MANAGEMENT'S DISCUSSION AND ANALYSIS

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MANAGEMENT'S

DISCUSSION AND ANALYSIS

The information in this section is not covered by the Independent Auditor's Report. 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, 2011. We encourage readers to consider the information presented here in conjunction with the Letter of Transmittal.

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. The County's basic financial statements include three components:

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

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

- Other Required Supplementary Information – Retirement plan schedules of funding progress
- 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 Activities* presents 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 (such as revenues pertaining to uncollected taxes or expenses pertaining to earned but unused vacation and sick leave).

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 five major funds, twenty-one nonmajor funds, and a representative allocation of the County's internal service funds. The five major Governmental funds are the General Fund, Flood Control Special Revenue Fund, Teeter Debt Service Fund, Public Facilities Improvements Capital Projects Fund, and Redevelopment 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 (RCPDFA) 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
- Redevelopment Agency for the County of Riverside
- 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 2010-11)
- Riverside County Service Areas
- Inland Empire Tobacco Securitization Authority
- Perris Valley Cemetery

Fund Financial Statements 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 a 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 and Redevelopment 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, and the Inland Empire Tobacco Securitization Authority. 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 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 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 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.

Required Supplementary Information, in addition to this MD&A, presents schedules of retirement plan funding progress.

FINANCIAL HIGHLIGHTS

- At the close of the current fiscal year, the County's assets of $7.4 billion exceeded its liabilities of $3.5 billion resulting in $3.9 billion of net assets.
- Net assets includes $1.4 billion of unrestricted net assets, which may be used to meet the County's ongoing obligations to citizens and creditors; $0.7 billion of restricted net assets, which is required by external sources or through enabling legislation to be used for specific purposes, and $1.8 billion is invested in capital assets, net of related debt.
- During fiscal year 2010-11, the County's net assets marginally increased by $24.8 million. Of this amount, $28.4 million were from governmental activities and offset by $3.6 million decrease from business-type activities. The slight increase was primarily due to minimal favorable net results of operating activities caused by macroeconomic fluctuation. Countywide expenses of $3.3 billion were offset by program revenues of $2.5 billion, leaving an operating deficit of $802.3 million. The operating deficit was offset by general revenues of $827.1 million.
- As of June 30, 2011, the total fund balances of the governmental funds were $1.8 billion. This represents a decrease of 1.5%, or $27.6 million, in comparison with the prior year. The decrease was a result of fund balance restatement of $5.5 million due to the Redevelopment Agency's overstatement of loans receivable from prior years, and lower net results of operation activities due to continuing decline in taxes and investment revenues.
- As of June 30, 2011, fund balance for the General Fund was $343.6 million, or 15.3% of the total General Fund expenditures. This amount includes $98.6 million of restricted fund balance and $50.1 million of committed fund balance.
- The County's long-term debt showed a net increase of 4.3%, or $110.4 million, compared to the prior year. These obligations are bonds payable, capital leases, certificates of participation, loans payable, and other long term debt.
- In June 2011, ABx1 26 and ABx1 27 were chaptered. These bills' impact to the California Redevelopment Agencies and the County's reaction to them are described in Note 22 to the financial statements.

On July 18, 2011, the California Redevelopment Association ("CRA") and the League of California Cities ("League") filed a petition for writ of mandate with the California Supreme Court, requesting the Court to declare the two bills as unconstitutional. They contend that the bills violated Proposition 22 which was passed by the voters in November 2010.

On August 11, 2011, the California Supreme Court issued an order in California Redevelopment Assn. v. Matosantos (S194861), directing the parties to show causes why the relief sought in the petition for a writ of mandate should not be granted.

The court established an expedited briefing schedule designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of Net Assets – Net assets may serve as a useful indicator of a government's financial position. At the end of the current fiscal year, the County reported positive net asset balances for both governmental and business-type activities, with total assets exceeding liabilities by $3.9 billion.

The table below provides summarized data from the Statement of Net Assets of the County for June 30, 2011, as compared to the prior year:

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

	Governmental Activities		Business-type Activities		Total		Increase/ (Decrease)
	2011	2010	2011	2010	2011	2010	%
Current and other assets	$3,289,402	$3,295,758	$ 324,984	$ 315,817	$3,614,386	$3,611,575	0.1%
Capital assets	3,494,794	3,301,367	270,293	271,608	3,765,087	3,572,975	5.4%
Total assets	6,784,196	6,597,125	595,277	587,425	7,379,473	7,184,550	2.7%
Other liabilities	760,630	739,178	73,802	51,932	834,432	791,110	5.5%
Long-term liabilities	2,384,434	2,263,589	305,350	315,809	2,689,784	2,579,398	4.3%
Total liabilities	3,145,064	3,002,767	379,152	367,741	3,524,216	3,370,508	4.6%
Net assets:							
Invested in capital assets, net of related debt	1,687,128	1,594,275	113,489	96,901	1,800,617	1,691,176	6.5%
Restricted	656,347	604,942	43,086	50,386	699,433	655,328	6.7%
Unrestricted	1,295,657	1,395,141	59,550	72,397	1,355,207	1,467,538	-7.7%
Total net assets	$3,639,132	$3,594,358	$ 216,125	$ 219,684	$3,855,257	$3,814,042	1.1%

The County's total net assets increased by 0.7%, or $24.8 million, during fiscal year 2010-11 compared to the prior year's increase of 3.1%, or $115.8 million. The $28.4 million increase in net assets was from governmental activities and offset by $3.6 million decrease from business-type activities. For the prior year, $119.3 million of the increase in net assets were from governmental activities and a decrease of $3.5 million from business-type activities. Below are the three components of net assets and their respective fiscal year-end balances:

- **Invested in capital assets net of related debt** represents 46.7%, or $1.8 billion, of the County's total net assets for fiscal year 2010-11 compared to 44.3%, or $1.7 billion, for fiscal year 2009-10. The increase is attributable to the completion of multiple construction projects including Larry D. Smith Correctional Facility Expansion, Palm Desert Sheriff Station, San Jacinto Valley Animal Shelter, Hictoric Courthouse Renovation, expansion of Rancho Jurupa Park, and Louis Rubidoux Library. This component consists of capital assets (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 18.1%, or $699.4 million, of the County's total net assets for fiscal year 2010-11 compared to 17.2%, or $655.3 million, for fiscal year 2009-10. 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 35.2%, or $1.4 billion, of the County's total net assets for fiscal year 2010-11 compared to 38.5%, or $1.5 billion, for fiscal year 2009-10. 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 2010-11, $1.3 billion is from governmental activities and $59.6 million is for business-type activities compared to $1.4 billion for governmental activities and $72.4 million for business-type activities for the prior year.

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 2010-11 with a total of $1.4 billion being recognized. The increase of $8.2 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 $591.7 million was earned as governmental activity charges for services compared to $567.3 million for fiscal year 2009-10. 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 increase of $24.4 million was largely attributable to an increase in cities' law enforcements and fire protection contracts. The Public Protection is primarily generated through contracted law enforcement services provided by the Sheriff's Department to various local governments.

- Capital Grants and Contributions resulted in the least amount of program revenue from governmental activities with $32.1 million earned for fiscal year 2010-11 compared to $31.1 million earned for fiscal year 2009-10. This revenue category accounts for grants and contributions received for the restricted use of capital acquisition. In fiscal year 2010-11, 91.8% of the revenue, or $29.5 million, as compared to 95.2%, or $29.6 million, for fiscal year 2009-10, was received for public ways and facilities programs and 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 $367.9 million recognized during the year, as compared to $440.3 million for fiscal year 2009-10. Investment earnings decreased by 32.8%, from $29.0 million to $19.5 million, as a result of continual declines in interest earnings reflecting rate cuts by the Federal Reserve. Motor vehicle in-lieu of taxes revenue decreased 4.6% from $246.5 million in fiscal year 2009-10 to $235.2 million in fiscal year 2010-11.

Expenses: Total program expenses for governmental activities were $2.8 billion for the current fiscal year, an increase of 3.7%, or $99.8 million as compared to prior fiscal year. The 36.5%, or $1.0 billion, of total governmental activities expenses were for Public Protection; 32.4%, or $907.2 million, for Public Assistance; 13.2%, or $370.0 million, for Health and Sanitation; and 10.7%, or $298.0 million, for General Government.

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, 99.9%, or $526.9 million, 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, $386.5 million, was received by RMC as compared to $367.3 million for the prior fiscal year.

Expenses: Total expenses for business-type activities were $547.9 million for the fiscal year compared to $525.1 million for the prior fiscal year. This represents an increase of 4.4%, or $22.9 million. The 73.2%, or $401.1 million, of total expenses were incurred by RMC compared to 74.3%, or $390.0 million, for the prior fiscal year. In addition, expenses for the Housing Authority were 15.7% of total expenses for business-type activities, or $86.0 million, compared to prior fiscal year's expenses of 15.5%, or $81.4 million; Waste Management Department was 10.4%, or $56.7 million, compared to 9.5%, or $50.0 million, the prior fiscal year. Flood Control and County Service Areas account for the remaining 0.7% of expenses consistent with the prior fiscal year.

The following table provides information from the Statement of Activities of the County for the fiscal year 2010-11, 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)
	2011	2010	2011	2010	2011	2010	%
Revenues:							
Program revenues:							
Charges for services	$ 591,738	$ 567,323	$ 526,860	$ 501,530	$ 1,118,598	$ 1,068,853	4.7%
Operating grants and contributions	1,393,016	1,384,791	-	-	1,393,016	1,384,791	0.6%
Capital grants and contributions	32,114	31,112	-	1,165	32,114	32,277	-0.5%
General revenues:							
Property taxes	367,867	440,282	-	-	367,867	440,282	-16.4%
Sales and use taxes	45,489	36,289	-	-	45,489	36,289	25.4%
Motor vehicle in-lieu taxes	235,153	246,493	-	-	235,153	246,493	-4.6%
Investment earnings	19,494	29,026	538	1,442	20,032	30,468	-34.3%
Other	151,970	99,654	6,617	-	158,587	99,654	59.1%
Total revenues	2,836,841	2,834,970	534,015	504,137	3,370,856	3,339,107	1.0%
Expenses:							
General government	298,032	323,949	-	-	298,032	323,949	-8.0%
Public protection	1,021,288	1,062,213	-	-	1,021,288	1,062,213	-3.9%
Public ways and facilities	87,424	31,024	-	-	87,424	31,024	181.8%
Health and sanitation	369,984	347,634	-	-	369,984	347,634	6.4%
Public assistance	907,202	820,637	-	-	907,202	820,637	10.5%
Education	15,816	19,866	-	-	15,816	19,866	-20.4%
Recreation and culture	9,364	12,206	-	-	9,364	12,206	-23.3%
Interest on long-term debt	88,998	80,754	-	-	88,998	80,754	10.2%
Regional Medical Center	-	-	401,120	389,991	401,120	389,991	2.9%
Waste Management	-	-	56,688	49,956	56,688	49,956	13.5%
Housing Authority	-	-	86,027	81,426	86,027	81,426	5.7%
Flood Control	-	-	3,711	3,233	3,711	3,233	14.8%
County Service Areas	-	-	383	454	383	454	-15.6%
Total expenses	2,798,108	2,698,283	547,929	525,060	3,346,037	3,223,343	3.8%
Excess (deficiency) before Transfers	38,733	136,687	(13,914)	(20,923)	24,819	115,764	-78.6%
Transfers in (out)	(10,355)	(17,436)	10,355	17,436	-	-	0.0%
Change in net assets	28,378	119,251	(3,559)	(3,487)	24,819	115,764	-78.6%
Net Assets, Beginning of Year, as Restated	3,610,754	3,475,107	219,684	223,171	3,830,438	3,698,278	3.6%
Net Assets, End of Year	$ 3,639,132	$ 3,594,358	$ 216,125	$ 219,684	$ 3,855,257	$ 3,814,042	1.1%

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, 2011, the County's governmental funds reported combined fund balances of $1.8 billion, a decrease of $27.5 million, in comparison with the prior year. The components of total fund balance are as follows (See Note 14 – Fund balances for additional information)

- Nonspendable fund balance – $159.0 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 – $668.0 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 – $433.7 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 – $315.7 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 – $189.2 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 0.8%, or $23.6 million, from the prior fiscal year with $2.8 billion being recognized for the fiscal year-ended June 30, 2011. Expenditures decreased by 4.7%, or $146.4 million, from the prior fiscal year with $3.0 billion being expended for governmental functions during fiscal year 2010-11. Overall, governmental fund balance decreased by 1.5%, or $27.5 million. In comparison, fiscal year 2009-10 had a decrease in governmental fund balance of 10.5%, or $209.7 million, over fiscal year 2008-09.

<u>The General Fund</u> is the chief operating fund of the County. At the end of the current fiscal year, the General fund's total fund balance was $343.6 million, as compared to $386.5 million for the prior fiscal year. The decrease of $42.9 million, or 11.1% 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, less revenue from cases in the District Attorney's Consumer Fraud and Environmental Crimes Unit, an increase in service cost for public protection and public assistance, and an increase in categorical aid and caseload growth for group home placement and the Federal Medical Assistance Program (FMAP). 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 $2.2 million, and the spendable portion was $341.4 million. The current year unassigned fund balance is 8.4% of the total General Fund expenditures of $2.2 billion, as compared to 13.3% of the prior year expenditures total of $2.2 billion. The total fund balance of the General Fund for the current year is 15.3% of the total General Fund expenditures as compared to 17.3% for the prior year.

<u>Flood Control</u> fund balance increased by 3.7%, or $9.0 million, from $241.9 million in fiscal year 2009-10 to $251.0 million in fiscal year 2010-11 as a result of an excess of revenues over expenses in current year operating activities.

<u>Public Facilities Improvements Capital Projects</u> fund balance decreased from $338.7 million to $293.1 million, 13.5% or $45.6 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 correctional facility expansion, animal shelter, family clinics, and hub jail; and, an incessant decrease in other revenue and interest earnings due to a significant drop in interest rates caused by the sluggish economy.

Redevelopment Capital Projects fund balance increased from $261.3 million to $271.5 million, 3.9% or $10.2 million. The increase is attributable to the issuance of long term debt and prior year adjustment of $7.0 million due to overstatement of loans receivable from prior years.

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.

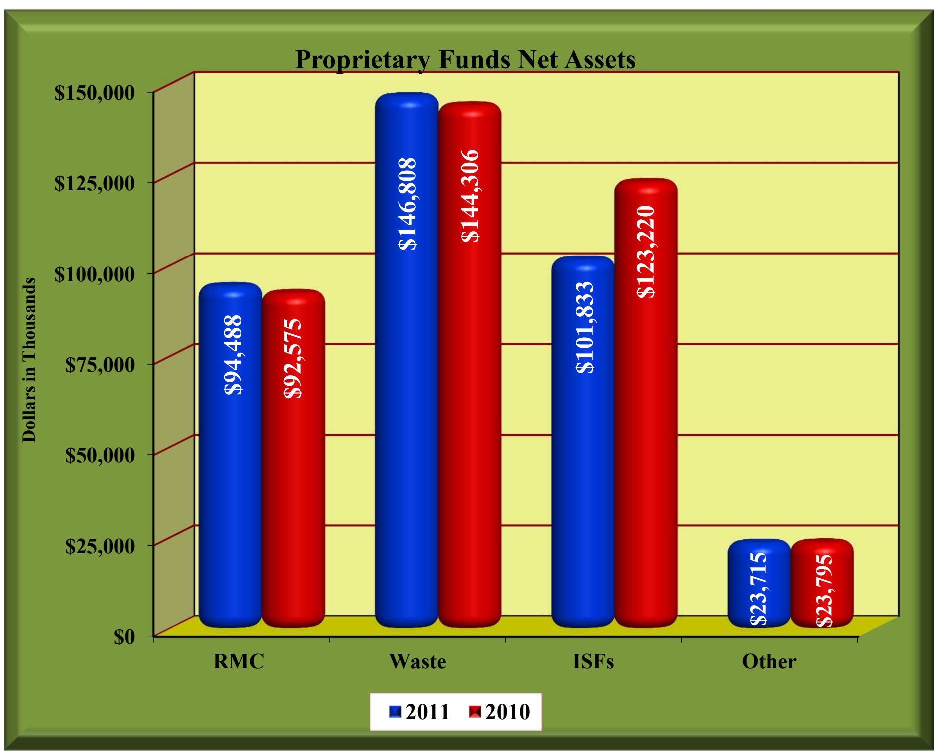
At the end of the fiscal year, total proprietary fund net assets were $366.8 million, compared to $383.9 million as restated for prior fiscal year. Total proprietary fund net assets decreased by 4.4% or $17.1 million, compared to 0.1%, or $0.3 million, decrease for the prior fiscal year.

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

- Riverside County Regional Medical Center: $38.2 million
- Waste Management: $61.1 million
- Other enterprise fund activities: $9.1 million
- Internal service fund activities: $80.4 million

RMC's net assets increased from $92.6 million to $94.5 million, 2.1%, or $1.9 million. The increase is attributable to higher net patient revenue and other operating revenues in fiscal year 2010-11.

Waste Management's net assets increased from $144.3 million to $146.8 million. The increase resulted from net of operating revenues over expenses.



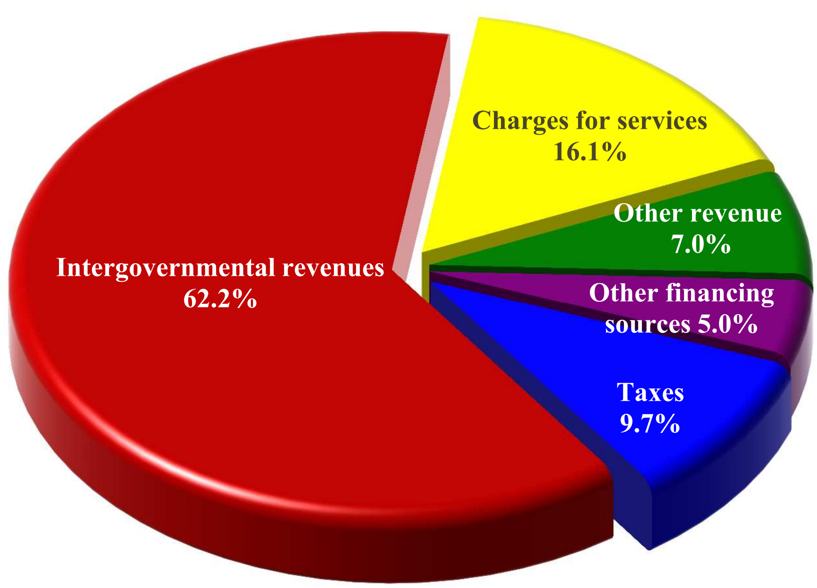
GENERAL FUND FINANCIAL ANALYSIS

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 2010-11	Percent of Total	Fiscal Year 2009-10	Percent of Total	Variance
Taxes	$ 221,807	9.7%	$ 229,631	9.6%	-3.4%
Intergovernmental revenues	1,428,562	62.2%	1,414,349	59.4%	1.0%
Charges for services	369,780	16.1%	367,249	15.4%	0.7%
Other revenue	161,234	7.0%	176,340	7.5%	-8.6%
Other financing sources	114,368	5.0%	194,851	8.1%	-41.3%
Total	$ 2,295,751	100.0%	$ 2,382,420	100.0%	-3.6%

The loss of tax revenue was attributable to a sharp decline in secured and supplemental property taxes due to a decrease in assessed values. The increase in intergovernmental revenue was primarily attributable to an increase in public assistance for categorical aid from the State, an increase in expenditures towards the Mental Health Services Act (MHSA) leading to greater reimbursements from the State, and Federal funding increases for the Women, Infant, and Children (WIC) program and the Homeland Security Metropolitan Medical Response System (MMRS). The slight increase in charges for services was primarily the result of increased revenues from city law enforcement contracts with the Sheriff Department and city fire protection contracts with the Fire Department. Other revenue decreased due to reduction in interest earnings attributable to a lower interest rate and due to less revenue from cases in the District Attorney's Consumer Fraud and Environmental Crimes Unit.

COUNTY OF RIVERSIDE
General Fund Revenues and Other Financing Sources
For The Year Ended June 30, 2011

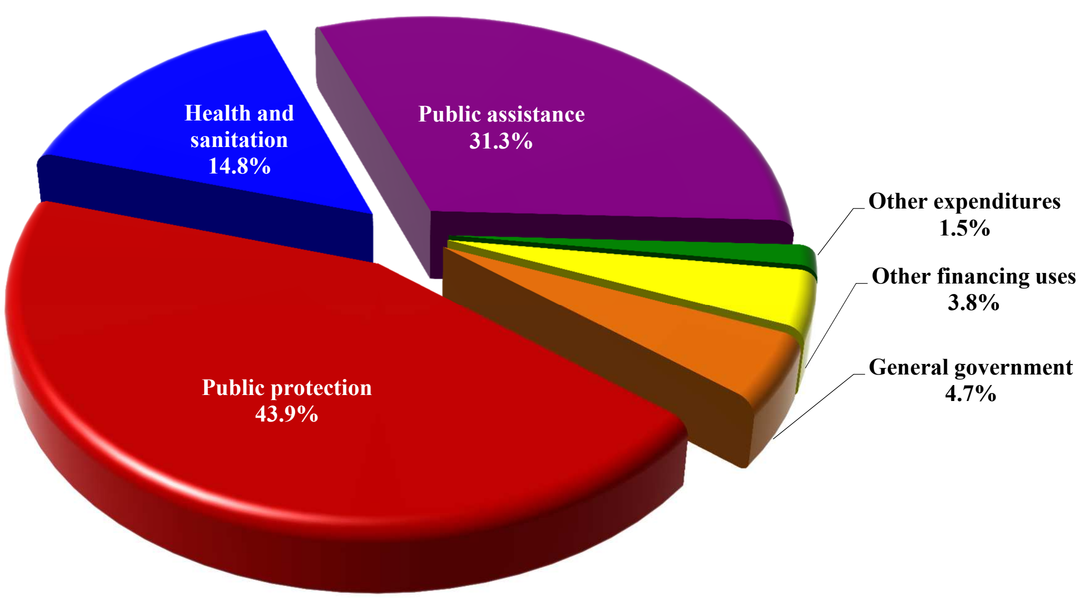


Expenditures and other financing uses for the General Fund, including comparative amounts from the preceding year, are shown in the following tabulation (in thousands):

Expenditures and Other Financing Uses	Fiscal Year 2010-11	Percent of Total	Fiscal Year 2009-10	Percent of Total	Variance
General government	$ 109,146	4.7%	$ 130,516	5.5%	-16.4%
Public protection	1,025,584	43.9%	1,005,679	42.5%	2.0%
Health and sanitation	345,649	14.8%	333,068	14.1%	3.8%
Public assistance	731,017	31.3%	712,353	30.1%	2.6%
Other expenditures	34,062	1.5%	53,757	2.3%	-36.6%
Other financing uses	93,217	3.8%	132,682	5.5%	-29.7%
Total	$ 2,338,675	100.0%	$ 2,368,055	100.0%	-1.2%

The decrease of expenditures in general government was attributable to a reduction in salaries and benefits due to position vacancies. Additionally, the Economic Development Agency (EDA) divisions of Custodial Services, Maintenance Services, and Real Estate, converted to internal service funds in FY 2010-2011. The increase of expenditures in public protection was mainly attributable to Sheriff, District Attorney, and Public Defender. Sheriff increased staffing which created, an increase in salary, retirement benefits, and overtime to cover needed positions. Additionally, Sheriff had an increase in lease payments for two Eurocopters. District Attorney had an increase in salaries and benefits due to furloughs expiring and a large payout of annual leave. Public Defender had established a new department for Capital Defenders. The increase of expenditures in health and sanitation was attributable to the Community Health Agency and Mental Health. The Community Health Agency increased costs due to retirements and additional funding for staff in the Women, Infant, and Children (WIC) program. Mental Health had an increase due to furloughs expiring, startup costs for the prevention program, and high usage of the Institute of Mental Disease (IMD). The increase in public assistance was attributable to an increase in categorical aid and caseload growth for group home placement and the Federal Medical Assistance Program (FMAP). The reduction in other expenditures is due to limited capital outlay expenditures and a decrease in principal payments. The decrease in other financing uses is due to less intergovernmental activities with the EDA divisions that were converted to internal service funds.

COUNTY OF RIVERSIDE
General Fund Expenditures and Other Financing Uses
For The Year Ended June 30, 2011



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 $82.8 million, or 3.4%, from $2.4 billion to the final amended revenue budget of $2.3 billion. The $82.8 million represents a decrease of $86.4 million in charges for services offset by an increase of $3.5 million in other revenue.

<u>Charges for Current Services</u>: The net decrease of $86.4 million, or 18.0%, for charges for current services was mainly the result of intergovernmental activities. Community Health Agency Animal Services had a decrease of $1.4 million from a reduction in contracts with cities.

<u>Other Revenue</u>: The increase in other revenue of $3.5 million, or 6.1%, was primarily the result of intergovernmental activities and a reclassification of operating transfers to other financing sources. This was offset by the Community Health Agency reduction of receipts in jail inspection and traffic fines.

Expenditure Appropriation Variances

The original adopted General Fund appropriation budget of $2.5 billion decreased by $51.2 million, or 2.0%, during the fiscal year. The significant appropriation changes were a decrease of $33.3 million in debt service, a decrease of $18.7 million in general government, and a decrease of $12.8 million in public assistance offset by an increase of $12.9 million in public protection and an increase of $0.7 million in health and sanitation. The major appropriation variances are described below.

<u>General Government:</u> The appropriation budget decreased by $18.7 million, or 9.6%, from the original adopted budget of $195.3 million to $176.6 million. The following information describes the significant factors for the variances:

- Salaries and employee benefits decreased by $2.2 million, or 2.5%, mainly due to intergovernmental activities and salary savings from furloughs and vacant positions.
- Services and supplies increased by $4.8 million, or 7.2%, mainly due to increases by Registrar of Voters, EDA, and Executive Office. Registrar of Voters increased by $1.3 million due to enhancements implemented for the November 2010 general election, higher-than-budgeted costs of printing sample ballots, and increased amount of temporary help. EDA Energy increased by $1.1 million to reflect the increase in utility accounts including the majority of County departments that are handled by the division. Executive Office increased by $0.8 million due to newly awarded contracts for the dispute resolution program funded through statutory court fines and fees. Also, Executive Office increased by $0.6 million due to an increase in court reporter transcripts.
- Other charges decreased by $23.6 million, or 33.2%, mainly due to a decrease in contributions to other funds by the Executive Office and intergovernmental activities offset by increases by the Board of Supervisors with $2.6 million in community improvement designations and EDA Project Management with $1.5 million for repairs on the First American Title Company building and additional minor capital projects.
- Intrafund transfers decreased by $3.0 million, or 5.5%, mainly due to position vacancies in EDA Facilities Administration, which decreased need for reimbursement by $5.2 million from other General Fund departments. This was offset by an increase of $1.6 million in payroll services and $0.5 million in energy services.
- Appropriation for contingencies decreased by $0.9 million, or 4.7%. The contingency budget covers current and potential General Fund liabilities. During the year, the major liabilities covered were a $1.7 million Registrar of Voters increase for the November 2010 general election, higher costs of printing sample ballots, and salary payout costs, a $0.7 million increase for foster care in DPSS, and a $0.4 million payment to the

March Joint Powers Authority (JPA) for franchise fees and services within the JPA. This was offset by a State reimbursement of $1.9 million for the May 2009 statewide special election.

Public Assistance: The appropriation budget decreased by $12.8 million, or 1.6%, from the original adopted budget of $779.9 million to $767.1 million. The following describes the significant factors for the variances:

- Salaries and employee benefits decreased by $5.1 million, or 2.2%, mainly due to intergovernmental activities and salary savings from frozen merit increases and furloughs within negotiated union contracts.

- Services and supplies decreased by $10.7 million, or 11.5%, mainly due to a change in the State's Consortium IV Project billing methodology for maintaining and operating the statewide automated welfare system, resulting in decreased expenditures and revenue for DPSS.

- Other charges increased by $3.0 million, or 0.7%, mainly due to an increase of $15.0 million in categorical aid for mandated client assistance programs such as Cal Works Assistance, Foster Care, Emergency Assistance, and Adoptions Assistance, and an increase of $2.9 million in provider wages for AB1612 mandated client services. This was offset by a decrease of $14.1 million primarily due to a reduction of $9.5 million for Stage 1 childcare services and a loss of $4.7 million from the Temporary Assistance for Needy Families (TANF) Emergency Contingency Fund (ECF).

Public Protection: The appropriation budget increased by $12.9 million, or 1.2%, 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 $6.7 million, or 1.0%, mainly due to an increase in salary costs among Sheriff and District Attorney, offset by salary savings with the Child Support Services, Probation, Public Defender, Fire, Animal Services, and Code Enforcement as a result of furloughs, position vacancies, and decreased city contracts for Animal Services.

- Services and supplies increased by $4.2 million, or 1.3%, mainly due to Fire with an increase of $4.6 million due to intergovernmental activities and acceptance of the following grants: Emergency Management Performance, Hazard Mitigation, FY10 Homeland Security, FY09 Buffer Zone Protection, Ron Auen Berger Foundation, CA Volunteers State Homeland Security, and Regional Catastrophic Preparedness. Child Support Services also had an increase of $1.5 million for additional costs in office equipment, professional services, lease payments, computer software, and temporary help services. This was offset by a decrease of $1.8 million by Sheriff, due to savings in supplies and services in various divisions.

- Other charges decreased by $2.1 million, or 4.6%, mainly due to a decrease of $5.5 million for intergovernmental activities primarily offset by a $1.3 million increase in Probation for kitchen equipment failures, security upgrades, maintenance, construction of new facilities at Riverside Juvenile Hall, and real estate expenses for an SB81 project. The decrease was also offset by Sheriff with a $1.2 million increase primarily for the Smith Correctional Warehouse Project.

- Capital assets increased by $4.4 million, or 124.2%, mainly due to an increase to Sheriff of $3.7 million primarily for the purchase of night vision binoculars, thirty court services vehicles, computer equipment, and AgencyWeb-Administrator and CourtNotify software packages with installation and training. Fire also had an increase of $0.6 million primarily for a fire engine and communications equipment.

Health and Sanitation: The appropriation budget increased by $0.7 million, or 0.2%, from the original adopted budget of $396.0 million to $396.7 million. The Community Health Agency had an increase due to expenditures related to a statewide audit of targeted case management claims and the maximizing of existing clinic space to increase services in various family care centers. Mental Health had an increase due to the purchase of Prevention Specialty Treatment vehicles.

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 $58.0 million resulting from unexpended appropriations of $217.1 million, or 8.8%, and overestimated revenue of $159.1 million, or 6.8%. The following contributed to the variance:

Expenditure Variances

General Fund actual expenditures of $2.3 billion were 8.8%, or $216.9 million, less than the final amended appropriation budget of $2.5 billion. General government, health and sanitation, public protection, public assistance, and debt service were the five most significant factors attributing to the unexpended appropriations as follows:

General Government: Actual expenditures of $109.1 million were less than the final amended budget of $176.6 million by $67.5 million, or 38.2%. The following describes the significant factors for the variances:

- Salaries and employee benefits were $6.7 million, or 7.6%, below budget primarily due to vacant positions at EDA for a savings of $2.6 million. Human Resources and Treasurer-Tax Collector had savings of $0.5 million each due to reduction in staff, furloughs, and vacant positions. Other general government departments had similar savings of a lesser proportion.
- Services and supplies were $11.4 million, or 16.2%, less than budgeted mainly due to Executive Office, EDA, Assessor, and Treasurer-Tax Collector. Executive Office accounts for $6.7 million mainly due to savings in construction contracts and communication equipment. EDA accounts for approximately $3.1 million of the variance mainly due to a $1.8 million savings in utility costs. The remaining savings in EDA included fewer information technology charges and less parking improvements made than planned. Assessor had savings of $0.6 million due to reductions in janitorial services, telephone services, and carpool expenditures. Treasurer-Tax Collector had savings of $0.5 million due to reduction in expenses for printing, legally required notices, and software consultants.
- Other charges were $33.9 million, or 71.7%, less than budgeted primarily due to intergovernmental activities. Contributions to other funds by the Executive Office were less than projected. EDA had savings due to lower costs for the tenant improvements at the Riverside Centre and postponed improvements for the First American Title Company building.
- Capital outlays were $2.4 million, or 59.2%, less than budgeted mainly due to EDA and Registrar of Voters. Projects in various buildings for the Energy Efficiency and Conservation Block Grant (EECBG) for EDA Energy were completed at a slower rate than expected. Registrar of Voters delayed purchase of a mail sorter and 400C scanner.
- Intrafund transfers were $6.0 million, or 11.6%, less than budgeted primarily due to EDA and County-wide Cost Allocation Plan (COWCAP) Reimbursement. EDA acquires reimbursements for project management, energy, and parking provided to General Fund departments. Reimbursements to the EDA Energy department were lower due to reduced utility costs. Reimbursements for project services were lower than anticipated because fewer services were requested by County departments than were originally projected, due to the slowing economy. COWCAP reimbursements were lower than anticipated due to the allocations for EDA Custodial, Maintenance, and Real Estate Services departments being transferred to newly created Internal Service Funds (ISF).

Health and Sanitation: Actual expenditures of $345.6 million were less than the final amended budget of $396.7 million by $51.1 million, or 12.9%. The following describes the significant factors for the variances:

- Salaries and employee benefits were $16.1 million, or 8.5%, less than budgeted primarily due to vacant positions in Mental Health with savings of $6.9 million and the Community Health Agency with savings of $4.8 million. Savings was also achieved through intergovernmental activities of $4.0 million.
- Services and supplies were $21.4 million, or 18.8%, less than budgeted primarily due to a $10.7 million savings in the Community Health Agency and a $10.6 million savings in Mental Health. The Community Health Agency 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 system maintenance and administrative support services. Mental Health administration had savings due to a delay in the implementation of the MHSA Workforce Education and Training (WET) program and a gradual implementation of the Behavioral Health Information System (BHIS). Mental Health Treatment had savings in information technology services, administrative support, and a legal services contract that was not renewed.
- Other charges were $18.8 million, or 10.0%, less than budgeted primarily due to Mental Health. Mental Health had savings of $18.7 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, and a contractor has not been found to provide services for the Augmented Board and Care (ABC) program.

- Capital assets were $1.3 million, or 69.6%, less than budgeted primarily due to Mental Health with $1.0 million savings mainly attributed to the gradual implementation of the BHIS.
- Intrafund transfers were $6.6 million, or 6.7%, less than budgeted primarily due to the Community Health Agency, MISP, and Detention Health Systems (DHS). The Community Health Agency administration had a variance of $2.8 million attributed to lower reimbursements due to cost reductions within the department. MISP had a variance of $2.0 million due to a lower allocation of Vehicle License Fee (VLF) realignment revenue. DHS had a variance of $0.6 million due to a lower reimbursement from Mental Health attributed to the reduction in cost of 340B drugs.

Public Protection: Actual expenditures of $1.0 billion were less than the final amended budget of $1.1 billion by $49.7 million, or 4.6%. The following describes the significant factors for the variances:

- Salaries and employee benefits were $22.0 million, or 3.1%, less than budgeted primarily due to intergovernmental activities with $11.0 million savings, Probation, Department of Child Support Services (DCSS), and Sheriff. Due to vacant positions, Probation had a salary savings of $5.7 million. DCSS had savings of $1.4 million mainly due to furloughs and position vacancies. Sheriff had savings of $1.2 million due to retirements not fulfilled and salary savings in administration, court services, and the public administrator division. The salary savings is also due to $0.9 million from Assessor-County Clerk-Recorder, $0.7 million from Fire, and $0.6 million from Planning.
- Services and supplies were $24.5 million, or 7.6%, less than budgeted due to Fire, Sheriff, Probation, Executive Office, Animal Services, County Clerk-Recorder, and Public Defender. Fire had savings of $13.5 million due to less than expected costs to Cal Fire including professional services, weed abatement, miscellaneous purchases for grants, equipment usage, and medical supplies. Sheriff had savings of $5.3 million primarily due to less expenditure for the High-Intensity Drug Trafficking Area (HIDTA) grant and less than expected costs for janitorial services, utilities, carpool, communication equipment, and computer lines. Probation had savings of $1.9 million partly due to the consolidation of food purchases for all institutions and detention facilities and other reductions in costs across divisions. Executive Office had savings of $1.2 million primarily from less than expected costs in trial court funding and confidential court orders. Animal Services had savings of $1.0 million in administrative support, utilities, insurance costs, and janitorial services. County Clerk-Recorder had savings of $0.9 million mainly in software maintenance, micrographic services, and mailing expenditures. Public Defender had savings of $0.6 million primarily from their Capital Defenders office for reductions in legal services for death penalty cases and office equipment.
- Capital assets were $2.8 million, or 35.5%, less than budgeted due to Fire and Sheriff. Fire had savings of $1.2 million mainly due to the purchase deferral of fire engines and equipment. Sheriff had savings of $1.5 million mainly due to patrol not purchasing aircraft, computer, and other equipment. Also, Sheriff Corrections delayed purchase of a vehicle and Sheriff Court Services did not purchase communications and computer equipment as planned.

Public Assistance: Actual expenditures of $731.0 million were less than the final amended budget of $767.1 million by $36.1 million, or 4.7%. The following describes the significant factors for the variances:

- Salaries and employee benefits were $12.4 million, or 5.4%, less than budgeted mainly due to furloughs and reduction in staffing levels by DPSS to meet budget cuts.
- Services and supplies were $11.0 million, or 13.4%, less than budgeted primarily due to DPSS reducing costs to meet budget constraints. The savings reflect a drop in cell phone rates and tenant improvement reductions in the following projects: Hemet Building 1 lobby renovation, Desert Hot Springs, Cathedral City carpet, and new buildings for Perris and information technology in mid-County.
- Other charges were $12.5 million, or 2.7%, less than budgeted primarily due to DPSS with savings in several areas. The savings in DPSS administration was due to low caseloads for childcare Stage 1 and 3 Welfare-to-Work (WTW) exemptions. Also, the Regional Market Rate (RMR), which is the maximum amount that childcare providers can be reimbursed, was reduced from 90% to 80%. In client services, expenditures came in lower for the Subsidized Temporary Employment Program (STEP) and Promoting Safe and Stable Families (PSSF). Also, price rates for the SB163 Wrap-around program were lower than

anticipated. In Mandated Client Services, savings were due to a decrease in In-Home Supportive Service (IHSS) contract caseload hours and a reduction in the Child Welfare Services (CWS) program.

Debt Service: Actual expenditures of $24.8 million were less than the final amended budget of $45.7 million by $20.8 million, or 45.6%, primarily due to a decrease in principal payments for capital asset leases for buildings and other purchases.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2011, the County's capital assets for both its governmental and business-type activities amounted to $3.8 billion (net of accumulated depreciation). The capital assets include land and easements, land improvements, construction in progress, equipment, and infrastructure. The County's infrastructure consists of channels, storm drains, levees, basins, roads, traffic signals, bridges, runways, parks, park trails, and landfill liners. The County's capital assets increased by 5.4%, or $192.0 million, from $3.6 billion in fiscal year 2009-10 to $3.8 billion in fiscal year 2010-11.

Construction in progress, equipment purchases, and land improvement experienced a decrease as the current economic slowdown presents challenges to balance budget with capital projects for use of scarce one-time general funds. Structures and improvements rose from $868.1 million in fiscal year 2009-10 to $1.1 billion in fiscal year 2010-11, a 26.0% increase as projects in construction were completed and transferred, noting the priority of the Board of Supervisors to focus attention on capital projects underway and bringing them to completion within budget.

In fiscal year 2010-11, new major projects budgeted for construction and design included the following: U.S. Federal Courts Riverside Facility Expansion and Remodel with a budgeted amount of $125.0 million, located on 12th Street in Riverside and an estimated $99.0 million for the County of Riverside Enterprise Solution for Property Taxation (CREST) project to re-engineer and replace the County's property tax system by the joined forces of the Assessor-County Clerk-Recorder, Treasurer-Tax Collector, and Auditor-Controller. Cabazon Civic Center budgeted at $17.8 million, which will include a library, a child development center, and an administration building for Cabazon Water District. Library projects include $9.8 million for the new building in Mead Valley, $3.5 million for the Palm Desert renovation, and $2.5 million for the Idyllwild remodel to the 5,800 square foot commercial site on Village Center. The Cajalco Expressway Interchange/Interstate 215 at Ramona Expressway project by the Department of Transportation at $8.7 million is intended to alleviate significant congestion at the interchange ramp terminal intersections and improve safety, capacity, and operation of the interchange as it is a gateway into the unincorporated Mead Valley area of the County and the City of Perris.

Construction in Progress

Additions to Construction in Progress for Fiscal Year 2010-11:

In fiscal year 2010-11, additions in the amount of $248.3 million consisted of costs related to existing projects and new projects.

Existing project costs include the following:

- Roads and signal infrastructures additions were $87.4 million.
- The EDA incurred $18.4 million in costs for projects such as the 30,636 square foot Mecca Boys and Girls Clubhouse geared towards its young population, as it will provide computer access and a safe environment for the children to study and foster teamwork. Lake Mathews Fire Station on the corner of El Sobrante and Cajalco Road, the Thermal Sheriff Station, which will be the Eastern Coachella Valley regional headquarters for the Sheriff Department, and the Desert Hot Springs Family Care Center that will provide crucial health services to the surrounding communities.
- Flood incurred $7.0 million in storm drain projects such as the Belltown Market Street and the Hawthorne Avenue in Menifee.
- Riverside County Regional Medical Center's Siemens Hospital Information System costs for the year were $4.2 million. They also incurred $2.5 million for the design and construction of an 84 bed Mental Health Facility, as well as $2.5 million for the design and construction for the Emergency Department Expansion.

New project costs include the following:

- The EDA started new projects in the amount of $51.2 million. The largest public works project in Riverside County, the Big League Dreams Perris Valley Sports Park for $19.8 million, providing needed recreational facilities and encouraging economic growth by bringing thousands of athletes to the City of Perris and $18.2 million for the Jurupa Valley Aquatic Center, a 7.5 acre state of the art water park composed of the Cove Water Park and a competition pool.
- Roads and signal infrastructures additions were $20.0 million.
- Public Safety Enterprise Communication incurred $17.2 million in costs related to the standards-based digital radio system. In April 2011, 35 of 68 sites were energized making the new radios functional and available for testing. Construction of 32 new sites is complete and 11 new perspective sites are in progress.
- CREST project additions of $3.4 million towards the system that will replace inefficient business processes and outdated technologies.

Construction in Progress Transfers:

Completed construction in progress projects of approximately $298.7 million were transferred from construction in progress to other designated capital asset accounts during fiscal year 2010-11. The major projects were as follows:

- $229.2 million was transferred to structures and improvements. Examples include $75.1 million for the Larry D. Smith Correctional Facility Expansion No. 3, which consists of a 582 bed expansion, $29.3 million for the Palm Desert Sheriff Station, the first building constructed by the County to receive the Leadership in Energy and Environmental Design gold certification, the San Jacinto Valley Animal Shelter for $18.4 million, and $14.6 million for the Historic Courthouse Renovation. Rubidoux experienced large project transfers, such as the Louis Rubidoux Library, Rubidoux Youth Opportunity Center, and the Don Schroeder Family Care Clinic for $28.7 million. The County's Regional Park and Open Space District incurred $12.1 million for the upgrade and expansion of the Rancho Jurupa Park that has expanded the park by 50 acres, a camp store, an 18-hole miniature golf course and their headquarter expansion project for $5.3 million to provide an additional room with 200 person capacity to expand wedding marketability and increase revenue.
- $68.4 million was transferred to infrastructure. Transportation and Land Management Agency transferred $47.9 million with examples such as the Miles Avenue Bridge over the Whitewater River in Indio for $22.3 million and $8.7 million for the construction of roadway widening, reconstruction, and traffic signals on Scott Road to reduce congestion and improve safety. The Flood Department transferred $13.5 million for storm drains, such as the Belltown Market Street and the Calimesa Avenue projects to provide improved flood protection to the surrounding areas.

Land and Easements

Additions of $11.4 million in land were processed this fiscal year. Flood Control obtained $9.2 million through cooperative agreements between Flood Control, the County, and the developer for the Benton Creek Channel and the San Sevaine-Birtcher Drive and Belle grave Avenue Storm Drains, where the District will assume operation and maintenance at the completion of the projects. Approximately $1.9 million by the Economic Development Agency for land in the City of Indio for a new 43,000 square foot 150 bed rescue mission on Van Buren Blvd. to meet the needs of the community.

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 2010-11 depreciable capital asset current year additions of $82.5 million were comprised of the following:

- Infrastructure in the amount of $50.9 million consisting of donated roads in the amount of $26.3 million and $24.6 million in flood storm drains and channels.

- Structures and improvements amounted to $11.7 million in assets, such as the El Cerrito Sports Park Community Center, the official home of Corona's National Little League consisting of three fields for soccer and football, two courts for basketball and tennis, and a tot lot.
- Equipment in the amount of $19.9 million distributed as follows:

  Equipment leased - $4.3 million
  Equipment field - $4.3 million
  Vehicles leased - $3.8 million
  Equipment vehicles - $3.0 million
  Miscellaneous equipment - $2.6 million
  Computer and office equipment - $1.9 million

Retirements of Depreciable Assets:

Retirement of depreciable assets totaled $178.7 million. Infrastructure in the amount of $117.3 million was retired from the Transportation and Land Management Agency for the transfer of roads to the newly incorporated Cities of Menifee, Wildomar, and Eastvale. Equipment was retired ranging from the categories of computer and office equipment to vehicle and leased equipment in the amount of $50.5 million, which includes $27.4 million disposed of and unaccounted for capital assets that were not physically transferred from Riverside General Hospital to the new facility when the Moreno Valley campus of RMC opened. Structures and Improvements for approximately $11.0 million were disposed of, which includes the transfer of a Probation building on 47671 Oasis Street to the State with the intent to construct a new juvenile court facility.

Transfers:

Completed construction in progress transferred for approximately $298.4 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 $138.2 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)
	2011	2010	2011	2010	2011	2010	%
Infrastructure	$1,411,930	$1,377,579	$ 50,421	$ 53,885	$1,462,351	$1,431,464	2.2%
Land and easements	433,594	429,874	21,325	21,325	454,919	451,199	0.8%
Land improvements	89	99	4,244	4,826	4,333	4,925	-12.0%
Structures and improvements	960,444	732,044	132,228	136,098	1,092,672	868,142	25.9%
Equipment	86,912	100,136	17,707	20,673	104,619	120,809	-13.4%
Construction in progress	601,825	661,635	44,368	34,801	646,193	696,436	-7.2%
Total	$3,494,794	$3,301,367	$270,293	$271,608	$3,765,087	$3,572,975	5.4%

Additional information on the County's capital assets can be found in Note 9 of this report.

Debt Administration

Per Board policy, the County's Debt Advisory Committee reviews all debt issuances of the County and its financing component unit organizations and advises the Board accordingly. As of fiscal year-end June 30, 2011, the County had numerous debt issues outstanding, principally certificates of participation - lease rental obligations. (See Note 13)

Net bonded debt per capita equaled $692.0 as of June 30, 2011. The calculated legal debt limit for the County is $2.6 billion.

The following are credit ratings maintained by the County:

	Moody's Investors Service, Inc.	Standard & Poor's Corp.	Fitch
Long-term lease debt	A1	AA-	AA-
Issuer credit	Aa2	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 2010-11, the County, as a participant in the California Statewide Communities Development Authority composite offering, issued $343.0 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 2010-11, funding for the County's on-going obligations under Teeter was accomplished through the sale of Tax-Exempt Commercial Paper Notes, Series B in the amount of $186.0 million and Series C in the amount of $20.8 million. The approximately $206.8 million in total financing was comprised of $101.6 million, representing fiscal year 2009-10 delinquent property taxes and $105.2 million representing prior years' delinquent property taxes. The County's General Fund is pledged to the repayment of both series of Notes, in addition to the pledge of the delinquent taxes that are pledged to the Series B.

The table below provides summarized information (including comparative amounts from the preceding year) for the County's outstanding long-term liabilities at June 30, 2011.

County's Outstanding Debt Obligations
(In Thousands)

	Governmental Activities		Business-Type Activities		Total		Increase/ (Decrease)
	2011	2010	2011	2010	2011	2010	%
Loans payable	$ 5,355	$ 6,987	$ -	$ -	$ 5,355	$ 6,987	-23.4%
Notes payable	-	15,000	-	-	-	15,000	-100.0%
Bonds payable	1,551,323	1,408,017	134,983	147,924	1,686,306	1,555,941	8.4%
Certificates of participation	367,272	385,447	-	-	367,272	385,447	-4.7%
Capital Leases	111,128	123,890	15,830	20,842	126,958	144,732	-12.3%
Total Outstanding	$2,035,078	$1,939,341	$150,813	$168,766	$2,185,891	$2,108,107	3.7%

Outstanding Debt: The County of Riverside's total debt increased by 3.8%, $79.1 million ($97.1 million in governmental funds and a decrease of $18.0 million in business-type), during the current fiscal year. The increase in governmental activities was a result of the issuance of 2011 Monroe Park Building Refunding, and nine 2011 RDA's Tax Allocation Bonds. 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 13 of this report.

ECONOMIC FACTORS AND THE FISCAL YEAR 2011-12 BUDGET OUTLOOK

While most economists agree that the recession has officially ended, the most optimistic economic forecasts project slow growth, if any, over the near future. Reminiscent of this last fiscal year, Riverside County's budget plans for fiscal year 2011-12 anticipate minimal support from the economy or the State. Reports of stabilizing job and housing markets produce guarded optimism at best. These reports fuel the hope that the worst is in the past.

To fund the fiscal year 2011-12 budget, the County drew on reserves creating a structural budget imbalance totaling about $27.8 million. Fiscal year 2011-12 discretionary revenue is expected to decline by approximately 1.0% ($7.7 million) when compared to fiscal year 2010-11. The following table reflects anticipated discretionary revenue totals and sources for Fiscal Year 2011-12.

Source	Final Budget Estimate (In Thousands)
Taxes	$ 216,752
Other Taxes	33,626
Licenses, Permits, Franchise Taxes	5,080
Fines, Forfeitures, Penalties	27,035
Use of Money and Property	5,447
State	191,950
Federal	3,100
Charges for Services	266
Miscellaneous	101,147
Total	$ 584,403

The County's employee retirement benefit contribution rate for fiscal year 2011-12 for miscellaneous members is 13.1% and the Safety contribution rate is 21.3%. 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 2012-13 rates are projected at 13.5% (Miscellaneous) and 22.0% (Safety). Additional information regarding the County's retirement plans are included in Notes 18, 19, and 20 of the financial statements and schedules of retirement funding progress are included in the required supplementary information section.

The fiscal year 2011-12 assessment roll value declined by 1.5%, yielding a total property tax roll of $205.2 billion, compared to $208.2 billion in fiscal year 2010-11. The $3.0 billion decrease in assessment roll value reflected the continuing decline of residential market prices affecting new Proposition 13 base year value and reassessment of property per Proposition 8; and, practically non-existence of construction for 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.