposit with respect to Base Rental payable under the Sublease; and to pay certain cost of issuance incurred in connection with this refunding. The reacquisition price exceeded the net carry amount of the old debts by $2.3 million. This amount is being netted against the new debt and amortized over the new debt's life. The transaction resulted in an economic gain of $3.3 million and an addition of $6.9 million in future debt service payments.

NOTE 12 – LONG-TERM OBLIGATIONS (Continued)

Defeasance of Debt (Continued)

On February 28, 2011, CORAL issued $5.5 million in private placement bonds (2011 Monroe Building) to provide funds to refund and redeem the notes payable relating to the 2007 Monroe Park Building loan with an outstanding principal amount of $5.4 million and to pay certain cost of issuance incurred in connection with this refunding. The reacquisition price exceeded the net carrying amount of the old debt by $140.0 thousand. This amount is being netted against the new debt and amortized over the new debt's life. The transaction resulted in an economic gain of $527.0 thousand and a reduction of $339.0 thousand in future debt service payments.

On February 2012, CORAL issued $33.4 million in lease revenue bonds (2012 County Administrative Center Refunding Projects) to provide funds to refund and prepay the certificates of participation relating to 2001 County Administrative Center (CAC) Annex with an outstanding principal amount of $31.4 million; to fund the reserve fund, and to pay certain costs of issuance incurred in connection with this refunding and to acquire two office buildings located in Indio, California. The requisition price exceeded the net carry amount of the old debt by $2.0 million. This amount is being netted against the new debt and amortized over the new debt's life. The transaction resulted in an economic gain of $5.0 million and a reduction of $3.6 million in future debt service payments.

Single Family and Multi-Family Mortgage Revenue Bonds

Single Family Mortgage Revenue Bonds have been issued to provide funds to purchase mortgage loans secured by first trust deeds on newly constructed single-family residences. The purpose of this program is to provide low interest rate home mortgage loans to persons who are unable to qualify for conventional mortgages at market rates. Multi-Family Mortgage Revenue Bonds are issued to provide permanent financing for apartment projects located in the County to be partially occupied by persons of low or moderate income.

A total of $34.2 million of Mortgage Revenue Bonds have been issued and $30.8 million is outstanding as of June 30, 2012. These bonds do not constitute an indebtedness of the County. The bonds are payable solely from payments made on and secured by a pledge of the acquired mortgage loans and certain funds and other monies held for the benefit of the bondholders pursuant to the bond indentures. In the opinion of the County officials, these bonds are not payable from any revenues or assets of the County, and neither the full faith and credit nor the taxing authority of the County, the State, or any political subdivision thereof is obligated to the payment of the principal or interest on the bonds. Accordingly, no liability has been recorded in the basic financial statements.

Special Assessment Bonds

Various special districts in the County reporting entity have issued special assessment bonds, totaling $81.2 million at June 30, 2012, to provide financing or improvements benefiting certain property owners. Special assessment bonds consist of Community Facilities District Bonds and Assessment District Bonds.

The County, including its special districts, is not liable for the payment of principal or interest on the bonds, which are obligations solely of the benefited property owners. Certain debt service transactions relating to certain special assessment bonds are accounted for in the Agency Funds.

The County is not obligated and does not expect to advance any available funds from the County General Fund to the Community Facilities Districts or the Assessment Districts for any current or future delinquent debt service obligations. The County Special Districts continue to use all means available to bring current any delinquent special assessment taxes, including workouts, settlement agreements, and foreclosure actions when necessary.

The Riverside County Flood Control and Water Conservation District (Flood Control) has issued special assessment bonds, totaling $2.4 million as of June 30, 2012, for the construction of flood control facilities. The bonds are to be repaid through special assessment revenue and are not considered obligations of Flood Control. In accordance with bond covenants, Flood Control has established a reserve for potential delinquencies. If a delinquency occurs in the payment of any assessment installment, Flood Control has the duty to transfer the amount of such delinquent installment from the Reserve Fund into the Redemption Fund assessment installment. Flood Control's liability to

NOTE 12 – LONG-TERM OBLIGATIONS (Continued)

Special Assessment Bonds (Continued)

advance funds for bond redemption in the event of delinquent assessment installments is limited to the reserves established.

State Appellate Court Financing

In November 1997, the Public Finance Authority of the County of Riverside issued $13.5 million of Lease Revenue Bonds for the State of California Court of Appeal Fourth Appellate District, Division Two Project. The State of California executed a lease coincident with the term of the financing and those lease payments are the sole security for the financing. The State is the ultimate obligor under the terms of the financing and neither the County nor the Authority will have any ongoing payment obligation. The State has committed to indemnify the County in the Lease.

Interest Rate Swap

Objective of the Interest Rate Swap: As a means to lower financing costs and to reduce the risks to CORAL associated with the fluctuation in market interest rates, CORAL entered into an amended and restated interest rate swap in connection with the Southwest Justice Center Series 2008A Leasehold Revenue Bonds in the notional amount of $76.3 million. The intention of the swap was to effectively change the variable interest rate on the bonds to a synthetic fixed-rate of 5.2%.

Terms: The Bonds and the related swap agreement mature on November 1, 2032, and the swap's notional amount of $76.3 million approximately matches a portion of $78.9 million variable-rate Bonds. The swap was effective at the same time the Bonds were issued on May 24, 2000 due to the consistent critical terms between the swap and the associated debt and was amended and restated as of December 10, 2008. None of the critical terms were changed pursuant to this agreement. The notional value of the swap and the principal amount of the associated debt, decline starting in fiscal year 2014-2015. Under the amended and restated swap agreement, CORAL paid Wells Fargo Bank, N.A. a fixed payment rate of 5.2%. CORAL receives an interest rate equal to an amount not to exceed the maximum interest rate payable on the Bonds, expressed as a decimal, equal to 64% of the monthly London Interbank Offered Rate (LIBOR) in the relevant calculation period. Conversely, the Bonds' variable-rate coupons have historically been similar to the Bond Market Association Municipal Swap Index (BMA). Under GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, the interest rate swap contract qualifies as a derivative financial instrument and a cash flow hedging. CORAL's net cash outflow or payment under the interest rate swap contract was $2.8 million for the year ended June 30, 2012. The swap is not subject to rollover risk because the maturity of the swap matches the maturity of the principal amount of the associated debt or market-access risk as no other embedded instrument is involved with the swap that would require accessing the credit markets.

Fair Value: As of June 30, 2012 and 2011, the swap had a negative fair value of $35.2 million and $24.7 million, respectively, a decrease in fair value of $10.5 million occurred during the fiscal year 2011-12. The fair value was recorded in the County's Statement of Net Assets as interest rate swap liability and deferred outflow in the assets section. Because the coupons on the Southwest Justice Center Series 2008A Leasehold Revenue Refunding Bonds adjust to changing interest rates, the Bonds do not have a corresponding fair value increase. The fair value was the quoted market price from Wells Fargo Bank, N.A. at June, 30 2012.

Credit Risks: The swap counterparty was rated Aa3 by Moody's and AA- by Standard & Poor's as of August 29, 2012. The swap agreement specifies that if the long-term senior unsecured debt rating of Wells Fargo, N.A. is withdrawn, suspended or falls below BBB (Standard & Poor) or Baa2 (Moody's), a collateral agreement will be executed within 30 days or the fair value of the swaps will be fully collateralized by the counterparty.

Basis Risks: The swap exposes CORAL to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the Bonds. If a change occurs that results in the rates moving to convergence, the expected cost savings may not be realized. As of June 30, 2012, CORAL's rate was 64.0% of LIBOR, or 0.2%, whereas Municipal Swap Index or the reset rate on bonds was 0.2%. The synthetic rate on the bonds at June 30, 2012 was 5.2%.

NOTE 12 – LONG-TERM OBLIGATIONS (Continued)

Interest Rate Swap (Continued)

Termination Risks: CORAL always has the right to terminate the swaps. Wells Fargo Bank, N.A. is limited in so far as both CORAL and the insurer are not performing. The swap may be terminated by CORAL if Wells Fargo Bank, N.A.'s credit quality rating falls below A- as issued by Standard & Poor's or A3 by Moody's. Additionally, the swaps may be terminated by Wells Fargo, N.A. if CORAL's credit quality rating falls below BBB+ as issued by Standard & Poor's or Baa1 as issued by Moody's or if the Bonds credit quality ratings fall below BBB+ as issued by Standard & Poor's or Baa1 as issued by Moody's. If the swaps are terminated, the variable rate Bonds would no longer carry synthetic interest rates. Also, if at the time of termination the swaps had negative fair values, CORAL, would be liable to Wells Fargo Bank, N.A. for a payment equal to the swaps' fair values.

Swap Payment and Associated Debt: Using rates as of June 30, 2012, debt service requirements of the variable-rate debt and net swap payments, *assuming current interest rates remain the same* for their term, were as follows (in thousands):

Fiscal Year	Variable Rate Bonds		Net Swap	Total
Ending June 30	Principal	Interest	Payments	Interest
2013	-	1,099	2,835	3,934
2014	-	1,099	2,834	3,933
2015	-	1,099	2,834	3,933
2016	-	1,078	2,781	3,859
2017	5,160	1,040	2,685	3,725
2018-2022	16,130	4,549	11,735	16,284
2023-2027	21,095	3,206	8,271	11,477
2028-2032	27,505	1,460	3,767	5,227
2033	6,410	38	94	132
	$ 76,300	$ 14,668	$ 37,836	$ 52,504

As rates vary, variable-rate Bond interest payments and net swap payments will vary.

Changes in long-term liabilities

The following is a summary of governmental activities long-term liabilities transactions for the year ended June 30, 2012 (in thousands):

	Balance June 30, 2011	New Additions	Payments / Reclass	Balance June 30, 2012	Amounts Due Within One Year
Governmental activities:					
Debt long-term liabilities:					
Bonds payable (a)	$ 1,551,323	$ 33,360	$ (834,191)	$ 750,492	$ 34,985
Capital lease obligations	111,128	12,626	(22,759)	100,995	18,557
Certificates of participation	367,272	-	(57,761)	309,511	27,416
Loans payable	5,355	-	(430)	4,925	505
Total debt long-term liabilities	2,035,078	45,986	(915,141)	1,165,923	81,463
Other long-term liabilities:					
Accreted interest payable	61,963	16,860	-	78,823	-
Compensated absences (b)	160,344	6,568	(582)	166,330	87,661
Estimated claims liabilities (c)	124,717	40,783	(35,062)	130,438	34,071
Accrued remediation costs (d)	2,332	66	-	2,398	300
Total other long-term liabilities	349,356	64,277	(35,644)	377,989	122,032
Total governmental activities – long-term liabilities	$ 2,384,434	$ 110,263	$ (950,785)	$ 1,543,912	$ 203,495

(a) The reduction in bonds payable amount of $803.1 million in RDA Tax Allocation Bonds was transferred to the Successor Agency on February 1, 2012.
(b) General Fund, Special Revenue Fund, and Internal Service Fund are used to liquidate the compensated absences.
(c) Internal Service Funds are used to liquidate the estimated claims liabilities.
(d) General Fund is used to liquidate the remediation costs

NOTE 12 – LONG-TERM OBLIGATIONS (Continued)

Changes in long-term liabilities (Continued)

The following is a summary of business-type activities long-term liabilities transactions for the year ended June 30, 2012 (in thousands):

	Balance June 30, 2011	Additions	Payments / Reclass	Balance June 30, 2012	Amounts Due Within One Year
Business-type activities:					
Debt long-term liabilities:					
Bonds payable, net of un-amortized discount and losses (a)	$ 134,983	$ -	$ (13,922)	$ 121,061	$ 10,674
Capital lease (RCRMC)	15,830	2,382	(6,157)	12,055	5,189
Total debt long-term liabilities	150,813	2,382	(20,079)	133,116	15,863
Other long-term liabilities:					
Accreted interest payable	54,233	5,751	-	59,984	-
Accrued closure and post-closure costs	43,468	9,069	-	52,537	5,390
Compensated absences	20,264	1,740	(20)	21,984	13,160
Accrued remediation costs	29,777	7,652	-	37,429	1,598
Other long-term liabilities (b)	6,795		-	6,795	-
Total other long-term liabilities	154,537	24,212	(20)	178,729	20,148
Total business-type activities – long-term liabilities	$ 305,350	$ 26,594	$ (20,099)	$ 311,845	$ 36,011
Discretely Presented Component Unit					
Debt long-term liabilities:					
Bonds payable	$ 83,997	$ -	$ (5,198)	$ 78,799	$ 5,485
Other long-term liabilities:					
Compensated absences	271	66	(82)	255	130
Total discretely presented component unit – long-term liabilities	$ 84,268	$ 66	$ (5,280)	$ 79,054	$ 5,615

(a) The reduction in bonds payable amount of $13.9 million includes deferred charges of $417.0 thousand during fiscal year 2011-12.
(b) The Housing Authority (Business-type Activity) has two notes payable, totaling $6.8 million, under "Other long-term liabilities."

Disclosure of Pledged Revenues

Inland Empire Tobacco Securitization Authority, a blended component unit of the County, issued $294.1 million of tobacco asset-backed bonds. The bonds are solely secured by pledging a portion of County Tobacco Assets*** made payable to the County pursuant to agreements with the State and other parties. The portion of revenues that will be used to pay the debt service are (i) the County Tobacco Assets to the extent consisting of or relating to amounts due to the County after the first $10.0 million has been paid to the County in each year beginning on January 1, 2008 and ending on December 31, 2020, (ii) the County Tobacco Assets to the extent consisting of or relating to amounts due to the County after the first $11.5 million has been paid to the County in each year beginning on January 1, 2021 and ending on December 31, 2026, (iii) the County Tobacco Assets to the extent consisting of or relating to amounts due to the County from and after January 1, 2027, and (iv) the County Tobacco Assets to the extent consisting of or relating to the applicable percentage of a lump sum payment of 18.27% to the County and 81.73% to the Inland Empire Tobacco Securitization Authority for Calendar year 2012. During the fiscal year ended June 30, 2012, $19.5 million was received by the Inland Empire Tobacco Securitization Authority; $10.0 million, or 51.3%, was distributed to the County per the above agreement, leaving $9.5 million, or 48.7%, of the specific tobacco settlement revenues available to be pledged (see page 141). The County is under no obligation to make payments of the principal or accreted value of or redemption premiums, if any, or interest on the Series 2007 bonds in the event that revenues are insufficient for the payment thereof.

**** Tobacco settlement revenue required to be paid to the State of California under the Master Settlement Agreement entered into by participating cigarette manufacturers, 46 states, California, and six other U.S. jurisdictions, in November 1998 in settlement of certain cigarette smoking-related litigation.*

NOTE 12 – LONG-TERM OBLIGATIONS (Continued)

Disclosure of Pledged Revenues (Continued)

The Housing Authority 1998 bonds are secured by an agreement with the City of Corona, which has pledged to pay $218.0 thousand to the Housing Authority each year until the bonds are redeemed in their entirety on December 1, 2018. The bond indenture requires the Housing Authority to remit the entire $218.0 thousand received each year to the bond trustee to pay for the bond's annual debt service payments, which in fiscal year 2012 was $125 thousand (principal) and $84.1 thousand (interest).

The Housing Authority reports the $218.0 thousand received each year as revenue. In fiscal year 2011-12, the $218.0 thousand represented about 0.3% of the total revenues of the Housing Authority. MBIA Insurance Corporation has issued a surety bond in lieu of a cash funded reserve. The outstanding balance as of June 30, 2012, before applying the deferred charge, was $1.2 million.

Proposition 1A Borrowing by the State of California

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in-lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the County, Flood Control and Park District was $38.4 million, $4.2 million and $386.7 thousand, respectively.

Authorized with the fiscal year 2009-10 State budget package, the Proposition 1A Securitization Program was instituted by the California Statewide Communities Development Authority ("California Communities"), a joint powers authority sponsored by the California State Association of Counties and the League of California Cities, to enable local governments to sell their Proposition 1A receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the Proposition 1A receivables and issued bonds ("Prop 1A Bonds") to provide local agencies with cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010. The purchase price paid to the local agencies equaled 100% of the amount of the property tax reduction. All transaction costs of issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. The County participated in the securitization program and accordingly property taxes have been recorded in the same manner as if the State had not exercised its rights under Proposition 1A. The receivable sale proceeds were equal to the book value and, as a result, no gain or loss was recorded.

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NOTE 13 – FUND BALANCES

Fund balances that presented in the following categories: nonspendable, restricted, committed, assigned, and unassigned. (See note 1 for a description of each categories. A detailed schedule of fund balances as of June 30, 2012 is as follows (in thousands):

	Major Funds			
	General Fund	Flood Control Special Revenue Funds	Public Facilities Improvements	Redevelopment Capital Projects
Nonspendable:				
Imprest cash	$ 370	$ 1	$ -	$ -
Inventories	1,187	-	-	-
Permanent	-	-	-	-
Prepaids	277	-	-	-
Total nonspendable fund balances	1,834	1	-	-
Restricted for:				
Teeter tax losses	8,909	-	-	-
Public protection	67,311	-	-	-
Fire stations	-	-	24,031	-
Roads	-	-	50,031	-
Traffic signals	-	-	14,389	-
Emergency safety communication system	-	-	-	-
Public facilities	-	-	6,436	-
Public assistance programs	3,911	-	-	-
Health and sanitation services	16,799	-	-	-
Housing assistance programs	-	-	-	-
Parks and recreation	39	-	33,620	-
Education	-	-	-	-
Debt service	2,386	-	-	-
Other capital projects	-	-	2,543	-
Other purposes	1,801	-	134	-
Encumbrances	495	-	-	-
Total restricted fund balances	101,651	-	131,184	-
Committed to:				
Property tax system	11,454	-	-	-
Disaster relief	15,000	-	-	-
Public assistance	-	-	-	-
Public protection	17,141	252,368	-	-
Health and sanitation services	-	-	-	-
Parks and recreation	-	-	-	-
Other capital projects	1,000	-	-	-
Other purposes	7,844	-	-	-
Total committed fund balances	52,439	252,368	-	-
Assigned to:				
Public protection	1	-	-	-
Roads	-	-	18,985	-
Emergency safety communication system	-	-	-	-
Capital projects improvement program	-	-	40,562	-
Parks and recreation	-	-	-	-
Public facilities	-	-	-	-
Public assistance	-	-	-	-
Debt service	-	-	-	-
Other capital projects	-	-	50,567	-
Other purposes	-	3,890	-	-
Encumbrances	8,763	-	1,210	-
Total assigned fund balances	8,764	3,890	111,324	-
Unassigned fund balances	171,910	-	-	-
Total fund balances	**$ 336,598**	**$ 256,259**	**$ 242,508**	$ -

NOTE 13 – FUND BALANCES (Continued)

Nonmajor Funds: Special Revenue Funds	Nonmajor Funds: Debt Service Funds	Nonmajor Funds: Capital Projects Funds	Nonmajor Funds: Permanent Fund	Nonmajor Governmental Funds	Total Governmental Funds	
						Nonspendable:
$ 118	$ -	$ -	$ -	$ 118	$ 489	Imprest cash
1,002	-	-	-	1,002	2,189	Inventories
-	-	-	455	455	455	Permanent
80	-	600	-	680	957	Prepaids
1,200	-	600	455	2,255	4,090	**Total nonspendable fund balances**
						Restricted for:
-	-	-	-	-	8,909	Teeter tax losses
13,726	-	98	-	13,824	81,135	Public protection
-	-	-	-	-	24,031	Fire stations
101,551	-	-	-	101,551	151,582	Roads
-	-	-	-	-	14,389	Traffic signals
-	-	36,611	-	36,611	36,611	Emergency safety communication system
1,197	-	-	-	1,197	7,633	Public facilities
23,081	-	-	-	23,081	26,992	Public assistance programs
4,208	-	-	-	4,208	21,007	Health and sanitation services
168,186	-	-	-	168,186	168,186	Housing assistance programs
2,117	-	-	-	2,117	35,776	Parks and recreation
18,923	-	-	-	18,923	18,923	Education
-	71,594	-	-	71,594	73,980	Debt service
-	-	-	-	-	2,543	Other capital projects
-	-	4,940	35	4,975	6,910	Other purposes
3,752	-	-	-	3,752	4,247	Encumbrances
336,741	71,594	41,649	35	450,019	682,854	**Total restricted fund balances**
						Committed to:
-	-	-	-	-	11,454	Property tax system
-	-	-	-	-	15,000	Disaster relief
7,292	-	-	-	7,292	7,292	Public assistance
-	-	323	-	323	269,832	Public protection
136	-	-	-	136	136	Health and sanitation services
6,714	-	-	-	6,714	6,714	Parks and recreation
-	-	-	-	-	1,000	Other capital projects
642	-	-	-	642	8,486	Other purposes
14,784	-	323	-	15,107	319,914	**Total committed fund balances**
						Assigned to:
534	-	-	-	534	535	Public protection
7,406	-	-	-	7,406	26,391	Roads
-	-	246	-	246	246	Emergency safety communication system
-	-	-	-	-	40,562	Capital projects improvement program
7,759	-	-	-	7,759	7,759	Parks and recreation
1,015	-	-	-	1,015	1,015	Public facilities
1,054	-	-	-	1,054	1,054	Public assistance
-	6,642	-	-	6,642	6,642	Debt service
-	-	3,423	-	3,423	53,990	Other capital projects
1,526	-	-	-	1,526	5,416	Other purposes
928	-	165	-	1,093	11,066	Encumbrances
20,222	6,642	3,834	-	30,698	154,676	**Total assigned fund balances**
-	-	-	-	-	171,910	**Unassigned fund balances**
$ 372,947	**$ 78,236**	**$ 46,406**	**$ 490**	**$ 498,079**	**$ 1,333,444**	**Total fund balances**

NOTE 14 – RISK MANAGEMENT

The County is self-insured for general liability, medical malpractice, and workers' compensation claims. The County records estimated liabilities for general liability, medical malpractice, and workers' compensation claims filed or estimated to be filed for incidents that have occurred. Estimated liability accruals include those incidents that are reported as well as an amount for those incidents that incurred but are not reported (IBNR) at fiscal year end. The funding of these estimates is based on actuarial experience and projections. The County fully self-insures short-term disability and unemployment insurance. Life insurance and long-term disability programs are fully insured. Depending on the plan, group health, dental, and vision may be either self-insured or fully insured.

The County supplements its self-insurance for general liability, medical malpractice, and workers' compensation with catastrophic excess insurance coverage. General liability utilizes a policy providing coverage on a per occurrence basis. Limits under the policy are $10.0 million, subject to a self-insured retention (SIR) of $1.0 million for each occurrence. A SIR is a form of a deductible. The County also purchases an additional $15.0 million per occurrence in excess of the $10.0 million for a total of $25.0 million in limits. Medical malpractice utilizes an excess policy providing coverage on a per occurrence basis. Limits under the malpractice policy are $20.0 million subject to a SIR of $1.1 million. The maximum limit under the excess workers' compensation, Section A, is statutory (unlimited); Section B, employer liability is $5.0 million per claim. Section A is subject to a $2.0 million SIR for each accident, employee injury, or disease. Settlements have not exceeded coverage for each of the past three fiscal years.

The County's property insurance program provides insurance coverage for all risks subject to a $50.0 thousand per occurrence deductible; flood coverage is subject to a 2.0% deductible per unit within a 100-year flood zone and $25.0 thousand per unit deductible outside a 100-year flood zone. (A 'unit' is defined as a separate building, contents in a separate building, property in the open (yard) or time element coverage in a separate building.) The County's property is categorized into four Towers and each Tower provides $610.0 million in limits. Earthquake (covering scheduled locations equal to or greater than $1.0 million in value and lesser valued locations where such coverage is required by contract) has a sub-limit in each Tower of $82.5million with an additional $225.0 million excess rooftop limit available to any one Tower. The excess rooftop limit may be triggered during the policy year if a covered earthquake event somewhere in the state has depleted the initial underlying limits. Earthquake coverage is subject to a deductible equal to 5.0% of replacement cost value per unit subject to a $100.0 thousand minimum per unit. Boiler and Machinery provides up to $100.0 million in limits, with various deductibles. The limits in each Tower are shared with other counties on a per event basis. Should a catastrophic event occur and losses exceed the limits, the County would be responsible.

The activities related to such programs are accounted for in Internal Service Funds (ISF). Accordingly, estimated liabilities for claims, including loss adjustment expenses, filed or to be filed, for incidents that have occurred through June 30, 2012 are reported in these funds. Where certain ISF funds have an accumulated deficit or insufficient reserves, the County provides funding to reduce the deficit and increase the reserves. If the funding is above the Board of Supervisors approved 70.0% confidence level an appropriate reduction in funding including a one-time holiday on department charges may be granted. For fiscal year 2011-2012 the Board of Supervisors approved a reduction in funding from the 70% confidence level to 55% confidence level for the Liability ISF and the Workers' Compensation ISF. Revenues for these Internal Service Funds are primarily provided by other County departments and are intended to cover the self-insured claim payments, insurance premiums, and operating expenses. The revenue is not used to cover catastrophic events and other uninsured liabilities. Cash available in the Risk Management and Workers' Compensation Internal Service Funds at June 30, 2012 plus revenues to be collected during fiscal year 2012-2013 are expected to be sufficient to cover all fiscal year 2011-12 payments. The carrying amount of unpaid claim liabilities is $130.4 million. The liabilities are discounted at 3.0%.

	June 30, 2011	June 30, 2012
Unpaid claims, beginning of year	$ 117,263	$ 124,717
Increase (decrease) in provision for insured events of prior years	(2,428)	7,199
Incurred claims for current year	93,257	33,584
Claim payments	(83,375)	(35,062)
Unpaid claims, end of year	$ 124,717	$ 130,438

NOTE 15 – MEDI-CAL AND MEDICARE PROGRAMS

The Regional Medical Center provides services to patients covered by various reimbursement programs. The principal programs are Medicare, the State of California Medi-Cal, and the County Medically Indigent Services Program (MISP). Net patient service revenue is recorded at the estimated net realizable amounts from patients, third-party payers, and others for services rendered. In addition, net patient service revenue includes a provision for doubtful accounts and estimated retroactive adjustments under reimbursement agreements with federal and state government programs and other third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Inpatient services rendered to Medi-Cal program beneficiaries are reimbursed at a per diem rate based upon estimated certified public expenditures (CPEs) and outpatient services are reimbursed under a schedule of maximum allowable reimbursement provided by the California Department of Health Care Services. Inpatient acute care services rendered to Medicare program beneficiaries are reimbursed based upon pre-established rates for diagnostic-related groups. Inpatient non-acute services, certain outpatient services, and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost-reimbursement methodology subject to payment caps and indexing formulas. The Regional Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Regional Medical Center and audit thereof by the Medicare fiscal intermediary. Normal estimation differences between final settlements and amounts accrued in previous years are reflected in net patient services revenue. The fiscal intermediary has audited the Regional Medical Center's Medicare and Medi-Cal cost reports through June 30, 2010. The Regional Medical Center has received notices of program reimbursement (NPR), a written notice reflecting the intermediary's final determination of the total amount of reimbursement due the medical center for Medicare through June 30, 2007 only while Medicare seeks to update their Medicare SSI percentages for those years. Medicare has re-opened the June 30, 2007 year to adjust the SSI percentage. For Medi-Cal, the Regional Medical Center has we have received NPR through June 30, 2008 only.

In September 2005, the State of California significantly modified its Medi-Cal program under a new waiver with the Centers for Medicare and Medicaid Services (CMS). In connection with the new waiver, the State legislature passed the Medi-Cal Hospital Uninsured Demonstration Project Act, or SB 1100, which replaced the SB 855 and SB 1255 programs. For the SB 1100 program, the State continues to provide supplemental payments to the hospital for uncompensated care. However, the use of intergovernmental transfers (IGTs) by the State, as the non-federal match, was modified to a methodology consisting of CPEs up to 50 percent of costs or Federal Medical Assistance Program (FMAP) rate. The Regional Medical Center has recorded net patient revenue of $107.2 million for SB 1100 for the year ended June 30, 2012, of which $37.0 million is from the Delivery System Reform Incentive Program (DSRIP), a waiver incentive based payment component of the Section 1115 Medicaid Waiver.

All CPEs reported by the hospital will be subject to State and Federal audit and final reconciliation process. If at the end of the final reconciliation process it is determined that the hospital's claimed CPEs resulted in an overpayment to the State, the hospital may be required to return the overpayment whether or not they received the federal matching funds.

NOTE 16 – JOINTLY GOVERNED ORGANIZATIONS

Under Title I (Section 6500 et seq.) of the Government Code, the County has participated in jointly governed organizations with various entities for a variety of purposes. The board of directors for each of these organizations is composed of one representative of each member organization. The County maintains no majority influence or budgetary control over the following entities and County transactions with these jointly governed organizations are not material to the financial statements. The following jointly governed organizations were not included as either blended or discretely presented component units in these financial statements.

A representation of the jointly governed organizations on which the County served at June 30, 2012 follows:

The CSAC Excess Insurance Authority was formed in October 1979 and has a current membership of 52 California counties. The CSAC operates programs for excess workers' compensation, two excess liability programs, two property programs, and medical malpractice. It also provides support services for selected programs such as claims administration, risk management, loss prevention and training, and subsidies for actuarial studies and claims audits.

NOTE 16 – JOINTLY GOVERNED ORGANIZATIONS (Continued)

Coachella Valley Association of Governments was formed in November 1973. Currently, the association includes the following members: the cities of Blythe, Cathedral City, Coachella, Desert Hot Springs, Indian Wells, Indio, La Quinta, Palm Desert, Palm Springs, and Rancho Mirage; the local tribes of Agua Caliente Band of Cahuilla Indians and the Cabazon Band of Mission Indians; and Riverside County. The purpose of the Association is to conduct studies and projects designed to improve and coordinate the common governmental responsibilities and services on an area-wide and regional basis.

Western Riverside Council of Governments was formed in November 1989 with the cities of Banning, Beaumont, Calimesa, Canyon Lake, Corona, Hemet, Lake Elsinore, Moreno Valley, Murrieta, Norco, Perris, Riverside, San Jacinto, and Temecula for the purpose of serving as a forum for consideration, study, and recommendation on area-wide and regional problems.

Riverside County Habitat Conservation Agency (RCHCA) was formed in July 1990. The RCHCA is a Joint Powers Agreement Agency comprised of the cities of Corona, Hemet, Lake Elsinore, Moreno Valley, Murrieta, Perris, Riverside, Temecula, and the County of Riverside for the purpose of planning, acquiring, administering, operating, and maintaining land and facilities for ecosystem conservation and habitat reserves for the Stephen's Kangaroo Rat and other endangered species under Article 1, Chapter 5, Division 7, Title 1 of the Government Code.

Van Horn Regional Treatment Facility was organized in January 1991 with Los Angeles, San Diego, San Bernardino, Orange, and Riverside Counties for the purpose of constructing and operating a treatment center for emotionally disturbed minors. The Facility's Board of Directors consists of the Chief Probation Officer and the Director of Mental Health for each county.

Riverside County Abandoned Vehicle Abatement Authority was formed in June 1993 with those cities within the County that have elected to create and participate in the Authority, pursuant to Vehicle Code Section 22710. The purpose of the Authority is to implement a program and plan for the abatement of abandoned vehicles.

The March Joint Powers Commission was formed in August 1993 with the cities of Moreno Valley, Perris, and Riverside to formulate and implement plans for the use and reuse of March Air Force Base.

The Salton Sea Authority was formed in August 1993 with Imperial County, Imperial Irrigation District, and Coachella Valley Water District to direct and coordinate actions relating to improvement of water quality, stabilization of water elevation, and to enhance recreational and economic development potential of the Salton Sea and other beneficial uses.

Coachella Valley Regional Airport Authority was formed in April 1994 with the cities of Coachella, Indian Wells, Indio, La Quinta, and Palm Desert for the purpose of acting as a planning commission for the continued growth and development of Thermal Airport and the surrounding area.

Inland Empire Health Plan was formed with the County of San Bernardino in June 1994 to be the administrative body and governing board to form and develop a managed health care system for Medi-Cal recipients in the two counties through the Local Initiative.

Palm Springs Visitors and Convention Bureau were formed in December 1995 with those member cities located in the Coachella Valley area of the County. The purpose of the Authority is to encourage and promote all aspects of the hospitality, convention, and tourism industry in the Coachella Valley.

Western Riverside County Regional Conservation Authority / Multi-Species Habitat Conservation Plan were formed in January 2004 with the responsibility of issuing the permits required to implement the Multi-Species Habitat Conservation Plan, which will ultimately create a 500,000-acre reserve system in the County. The conservation plan's proposed reserve system protects habitat for 146 varieties of species.

Coachella Valley Conservation Commission (CVCC) was formed in October 2005. The CVCC is a Joint Powers Agreement Agency comprised of the cities of Coachella, Cathedral City, Desert Hot Springs, Indian Wells, Indio, La

NOTE 16 – JOINTLY GOVERNED ORGANIZATIONS (Continued)

Quinta, Palm Desert, Palm Springs, Rancho Mirage, Riverside, and the Coachella Valley Water District as well as the Imperial Irrigation District. The purpose of the CVCC was to implement the Coachella Valley Multiple Species Habitat Conservation Plan (CVMSHCP). The CVMSHCP goal is to enhance and maintain biological diversity and ecosystem processes while allowing future economic growth.

Southern California Regional Airport Authority (SCRAA) was originally founded in 1985 by the joint powers authority to begin the process of regionalizing aviation. It has been reactivated in an attempt to reduce projected future passenger loads at Los Angeles International Airport (LAX), by spreading the growth in commercial air traffic to other regional airports. The Southern California Association of Governments (SCAG) has also coordinated dispersal planning of the significant new MAP (million air passengers) that would have to be absorbed at other airports if LAX's future MAP is reduced.

Coachella Valley Enterprise Zone Authority (CVEZA) was formed in September 2010 by the Joint Powers Agreement comprised of the County of Riverside, the City of Indio, and the City of Coachella. The purpose of the authority is to manage, coordinate, market, and administer economic development programs and projects in the enterprise zone areas.

On January 10, 2011, as part of the statewide budget process, Governor Brown proposed the elimination of Redevelopment Agencies (RDA) throughout California starting Fiscal Year 2011-2012. On December 29, 2011, after a period of litigation, the State of California Assembly Bill ABX1 26 was upheld by the California Supreme Court, and RDAs were officially dissolved as of February 01, 2012. The Riverside County Board of Supervisors accepted the designation as Successor Agency for the Redevelopment Agency for the County of Riverside pursuant to CA Health and Safety Code section 34171(j), and transferred the responsibility of all housing functions previously performed by the Redevelopment Agency for the County of Riverside to the Housing Authority of the County of Riverside.

NOTE 17 – RETIREMENT PLAN

Plan Descriptions

The County of Riverside (County), Flood Control and Water Conservation District (Flood Control), Regional Park and Open-Space District (Park District) and Waste Management Department (Waste Management) contract with the California Public Employees' Retirement System (CalPERS) to provide retirement benefits to its employees. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and plan beneficiaries. CalPERS is a common investment and administrative agent for participating public entities within the State of California. State statutes governed by the Public Employees' Retirement Law (PERL), have established benefit provisions as well as other requirements. The County may select from a variety of optional benefit provisions offered by CalPERS. Upon selecting the benefit provisions and entering into a contractual agreement with CalPERS, the benefit provisions may be adopted through local ordinance.

CalPERS issues a comprehensive annual financial report (CAFR) which details its plan assets, liabilities, and plan activity. The County receives an annual valuation report which summarizes plan assets, liabilities and employer rates for its plans. Under GASB Statement No. 27, both the County (Miscellaneous and Safety) and Flood Control are considered single-employer defined benefit pension plans, while the Park District and Waste Management are considered multi-employer defined benefit pension plans due to their pooling composite. Copies of the CalPERS Annual Financial Report may be obtained from: CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members in CalPERS may be required to contribute up to 8.0% (Miscellaneous employees) and up to 9% (Safety employees) of their annual covered salary as specified in the governing Memorandum of Understanding or as provided by state statue.

The employer contribution rate is established and may be amended by CalPERS. The actuarial methods and assumptions used to establish the employer contribution rate are adopted by the CalPERS Board of Administration. The County, Flood Control, Park District and Waste Management are required to contribute the actuarially determined annual required contributions necessary to fund the plans.

NOTE 17 – RETIREMENT PLAN (Continued)

Early Retirement Incentive

In fiscal year 2009-10, the County's Board of Supervisors authorized three early retirement incentives for all Miscellaneous and Safety members, excluding Elected Officials covered by the CalPERS Local Miscellaneous and Local Safety contracts (see table below for participation detail). In fiscal year 2008-09, the County's Board of Supervisors authorized an early retirement incentive for all Miscellaneous members only, excluding Elected Officials covered by the CalPERS Local Miscellaneous contract. The Early Retirement Incentives offered eligible employees who elected to retire within a designated time period specified by the County, two additional years of service. Eligibility provisions for the Early Retirement Incentive required employees to be in specified job classifications, attainment of at least age 50 and completion of five (5) or more years of service credit with the County.

The County has the option to pay for the cost of each early retirement incentive in a single payment or spread the cost over a 20-year period. The County has elected to pay the cost over a 20-year period. The additional cost will result in increased employer contribution rates and will be payable two years after the end of the fiscal year in which the early retirement incentive window closes.

The first estimated employer rate increase will occur in fiscal year 2011-12, for the early retirement incentive offered to Local Miscellaneous employees in fiscal year 2008-09. The County estimates the cost of the early retirement incentive to be an additional 0.35% in the employer contribution rate. For fiscal year 2012-13, the employer contribution rate is expected to increase an additional 0.43% for Local Safety and is estimated to increase by an additional 0.27% fiscal year 2013-14 for Local Miscellaneous, as a result of the three early retirement incentives authorized in fiscal 2010-11.

Early Retirement Incentive Table

Early Retirement Incentive	Window Periods	Total Eligible Employees	Employees Electing Early Retirement Incentive	Estimated Increase in Employer Contribution Rate	FY in Which Employer Contribution Rate will Increase
Local Miscellaneous	01/01 - 03/31/2009	3,400	678	0.35%	2011/2012
Local Safety	07/11 - 10/08/2009 (1) 07/15 - 10/13/2009 (2)	653	151	0.43%	2012/2013
Local Miscellaneous	02/11 - 08/09/2010	3,597	578	0.27%	2013/2014

(1) =District Attorney (2)=Sheriff

For fiscal year 2011-12, the Employer contribution rates were:

	County Miscellaneous	County Safety	Flood Control	Park District	Waste Management
Contribution rates:					
County	13.112%	21.286%	16.789%	16.582%	18.120%
Plan Members	8.000%	9.000%	8.000%	8.000%	8.000%

NOTE 17 – RETIREMENT PLAN (Continued)

Annual Pension Cost

For fiscal year 2011-12, the annual pension costs for CalPERS is equal to the employer's required and actual contributions as noted below (dollar amounts in thousands):

	County Miscellaneous	County Safety	Flood Control	Park District	Waste Management
Annual required contribution	$ 108,393	$ 58,673	$ 2,611	$ 793	$ 503
Interest on net pension obligation (asset)	(25,982)	(7,156)	(151)	-	
Adjustment to annual required contribution	19,394	5,342	250	-	434
Annual pension cost	101,805	56,859	2,710	793	937
Contributions made	(108,393)	(58,673)	(2,571)	(793)	(503)
Increase (decrease) in net pension obligation (asset)	(6,588)	(1,814)	139	-	434
Net pension obligation (asset) beginning of year	(335,240)	(92,346)	(1,945)	-	(1,516)
Net pension obligation (asset) end of year	$ (341,828)	$ (94,160)	$ (1,806)	$ -	$ (1,082)

Three-Year Trend Information
(dollar amounts in thousands)

	Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
County - Miscellaneous	June 30, 2010	$ 87,307	107.26 %	$ (328,780)
	June 30, 2011	94,039	106.87	(335,240)
	June 30, 2012	101,805	106.47	(341,828)
County - Safety	June 30, 2010	42,983	104.06	(90,567)
	June 30, 2011	49,297	103.61	(92,346)
	June 30, 2012	56,859	103.19	(94,160)
Flood Control	June 30, 2010	2,090	93.35	(2,084)
	June 30, 2011	2,255	93.80	(1,945)
	June 30, 2012	2,710	94.87	(1,806)
Park District	June 30, 2010	603	100.00	-
	June 30, 2011	585	100.00	-
	June 30, 2012	793	100.00	-
Waste Management	June 30, 2010	884	50.90	(1,950)
	June 30, 2011	865	49.83	(1,516)
	June 30, 2012	937	53.68	(1,082)

NOTE 17 – RETIREMENT PLAN (Continued)

Actuarial Methods and Assumptions

The following information is reflective as of the most recent actuarial valuation:

	County Miscellaneous	County Safety	Flood Control	Park District	Waste Management
Actuarial valuation	6/30/2011	6/30/2011	6/30/2011	6/30/2011	6/30/2011
Actuarial cost method	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Amortization method	Level Percent of Payroll, Open	Level Percent of Payroll, Open	Level Percent of Payroll, Open	Level Percent of Payroll, Open	Level Percent of Payroll, Open
Remaining amortization period	32 years	32 years	19 years	19 years	19 years
Asset valuation method	15 Years Smoothed Market	15 Years Smoothed Market	15 Years Smoothed Market	15 Years Smoothed Market	15 Years Smoothed Market
Actuarial assumptions:					
Investment rate of return	7.50%	7.50%	7.50%	7.50%	7.50%
Projected salary increases*	3.30%-14.20%	3.30%-14.20%	3.30%-14.20%	3.30%-14.20%	3.30%-14.20%
Inflation	2.75%	2.75%	2.75%	2.75%	2.75%
Payroll growth	3.00%	3.00%	3.00%	3.00%	3.00%

* Projected salary increases vary depending on Age, Service, and Type of Employment.

Funded Status and the Funding Progress

The following is funded status information for each plan as of June 30, 2012, which is the most recent actuarial valuation date (dollar amounts in thousands):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Entry Age (b)	Unfunded AAL (UAAL) (Excess of assets over AAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Excess of Assets over AAL) as a Percentage of Covered Payroll ((b-a)/c)
County - Miscellaneous	$ 3,923,499	$ 4,461,554	$ 538,055	87.94 %	$ 812,363	66.23 %
County - Safety	1,745,937	2,032,001	286,064	85.92	273,170	104.72
Flood Control	104,545	125,474	20,929	83.32	15,585	134.29
Park District**	825,991	1,023,127	197,136	80.73	160,900	122.52
Waste Management**	825,991	1,023,127	197,136	80.73	160,900	122.52

** The amounts disclosed reflect the entire Risk Pool fund in which Park District and Waste Management are included and does not represent their specific assets and liabilities. CalPERS Risk Pool valuation does not report specific assets and liabilities separately.

The Schedule of Funding progress presented as required supplementary information (RSI), following the notes to the financial statements, presents multi-year trend information on whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

NOTE 18 – DEFINED BENEFIT PENSION PLAN

Plan Descriptions and Contribution Information

Plan Description. The County provides an IRS Section 401(a) single-employer defined benefit employee pension plan for Part-Time and Temporary employees (the Plan) who are not eligible for Social Security or CalPERS retirement benefits through the County. This Plan is self-funded and self-administered. Effective July 20, 2010, the County Board of Supervisors appointed U.S. Bank as the Plan's Investment Consultant, Investment Manager and Trustee. Contributions made to the Plan are deposited with U.S. Bank, who maintains the responsibility of investing contributions in a diversified portfolio and reported at fair value. Participants are immediately 100% vested in the Plan upon enrollment. No financial report has been issued separately for public view under Defined Benefit Pension Plan.

Contributions. Participants in the Plan are required to contribute 3.75% of their compensation to the Plan. According to the June 30, 2011 valuation, the County's current required contribution rate is 1.79%, however, the County elected to contribute 1.36 % of payroll in order to obtain a 90% target funded ratio within 5 years. The Plan's current funded ratio is 85.2%. The Plan actuary periodically calculates the minimum recommended employer contribution rate through preparation of an actuarial valuation report and the County determines the contribution rates. Administrative costs of the Plan are paid by the Trustee from Plan assets.

Membership for the plan consisted of the following at July 1, 2011, the date of the latest actuarial valuation:

Number of Participants:	
Active plan members	1,758
Terminated and inactive members	6,613
Retirees	128
Total	8,499

Basis of Accounting. The pension plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Method Used to Value Investments. Prior to the transition to U.S. Bank, investments of the pension trust were fully invested in the County pool and reported at fair value. On September 28, 2010 Plan Investments were transferred to the new Trustee and Investment Manager, U.S. Bank. U.S. Bank invests Plan funds according to the Plan's Investment Policy. As of June 30, 2012, assets were invested in cash equivalents (1.88%), equities (70.79%), fixed income (27.24%), and accrued income (0.09%).

Schedule of Annual Pension Cost and the Net Pension Obligation (NPO) for 2012 and the two preceding years were as follows (dollar amounts in thousands):

Fiscal Year Ending	Annual Required Contribution (ARC)	Interest on NPO	Adjustment to the ARC	Annual Pension Cost	Actual Contribution	NPO End of Year	Percentage Contributed
2010	$ 144	$ (145)	$ 227	$ 226	840	$ (3,515)	372 %
2011	156	(176)	275	255	425	(3,685)	167
2012	160	(240)	(747)	(827)	559	(5,071)	(68)

NOTE 18 – DEFINED BENEFIT PENSION PLAN (Continued)

Summary of Significant Accounting Policies

Annual Pension Cost and Net Pension Obligation (dollar amounts in thousands):

Annual required contribution	$	160
Interest on net pension obligation (asset)		(240)
Adjustment to annual required contribution		(747)
Annual pension cost		(827)
Contributions made		(559)
Increase (decrease) in net pension obligation (asset)		(1,386)
Net pension obligation (asset) beginning of year		(3,685)
Net pension obligation (asset) end of year	$	(5,071)

Schedule of Funding Progress

The funded status of the Plan as of July 1, 2011, the most recent actuarial valuation date and the two preceding years were as follows (dollar amounts in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2009	$ 19,384	$ 21,402	$ 2,018	90.57 %	$ 26,550	7.60 %
July 1, 2010	19,992	23,633	3,641	84.59	41,284	8.82
July 1, 2011	23,063	27,079	4,016	85.17	33,657	11.93

The schedules of funding progress, presented as required supplementary information (RSI), following the notes to the financial statement, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

Actuarial Methods and Assumptions

The following information is as of the date of the most recent actuarial valuation:

Valuation date	7/1/2011
Actuarial cost method	Projected Unit Credit
Amortization method	Level-Dollar Projected Payroll
Remaining amortization period	20 years - Open
Asset valuation method	Market Value plus Receivables
Actuarial assumptions:	
Investment rate of return	5.0%
Projected salary increases	3.0%
Inflation rate	3.0%

NOTE 19 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Descriptions

The County of Riverside (County) and its Special Districts: Flood Control and Water Conservation District (Flood Control); Regional Parks and Open-Space District (Park District); and Waste Management offer post employment benefits to eligible County retirees. Benefit provisions are established and amended through negotiations between the County and the various bargaining units.

The post employment benefits provide:

- The County provides retiree medical benefits for eligible retirees enrolled in County sponsored plans. The benefits are provided in the form of:
  - Monthly County contributions toward the retiree's medical premium, and
  - $25 per month to the Riverside Sheriffs' Association (RSA) Benefit Trust for RSA law enforcement retirees.
- Previously, the County allowed certain retirees to receive coverage prior to age 65 by paying premiums that were developed by blending active and retiree costs, which resulted in an implicit subsidy to retirees. The implicit subsidy has been discontinued.

A qualified Section 115 Trust has been established for the County and its Special Districts (except Waste Management), with the California Employers' Retiree Benefit Trust (CERBT). CERBT administers each plan's assets and issues a financial report available for public review, which includes financial statements and required supplementary information for the plans. The CERBT report may be obtained from: CalPERS Employer Services Division, P.O. Box 942703, Sacramento, CA 94229-2703.

Funding Policy and Annual OPEB Cost

It is the policy of the County of Riverside, along with the special districts (Park District and Flood Control) to fully contribute an amount at least equal to the Annual Required Contribution (ARC), as determined by the Post Retirement Benefits Actuarial Valuation Study for each trust. To facilitate funding for the ARC, the County has developed a rate structure. It is the policy of the Waste Management to fund the ARC on a pay-as-you-go basis.

Contribution requirements of the plan members and the County are established and may be amended through negotiations between the County and the respective unions. The County's annual Other Post Employment Benefit (OPEB) cost (expense) for each plan is calculated based on the *ARC of the employer*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over 30 years (12 years for Waste Management).

The County's annual OPEB cost for the current year and the related information for each plan are as follows (dollar amounts in thousands, except for contribution rates):

	County	Flood Control	Park District	Waste Management
Contribution rates:				
County	Bargaining Unit Determined	Bargaining Unit Determined	Bargaining Unit Determined	Bargaining Unit Determined
	$25-$256	$25-$256	$25-$256	$25-$256
Plan members	$403-$964	$403-$964	$403-$964	$403-$964
Annual required contribution	$ 2,499	$ 23	$ 2	$ 92
Interest on net OPEB obligation	(1,709)	(33)	(19)	(1)
Adjustment to annual required contribution	1,329	26	15	(117)
Annual OPEB cost	2,119	16	(2)	(26)
Contributions made	(3,837)	(70)	(4)	(23)
Increase in net OPEB obligation (asset)	(1,718)	(54)	(6)	(49)
Net OPEB obligation (asset) beginning of year	(21,118)	(429)	(271)	49
Net OPEB obligation (asset) end of year	$ (22,836)	$ (483)	$ (277)	$ -

NOTE 19 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and the two preceding years for each of the plans were as follows (dollar amounts in thousands):

	Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation (Asset)
County	06/30/10	$ 4,238	197.3 %	$ (18,015)
	06/30/11	3,012	203.0	(21,118)
	06/30/12	2,119	181.1	(22,836)
Flood Control	06/30/10	45	397.8	(275)
	06/30/11	38	505.2	(429)
	06/30/12	16	437.5	(483)
Park District	06/30/10	4	550.0	(233)
	06/30/11	4	1,050.0	(271)
	06/30/12	(2)	200.0	(277)
Waste Management	06/30/10	99	159.6	(62)
	06/30/11	135	17.8	49
	06/30/12	(26)	88.4	-

Funded Status and Funding Progress

The following is funded status information for each plan as of June 30, 2012, which is the most recent actuarial valuation date (dollar amounts in thousands):

	County	Flood Control	Park District	Waste Management
Actuarial accrued liability (a)	$ 40,166	$ 482	$ 139	$ 1,089
Actuarial value of plan assets (b)	19,460	269	232	-
Unfunded actuarial accrued liability (funding excess) (a) - (b)	$ 20,706	$ 213	$ (93)	$ 1,089
Funded ratio (b) / (a)	48.45%	55.81%	166.91%	0.00%
Covered payroll (c)	$ 1,012,698	$ 15,600	$ 4,871	$ 3,302
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ([(a) - (b)] / (c))	2.04%	1.37%	-1.91%	32.98%

Actuarial valuations are estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the Annual Required Contributions (ARC) of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are projected about the future. The required schedule of funding progress, presented as required supplementary information, provides multi-year trend information reflecting whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE 19 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the County and the plan members. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant costing methods and projected assumptions were as follows:

	County	Flood Control	Park District	Waste Management
Actuarial valuation date	7/1/2011	7/1/2011	7/1/2011	1/1/2009
Actuarial cost method	Entry age	Entry age	Entry age	Entry age
Amortization method	Level percentage of Payroll, open	Level percentage of Payroll, open	Level percentage of Payroll, open	Level percentage of Payroll, open
Remaining amortization period	30 years	30 years	30 years	11 years
Actuarial assumptions:				
Investment rate of return*	7.61%	7.61%	7.61%	4.5%
Projected salary increases**	3.25%	3.25%	3.25%	3.25%
Healthcare inflation rate (initial)	5%	10%	10%	10%
Health inflation rate (ultimate)***	5%	5%	5%	5%

*The investment rate of return changed from 7.75% in prior valuation to 7.61%. This change was made based on CERBT's anticipated asset investment return for Asset Allocation Strategy 1.

**The estimated increase in salaries is 3.25%. This is the annual rate at which total payroll is expected to increase and is used in the funding method to calculate the ARC as a level percent of payroll.

***The health inflation rate is determined by the annual Public Employees' Medical and Hospital Care Act (PEMCHA) contributions which were assumed to be 5% for all years.

NOTE 20 – COMMITMENTS AND CONTINGENCIES

Lawsuits and Other Claims

The County has been named as a defendant in various lawsuits and claims arising in the normal course of operations. In the aggregate, these claims seek monetary damages in significant amounts. To the extent the outcome of such litigation has been determined to result in probable financial loss to the County, such loss has been accrued in the accompanying basic financial statements. In the opinion of management, the ultimate outcome of these claims will not materially affect the operations of the County.

On March 24, 2011, the Governor signed Assembly Bill 99 (AB 99) into law. AB 99 established the children and Families Health and Human Services Fund (Fund). As specified in the legislation, the Fund was to be used, upon appropriation, by the California State Legislature for health and human services. The bill required $1.0 billion of the combined state and local children and families funds to be deposited in the fund for the fiscal year 2011-12. The amount required from each First 5 commission (AB 99 payment) represents 50.0% of the fund balance as of June 30, 2010. For the Riverside County Children and Families Commission, this amount was $30.1 million. The AB 99 payment was due by June 30, 2012. In accordance with the legislation, no 2012-2013 commission revenues would be paid until the full AB 99 payment is made. Accordingly, the Commission accrued the AB 99 obligation as a liability at June 30, 2011. A lawsuit was filed by the Commission with other First 5 Commissions against the State challenging that the bill violated the intent of Proposition 10. In fiscal year 2011-12, the Superior Court of California ruled in favor of the First 5 Commissions; therefore, AB99 was no longer an obligation. The Commission accrued the expenditure as an extraordinary item in fiscal year 2010-11 and reversed this item in fiscal year 2011-2012.

NOTE 20 – COMMITMENTS AND CONTINGENCIES (Continued)

Property Tax Administration Fee

On July 7, 2010, the Court of Appeal of the State of California issued a decision in favor of the cities and against the County of Los Angeles in a case brought by 47 cities regarding the calculation of Property Tax Administration Fees (PTAF). The legal issue in dispute is whether counties can include "flip" and "swap" revenues in the calculation of administrative costs that counties recover from cities. At the trial court level, the court-appointed Referee had concluded that the County of Los Angeles' calculation of the PTAF starting in fiscal year 2006-07 comported with Section 97.75 of California's Revenue and Taxation Code. The Court of Appeal reversed the judgment and remanded for further proceedings, holding that the County of Los Angeles' method of calculating its fee under Section 97.75 was unlawful. It is expected that the County of Los Angeles will petition the California Supreme Court for review. In the opinion of management, the decision to the case is significant for the County of Riverside because of similar claims against this County. The potential financial impact to the County related to the outcome of this case averages approximately $7.2 million in tax administration fees for fiscal year 2006-07 through fiscal year 2011-12.

County of Riverside Redevelopment Successor Agency

It is reasonably possible that the State Department of Finance could invalidate some but not all of the obligations reported on the Successor Agency's Recognized Obligation Payment Schedule (ROPS). Sec. 34171 (d) (1) of the Health and Safety Code recognizes bonds as enforceable obligations, as defined by Section 33602 and bonds issued pursuant to Section 58383 of the Government Code, including the required debt service. The majority of the total outstanding obligations reported on the ROPS of the Successor Agency to the RDA (92%) consist of bond debt service payments. The range of potential loss of revenue is only between 0 to $126.6 million spread over the remaining life of the Successor Agency through 2045.

Federal Grant Revenue

Compliance examinations for the fiscal year ended June 30, 2011, identified certain items of noncompliance with Federal grants and regulations. The total amount of expenditures that could be disallowed by the granting agencies cannot be determined at this time; however, County management does not expect such amounts, if any, to be material to the basic financial statements. The fiscal year 2011-12 Single Audit of federal awards report is expected to be submitted to the Federal Audit Clearinghouse on or before March 30, 2013.

Commitments

At June 30, 2012, the County had various non-cancelable contracts and construction-in-progress with outside contractors. These contracts were financed through either the General Fund or Capital Projects Funds. $175.5 million will be payable upon future performance under the contracts.

Landfill Construction and Consulting Contracts

The Waste Management Department entered into various construction and consulting contracts to facilitate its landfill operations and is in the process of installing landfill liners at Lamb Canyon in accordance with State and Federal laws and regulations. Waste Management expects to complete the installation of several landfill liners over the next five years and estimates additional future costs to be $18.6 million. These additional costs will be capitalized as the costs are incurred.

Remediation Contingencies

Governmental Funds

Release of gasoline and diesel fuel has been reported at seven underground storage tanks. Orders have been issued by the California Regional Water Quality Control Board (CRWQCB) to assess and cleanup these sites by specific dates. It has determined the remediation plan and monitoring action are required. In addition to groundwater contamination, asbestos has been found in six facilities. As of June 30, 2012 the Governmental Activities reflect a $2.4 million accrued remediation liability (Note 12). The liability has been calculated using the expected cash flow

NOTE 20 – COMMITMENTS AND CONTINGENCIES (Continued)

Remediation Contingencies (Continued)

Governmental Funds (Continued)

technique. The liability is subject to change over time. Cost may vary due to price fluctuations, changes in technology, results of environmental studies, changes to statue or regulations and other factors that could result in revisions to these estimates.

Enterprise Funds

Waste Management is presently aware of groundwater contamination at nine of its landfills, six of which are closed. Waste Management is also aware of air/gas contamination at 17 landfills, 11 of which are closed. Based on engineering studies, Waste Management estimates the present value of the total costs of corrective action for foreseeable contaminate releases at $29.8 million. At June 30, 2012, Waste Management has accrued $37.4 million for the estimated costs related to the remediation of these landfills. Remediation expense for fiscal year 2012 results from current estimates and current actual expenses.

Waste Management has established a remediation restricted cash fund and 17 remediation restricted cash escrow funds to set aside funds for future remediation costs as they are required to be performed. Investments of $52.0 million are held for these purposes at June 30, 2012 and are classified as Accrued Remediation in the Statements of Net Assets.

NOTE 21 – SUBSEQUENT EVENTS

Tax and Revenue Anticipation Notes (TRANs) and CalPERS Pre-payment Note

On July 1, 2012, the County issued $250.0 million in Tax and Revenue Anticipation Notes in the form of Series A due March 29, 2013 and Series B due June 28, 2013. The stated interest rate for the A Bonds is set at 2.0% per annum with a yield of 0.18%. The interest rate for the B Bonds is set at 2.0% per annum with a yield of 0.20%. Portions of the Note proceeds were used to prepay CalPERS contributions for 2012 - 13 in the amount of $83.5 million. Between the prepayment discount of 3.6%, and earnings on cash flow the County expects to net $3.2 million in cost savings. In accordance with California law, the TRANs Bonds are general obligations of the County and are payable only out of the taxes, income, revenues, cash receipts, and other monies of the County attributable to fiscal year 2013 and legally available for payment thereof. Proceeds for the Bonds will be used for fiscal year 2013 General Fund expenditures, including current expenditures, capital expenditures, and the discharge of other obligations or indebtedness of the County.

Riverside County Bonds and Certificates of Participation

On September 2012, Fitch, one of the three major credit ratings, has assigned the County's bonds and certificates of participation ratings as follows:

- Riverside County implied general obligation (GO) bond rating at 'AA-',
- Riverside County pension obligation bonds (POB-series 2005A) at 'A+'.
- Riverside County certificates of participation (COPs- series 2003, 2003A, 2003B, 2005A, 2005B, 2007A, 2007B, 2009) at 'A+'.
- Riverside County Asset Leasing Corporation certification of participation (CORAL- COPS/series 2006A and lease revenue bonds (LRBs), series 1993B, 1997A, 1997B, 1997C, 2000A) at 'A+'.
- Riverside County Palm Desert Financing Authority lease revenue bonds (LRBs) (series 2003A) at 'A+'.
- Southwest Communities Financing Authority lease revenue bonds (LRBs) (series 2008A) at 'A+'.

Fitch's reasoning is summarized in the following paragraphs:

Riverside County was among the nation's hardest hit regions during the recent recession, but its economy has shown steady improvement in recent months. The County has experienced 28 consecutive months of year-over-year employment gains, enabling it to recover more than half of jobs lost from March 2007 peak levels.

NOTE 21 – SUBSEQUENT EVENTS (Continued)

Riverside County Bonds and Certificates of Participation (Continued)

The County's housing market received national attention for the depth of home values declines during the recent recession, but modest price gains during the first two quarters of 2012 point to recovery in this sector as well. Continued recovery in the real estate market is supported by the same advantages that contributed to the region's out-sized growth prior to the recession: above-average population growth spurred by affordable housing and access to the large and vibrant southern California labor market.

The County has proactively balanced the fiscal 2013 budget without the use of reserves following four years of deficit operations and has taken steps to lower expenditures. Further, the Board has stated its intent to cut services for which the State reduces or eliminates related funding, which somewhat mitigates concerns over weak State funding. The State's efforts to re-align the provision of public services may result in future unfunded liabilities, though the State has signaled its intent to fund certain related costs in at least the first year, and the County has already incorporated known re-alignment costs into its recommended budget.

Teeter Obligation Notes, Series D

On October 2012, the County issued $142.8 million in 2012 Teeter Obligation Notes, Series D to refund a portion of the outstanding 2011 Teeter Obligation Notes, Series B, and fund in advance of unpaid property taxes for agencies participating in the County's Teeter Plan. The 2012 Notes bear an interest rate of 2% and a maturity date of October 16, 2013 when the existing Letter of Credit will expire.

The Effects of the Economy on CalPERS

Based on past performance of the CalPERS fund, CalPERS has estimated the County's Miscellaneous and Safety contribution rates for fiscal year 2012-2013 will be 13.5% and 22.5%, respectively. Fiscal year 2013-14 contribution rates for Miscellaneous and Safety are estimated at 15.0% and 23.4%, respectively. They will be accounted for in fiscal year 2011-12 and future budget years.

On September 12, 2012, the legislature passed and the Governor signed into law the "California Public Employees' Pension Reform Act of 2013" ("PEPRA"), creating Assembly Bill 340 and amending certain sections of the 1937 Act.

The Bill requires a public retirement system to modify its plan to comply with the new law. The Bill establishes a new formula that cannot be exceeded by a public employer offering a defined benefit pension plan and sets a maximum benefit allowable for employees first hired on or after January 1, 2013.

On June 2012, the County presented to the board the intention to adopt an amendment to the CalPERS contract set forth in the Resolution of Intention to Approve an Amendment to Contract to provide 2% @60 for Local Miscellaneous members, and 2% @50 for Local Safety members, each with Three-Year Final Compensation, for employees' first entering CalPERS membership with the County after the contract amendment effective date.

Recent Changes in Legislation Affecting Housing Authority

On December 29, 2011, the California Supreme Court upheld Assembly Bill X1 26 (Bill). The court ruling dissolved all redevelopment agencies in the State of California. This action impacted the reporting entity of the County that previously had reported a redevelopment agency blended component unit.

The Bill establishes that, upon dissolution of a redevelopment agency, the County or another unit of local government will commit to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government.

After enactment of the Bill, which occurred on June 28, 2011, redevelopment agencies in the State of California could not enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of

NOTE 21 – SUBSEQUENT EVENTS (Continued)

Recent Changes in Legislation Affecting Housing Authority (Continued)

dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, property tax revenue will be allocated to the Successor Agency in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill requires the State Controller to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

In pursuance with the timeline set forth in the Bill, all redevelopment agencies in the State of California were dissolved and ceased to operate as legal entities as of February 1, 2012.

On July 3, 2012 the Board of Commissioners of the Housing Authority adopted Resolution No. 2012-005 authorizing the Housing Authority to accept any and all assets, liabilities, duties, loans, leases, and obligations associated with the housing activities of the former Redevelopment Agency for the County of Riverside upon approval by the Oversight Board.

On July 17, 2012 the Board of Commissioners of the Housing Authority adopted Resolution No. 2012-009 to accept the release and transfer of fund assets from the Successor Agency to the Redevelopment Agency for the County of Riverside to the Housing Authority. The fund assets include the Low and Moderate Income Housing Funds identified in the July through December 2012 Recognized Obligation Schedule (ROPS) and the Housing Bond Proceeds, held by the Bank of New York Mellow as trustee, for draw downs and reimbursement of enforceable obligations, subject to approval by the Oversight Board.

The transfers of assets include 57 parcels of land with a total estimated value of $34.3 million; leases that would generate annual revenues of approximately $77 thousand; and deferred loan receivables with an estimated total of $55 million.

Palm Desert Financing Authority

On October 9, 2012, the Authority commenced refunding the Lease Revenue Bonds (County Facility Projects), 2003 Series A to the Lease Revenue Bonds (County Facility Projects), and Series 2012 for $18.0 million. Estimated close of the refunding is November 1, 2012.

County of Riverside Asset Leasing Corp (CORAL)

In July 2012, CORAL issued $90.5 million in lease revenue bonds (2012 Series A and Taxable Series B County of Riverside Capital Projects) to provide funds to refund and prepay the Corporation's Leasehold Revenue Bonds, 1997 Series B with an outstanding principal amount of $63.9 million; to provide funds ($30.0 million) for improvements to the Medical Center Campus; deposit funds into the Debt Service Reserve Fund, and to pay certain cost of issuance incurred in connection with this refunding. The refunding resulted in a redemption premium of $639.3 thousand for the 1997 Series B lease revenue bonds and a net premium of $6.9 million for the 2012 Series A and Taxable Series B. The reacquisition price exceeded the net carry amount of the old debt by $26.6 million. The amount is being netted against the new debt and amortized over the new debt's life. The transaction resulted in an economic gain of $8.0 million and a reduction of $7.1 million in future debt service payments.

NOTE 22 – SUCCESSOR AGENCY TRUST for ASSETS OF FORMER REDEVELOPMENT AGENCY

On December 29, 2011, the California Supreme Court upheld Assembly Bill X1 26 ("the Bill") that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the County that previously had reported a redevelopment agency blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the county or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. On January 10, 2012, the Riverside County Board of Supervisors met and created a Successor Agency in accordance with the Bill as part of County resolution number 2012-034.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated tax increment revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full.

The Bill directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the County are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The County's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the County.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entities as of February 1, 2012.

Prior to that date, the final seven months of the activity of the RDA are reported in the governmental funds of the County. After the date of dissolution, as allowed under Section 34176(a) of the Bill, the County elected to retain the housing assets and functions previously performed by the former RDA. The assets and activities for the Successor Agency Housing fund continue to be reported in the County's governmental fund financial statements. The remaining assets, liabilities, and activities of the dissolved RDA are reported in the Successor Agency fiduciary fund (private-purpose trust fund) in the financial statements of the County.

The movement of the assets and liabilities of the former redevelopment agency as of February 1, 2012, (effectively the same date as January 31, 2012) from governmental funds of the County to fiduciary funds was reported in the governmental funds as an extraordinary loss (or gain) in the governmental fund financial statements. The receipt of these assets and liabilities as of January 31, 2012, was reported in the private-purpose trust fund as an extraordinary gain (or loss).

Because of the different measurement focus of the governmental funds (current financial resources measurement focus) and the measurement focus of the trust funds (economic resources measurement focus), the extraordinary loss (gain) recognized in the governmental funds will not be the same amount as the extraordinary gain (loss) that will be recognized in the fiduciary fund financial statements.

NOTE 22 – SUCCESSOR AGENCY TRUST for ASSETS OF FORMER REDEVELOPMENT AGENCY *(Continuation)*

The difference between the extraordinary loss recognized in the fund financial statements and the extraordinary gain recognized in the fiduciary fund financial statements is reconciled as follows:

Total Extraordinary gain reported in the government-wide financial statements of the County	$ 502,638
Capital Projects transfer to private purpose trust fund	206,056
Debt Service transfer to private purpose trust fund	63,648
RDA Housing Successor Agency	30,788
Long-term debt reported in the government-wide financial Statements – increase to net assets of the Successor Agency Trust Fund	(803,131)
Net decrease to net assets of the Successor Agency Trust Fund as a result of initial transfers	$ (533,427)

Successor Agency: Long-term Debt In accordance with the provisions of the Bill and the court case, the obligations of the former Redevelopment Agency became vested with the funds established for the successor agency upon the date of dissolution, January 31, 2012. Tax increment revenue is pledged to fund the debts of the Successor Agency Trust subject to the reapportionment of such revenues as provided by the Bill.

The debt of the Successor Agency Trust as of June 30, 2012, is as follows:

	Successor Agency Trust	
Year ending June 30	**Principal**	**Interest**
2012	$ -	$ 20,286,323
2013	16,230,000	40,252,982
2014	16,870,000	39,576,849
2015	17,585,000	37,450,380
2016	18,385,000	36,691,025
2017	19,240,000	42,025,931
2018-2022	110,615,000	170,601,172
2023-2027	130,939,585	146,827,331
2028-2032	167,749,983	108,458,740
2033-2037	207,648,881	58,641,131
2038-2042	91,482,774	21,848,434
2043-2045	6,384,525	17,382,661
Total	**$ 803,130,748**	**$ 740,042,959**

Changes in Long-term Liabilities

The Successor Agency has an ending balance of $803.1 million for tax allocation bonds of which $16.2 million is due within one year.

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