BASIC FINANCIAL STATEMENTS – NOTES TO THE BASIC FINANCIAL STATEMENTS

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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. As required by accounting principles generally accepted in the United States of America, these financial statements present the County (the primary government) and its component units, entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the County's operations and so data from these units is combined with data of the primary government. A 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 primary government. 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 Redevelopment Agency (RDA) The Board is the governing body of the RDA. Among its duties, it approves the RDA's budget and appoints the management. The RDA is reported as a governmental fund type.

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 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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Blended Components (Continued)

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 (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 Government Accounting Standards Board Statement 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).

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.

Presentation of Financial Information Related to County Fiduciary Responsibilities

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Presentation of Financial Information Related to County Fiduciary Responsibilities (Continued)

revenue limits, or appropriate surplus funds available in these entities. Therefore, these entities are fiscally independent of the County. Twenty-seven 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, 28.5% or $16.9 million, of the County's $59.2 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.
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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

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 Project 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.

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 CalPERS participation. The County's pension trust fund uses the economic resources measurement focus and accrual basis of accounting.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

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, 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 Transaction*, 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.

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 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, 2011, which are carried at cost. Bond anticipation notes are carried at fair value. Commercial paper is carried at amortized 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 fair value based on the value of each participating dollar.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

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 70.7% of the funds on deposit in the County Treasury. In addition, the Auditor-Controller determined districts and agencies constituting approximately 29.3% 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 $427.4 million and $988.8 million, 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 2010-11 gross assessed valuation of the County was $212.3 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%) 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.

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 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 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

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 2010-11, $40.0 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 thousand; buildings, land and land improvements are $1; and, infrastructure and intangibles are $150 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.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

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 $149.2 thousand for the year ending June 30, 2011.

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 $92.6 million at June 30, 2011.

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, 2011, the amount of accrued vacation, holiday pay, and sick leave reported in the government-wide statement of net assets was $180.6 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 Employee's 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/Unearned 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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

County has a legal claim to them, such as grants received in advance of incurring qualified expenditures. Unearned revenue is used for government-wide presentation only.

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.

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 non-current 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

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 for a specific purpose. These funds require action from the Board of Supervisors to remove or change the specified use.
- 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. 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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

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.

Committed Fund Balance - Disaster Relief

The County shall commit a portion of 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. 54

In March of 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. As of June 30, 2011, the County's financial statements reported fund balance in accordance with GASB No. 54. The County's fund balance classifications are also reported in Note 14.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Current Governmental Accounting Standards Board Statements (Continued)

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 postemployment 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. The County has elected not to early implement GASB No. 57 and has not determined its effect on the County's financial statements.

Governmental Accounting Standards Board Statement No. 58

In December of 2009, GASB issued Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to re-measure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (that is, approves) a new payment plan. As of June 30, 2011, this statement is not applicable to the County.

Governmental Accounting Standards Board Statement No. 59

In June of 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. National Council on Governmental Accounting Statement No. 4, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*, is updated to be consistent with the amendments to GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, regarding certain financial guarantees. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2010. As of June 30, 2011, this statement is not applicable to the County.

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 this Statement generally are required to be applied retroactively for all periods presented. The County has elected not to early implement GASB 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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Current Governmental Accounting Standards Board Statements (Continued)

financial statements for periods beginning after June 15, 2012. The County has elected not to early implement GASB No. 61 and has not determined its effect on the County's financial statements.

Future Governmental Accounting Standards Board 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 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. 64

In June of 2011, GASB issued Statement No. 64, *Derivative Instrunents: 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. Statement No. 64 is effective for periods beginning after June 15, 2011. The County has elected not to early implement this statement. 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. The County has implemented this treatment in Note 5 - Cash and Investments.

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 Section 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 non-major funds (all special revenue funds, certain debt service funds, and certain capital project 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 Project Fund; and the Perris Valley Cemetery Permanent Fund.

As adopted by the Board, expenditures are controlled by the County at the budgetary unit, 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 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 project 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, 2011, expenditures exceeded appropriations in capital outlay by $8.3 million, the excess of expenditure resulted from the acquisition of $8.3 million of capital leases. Accordingly, this is being funded by other financing sources-capital leases.

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NOTE 3 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Amounts reported for governmental activities in the statement of net assets are different from those reported for governmental funds in the balance sheet. The following provides a reconciliation of those differences (in thousands):

	Total Governmental Funds (Page 29)	Long-term Assets and Liabilities	Internal Service Funds	Elimination	Statement of Net Assets Totals (Page 23)
Assets:					
Cash and investments	$ 1,371,666	$ -	$ 232,069	$ -	$ 1,603,735
Receivables:					
Accounts receivable	18,497	-	2,642	-	21,139
Interest	2,242	-	167	-	2,409
Taxes	139,036	-	-	-	139,036
Due from other governments	302,923	(34,669)	1,352	-	269,606
Notes receivable	61,999	-	-	-	61,999
Inventories	2,637	-	3,670	-	6,307
Due from other funds	22,870	-	2,708	(25,578)	-
Prepaid items	863	-	398	-	1,261
Internal balances	-	-	-	48,777	48,777
Restricted cash and investments	499,872	-	1,002	-	500,874
Other noncurrent receivables	-	34,669	-	-	34,669
Advances to other funds	4,992	-	-	(4,992)	-
Pension asset, net	-	433,216	-	-	433,216
OPEB Pension asset, net	-	21,818	-	-	21,818
Land held for resale	92,570	-	-	-	92,570
Unamortized bond issuance costs	-	27,317	-	-	27,317
Deferred outflow of resources	-	24,669	-	-	24,669
Capital assets:					
Nondepreciable	-	1,034,140	1,279	-	1,035,419
Depreciable, net	-	2,424,212	35,163	-	2,459,375
Total assets	$ 2,520,167	$ 3,965,372	$ 280,450	$ 18,207	$ 6,784,196

NOTE 3 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

	Total Governmental Funds (Page 29)	Long-term Assets and Liabilities	Internal Service Funds	Eliminations	Statement of Net Assets Totals (Page 23)
Liabilities:					
Accounts payable	$ 136,051	$ -	$ 17,012	$ -	$ 153,063
Salaries and benefits payable	55,574	-	3,701	-	59,275
Due to other funds	21,488	-	4,199	(25,687)	-
Due to other governments	36,429	-	17	-	36,446
Deposits payable	2,328	-	-	-	2,328
Deferred/unearned revenue	294,617	(38,455)	-	-	256,162
Notes payable	206,805	-	-	-	206,805
Interest payable	-	20,292	-	-	20,292
Other liabilities	-	-	1,590	-	1,590
Interest rate swap	-	24,669	-	-	24,669
Long-term liabilities due within one year:					
Bonds payable	-	39,585	-	-	39,585
Capital lease obligations	-	12,392	7,949	-	20,341
Certificates of participation	-	26,397	-	-	26,397
Loans payable	-	430	-	-	430
Compensated absences	-	85,345	4,930	-	90,275
Estimated claims liability	-	-	34,903	-	34,903
Accrued remediation cost	-	462	-	-	462
Advance from other funds	1,300	-	3,692	(4,992)	-
Long-term liabilities due in more than one year:					
Bonds payable	-	1,511,737	-	-	1,511,737
Capital lease obligations	-	83,697	7,090	-	90,787
Certificates of participation	-	340,876	-	-	340,876
Loans payable	-	4,925	-	-	4,925
Accreted interest payable	-	61,963	-	-	61,963
Compensated absences	-	66,349	3,720	-	70,069
Estimated claims liability	-	-	89,814	-	89,814
Accrued remediation cost	-	1,870	-	-	1,870
Total liabilities	754,592	2,242,534	178,617	(30,679)	3,145,064
Fund balances/net assets:					
Total fund balances/net assets	1,765,575	1,722,838	101,833	48,886	3,639,132
Total liabilities and fund balances/net assets	$ 2,520,167	$ 3,965,372	$ 280,450	$ 18,207	$ 6,784,196

NOTE 4 – 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, 2011 is as follows (in thousands):

Government-wide:

	Primary Government	
	Governmental Activities	Business Type
Government-wide net assets, as of June 30, 2010,		
as previously reported, Fund financial statements:	$ 3,594,358	$ 219,684
Adjustments for loan receivable	(5,775)	-
Revenue erroneously booked in the incorrect accounting period	281	-
Government-wide financial statements:		
Acquisition of Capital Assets, not previously reported	24,856	-
Accumulated depreciation was understated in prior years		
Effects of GASB 51 implementation	(2,966)	-
Net assets as of June 30, 2010, as restated	$ 3,610,754	$ 219,684

Fund Financials:

	Governmental Funds		
	Major Fund	Non-Major Funds	
Description	RDA Capital Project Fund	RDA Special Revenue Fund	Parks Special Revenue Fund
Fund balances as of June 30, 2010, as previously reported	$ 268,347	$ 163,554	$ 14,332
Prior Period Adjustments:			
Adjustments for loan receivable	(7,019)	1,244	-
Revenue erroneously booked in the incorrect accounting period	-	-	281
Fund balances, as of June 30, 2010, as restated	$ 261,328	$ 164,798	$ 14,613

NOTE 5 – CASH AND INVESTMENTS

As of June 30, 2011, 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	$ 1,603,735	$ 131,974	$ 43,395	$ 3,083,227	$ 4,862,331
Restricted cash and investments	500,874	97,498	16,106	-	614,478
Total cash and investments	$ 2,104,609	$ 229,472	$ 59,501	$ 3,083,227	$ 5,476,809

As of June 30, 2011, cash and investments consist of the following (in thousands):

Deposits	$ 237,953
Investments	5,238,856
Total Cash and Investments	$ 5,476,809

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 CD	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
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

NOTE 5 – CASH AND INVESTMENTS (Continued)

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

As of June 30, 2011, 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, 2011	% of Portfolio
County Treasurer Investments							
Federal Home Loan Bank	$ 1,254,306	0.27 - 2.13%	07/11 - 06/16	1.61	N/R	AAA/Aaa	25.37%
Federal National Mortgage Association	1,232,782	0.19 - 2.00%	07/11 - 02/16	1.69	N/R	AAA/Aaa	24.94%
Federal Home Loan Mortgage	788,123	0.14 - 2.50%	07/11 - 05/16	1.39	N/R	AAA/Aaa	15.95%
US Treasury Bills and Bonds	647,695	0.22 - 0.91%	12/11 - 09/12	0.79	N/A	AAA/Aaa	13.11%
Federal Farm Credit Bank	381,703	0.22 - 2.21%	08/11 - 04/16	1.28	N/R	AAA/Aaa	7.72%
Negotiable Certificate of Deposits	150,000	0.25 - 0.26%	09/11 - 10/11	0.27	A1/P1	A-1+/P-1	3.04%
Commercial Paper	149,878	0.17 - 0.34%	09/11 - 12/11	0.33	A1/P1	A-1+/P-1	3.03%
Money Market Mutual Funds	120,000	0.01 - 0.04%	07/11	0.00	AAA	AAA/Aaa	2.43%
Municipal Bonds	91,206	0.30 - 3.83%	07/11 - 05/14	0.92	AA-/Aa3	AA/Aa2	1.85%
Farmer Mac	72,055	0.21 - 2.13%	07/11 - 05/13	1.15	N/R	N/R	1.46%
CalTRUST	54,000	0.52%	07/11	0.00	N/R	AAA/Aaa	1.09%
Local Agency Obligations	585	1.14%	06/20	8.97	N/A	N/R	0.01%
Total County Treasurer Investments	4,942,333						100.00%
Investments Outside the County Treasury							
Blended Component Unit Investments							
Money Market Mutual Funds (2)	156,062	0.00 - 0.09%	N/A	0.00	AA-	AA-	55.65%
Municipal Obligations	72,983	0.05 - 6.25%	7/11 - 4/38	6.96	N/A	N/R	26.03%
Investment Agreements	23,252	2.38 - 4.46%	12/14 - 11/36	8.47	AA-/Aa2	AA-/Aa2	8.29%
Money Market Mutual Funds (3)	18,303	0.00 - 0.09%	N/A	0.00	N/R	N/R	6.53%
Local Agency Investment Funds	9,817	0.00 - 0.48%	N/A	0.00	N/A	N/R	3.50%
Total Blended Component Units	280,417						100.00%
Discretely Presented Component Units							
Palm Desert Financing Authority							
Money Market Mutual Funds (2)	16,106	0.01 - 0.30%	N/A	0.63	AAA	AAA	100.00%
Total Discretely Presented Component Units	16,106						100.00%
Total Investments	$ 5,238,856						

(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). 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, 2011, the Treasurer's Investment Pool does not participate in LAIF. However, the Housing Authority has $9.1 million and the Riverside Regional Medical Center has $0.7 million in LAIF investments.

NOTE 5 – CASH AND INVESTMENTS (Continued)

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 $150.5 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 6 – RESTRICTED CASH AND INVESTMENTS

The amount of assets restricted by legal and contractual requirements at June 30, 2011 is as follows (in thousands):

General Fund	
Restricted Program Money	$ 283,095
Total General Fund	283,095
Flood Special	
Restricted Program Money	5,122
Total Flood Special Revenue	5,122
Teeter Debt	
Teeter Commercial Paper Notes	101,176
Total Teeter Debt	101,176
Non Major Governmental Funds	
1985 Certificates	20,505
1990 Monterey Avenue	134
1997 Historic Court House	279
2000 Southwest Justice Center	545
2001 CAC Annex	2,484
2003 A Historic Courthouse	1,355
2003 B Capital Facilities	422
2005 A Capital Improvement Family Law	4,093
2005 B Historic Refunding	2,608
2006 A Capital Improvements	2,187
2007 A Public Safety & Refunding	42,106
2008A Southwest Justice Center	1,023
2009 Larson Justice Center	2,553
2009 Public Safety & Woodcrest Lib Refunding	4,723
Bankruptcy Court	6,700
District Court Financing Corporation	1,270
Inland Empire Tobacco	17,492
Total Non Major Governmental Funds	110,479
Regional Medical Center	
1993 Hospital Bonds	22,867
Total Regional Medical Center	22,867
Waste Management Department	
Remedian Cost	17,933
Closure and post-closure care costs	53,665
Total Waste Management Department	71,598
Non Major Enterprise Funds	
Housing Authority Bond	188
Restricted Program Money - Flood	2,845
Total Non Major Enterprise Funds	3,033
Internal Service Funds	
Flood Control Equipment	1,002
Total Internal Service Funds	1,002
Discretely Presented Component Units	
Palm Desert Financing Authority	16,106
Total Restricted Assets	$ 614,478

NOTE 7 – RECEIVABLES AND DEFERRED/UNEARNED 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
General Fund	$ 12,771	$ 1,119	$ 17,790	$ 276,656	$ -	$ 308,336
Flood Control	514	197	4,124	42	-	4,877
Teeter Debt Service	-	45	114,632	-	-	114,677
Public Facilities Improvements	-	214	-	-	-	214
Redevelopment Capital Project	2,669	265	-	3	17,642	20,579
Nonmajor Governmental Funds	2,543	402	2,490	26,222	44,357	76,014
Internal Service Funds	2,642	167	-	1,352	-	4,161
Total receivables	$ 21,139	$ 2,409	$139,036	$ 304,275	$ 61,999	$ 528,858

Receivables Business-type Activities:	Accounts	Interest	Taxes	Due From Other Govts	Allowance for uncollec-tibles	Total Business-type Activities
Regional Medical Center	$ 1,474,653	$ -	$ -	$ 65,681	$(1,416,200)	$ 124,134
Waste Management	4,106	115	-	257	(4)	4,474
Nonmajor Funds	488	6	12	872	-	1,378
Total receivables	$ 1,479,247	$ 121	$ 12	$ 66,810	$(1,416,204)	$ 129,986

Deferred/Unearned Revenue

Of the total governmental receivable of $528.9 million, $34.7 million is SB-90 long-term receivable, which has been deferred as of June 30, 2011. 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, 2011, the components of deferred/unearned revenue were as follows (in thousands):

Governmental activities:	Unavailable	Unearned
General fund:		
Due from other governments	$ 45,649	
Resources received that do not yet meet the criteria for revenue	-	$ 214,694
Flood Special Revenue		
Resources received that do not yet meet the criteria for revenue	-	4,341
Nonmajor funds:		
Due from other governments	132	-
Resources received that do not yet meet the criteria for revenue	-	29,801
Total deferred revenue Governmental activities	$ 45,781	248,836
Government-wide activities:		
Redevelopment Agency		
Resources received that do not yet meet the criteria for revenue		7,326
Total unearned revenue Government-wide activities		$ 256,162

NOTE 8 – INTERFUND TRANSACTIONS

(a) Interfund Receivables/ Payables

The composition of interfund balances as of June 30, 2011 is as follows (in thousands):

Due to/from other funds :

	Receivable Fund			
Payable Fund	General Fund	Flood Control	Teeter Debt Service	Other Governmental Funds
General Fund				
Delinquent property tax	$ -	$ -	$ 35	$ -
Interfund activity	-	-	-	171
Flood Control				
Capital projects	-	-	-	499
Interfund activity	-	-	-	-
Teeter Debt Service				
Delinquent property tax	9,060	-	-	-
Public Facilities Improvements Capital Projects				
Capital projects	-	-	-	733
Redevelopment Capital Projects				
Capital projects	-	-	-	691
Nonmajor Governmental Funds				
Fire	6,844	-	-	-
Interfund activity	317	402	-	-
Transportation	-	-	-	35
Regional Medical Center				
Law	222	-	-	-
Other Enterprise Funds				
Interfund activity	-	14	-	-
Internal Service Funds				
Interfund activity	3,344	239	-	264
Total Receivable	$ 19,787	$ 655	$ 35	$ 2,393

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 $3.7 million to Economic Development Agency for their internal service fund start up costs.

NOTE 8 – INTERFUND TRANSACTIONS

(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
-	-	-	2,433	2,604	Interfund activity
				2,639	**Total General Fund**
					Flood Control
-	-	-	-	499	Capital projects
-	-	5	263	268	Interfund activity
				767	**Total Flood Control**
					Teeter Debt Service
-	-	-	-	9,060	Delinquent property tax
				9,060	**Total Teeter Debt Service**
					Public Facilities Improvements Capital Projects
-	-	-	-	733	Capital projects
				733	**Total Public Facilities Imprv Cap Prog**
					Redevelopment Capital Projects
-	-	-	-	691	Capital projects
				691	**Total Redevelopment Capital Projects**
					Nonmajor Governmental Funds
-	-	-	-	6,844	Fire
-	-	-	-	719	Interfund activity
-	-	-	-	35	Transportation
				7,598	**Total Nonmajor Governmental Funds**
					Regional Medical Center
-	-	-	-	222	Law
				222	**Total Regional Medical Center**
					Other Enterprise Funds
-	-	5	-	19	Interfund activity
				19	**Total Other Enterprise Funds**
					Internal Service Funds
315	24	1	12	4,199	Interfund activity
				4,199	**Total Internal Service Funds**
$ 315	$ 24	$ 11	$ 2,708	$ 25,928	**Total Receivable**

NOTE 8 – INTERFUND TRANSACTIONS

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
Operating or debt subsidy:				
General Fund				
Capital Projects	$ -	$ -	$ 5,904	$ -
Debt Service	-	845	-	-
Operating Contribution	-	-	-	-
Pension Obligation	-	-	-	-
Reimbursement	-	-	-	638
Flood Control				
Capital Projects	-	-	-	-
Pension Obligation	-	-	-	-
Reimbursement	-	-	-	-
Total Flood Control				
Teeter Debt Service				
Debt Service	89	-	-	-
Public Facilities Improvements Capital Projects				
Capital Projects	26,617	-	-	4,840
Debt Service	2,384	-	-	-
Reimbursement	2,383	-	-	-
Redevelopment Capital Projects				
Capital Projects	211	-	479	-
Debt Service	-	-	-	-
Fire	42	-	-	-
Reimbursement	5,966	-	-	-
Nonmajor Governmental Funds				
Capital Projects	219	-	490	38
Debt Service	350	-	-	-
Fire	47,611	-	-	-
Pension Obligation	264	-	-	-
Reimbursement	19,171	-	86	1,015
Regional Medical Center				
Pension Obligation	-	-	-	-
Waste Management				
Pension Obligation	-	-	-	-
Other Enterprise Funds				
Pension Obligation	-	-	-	-
Internal Service Funds				
Business Services	740	-	-	-
Pension Obligation	-	-	-	-
Reimbursement	-	-	-	-
Total Transfers In	$ 106,047	$ 845	$ 6,959	$ 6,531

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

NOTE 8 – 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	Transfer-Out
				Operating or debt subsidy:
				General Fund
$ 5,089	$ -	$ -	$ 10,993	Capital Projects
33,483	-	-	34,328	Debt Service
-	10,000	1,857	11,857	Operating Contribution
21,847	-	-	21,847	Pension Obligation
13,448	-	106	14,192	Reimbursement
			93,217	**Total General Fund**
				Flood Control
1,409	-	-	1,409	Capital Projects
1	-	-	1	Pension Obligation
-	-	75	75	Reimbursement
			1,485	**Total Flood Control**
				Teeter Debt Service
-	-	-	89	Debt Service
			89	**Total Teeter Debt Service**
				Public Facilities Improvements Capital Projects
12,413	5,000	-	48,870	Capital Projects
-	-	-	2,384	Debt Service
-	-	82	2,465	Reimbursement
			53,719	**Total Public Facilities Imprv Cap Prog**
				Redevelopment Capital Projects
7,442	-	-	8,132	Capital Projects
3,762	-	-	3,762	Debt Service
-	-	-	42	Fire
5,028	-	-	10,994	Reimbursement
			22,930	**Total Redevelopment Capital Projects**
				Nonmajor Governmental Funds
224	-	-	971	Capital Projects
10,848	-	-	11,198	Debt Service
-	-	-	47,611	Fire
1,734	-	-	1,998	Pension Obligation
24,453	-	-	44,725	Reimbursement
			106,503	**Total Nonmajor Governmental Funds**
				Regional Medical Center
4,165	-	-	4,165	Pension Obligation
			4,165	**Total Regional Medical Center**
				Waste Management
296	-	-	296	Pension Obligation
			296	**Total Waste Management**
				Other Enterprise Funds
184	-	-	184	Pension Obligation
			184	**Total Other Enterprise Funds**
				Internal Service Funds
-	-	-	740	Business Services
1,777	-	-	1,777	Pension Obligation
-	-	1,993	1,993	Reimbursement
			4,510	**Total Internal Service Funds**
$ 147,603	$ 15,000	$ 4,113	$ 287,098	**Total Transfers In**

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2011

NOTE 9 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows (in thousands):

	Balance July 1, 2010	Prior Period Adjustments *	Additions	Retirements	Transfers	Balance June 30, 2011
Governmental activities:						
Capital assets, not being depreciated:						
Land & easements	$ 429,874	$ (9)	$ 11,400	$ (7,963)	$ 292	$ 433,594
Construction in progress	661,635	-	235,401	190	(295,401)	601,825
Total capital assets, not being depreciated	1,091,509	(9)	246,801	(7,773)	(295,109)	1,035,419
Capital assets, being depreciated:						
Infrastructure						
Flood channels	235,155	-	4,189	-	1,000	240,344
Flood storm drains	318,089	-	20,391	-	12,463	350,943
Flood dams and basins	31,215	-	-	-	-	31,215
Roads	1,669,209	-	26,267	(114,424)	55,492	1,636,544
Traffic signals	23,431	-	30	(1,876)	80	21,665
Bridges	105,381	-	-	(951)	293	104,723
Runways	16,247	-	-	-	2,216	18,463
Parks trails and improvements	9,524	-	-	-	440	9,964
Land improvements	110	-	-	-	-	110
Structures and improvements	1,022,292	24,856	11,346	(10,961)	223,124	1,270,657
Equipment	377,005	38	17,047	(21,690)	(307)	372,093
Total capital assets, being depreciated	3,807,658	24,894	79,270	(149,902)	294,801	4,056,721
Less accumulated depreciation for:						
Infrastructure	(1,030,671)	(66)	(68,615)	97,506	(85)	(1,001,931)
Land improvements	(11)	-	(10)	-	-	(21)
Structures and improvements	(290,248)	(2,764)	(23,802)	6,512	89	(310,213)
Equipment	(276,869)	(136)	(28,489)	20,162	151	(285,181)
Total accumulated depreciation	(1,597,799)	(2,966)	(120,916)	124,180	155	(1,597,346)
Total capital assets, being depreciated, net	2,209,859	21,928	(41,646)	(25,722)	294,956	2,459,375
Governmental activities capital assets, net	$ 3,301,368	$ 21,919	$205,155	$ (33,495)	$ (153)	$ 3,494,794

*Prior period adjustment represents $24.9 million in capital assets not previously reported and $3.0 million in corrections to accumulated depreciation which was previously understated.

NOTE 9 – CAPITAL ASSETS (Continued)

Capital asset activity for the year ended June 30, 2011 was as follows (in thousands):

	Balance July 1, 2010	Prior Period Adjustments	Additions	Retirements	Transfers	Balance June 30, 2011
Business-type activities:						
Capital assets, not being depreciated:						
Land & easements	$ 21,325	$ -	$ -	$ -	$ -	$ 21,325
Construction in progress **	34,801	-	12,888	-	(3,321)	44,368
Total capital assets, not being depreciated	56,126	-	12,888	-	(3,321)	65,693
Capital assets, being depreciated:						
Land improvements	11,662	-	-	-	-	11,662
Infrastructure-landfill liners	55,849	-	-	-	(623)	55,226
Infrastructure-other	21,549	-	17	-	985	22,551
Structures and improvements	216,726	-	352	-	2,258	219,336
Equipment	114,280	-	2,845	(28,799)	1,008	89,334
Total capital assets, being depreciated	420,066	-	3,214	(28,799)	3,628	398,109
Less accumulated depreciation for:						
Land improvements	(6,836)	-	(582)	-	-	(7,418)
Infrastructure-landfill liners	(18,563)	-	(2,721)	-	62	(21,222)
Infrastructure-other	(4,950)	-	(1,117)	-	(67)	(6,134)
Structures and improvements	(80,628)	-	(6,480)	-	-	(87,108)
Equipment	(93,607)	-	(6,382)	28,511	(149)	(71,627)
Total accumulated depreciation	(204,584)	-	(17,282)	28,511	(154)	(193,509)
Total capital assets, being depreciated, net	215,482	-	(14,068)	(288)	3,474	204,600
Business-type activities capital assets, net	$ 271,608	$ -	$ (1,180)	$ (288)	$ 153	$ 270,293

** There is $9.9 million recorded in construction in progress for a new co-generation plant. The plant is scheduled to be completed and will be tested within the next several months to ensure they maintain compliance without further adjustments and engine failures since the plant has yet to meet certain Air Quality Management Emissions Standards and requirements under the Southern California Air Quality Management District (AQMD). The County will assess the cost to rebuild the plants to be operational and pass the AQMD standards and then work with County Counsel to determine what damages will be filed against the original vendor for losses incurred.

Depreciation

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

General government	$ 21,966
Public protection	15,999
Health and sanitation	1,381
Public assistance	974
Public ways and facilities	62,254
Recreation and culture	1,340
Education	1,736
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	15,266
Total depreciation expense – governmental functions	$ 120,916

NOTE 9 – CAPITAL ASSETS (Continued)

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

Regional Medical Center	$ 9,791
Waste Management	5,579
Housing Authority	1,896
County Service Areas	3
Flood Control	13
Total depreciation expense – business-type functions	$ 17,282

Capital Leases

	Governmental	Business Type
Land	$ 5,780	$ -
Construction in Progress	-	-
Structures and Improvements	97,386	-
Equipment	134,284	21,175
Less: Accumulated amortization	(106,368)	(11,694)
Total leased property, net	$ 131,082	$ 9,481

NOTE 10 - LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS

State and Federal laws and regulations require Waste 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 will recognize the remaining estimated cost of $22.3 million as the remaining estimated capacity of 18.5 million tons is filled. Waste expects all currently permitted landfill capacities to be filled by 2047. The total estimate of $70.6 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, 2011 %	Estimated Years Remaining
Anza (Anza)	$ 2,376	100.0	-
Badlands (Moreno Valley)	12,157	50.5	13
Blythe (Blythe)	7,862	33.4	36
Coachella (Coachella)	3,373	100.0	-
Desert Center (Desert Center)	1,120	69.2	7
Double Butte (Winchester)	3,093	100.0	-
Edom Hill (Cathedral City)	10,600	100.0	-
Highgrove (Riverside)	1,732	100.0	-
Lamb Canyon (Beaumont)	18,139	46.5	10
Mead Valley (Perris)	3,113	100.0	-
Mecca II (Mecca)	3,466	99.4	26
Oasis (Oasis)	3,582	72.3	10
	$ 70,613		

Waste 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 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 and the CIWMB. Waste complies with these requirements and investments of $53.7 million are held for these purposes at June 30, 2011 and are classified as Restricted Assets in the Statement of Net Assets. Waste 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 11 – 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, 2011 (in thousands):

Year Ending June 30		
2012	$	39,176
2013		31,639
2014		24,536
2015		19,005
2016		13,144
2017-2021		18,051
2022-2026		869
2027-2031		966
2032-2036		1,042
2037-2041		694
Total Minimum Payments	$	149,122

Total rental expenditure/expense for the year ended June 30, 2011 was $89.4 million of which $3.8 million was recorded in the Enterprise Funds.

NOTE 12 – SHORT-TERM DEBT

Tax and Revenue Anticipation Notes (TRANs)

On July 1, 2010, the County issued $343.0 million of tax exempt Tax and Revenue Anticipation Notes (TRANs), which were repaid June 30, 2011. The Notes were issued with a yield rate of 0.43% for Series Bond A and 0.55% 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 FY 2010-11, the County retired $152.0 million of the $257.3 million principal amount outstanding at June 30, 2010. The County then issued $80.7 million of Series B notes and $20.8 million in Series C notes, leaving an outstanding balance of $206.8 million at June 30, 2011.

Short-term debt activity for the year ended June 30, 2011, was as follows (in thousands):

	Balance June 30, 2010		Additions		Reductions		Balance June 30, 2011
FY 2010-11 TRANs	$ -	$	343,000	$	(343,000)	$	-
Teeter Notes	257,300		101,505		(152,000)		206,805
Total	$ 257,300	$	444,505	$	(495,000)	$	206,805

NOTE 13 – 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 $2.6 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 9 (Capital Assets) for Assets under Capital Leases for 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, 2011 (in thousands):

Year Ending June 30	Palm Desert Financing Authority	Other Governmental Activities	Total Governmental Activities	Business-type Activities
2012	$ 7,475	$ 18,005	$ 25,480	$ 6,442
2013	7,478	11,530	19,008	5,265
2014	7,477	8,040	15,517	3,512
2015	7,482	5,631	13,113	1,628
2016	7,471	3,927	11,398	107
2017-2021	37,357	2,577	39,934	-
2022-2026	13,378	633	14,011	-
2027-2031	4,980	252	5,232	-
2032-2036	1,988	-	1,988	-
Total minimum payments	95,086	50,595	145,681	16,954
Less amount representing interest	(28,512)	(6,041)	(34,553)	(1,124)
Present value of net minimum lease payments	$ 66,574	$ 44,554	111,128	$ 15,830

The statement of net assets includes the Palm Desert Financing Authority capital lease of $66.6 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, 2011 (in thousands):

Governmental Activities

Type of indebtedness (purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2011
Certificates of Participation:					
CORAL					
1985 Serial Certificates	12/09 – 12/15	Variable	$7,600 - $14,800	$ 169,400	$ 59,800
				169,400	59,800

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

Type of indebtedness (purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2011
Certificates of Participation (Continued):					
CORAL					
1990 Monterey Avenue:					
Serial Certificate	11/09 – 11/20	Variable	$300 - $800	$ 8,800	$ 5,600
				8,800	5,600
CORAL					
2001 CAC Annex:					
Serial Certificates	11/09 – 11/26	5.13%	$815 - $1,880	27,120	21,310
Term Certificate	11/27 – 11/30	5.13%	$1,980 - $2,295	8,540	8,540
Term Certificate	11/31	5.75%	$2,415	2,415	2,415
				38,075	32,265
CORAL					
2003 A - Historic Court Project:					
Serial Certificates	11/09 – 11/18	3.00% - 5.00%	$280 - $400	4,125	2,765
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	11,830
CORAL					
2003 B –Capital Facilities Refunding:					
Serial Certificates	11/09 – 11/18	2.00% - 4.20%	$880 - $395	8,685	2,770
				8,685	2,770
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	23,765
Term Certificate	11/26 –11/33	5.00%	$2,255 - $2,145	9,905	9,905
Term Certificate	11/34 – 11/36	5.00%	$2,265 - $2,490	13,265	13,265
				51,665	46,935
CORAL					
2005 B - Historic Courthouse Refunding Project:					
Serial Certificates	11/09 – 11/25	3.00% - 5.00%	$505 - $1,740	18,835	16,180
Term Certificate	11/26 – 11/27	5.00%	$1,860 - $1,915	3,775	3,775
				22,610	19,955
CORAL					
2006 Series A - Cap Imp Project:					
Serial Certificates	11/09 – 11/26	3.75% - 5.13%	$610 - $1,235	16,425	14,595
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	32,845
CORAL					
2007 A & B Public Safety Communication and Refunding Projects:					
Series A & B	11/10 – 11/17	3.85% - 5.00%	$1,625 - $10,850	111,125	67,110
				111,125	67,110
CORAL					
2009 Public Safety Communication and Woodcrest Library Refunding Projects:					
Series A	12/10 – 11/39	Variable	$70 - $420	45,685	45,615
				45,685	45,615

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

Type of indebtedness (purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2011
Certificates of Participation (Continued):					
CORAL					
2009 Larson Justice Center Refunding:					
Serial Certificates	12/10 – 12/21	Variable	$1,050 - $4,860	$ 24,680	$ 23,630
				24,680	23,630
Court Financing Corporation					
Bankruptcy Courthouse:					
Acquisition Project Term Certificate	11/09 – 11/20	7.50%	$835 - $1,385	16,120	10,175
				16,120	10,175
District Court Financing Corporation					
U.S. District Court Project:					
Term /Series 1999	6/14/17	7.59%	$902 - $1,263	2,165	2,165
Term /Series 1999	6/15/15	1.93%	$1,187 - $1,658	17,635	6,017
Term /Series 2002	6/15/20	3.00%	$50 - $75	925	560
				20,725	8,742
Total Certificates of Participation				$ 565,435	$ 367,272
Bonds Payable:					
CORAL					
2000 A Southwest Justice Center:					
Term Certificate	11/09 – 11/13	4.88% - 5.40%	$1,830 - $2,240	$ 17,945	$ 6,320
				17,945	6,320
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)	06/01/19	5.81%	$1,733	1,733	1,733
				1,733	1,733
RDA					
2005 Tax Allocation Revenue Bonds	10/09 – 10/37	4.50% - 5.00%	$2,620 - $6,490	144,075	131,730
				144,075	131,730
RDA					
2004 A Tax Allocation Housing Bonds	10/09 – 10/37	4.75% - 5.00%	$1,905 - $5,600	38,225	38,225
				38,225	38,225
RDA					
2004 A-T Tax Allocation Housing Bonds	10/09 – 10/28	2.90% - 4.87%	$1,045 - $760	37,000	30,140
				37,000	30,140
RDA					
2010 A Tax Allocation Housing Bonds	10/37 - 10/40	6.00%	$2,845 - $5,160	15,885	15,885
				15,885	15,885
RDA					
2010 A-T Tax Allocation Housing Bonds	10/12 - 10/39	4.75% - 7.75%	$820 - $1,550	50,860	50,860
				50,860	50,860
RDA					
2011 A Tax Allocation Housing Bonds	03/11 - 03/43	2.73% - 6.25%		14,093	14,093
				14,093	14,093

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

Type of indebtedness (purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2011
Bonds Payable (Continued):					
RDA					
2011 A-T Tax Allocation Housing Bonds	03/11 - 03/22	2.73% - 6.25%		$ 14,095	$ 14,095
				14,095	14,095
RDA					
2011 B-T Tax Allocation Housing Bonds	03/11 - 03/20	2.72% - 6.00%		11,525	11,525
				11,525	11,525
RDA					
2005 Tax Allocation Housing/Refunding	10/09 – 10/33	3.00% - 4.50%	$395 - $1,105	18,245	15,955
				18,245	15,955
RDA					
2007 A Tax Allocation Refunding Bonds	10/09 – 09/1/34	3.00% - 4.50%	$1,795 - $6,450	89,990	84,600
				89,990	84,600
Taxable Pension Obligation Bond					
Pension Obligation Bonds (Series 2005-A)	8/09 – 8/35	4.91% - 5.04%	$3,425 - $5,530	400,000	366,945
				400,000	366,945
RDA					
2004 Tax Allocation Revenue Bonds	10/09 – 10/37	2.50% - 5.00%	$1,220 - $14,395	102,785	94,190
2007 Tax Allocation Revenue - Series A	10/09 – 10/37	3.50% - 4.37%	$2,945 - $8,925	169,720	157,520
2007 Tax Allocation Revenue - Series B	10/09 – 10/37	4.00% - 4.75%	$550 - $1,955	33,820	31,525
2010 Tax Allocation Revenue - Series C	10/11 - 10/41	2.00% - 6.25%	$545 - $1,120	5,645	5,645
2010 Tax Allocation Revenue - Series D	10/11 - 10/41	2.00% - 5.38%	$640 - $2,200	32,415	32,415
2010 Tax Allocation Revenue - Series E	10/11 - 10/41	2.00% - 5.25%	$585 - $6,400	50,520	50,520
2011 Tax Allocation Revenue - Series B	03/11 - 03/43	2.72% - 6.00%		23,133	23,133
2011 Tax Allocation Revenue - Series D	03/11 - 03/38	2.50% - 4.00%		6,475	6,475
2011 Tax Allocation Revenue - Series E	03/11 - 03/45	2.75% - 7.85%		12,580	12,580
				437,093	414,003
Inland Empire Tobacco Securitization Authority					
Series 2007 A	06/17 – 06/21	4.63% - 5.10%		87,650	69,885
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	276,319
Total Bonds Payable				$ 1,663,743	$ 1,551,323
Loans Payable:					
CORAL					
2011 Monroe Park Building Refunding	2/11 - 12/20	3.54%	$180 - $330	$ 5,535	$ 5,355
Total Loans Payable				$ 5,535	$ 5,355
Total Governmental Activities				$ 2,234,713	$ 1,923,951

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

Type of indebtedness (purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2011
Business-Type Activities					
Bonds Payable:					
Regional Medical Center					
1993 A & B (Hospital):					
Term Bonds (Series A)	06/10 – 06/12	6.38%	$12,230 - $13,870	$ 81,135	$ 13,870
Term Bonds (Series B)	06/13 – 06/14	6.75%	$7,050 - $7,475	14,525	14,525
Loss on Defeasance (net)				-	(418)
				95,660	27,977
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%	$3,034 - $3,445	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	890
Term Bonds (Series B)	06/14 – 06/19	5.00% - 5.70%	$475 - $13,007	63,935	63,935
Term Bonds (Series C)	06/19	6.25%	$3,265	3,265	3,265
Less: Sheriff's Part (Series C)				(1,733)	(1,733)
Bond Discount				-	(11)
Loss on Defeasance (net)				-	(1,314)
				70,252	65,032
Housing Authority					
1998 Series A:					
Term Bonds	12/09 – 12/18	6.85%	$110 - $200	2,405	1,290
Deferred Charges				-	(486)
				2,405	804
Total Bonds Payable				$ 209,487	$ 134,983
Total Business-Type Activities				$ 209,487	$ 134,983
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	$ 9,535
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				-	(170)
				22,310	18,405
2008 Lease Rev Bonds Series A:					
Serial Certificates	05/10 – 05/18	4.00% - 5.50%	$1,935 - $6,200	43,845	37,490
Term Certificate	05/19 – 05/22	6.00%	$6,540 - $7,790	28,600	28,600
Bond Discount				-	(498)
				72,445	65,592
Total Bonds Payable				$ 94,755	$ 83,997
Total Discretely Presented Component Unit				$ 94,755	$ 83,997

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

As of June 30, 2011, 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
2012	$ 430	$ 186	$ 26,397	$ 20,671
2013	505	170	28,361	18,684
2014	530	152	29,761	17,179
2015	540	133	32,208	14,196
2016	560	114	34,228	12,180
2017-2021	2,790	252	106,392	40,514
2022-2026	-	-	40,855	21,629
2027-2031	-	-	35,290	12,441
2032-2036	-	-	25,675	4,801
2037-2041	-	-	8,107	382
Total	$ 5,355	$ 1,007	$ 367,272	$ 162,677

Governmental	Bonds Payable	
Year ending June 30	Principal	Interest
2012	$ 39,585	$ 68,681
2013	40,010	62,640
2014	43,175	60,969
2015	46,760	57,050
2016	36,920	50,108
2017-2021	313,566	278,802
2022-2026	275,996	203,502
2027-2031	215,698	143,211
2032-2036	242,479	80,665
2037-2041	194,861	30,546
2042-2046	2,594	24,037
2047-2051	29,653	1,945
2052-2056	-	-
2057-2061	70,026	4,672
Total	$ 1,551,323	$ 1,066,828

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

As of June 30, 2011, annual debt service requirements of business-type activities to maturity are as follows (in thousands):

Business-type	Bonds Payable		Other Long-term Liabilites	
Year ending June 30	Principal	Interest	Principal	Interest
2012	$ 14,430	$ 11,026	$ -	$ -
2013	10,674	10,406	-	-
2014	10,930	9,920	-	-
2015	13,516	9,416	-	-
2016	14,119	8,848	6,795	-
2017-2021	54,065	35,374	-	-
2022-2026	19,478	15,190	-	-
Total Requirements	$ 137,212	$ 100,180	$ 6,795	$ -
Bond Discount/Premium, net	(11)	-		
Deferred Charges (Housing)	(486)	-		
Loss on Defeasance (net)	(1,732)	-		
Total	$ 134,983	$ 100,180		

Discretely Presented Component Unit	Bonds Payable	
Year ending June 30	Principal	Interest
2012	$ 5,250	$ 4,484
2013	5,485	4,254
2014	5,750	3,989
2015	6,035	3,709
2016	6,315	3,415
2017-2021	37,055	11,600
2022-2026	12,995	2,643
2027-2031	3,930	1,050
2032-2036	1,850	138
Total Requirements	84,665	35,282
Bond Discount/Premium, net	(668)	-
Total	$ 83,997	$ 35,282

Accreted Interest Payable

The following is a summary of the changes in accreted interest payable for the year ended June 30, 2011 (in thousands):

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011
Governmental Activities:				
Certificates of Participation:				
Court Financing (US District Court Project)	$ 2,795	$ 384	$ -	$ 3,179
Bonds:				
Inland Empire Tobacco Securitization Authority	41,955	16,829	-	58,784
Total governmental-type activities	$ 44,750	$ 17,213	$ -	$ 61,963
Business-type Activities:				
Lease Revenue Bonds:				
Regional Medical Center (1997A Hosp)	$ 48,811	$ 5,422	-	$ 54,233
Total business-type activities	$ 48,811	$ 5,422	$ -	$ 54,233

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

Accreted Interest Payable (Continued)

The accreted interest payable balances at June 30, 2011 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 $17.2 million and $5.4 million represent current year's accretion for governmental activities and business activities respectively. The accumulated accretion for business-type activities is $54.2 million at June 30, 2011. The accumulated accretion for U.S. District Court Financing and the Inland Empire Tobacco Securitization Authority in governmental activities is $62.0 million. The un-accreted balances at June 30, 2011 are $76.2 million for the 1997-A Hospital (RCRMC) project, $4.0 million for the U.S. District Court, and $3.4 billion for the Tobacco Securitization Authority Capital Appreciation Bonds.

Bonds, Certificates of Participation/ Refunding

During the fiscal year ended June 30, 2011, the Redevelopment Agency issued the 2010 Tax Allocation Bonds for financing projects of the County Redevelopment Agency and to provide funds for the various debt obligations of the Agency within the various project areas. The Bonds are special obligations of the Agency and are payable exclusively from tax revenues to be derived from the various project areas and from amounts on deposit in certain funds and accounts established pursuant to the Indenture. The outstanding balance at June 30, 2011 is $130.8 million.

During the fiscal year ended June 30, 2011, the Agency issued Tax Allocation Bonds for financing low and moderate income housing projects of the County Redevelopment Agency and to provide funds for the various debt obligations of the Agency within the various project areas. The Bonds are special obligations of the Agency and are payable exclusively from tax revenues to be derived from the various project areas and from amounts on deposit in certain funds and accounts established pursuant to the Indenture. The outstanding balance at June 30, 2011 is $39.7 million.

On February 28, 2011, CORAL issued $5.5 million in new private placement bonds and repaid the previous May 16, 2007, mortgage note. The new bonds have an interest rate of 3.54% and the principal balance outstanding at June 30, 2011, was $5.4 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, 2011, was $2.1 million.

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.

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

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 $52.8 million of Mortgage Revenue Bonds has been issued and $51.3 million is outstanding as of June 30, 2011. 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 $100.2 million at June 30, 2011, 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, 2011, 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 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%.

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

Interest Rate Swap

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 Citigroup Financial Products, Inc., (Citigroup) 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, 2011. 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, 2011 and 2010, the swap had a negative fair value of $24.7 million and $27.9 million, respectively, an increase in fair value of $3.2 million occurred during the fiscal year 2010-11. 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 Citigroup at June, 30 2011.

Credit Risks: The swap counterparty was rated A+ by Moody's and A+ by Standard & Poor's as of June 30, 2011. The swap agreement specifies that if the long-term senior unsecured debt rating of Citigroup is withdrawn, suspended or falls below A- (Standard & Poor) or A3 (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, 2011, 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, 2011 was 5.2%.

Termination Risks: CORAL always has the right to terminate the swaps. Citigroup is limited in so far as both CORAL and the insurer are not performing. The swap may be terminated by CORAL if Citigroup'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 Citigroup 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 Citigroup for a payment equal to the swaps' fair values.

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

Interest Rate Swap (Continued)

Swap Payment and Associated Debt: Using rates as of June 30, 2011, 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 Ending June 30	Variable Rate Bonds Principal	Variable Rate Bonds Interest	Net Swap Payments	Total Interest
2012	$ -	$ 1,099	$ 2,835	$ 3,934
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
2017-2021	14,260	4,755	15,234	19,989
2022-2026	19,025	3,503	10,050	13,553
2027-2031	24,715	1,848	4,767	6,615
2032-2033	18,300	167	426	593
	$ 76,300	$ 15,747	$ 44,596	$ 60,343

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, 2011 (in thousands):

	Balance June 30, 2010	New Additions	Payments / Reclass	Balance June 30, 2011	Amounts Due Within One Year
Governmental activities:					
Debt long-term liabilities:					
Bonds payable	$ 1,408,017	$ 170,481	$ (27,175)	$ 1,551,323	$ 39,585
Capital lease obligations	123,890	13,192	(25,954)	111,128	20,341
Certificates of participation	385,447	-	(18,175)	367,272	26,397
Loans payable	6,987	5,535	(7,167)	5,355	430
Notes payable	15,000	-	(15,000)	-	-
Total debt long-term liabilities	1,939,341	189,208	(93,471)	2,035,078	86,753
Other long-term liabilities:					
Accreted interest payable	44,750	17,213	-	61,963	-
Compensated absences (a)	160,221	2,651	(2,528)	160,344	90,275
Estimated claims liabilities (b)	117,263	90,829	(83,375)	124,717	34,903
Accrued remediation costs (c)	2,014	318	-	2,332	462
Total other long-term liabilities	324,248	111,011	(85,903)	349,356	125,640
Total governmental activities – long-term liabilities	$ 2,263,589	$ 300,219	$ (179,374)	$ 2,384,434	$ 212,393

(a) General Fund, Special Revenue Fund, and Internal Service Fund are used to liquidate the compensated absences.
(b) Internal Service Funds are used to liquidate the estimated claims liabilities.
(c) General Fund is used to liquidate the remediation costs.

NOTE 13 – 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, 2011 (in thousands):

	Balance June 30, 2010	Additions	Payments / Reclass	Balance June 30, 2011	Amounts Due Within One Year
Business-type activities:					
Debt long-term liabilities:					
Bonds payable, net of un-amortized discount and losses (a)	$ 147,924	$ -	$ (12,941)	$ 134,983	$ 14,430
Capital lease (RCRMC)	20,842	2,117	(7,129)	15,830	5,863
Total debt long-term liabilities	168,766	2,117	(20,070)	150,813	20,293
Other long-term liabilities:					
Accreted interest payable	48,811	5,422	-	54,233	-
Accrued closure and post-closure	49,898	258	(6,688)	43,468	4,262
Compensated absences	20,159	490	(385)	20,264	12,548
Accrued remediation costs	21,380	8,397	-	29,777	2,731
Other long-term liabilities (b)	6,795	-	-	6,795	-
Total other long-term liabilities	147,043	14,567	(7,073)	154,537	19,541
Total business-type activities – long-term liabilities	$ 315,809	$ 16,684	$ (27,143)	$ 305,350	$ 39,834
Discretely Presented Component Unit					
Debt long-term liabilities:					
Bonds payable	$ 88,976	$ -	$ (4,979)	$ 83,997	$ 5,250
Other long-term liabilities:					
Compensated absences	253	101	(83)	271	138
Total discretely presented component unit – long-term liabilities	$ 89,229	$ 101	$ (5,062)	$ 84,268	$ 5,388

(a) The reduction in bonds payable amount of $12.9 million includes a bond discount amortization of $11.0 thousand, deferred charges of $486.0 thousand, and losses on bond defeasance of $1.7 million during fiscal year 2010-11.
(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 19.25% to the County and 80.75% to the Tobacco Securitization Authority for Calendar year 2011. During the fiscal year ended June 30, 2011, $19.1 million was received by the Tobacco Authority; $10.0 million, or 52.4%, was distributed to the County per the above agreement, leaving $9.1 million, or 47.6%, 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 1988 in settlement of certain cigarette smoking-related litigation.*

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

Disclosure of Pledged Revenues (Continued)

Redevelopment Agency has pledged a portion of future tax increment revenues and a portion of investment earnings to repay the Agency's long-term debt. The Agency's long-term debt is payable solely from the tax increment and a portion of investment earnings in the Agency's project areas. Total principal and interest remaining on the bonds is $1.6 billion, payable through fiscal year 2045. During the fiscal year ended June 30, 2011, $71.7 million was received from tax increment and investment earnings combined. Of this amount, principal and interest paid were $13.6 million and $35.4 million respectively, or 70% of the specific revenues pledged.

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 2011 were $120 thousand (principal) and $92.4 thousand (interest).

The Housing Authority reports the $218.0 thousand received each year as revenue. In fiscal year 2010-11, 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, 2011, before applying the deferred charge, was $1.3 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 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.

NOTE 14 – 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, 2011 is as follows (in thousands):

	Major Funds			
	General Fund	Flood Special Revenue Funds	Public Facilities Improvements	Redevelopment Capital Projects
Nonspendable:				
Imprest cash	$ 372	$ 1	$ -	$ -
Inventories	1,565	-	-	-
Receivables	-	-	-	17,642
Permanent	-	-	-	-
Land held for resale	-	-	-	54,413
Prepaids	277	-	-	-
Total nonspendable fund balances	2,214	1	-	72,055
Resticted for:				
Teeter tax losses	9,565	-	-	-
Public protection	67,917	-	-	-
Fire stations	-	-	25,988	-
Roads	-	-	44,065	-
Traffic signals	-	-	17,197	-
Emergency safety communication system	-	-	-	-
Public facilities	-	-	30,687	-
Public assistance programs	3,721	-	-	-
Health and sanitation services	12,706	-	-	-
Housing assistance programs	-	-	-	-
Parks and recreation	-	-	13,549	-
Education	-	-	4,153	-
Debt service	521	-	-	-
Other capital projects		-	22,989	-
Other purposes	4,122	-	-	-
Total restricted fund balances	98,552	-	158,628	-
Committed to:				
Strategic planning	-	-	6,451	-
Property tax system	18,599	-	-	-
Disaster relief	15,000	-	-	-
Public facilities	-	-	-	115,617
Public protection	11,267	237,211	-	-
Health and sanitation services	2,449	-	-	-
Parks and recreation	-	-	-	-
Debt service	-	-	-	-
Other capital projects	1,056	-	-	-
Other purposes	1,726	-	-	-
Total committed fund balances	50,097	237,211	6,451	115,617
Assigned to:				
Jail construction	-	-	67,027	-
Public protection	916	-	-	-
Roads	-	-	19,486	-
Health and sanitation services	845	-	-	-
Capital project improvement program	-	-	40,163	-
Housing assistance programs	-	-	-	-
Public facilities	-	-	-	83,881
Sheriff stations	1,316	-	-	-
Debt service	-	-	-	-
Other capital projects	275	1,402	1,347	-
Other purposes	111	12,339	-	-
Total assigned fund balances	3,463	13,741	128,023	83,881
Unassigned fund balances	189,236	-	-	-
Total fund balances	$ 343,562	$ 250,953	$ 293,102	$ 271,553

*As of June 30, 2011, the total encumbrance balances were $90.5 million.

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2011

NOTE 14 – FUND BALANCES (Continued)

Nonmajor Funds						
Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds	Nonmajor Governmental Funds	Total Governmental Funds	
						Nonspendable:
$ 118	$ -	$ -	$ -	$ 118	$ 491	Imprest cash
1,073	-	-	-	1,073	2,638	Inventories
44,357	-	-	-	44,357	61,999	Receivables
-	-	-	432	432	432	Permanent
38,156	-	-	-	38,156	92,569	Land held for resale
64	-	569	-	633	910	Prepaids
83,768	-	569	432	84,769	159,039	**Total nonspendable fund balances**
						Resticted for:
-	-	-	-	-	9,565	Teeter tax losses
4,554	-	-	32	4,586	72,503	Public protection
-	-	-	-	-	25,988	Fire stations
120,508	-	-	-	120,508	164,573	Roads
-	-	-	-	-	17,197	Traffic signals
-	-	40,231	-	40,231	40,231	Emergency safety communication system
-	-	-	-	-	30,687	Public facilities
1,355	-	-	-	1,355	5,076	Public assistance programs
3,606	-	-	-	3,606	16,312	Health and sanitation services
85,968	-	-	-	85,968	85,968	Housing assistance programs
434	-	8,903	-	9,337	22,886	Parks and recreation
19,590	-	-	-	19,590	23,743	Education
-	123,118	-	-	123,118	123,639	Debt service
1,018	-	-	-	1,018	24,007	Other capital projects
1,325	-	145	-	1,470	5,592	Other purposes
238,358	123,118	49,279	32	410,787	667,967	**Total restricted fund balances**
						Committed to:
-	-	-	-	-	6,451	Strategic planning
-	-	-	-	-	18,599	Property tax system
-	-	-	-	-	15,000	Disaster relief
-	-	-	-	-	115,617	Public facilities
-	-	-	-	-	248,478	Public protection
-	-	-	-	-	2,449	Health and sanitation services
-	-	1,670	-	1,670	1,670	Parks and recreation
-	1,206	-	-	1,206	1,206	Debt service
6	-	20	-	26	1,082	Other capital projects
21,375	-	-	-	21,375	23,101	Other purposes
21,381	1,206	1,690	-	24,277	433,653	**Total committed fund balances**
						Assigned to:
-	-	-	-	-	67,027	Jail construction
-	-	-	-	-	916	Public protection
-	-	-	-	-	19,486	Roads
-	-	-	-	-	845	Health and sanitation services
-	-	-	-	-	40,163	Capital project improvement program
55,262	-	-	-	55,262	55,262	Housing assistance programs
-	-	-	-	-	83,881	Public facilities
-	-	-	-	-	1,316	Sheriff stations
-	27,081	3,782	-	30,863	30,863	Debt service
378	-	69	-	447	3,471	Other capital projects
-	-	-	-	-	12,450	Other purposes
55,640	27,081	3,851	-	86,572	315,680	**Total assigned fund balances**
-	-	-	-	-	189,236	**Unassigned fund balances**
$ 399,147	$ 151,405	$ 55,389	$ 464	$ 606,405	$ 1,765,575	**Total fund balances**

NOTE 15 – 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, 2011 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 the 'Expected' confidence level for the Liability ISF and the Workers' Compensation ISF. (With a slight variation for each fund, 'Expected' confidence level is equivalent to approximately a 55% confidence level). 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, 2011 plus revenues to be collected during fiscal year 2011-2012 are expected to be sufficient to cover all fiscal year 2010-11 payments. The carrying amount of unpaid claim liabilities is $124.7 million. The liabilities are discounted at 4.0%.

	June 30, 2010	June 30, 2011
Unpaid claims, beginning of year	$ 117,280	$ 117,263
Increase (decrease) in provision for insured events of prior years	1,202	(2,428)
Incurred claims for current year	79,004	93,257
Claim payments	(80,223)	(83,375)
Unpaid claims, end of year	$ 117,263	$ 124,717

NOTE 16 – 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 cost reports through June 30, 2007 and June 30, 2008 for Medi-Cal and have 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.

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 $106.9 million for SB-1100 for the year ended June 30, 2011 of which $33.8 million is from the Delivery System Reform Incentive Program (DSRIP), a new 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 17 – 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, 2011 follows:

The CSAC Excess Insurance Authority was formed in October 1979 and has a current membership of 52 California counties. The Authority 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 17 – 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 was 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 was 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 17 – 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 for 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.

NOTE 18 – 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 (Waste) 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 assets, liabilities and rates of its plans. Under GASB 27, County (Miscellaneous and Safety) and Flood Control are considered single-employer defined benefit pension plans, while Park District and Waste Management are considered multiple-employer defined benefit pension plans due to their pooling configuration. 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 8.0% (Miscellaneous employees) of their annual covered salary. Miscellaneous members within specified bargaining units are required to make employees contributions for the first five (5) years of continuous service. Safety members employee required contribution to CalPERS is specified in the governing MOU agreements. State statute establishes the contribution requirements of plan members. 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.

Early Retirement Incentive

In FY 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 FY 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

NOTE 18 – RETIREMENT PLAN (Continued)

Early Retirement Incentive (Continued)

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

	County Miscellaneous	County Safety	Flood Control	Park District	Waste Management
Contribution rates:					
County	12.118%	19.311%	13.382%	13.867%	14.860%
Plan Members	8.000%	9.000%	8.000%	8.000%	8.000%

Annual Pension Cost

For fiscal year 2010-11, 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	$ 100,499	$ 51,076	$ 1,995	$ 585	$ 431
Interest on net pension obligation (asset)	(25,480)	(7,018)	(162)	-	-
Adjustment to annual required contribution	19,020	5,239	422	-	434
Annual pension cost	94,039	49,297	2,255	585	865
Contributions made	(100,499)	(51,076)	(2,116)	(585)	(431)
Increase (decrease) in net pension obligation (asset)	(6,460)	(1,779)	139	-	434
Net pension obligation (asset) beginning of year	(328,780)	(90,567)	(2,084)	-	(1,950)
Net pension obligation (asset) end of year	$ (335,240)	$ (92,346)	$ (1,945)	$ -	$ (1,516)

NOTE 18 – RETIREMENT PLAN (Continued)

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, 2009	$ 88,406	107.03 %	$ (322,445)
	June 30, 2010	87,307	107.26	(328,780)
	June 30, 2011	94,039	106.87	(335,240)
County - Safety	June 30, 2009	40,951	104.18	(88,821)
	June 30, 2010	42,983	104.06	(90,567)
	June 30, 2011	49,297	103.61	(92,346)
Flood Control	June 30, 2009	1,874	93.09	(2,223)
	June 30, 2010	2,090	93.35	(2,084)
	June 30, 2011	2,255	93.80	(1,945)
Parks District	June 30, 2009	567	100.00	-
	June 30, 2010	603	100.00	-
	June 30, 2011	585	100.00	-
Waste Management	June 30, 2009	1,002	56.69	(2,384)
	June 30, 2010	884	50.90	(1,950)
	June 30, 2011	865	49.83	(1,516)

Actuarial Methods and Assumptions

The following information as of the most recent actuarial valuation:

	County Miscellaneous	County Safety	Flood Control	Park District	Waste Management
Actuarial valuation	6/30/2010	6/30/2010	6/30/2010	6/30/2010	6/30/2010
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	28 years	29 years	27 years	17 years	17 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	7.75%	7.75%	7.75%	7.75%	7.75%
Projected salary increases*	3.55%-14.45%	3.55%-13.15%	3.55%-14.45%	3.55%-14.45%	3.55%-14.45%
Inflation	3.00%	3.00%	3.00%	3.00%	3.00%
Payroll growth	3.25%	3.25%	3.25%	3.25%	3.25%

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

NOTE 18 – RETIREMENT PLAN (Continued)

Funded Status and the Funding Progress

The following is funded status information for each plan as of June 30, 2011, 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	$ 3,652,861	$ 4,097,192	$ 444,331	89.16 %	$ 854,932	51.97 %
County - Safety	1,624,730	1,809,468	184,738	89.79	265,165	69.67
Flood Control	98,710	118,367	19,657	83.39	15,423	127.45
Parks District**	754,859	945,221	190,362	79.86	159,157	119.61
Waste Management**	754,859	945,221	190,362	79.86	159,157	119.61

** The amounts disclosed reflect the entire Risk Pool fund in which Parks 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 19 – DEFINED BENEFIT PENSION PLAN

Plan Descriptions and Contribution Information

Plan Description. In place of the Social Security benefits, the County provides an IRS Section 401(a) single-employer defined benefit employee pension plan for Part-Time and Temporary employees who are not eligible for CalPERS retirement benefits. This Plan is self-funded and self-administered. Prior to July 20, 2010, contributions made to the Plan were deposited with the County Treasurer, who maintains the responsibility of investing contributions. Effective July 20, 2010, the County Board of Supervisors appointed U.S. Bank as the Plan's Investment Consultant, Investment Manager and Trustee. Funds were wired to U.S. Bank on September 28, 2010, invested in a diversified portfolio and reported at fair value. A participant is immediately 100% vested.

Contributions. Participants in the Plan are required to contribute 3.75% of their compensation to the Plan. According to the June 30, 2010 valuation, the County's current required contribution rate is 0.43%, however, the County elected to contribute 0.55 % of payroll in order to reach a 90% target funded ratio. The Plan's current funded ratio is 84.6%. 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, 2010, the date of the latest actuarial valuation:

Number of Participants:	
Active plan members	2,123
Terminated and inactive members	5,857
Retirees	111
Total	8,091

NOTE 19 – DEFINED BENEFIT PENSION PLAN (Continued)

Summary of Significant Accounting Policies

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 US 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, 2011 assets were invested in cash equivalents (1.23%), equities (69.04%), and fixed income (29.73%).

Schedule of Annual Pension Cost and the Net Pension Obligation (NPO) for 2011 and the two preceding years were as follows (dollar amounts in thousands):

Fiscal Year Ending	Annual Required Contribution	Interest on NPO	Adjustment to the ARC	Annual Pension Cost	Actual Contribution	NPO End of Year	Percentage Contributed
2009	$ 189	$ (67)	$ 105	$ 227	$ 1,880	$ (2,901)	828 %
2010	144	(145)	227	226	840	(3,515)	372
2011	156	(176)	275	255	425	(3,685)	167

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

Annual required contribution	$ 156
Interest on net pension obligation (asset)	(176)
Adjustment to annual required contribution	275
Annual pension cost	255
Contributions made	(425)
Increase(decrease) in net pension obligation (asset)	(170)
Net pension obligation (asset) beginning of year	(3,515)
Net pension obligation (asset) end of year	$ (3,685)

Schedule of Funding Progress

The funded status of the plan as of July 1, 2010, 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, 2008	$ 16,989	$ 19,471	$ 2,482	87.25 %	$ 27,928	8.89 %
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

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

NOTE 19 – DEFINED BENEFIT PENSION PLAN (Continued)

Actuarial Methods and Assumptions

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

Valuation date	7/1/2010
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 20 – POST EMPLOYEMENT 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 (Parks District); and Waste Resources Management District (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 RSA Trust for RSA law enforcement retirees.
- There is no longer an implicit subsidy in this plan. 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. Effective January 1, 2011, all retirees pay premiums based on their "true" retiree only costs, and the implicit subsidy ceased to exist.

A qualified Internal Revenue Code (IRC), 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 (Parks 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 Resources Management District 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 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).

NOTE 20 – POST EMPLOYEMENT BENEFITS OTHER THAN PENSIONS (Continued)

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	$307-$745	$307-$745	$307-$745	$307-$745
Annual required contribution	$ 3,368	$ 42	$ 9	$ 135
Interest on net OPEB obligation	(1,579)	(21)	(18)	-
Adjustment to annual required contribution	1,223	17	13	-
Annual OPEB cost	3,012	38	4	135
Contributions made	(6,115)	(192)	(42)	(24)
Increase in net OPEB obligation	(3,103)	(154)	(38)	111
Net OPEB obligation (asset) beginning of year	(18,015)	(275)	(233)	(62)
Net OPEB obligation (asset) end of year	$ (21,118)	$ (429)	$ (271)	$ 49

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 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	06/30/09	$ 3,755	189.2 %	$ (13,890)
	06/30/10	4,238	197.3	(18,015)
	06/30/11	3,012	203.0	(21,118)
Flood Control	06/30/09	23	404.3	(141)
	06/30/10	45	397.8	(275)
	06/30/11	38	505.2	(429)
Park District	06/30/09	6	333.3	(215)
	06/30/10	4	550.0	(233)
	06/30/11	4	1,050.0	(271)
Waste Management	06/30/09	63	141.3	(3)
	06/30/10	99	159.6	(62)
	06/30/11	135	17.8	49

NOTE 20 – POST EMPLOYEMENT BENEFITS OTHER THAN PENSIONS (Continued)

Funded Status and Funding Progress

The funded status of the plans as of June 30, 2011 was as follows (dollar amounts in thousands):

	County	Flood Control	Park District	Waste Management
Actuarial accrued liability (a)	$ 43,158	$ 588	$ 144	$ 1,089
Actuarial value of plan assets (b)	14,272	113	147	-
Unfunded actuarial accrued liability (funding excess) (a) - (b)	$ 28,886	$ 475	$ (3)	$ 1,089
Funded ratio (b) / (a)	33.1%	19.22%	102.08%	0%
Covered payroll (c)	$ 1,030,030	$ 15,086	$ 4,429	$ 3,302
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ([(a) - (b)] / (c))	2.8%	3.1%	0.1%	33.0%

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.

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	7/1/2010	1/1/2010	1/1/2009	1/1/2009
Actuarial cost method	Entry age	Entry age	Entry age	Entry age
Amortization method	Level percentage of pay, open	Level percentage of pay, open	Level percentage of pay, open	Level percentage of pay, closed
Remaining amortization period	30 years	30 years	30 years	12 years
Actuarial assumptions:				
Investment rate of return	7.75%	7.75%	7.75%	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%

NOTE 21 – 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.

The Riverside County Children and Family Commission is currently involved in a lawsuit as a plaintiff jointly with other Commissions regarding the AB99 legislation. Although the outcome of the joint lawsuit is not presently determinable, in the opinion of the Commission's counsel, the resolution of these matters may have a material adverse effect on the financial condition of the Commission if the court ruling upholds the implementation of AB99.

Federal Grant Revenue

Compliance examinations for the fiscal year ended June 30, 2010, 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 2010-11 Single Audit of federal awards report is expected to be submitted to the Federal Audit Clearinghouse on or before March 30, 2012.

Commitments

At June 30, 2011, 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. $128.2 million will be payable upon future performance under the contracts.

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 will be used, upon appropriation, by the California State Legislature for health and human services. The bill requires $1.0 billion of the combined state and local children and families funds to be deposited in the Fund for the 2011-12 fiscal year. The amount required from each first five 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 $30.0 million. The AB 99 payment is due by June 30, 2012. In accordance with the legislation, no 2012-2013 commission revenues will be paid until the full AB 99 payment is made. Accordingly, the Commission has accrued the AB 99 obligation as a liability at June 30, 2011.

Landfill Construction and Consulting Contracts

The Waste Management Department (Waste) 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 expects to complete the installation of several landfill liners over the next five years and estimates additional future costs to be $18.7 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 have been found in six facilities. As of June 30, 2011 the Governmental Activities reflect a $2.3 million accrued remediation liability (Note 13). The liability has been calculated using the expected cash flow 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.

NOTE 21 – COMMITMENTS AND CONTINGENCIES(Continued)

Remediation Contingencies(Continued)

Enterprise Funds

Waste is presently aware of groundwater contamination at nine of its landfills, six of which are closed. Waste is also aware of air/gas contamination at 17 landfills, 11 of which are closed. Based on engineering studies, Waste estimates the present value of the total costs of corrective action for foreseeable contaminate releases at $29.8 million. At June 30, 2011, Waste has accrued $29.8 million for the estimated costs related to the remediation of these landfills. Remediation expense for fiscal year 2011 results from current estimates and current actual expenses.

Waste 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 $27.0 million are held for these purposes at June 30, 2011 and are classified as Accrued Remediation in the Statements of Net Assets.

NOTE 22 – SUBSEQUENT EVENTS

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

On July 1, 2011, the County issued $250.0 million in Tax and Revenue Anticipation Notes in the form of Series A due March 30, 2012 and Series B due June 29, 2012. The stated interest rate for the A Bonds is set at 2.0% per annum with a yield of 0.26%. The interest rate for the B Bond is set at 2.0% per annum with a yield of 0.32%. Portions of the Note proceeds were used to prepay CalPERS contributions for 2011 - 12 in the amount of $86.5 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 2012 and legally available for payment thereof. Proceeds for the Bonds will be used for fiscal year 2012 General Fund expenditures, including current expenditures, capital expenditures, and the discharge of other obligations or indebtedness of the County.

Riverside County Bonds and Certifications

In September 2011, Fitch, one of the three major credit ratings, has lowered the County’s bonds and certificates ratings as follows:

- Riverside County implied general obligation (GO) bond rating to 'AA-' from 'AA';
- Riverside County pension obligation bonds (series 2005A), Riverside County certificates of participation (COPs- series 2001, 2003, 2003A, 2003B, 2005A, 2005B, 2007A, 2007B), Riverside County Asset Leasing Corporation (CORAL- COPS/series 2006A and lease revenue bonds (LRBs), series 1993A, 1993B, 1997A, 1997B, 1997C, 2000A), Riverside County Palm Desert Financing Authority LRBs (series 2003A), Southwest Communities Financing Authority LRBs (series 2008A) to 'A+' from 'AA-'.

Fitch’s reasoning is summarized in the following paragraphs:

The downgrade of the implied general obligation rating reflects management's projections: 1) that previously expected operational balance will not be achieved; 2) of anticipated fund balance declines to just adequate levels; and 3) revenue pressures from lingering economic softness. It also reflects disappointing performance in the form of continuing economic weakening, a high local unemployment rate, and flat home prices. The efforts to close the County's fiscal imbalance have also been hampered by insufficiently conservative revenue projections in recent years.

Several important corrective actions were taken by the County and mentioned in the report - management's proactive efforts to mitigate severe revenue declines by cutting expenditures, deferring capital projects, and reforming its benefit programs. The County's other post-employment benefits (OPEB) obligation is small after its Board eliminated an implicit subsidy, and management is exploring pension reform options that could lead to material future savings.

NOTE 22 – SUBSEQUENT EVENTS

Riverside County Bonds and Certifications (Continued)

The County has proactively 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.

Riverside County Treasury Investment Pool

Standard & Poor's (S&P) downgraded the US government's credit rating and the Federal Agencies on August 5, 2011 from AAA to AA+. The action from S&P did not trigger a down grade of the Treasurer's Pooled Investment Fund despite a high concentration of those securities in the Fund.

Teeter Obligation Notes, Series C

In October 2011, the County issued $171.0 million in 2011 Teeter Obligation Notes, Series B Commercial Paper. This was sufficient to refund the outstanding 2010 Teeter Obligations Notes, Series C. The 2011 Notes bear an interest rate of 0.16% and a maturity date of November 5, 2012 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 that the County's Miscellaneous and Safety contribution rates for fiscal year 2011-2012 will be 13.1% and 21.3%, respectively. Fiscal year 2012-13 contribution rates for Miscellaneous and Safety are estimated at 13.5% and 22.5%, respectively. They will be accounted for in fiscal year 2010-11 and future budget years.

Recent Changes in Legislation Affecting California Redevelopment Agencies

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend (effective July 1, 2011) nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each local government would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 26 indicates that the city, special district or county "may use any available funds not otherwise obligated for other uses" to make this payment. The County of Riverside (the "County") intends to use available monies of its redevelopment agency for this purpose and the County and Agency have approved a reimbursement agreement to accomplish that. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the State legislature.

On July 26, 2011, County of Riverside Ordinance No. 912 was adopted indicating that the County will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the agency, in the event Assembly Bills X1 26 and/or 27 are upheld as constitutional. The initial payment by the County is estimated to be $31.5 million with one half due on January 15, 2012 and the other half due May 15, 2012.

Annexation of City

Incorporated on July 1, 2011 as Riverside County's 28th city, the City of Jurupa Valley represents an estimated population of 94,235 citizens.

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