

COUNTY OF RIVERSIDE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
June 30, 2002

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OFFICE OF THE
COUNTY AUDITOR-CONTROLLER

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Robert E. Byrd, CGFM
AUDITOR-CONTROLLER

January 31, 2003

The Honorable Board of Supervisors
County of Riverside
4080 Lemon Street, 14th Floor
Riverside, California 92501

Chairperson and Members of the Board:

The Comprehensive Annual Financial Report of the County of Riverside for the Fiscal Year Ended June 30, 2002, is hereby submitted in accordance with Section 25253 of the Government Code of the State of California. Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management of the County of Riverside (the County). To the best of our knowledge and belief, the enclosed data is accurate in all material respects and are reported in a manner that presents fairly the financial position and changes in financial position of the various funds and component units of the County of Riverside. All disclosures necessary to enable the reader to gain an understanding of the County's financial activities have been included.

The Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial and Statistical.

- The Introductory Section includes the transmittal letter, a list of principal officials, the County of Riverside's organizational chart, and a copy of the Certificate of Achievement for Excellence in Financial Reporting for the year ended June 30, 2001.
- The Financial Section includes the independent auditor's report on the basic financial statements; Management's Discussion and Analysis (Required Supplementary Information), basic financial statements (which include the financial statements of the County's governmental activities, business-type activities, the County's discretely presented component unit, each major fund, and the aggregate remaining fund information of the County as of June 30, 2002); other required supplementary information; schedules of funding progress for defined benefit pension plans; and other supplementary information (which includes combining and individual non-major fund financial statements as well as other budgetary comparison schedules).
- The Statistical Section includes selected financial and demographic information, generally presented on a multi-year basis.

The County of Riverside is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Information related to this single audit, including the

schedule of expenditures of federal awards, findings and questioned costs, and the independent auditor's report on internal control and compliance with applicable laws and regulations, are included in a separate annual publication.

Generally Accepted Accounting Principles (GAAP) for local governments require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with the MD&A. The MD&A immediately follows the report of the independent auditors.

The Governmental Accounting Standards Board (GASB) established a new financial reporting model for local governments in GASB Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*". This statement affects the manner in which the County records transactions and presents financial information. The County implemented GASB Statement No. 34 for fiscal year ended June 30, 2002. Refer to Note 1: Summary of Significant Accounting Policies for additional information relating to the new financial reporting model.

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

The County has ten independent fiscal entities that are considered Blended Component Units and one Discretely Presented Component Unit. These entities vary widely in function and provide essential services.

For a more detailed overview of the County's component units, see the Financial Section: Management's Discussion and Analysis and the Notes to the Basic Financial Statements.

PROFILE OF THE GOVERNMENT

Riverside County, the State's fourth largest county by area, encompasses 7,295 square miles and extends 184 miles across Southern California, from the Arizona border west to within 10 miles of the Pacific Ocean. It is situated immediately east of Los Angeles and Orange Counties, south of San Bernardino County, and north of San Diego and Imperial Counties. There are 24 incorporated cities located within the County. The largest cities in the County and their respective populations are the cities of Riverside – 269,400 (the County seat) and Moreno Valley – 146,400.

The County population was 1,644,300 on January 1, 2002, an increase of 3.8% compared to the revised estimate for 2001 from the California State Department of Finance. (Estimated population figures are developed by the State as of January 1 of each year with a revised estimate for the prior year.) Riverside County ranks as the sixth largest County in population in the State. Approximately 27% of the residents live in the unincorporated area. The County is part of the Riverside-San Bernardino Primary Metropolitan Statistical Area (PMSA), which includes all of Riverside and San Bernardino Counties. In addition to varied manufacturing employment, the PMSA has large and growing services and retail trade industry sectors.

Total nonfarm employment in the PMSA rose 21.7% from March 1998 to March 2002, while the population increased by 13.3% (a revision from last year due to the Census 2000 undercount being excluded from the California State Department of Finance population figures) in the County from January 1, 1998 to January 1, 2002. As of March 2002, unemployment in the PMSA was 5.3%, compared to 6.1% for the United States. As of March 2001 unemployment in the PMSA was 4.5% compared to 4.6% for the United States. The positive change in the PMSA unemployment was primarily attributable to growing employment in the wholesale trade, services, and construction sectors.

PLANNING AND GROWTH MANAGEMENT

Strategic Plan

The County Strategic Plan ("Strategic Vision") was adopted by the Board of Supervisors in December 1998, and

was revised in April 2000. This plan encompasses all areas of County operations with the general objectives of improving quality of service, increasing efficiency and enhancing communication and understanding and coordination between County agencies and other units of local government.

The “Integrated Plan” Project

The County is currently engaged in a multi-year comprehensive planning project known as the Riverside County Integrated Plan (RCIP). This \$32,500,000 effort includes an overhaul of the County’s General Plan of Land Use in tandem with plan elements for multi-species habitat conservation, new regional transportation corridors, and watershed protection. The RCIP is being closely coordinated with regional councils of government and appropriate State and Federal government agencies, and stakeholder input is being solicited through several advisory committees and numerous community forums. Planning Commission workshops were held in December 2002 and Board hearings are planned for March 2003.

Trial Court Facilities

On September 30, 2002, Governor Gray Davis signed the Trial Court Facilities Act of 2002 (SB 1732). This landmark legislation shifts governance of California’s more than 450 courthouse facilities from the counties to the State. Although the bill becomes effective on January 1, 2003, it is anticipated that the transition time will take up to seven years. The County and the Judicial Council of the State of California will negotiate agreements between July 1, 2003, and June 30, 2007. The transfer of courthouse facilities to the Judicial Council, if negotiated, must be completed by June 30, 2007.

The County will develop a transition plan that will identify the impacts and the steps necessary to ensure a smooth and timely transition. Some important areas to consider in the development of the transition plan will be bonded indebtedness, deferred maintenance, and capital projects. Once completed, this transfer will cap the County’s financial obligation to court facilities to a Maintenance of Effort amount established under the legislation. Although the County continues to contribute to trial court funding through maintenance-of effort obligations, the restructuring of court funding ends a dual system of county and state funding. These funds are accounted for in the agency funds.

Development Agreement Fees

In December 1987, the Board of Supervisors adopted procedures consistent with provisions of the California Government Code 65864 et al. for consideration of development agreements. As a legal contract between the County and a developer, a development agreement was intended to strengthen the public planning process, encourage private participation in comprehensive planning, reduce the economic costs of development, and promote the maximum efficient utilization of resources at the least economic cost to the public. In February 1988, the Board of Supervisors adopted a schedule of development agreement fees payable on residential projects prior to issuance of building permits, in the amount of \$5,784 per residential unit. With Consumer Price Index adjustments, generally the most current fee effective on January 1, 2002 is \$6,094 consisting of the following components:

	<u>Development Agreement Fee</u>
Public Facilities	\$ 2,693
Regional Parklands and Trails	501
Habitat Conservation and Open Space Land Bank Offset	368
Public Services Offset	<u>2,532</u>
Total	<u>\$ 6,094</u>

Based on renegotiated development agreements, fees range from \$3,000 to \$6,094 with some component deletions.

With the exception of the Public Services Offset, Development Agreement revenue will be used to help the County construct capital facilities and acquire parkland, trails, habitat and open space to meet the demand caused by new growth and development. The Public Services Offset is intended to help defray the cost of providing governmental services such as Sheriff's patrol service proportional to the expanded population.

On May 14, 2002, the Board of Supervisors authorized the reclassification of funds in the amount of \$17,488,743 from the General Fund to the developer agreement funds for the purpose of assisting to mitigate growth-related impacts throughout the County. The total of unexpended uncommitted development agreement funds in capital project funds is \$20,226,573 as of June 30, 2002.

Development Mitigation Fees

In July 1988, the Board of Supervisors adopted Ordinance No. 659 establishing a County-wide (unincorporated area only) development mitigation fee for residential development. The purpose of this fee is to finance the construction of County facilities necessary to accommodate future residential growth in the County and the future need for parkland, recreational trails, conservation of habitat and open space. Revenue from the fee will be used toward the construction of the facilities on the list of County Public Facilities Needs; for the purchase of parkland and the development of recreational trails as outlined in the County General Plan; for the preservation of habitat for specific listed plants and animals; and for open space as outlined in the General Plan.

Ordinance No. 659 established a fee within each Regional Statistical Area (RSA). They range from a low of \$2,135 in RSA 48 to a high of \$2,883 in RSA 50. The fees have not been adjusted since originally assessed in 1988.

On May 14, 2002, the Board of Supervisors authorized a reclassification from the development mitigation funds in the amount of \$26,988,743 to the General Fund to recover financing costs associated with those projects on the Public Facilities Needs List through the Year 2000 but which had not been collected. The total of unexpended uncommitted development mitigation funds in capital project funds is \$3,533 as of June 30, 2002.

Development Impact Fees

On September 11, 2001, the Board of Supervisors adopted Ordinance 659.6, Development Impact Fees, which replaced and superseded those fees associated with Ordinance 659 and which were effective sixty (60) days after adoption.

Development impact fees are collected to address impacts associated with residential, commercial and industrial development throughout the unincorporated County region and are used for the purpose of constructing or acquiring the needed facilities and preserving open space, wildlife and their habitats.

Fees are assessed by unit for single family and multiple-family residential development, and are assessed by acre for commercial and industrial development. Fees vary according to which area plan the development is occurring within the County, of which there are twenty different area plans. The range for single-family residential development impact fees is from \$3,252 to \$5,267 per unit. The range for multiple-family residential development impact fees is \$2,728 to \$4,586 per unit. The range for commercial development impact fees is \$17,332 to \$26,085 per acre and the range for industrial development impact is \$9,064 to \$13,636 per acre.

Fees collected under Ordinance 659.6 can only be used for those projects identified and listed within the Public Facilities Needs List through the Year 2010. Changes to the list may occur on an annual basis but are subject to adoption through the Board of Supervisors. Annual inflationary adjustments are authorized through Ordinance 659.6 and are subject to those publicly published indices of the Consumer Price Index, the Building Cost Index and the Construction Cost Index. Since adoption of the development impact fees, there has been no change in the amount charged.

The total of unexpended uncommitted development impact fees in capital project funds is \$15,812,000 as of June 30, 2002.

FINANCIAL INFORMATION

Internal Control Management of the County is responsible for establishing and maintaining internal control designed to ensure assets of the government are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America. Internal control is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Single Audit As a recipient of federal and state assistance, the County is also responsible for ensuring that adequate internal control is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control is subject to periodic evaluations by management and the internal audit staff of the County.

As part of the County's single audit, described earlier, tests were made of the County's internal control and of its compliance with applicable laws and regulations, including those related to federal award programs. Although this testing was not sufficient to support an opinion on the County's internal control or its compliance with laws and regulations related to other than major federal award programs, the audit for the fiscal year ended June 30, 2001, disclosed no internal control reportable conditions or material weaknesses, however, audit findings related to reporting and subrecipient monitoring were required to be disclosed in accordance with OMB Circular A-133. The single audit for FY 2001-02 is in process and will be issued in a separate report.

Budgetary Controls In addition, the County maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the County Board of Supervisors under the provisions of Section 29088-29091 of the Government Code. The County Budget is prepared and adopted on or before August 30 of each fiscal year, except as provided by state statutes and Board of Supervisors resolution. The budget for FY 2002-03 was adopted on July 9, 2002. Activities of the General Fund, special revenue funds, and some debt service and capital projects funds are included in the annual appropriated budget. The level of budgetary control (that is, that level which cannot be exceeded without action by the Board of Supervisors) is the budget unit, which represents an Organization within a Department or an Agency, at the appropriation level. Transfers of appropriations between budget units and supplemental appropriations financed by unanticipated revenues must be approved by the Board of Supervisors. Transfers of appropriations between appropriation classifications, within the same budget unit, are approved by the County Executive Officer. Encumbrance accounting is utilized to assure effective budgetary control and accountability. Unencumbered appropriations lapse at year-end and fund balances are reserved for encumbrances outstanding at that time. As demonstrated by the statements and schedules included in the Financial Section of this report, the County continues to meet its responsibility for sound financial management.

For a more detailed overview and analysis of the County of Riverside's financial position, see the Management's Discussion and Analysis preceding the basic financial statements.

General Fund Cash Balance and Fund Balance The cash balance of the General Fund increased from negative \$19,695,000 at June 30, 2001 to positive \$41,566,000 at June 30, 2002. This increase is attributable primarily to the favorable real estate market which generated more property tax and related contractual revenue with City Redevelopment Agencies than expected, a good car buying market which contributed to motor vehicle-in-lieu revenue being more than expected, increased set-asides of discretionary revenues for future needs such as increased designations for strategic planning, more timely collection of receivables, and reclass of certain trust funds. The County's General Fund fund balance represents the equivalent of 35 working days of expenditures.

Cash Management 99.79%, \$154,355,000, of the County's cash deposits were either insured by federal depository insurance or collateralized. All collateral on cash deposits was held either by the County, its agent, or a financial institution's trust department in the County's name. Approximately 73.71%, \$1,665,037,000, of the categorized investments held by the County at June 30, 2002, are classified in the category of lowest custodial credit risk as defined by the Governmental Accounting Standards Board. This category includes investments that are insured, or

registered, or held by the County or its agent in the County's name. The maturities of the investments in the County Treasurer's investment pool generally range from 1 month to 3 years, with the average weighted maturity being 180 days. The average yield based upon book value is 2.7% for the fiscal year ended June 30, 2002.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Pools*, school district and special district external investment pools are reported as investment trust funds. Of the Treasurer's total cash and investments pool of \$2,308,481,000 at June 30, 2002, \$1,181,115,000 relates to the external investment pool participants.

Restrictive investment policies are in place to minimize credit and market risks while maintaining a competitive yield on the portfolios. The County Treasurer's selection of investments is more restrictive than those authorized in Sections 53601 and 53635 of the California Government Code and gives primary consideration to the safety and preservation of the principal amounts invested. Ongoing cash flow projections are maintained for the coming twelve months to assure that adequate funds are available to meet daily cash expenditure requirements. The investment policies are reviewed and updated annually.

In December 1994, the Board of Supervisors created an Investment Oversight Committee to work with the County Treasurer to oversee County investment policies. The Committee reviews the County's investment strategy and the status of the County's investments and reports its findings to the Board. The Oversight Committee has reviewed and approved investment policies for funds held outside the County Treasury.

State statutes, specific debt financing indentures and contract arrangements generally determine the investment parameters of County cash and investments not held in the County Treasury.

Retirement Plan The County of Riverside contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. All full-time, part-time and seasonal benefited County employees are eligible to participate in the system. Temporary non-benefited hourly employees do not participate in the system until 1,000 hours are worked in a fiscal year. Benefits are vested after five years of service. Eligible County employees who retire at or after fifty years of age with five years of credited service are entitled to an annual retirement benefit, payable monthly for life. The County makes the contribution required of County employees hired prior to January 9, 1992 on their behalf and for their account. Miscellaneous member (non-prosecution unit) employees hired after the above date make their own contributions for the first five years. Miscellaneous prosecution unit member employees hired on or after September 3, 1992 make their own contributions for the first year. With some exceptions, safety member employees hired after June 25, 1992 make their own contributions for the first three years. For certain bargaining units, the County makes the contribution required of the employees on their behalf, regardless of hire date.

The employee contribution rate for the 401(a) Defined Benefit retirement plan for Part-Time/Temporary employees is 3.75% and the employer's contribution rate is 1.75% of base earnings (excludes overtime and earnings exceeding the social security base of \$80,400 for calendar year 2001 and \$84,900 for calendar year 2002).

Risk Management The County maintains a comprehensive risk management program under the full time direction of a professional risk manager. The County self-insures the primary layers for general liability (including auto), medical malpractice and workers' compensation. The County purchases all-risk property including flood, a level of earthquake as well as boiler and machinery insurance coverage subject to various deductibles. The County records estimated liabilities for claims filed and for incurred but not reported (IBNR) claims. Additionally, the County self-insures unemployment insurance and short-term, disability income benefits.

The County purchases policies of excess insurance for medical malpractice, general liability including auto and workers' compensation. Medical malpractice utilized a policy that provided annual coverage on a claims-made basis. However, effective July 1, 1998, the County's medical malpractice coverage changed to an occurrence basis with all prior acts coverage. In addition, the County purchases specialty coverages for aviation and watercraft liabilities, fidelity crime bonds and long-term disability benefits.

The County participates in the CSAC Excess Insurance Authority's (CSAC-EIA) programs for excess liability, medical malpractice, worker's compensation, primary and excess property programs. CSAC-EIA provides some support services for selected programs, such as: excess disability, medical malpractice annual audits, risk management in-services for medical malpractice as well as loss prevention resources for general liability. Additionally, CSAC-EIA subsidizes participating counties for actuarial studies on a every two (2) year basis.

The activities related to the County's programs are accounted for in Internal Service Funds (ISF). Accordingly, estimated liabilities for claims filed or to be filed, for incidents, which have occurred through June 30, 2002, are reported in these funds. Where certain funds have a retained earnings deficit or insufficient reserves, the County has provided a funding plan or the County may elect to increase charges. When funding exceeds the approved confidence level, departments are given a rate holiday or a reduced rate charge. Revenues of these Internal Service Funds are primarily provided by user charges to Departments/Agencies/Special Districts and are intended to cover self-insured claim liabilities, insurance premiums, and operating expenses.

OTHER INFORMATION

Independent Audit The County of Riverside contracted for its annual audit with Macias, Gini & Company LLP, independent certified public accountants. In addition to meeting its contractual requirements for the audit of the basic financial statements, the audit also was designed to meet the requirements of the federal Single Audit Act Amendments of 1996 and related U.S. Office of Management and Budget Circular A-133. The auditors' report on the basic financial statements, required supplementary information, and other supplementary information is included in the financial section of this report. A separate report relating to the single audit is available in the County Auditor-Controller's Office.

Certificate of Achievement The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County of Riverside for its Comprehensive Annual Financial Report for the year ended June 30, 2001. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The County of Riverside has received a Certificate of Achievement for the last fourteen consecutive years. We believe our current report continues to conform to Certificate of Achievement program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of this Comprehensive Annual Financial Report on a timely basis could not be accomplished without the dedicated and efficient services of the entire staff of the Auditor-Controller's Office as well as the staffs of the contributing component units and departments. I would like to acknowledge the special efforts of the General Accounting Division and our independent auditors, Macias, Gini & Company LLP, for their assistance in the report preparation.

I also wish to thank the members of the Board of Supervisors and County Executive Officer for their interest and support in planning and conducting the financial operations of the County of Riverside in a progressive manner.

Respectfully Submitted,

ANTHONY J. BELLANCA, CPA
COUNTY AUDITOR-CONTROLLER
(In Office from Jan. 1986 – Dec. 2002)

ROBERT E. BYRD, CGFM
COUNTY AUDITOR-CONTROLLER

MANAGEMENT'S DISCUSSION AND ANALYSIS

The information in this section is not covered by the Independent Auditor's Report, but is presented as required supplementary information for the benefit of the readers of the Comprehensive Annual Financial Report.

Management's Discussion and Analysis (Unaudited)

This section of the County of Riverside's Comprehensive Annual Financial Report presents a narrative overview and analysis of the County's financial activities for the Fiscal Year Ended June 30, 2002. We encourage readers to consider the information presented here in conjunction with our Letter of Transmittal.

OVERVIEW OF THE FINANCIAL STATEMENTS

This management's discussion and analysis (MD&A) are intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements include three components:

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

In addition to these basic financial statements, other supplemental information has been included in this report:

- Other Required Supplementary Information – Retirement Plan Schedules of Funding Progress
- Combining Statements and Schedules for Nonmajor Governmental and Enterprise Funds, and Special Revenue, Debt Service, Capital Projects, Internal Service and Fiduciary Funds
- Statistical Section

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

The statement of net assets presents information on all of the County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The statement of activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (such as revenues pertaining to uncollected taxes or expenses pertaining to earned but unused vacation and sick leave).

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government, public protection, public ways and facilities, health and sanitation, public assistance, education, and recreation and culture services. Governmental activities include two major funds; the General Fund and the Flood Control and Water Conservation District Special Revenue Fund. The business-type activities of the County include two major enterprise funds (Regional Medical Center and Waste Management Department) and five nonmajor funds (the Blythe Marina, Animal Spay and Neuter, County Service Areas, Housing Authority and Flood Control and Water Conservation District).

The government-wide financial statements also provide information regarding the County's component units, entities for which the County (the primary government) is considered to be financially accountable. Blended component units, although legally separate entities, are in substance, part of the County's operations, and therefore, financial information from these units are combined with financial information of the primary government. The Children and Families Commission also is a legally separate component unit, which is appointed by and serves at the will of the County. However, the financial information for the Children and Families Commission is discretely presented separately from the financial information presented for the primary government itself since the Commission provides early childhood development programs to citizens rather than providing services exclusively or almost exclusively to the County government.

Management's Discussion and Analysis (Unaudited)

The blended component units are:

- Housing Authority of the County of Riverside
- Riverside County Flood Control and Water Conservation District
- Riverside County Regional Park and Open-Space District
- Riverside County Desert Facilities Corporation
- Redevelopment Agency for the County of Riverside
- County of Riverside Asset Leasing Corporation (CORAL)
- Riverside County Service Areas
- Riverside County Public Financing Authority
- County of Riverside Court Financing Corporation
- County of Riverside District Court Financing Corporation

Fund Financial Statements provide information regarding the three major categories of County funds; governmental, proprietary and fiduciary. The focus of governmental and proprietary fund financial statements is on major funds. Major funds are determined based on minimum criteria set forth in GASB Statement Number 34. Like other state and local governments, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund accounting is also used to aid financial management by segregating transactions related to certain government functions or activities. A fund is separate accounting entity with a self-balancing set of accounts.

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

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

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

Also included in the fund financial statements are the budgetary comparison statements, which present the County's annual appropriated budget for the governmental funds except CORAL, Air Quality Improvement, Desert Facilities Corporation, and District Court Project. These budgetary comparison statements have been provided to demonstrate compliance with the budget.

Management's Discussion and Analysis (Unaudited)

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

- *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for the Regional Medical Center (RMC), Waste Management Department, County Service Areas, Housing Authority, and Flood Control. Individual fund statements are presented in the Supplementary Information section, except for RMC and Waste Management Department financial statements, which were reported in a separate column of the proprietary fund statements due to materiality criteria promulgated by GASB Statement No. 34.
- *Internal service funds* are used to report activities that provide supplies and services for certain County programs and activities. The County uses internal service funds to account for its fleet services, information services, printing services, supply services, financial system, risk management, temporary assistance pool and flood control equipment. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund financial information for each internal service fund is provided in the Supplementary Information section.

Fiduciary funds report assets held in a trustee or agency capacity for others and therefore cannot be used to support the County's own programs or be reflected in the government-wide financial statements. Fiduciary funds maintained by the County include, a pension trust fund, investment trust fund, private-purpose trust fund and agency funds. The fiduciary fund financial statements are presented on the economic resources measurement focus and the accrual basis of accounting.

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

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

FINANCIAL HIGHLIGHTS

- The assets of the County of Riverside exceeded its liabilities at the close of the FY 2001-02 by \$1,406,982,000 (*net assets*). Of this amount, \$213,642,000 (*unrestricted net assets*) may be used to meet the County's ongoing obligations to citizens and creditors, \$661,745,000 (*restricted net assets*) is restricted by external sources or through enabling legislation for specific purposes and \$531,595,000 is invested in capital assets, net of related debt.
- The County's net assets increased by \$154,480,000 of which \$149,134,000 was from governmental activities and \$5,346,000 was from business-type activities. Fourteen percent of the \$149,134,000 was due to an increase in property tax, 5% was from motor vehicle in-lieu of tax, 6% was from intergovernmental revenues, 12% was from deferred revenue recognized under the accrual basis of accounting, and 54% invested in capital assets, net of related debt, represents capital purchases less depreciation plus the retirement of related long-term debt, and the remaining 9% is from various sources. The increase of \$5,346,000 is a result of Waste Management operations.
- As of June 30, 2002, the total fund balance of the governmental funds was \$678,366,000, an increase of \$38,389,000 in comparison with the prior year. Approximately 33% of the combined fund balances, \$227,926,000 was available to meet the County's current and future needs (*unreserved-undesignated fund balance*).

Management's Discussion and Analysis (Unaudited)

- At the end of the fiscal year, unreserved fund balance for the General Fund was \$143,732,000 (which included \$84,608,000 of designated fund balance), or 10% of the total General Fund expenditures.
- The County's long-term obligations showed a net decrease of \$8,279,000 compared to the prior year. These obligations are bonds payable, capital leases, certificates of participation, loans payable and notes payable. Although the County had additions to these long-term obligations, the decrease primarily resulted from scheduled principal retirements and reclassification of principal amounts to accreted interest payable (See Note 14).
- Effective July 1, 2001, the County deeded the El Sobrante landfill liners to Waste Management Inc., who assumed the responsibility for the landfill closure, post-closure and remediation care costs and operations (See Note 23 to the financial statements for the effects the transaction had on the County's business-type activities).

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This year is the first fiscal year the County has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Since the new reporting model changed both the recording and presentation of financial information, only some comparative analysis has been presented for the government-wide financial statements this year. In future years, as comparative data is available, a more extensive comparative analysis will be presented.

Analysis of Net Assets – As noted earlier, net assets may serve as a useful indicator of a government's financial position. At the end of the current fiscal year, the County reported positive net assets balances for both governmental and business-type activities, with total assets exceeding liabilities by \$1,406,982,000.

The County's total net assets increased by \$154,480,000 of which \$149,134,000 was from governmental activities and \$5,346,000 was from business-type activities. Fourteen percent of the \$149,134,000 was due to an increase in property tax, 5% was from motor vehicle in-lieu of tax, 6% was from intergovernmental revenues, 12% was from deferred revenue recognized under the accrual basis of accounting, and 54% invested in capital assets, net of related debt, represents capital purchases less depreciation plus the retirement of related long-term debt, and the remaining 9% is from various sources. The increase of \$5,346,000 is a result of Waste Management operations. Below are the three components of net assets and their respective fiscal year end balances:

- **Invested in capital assets net of related debt** This component represents 38%, \$531,595,000, of the County's total net assets and it consists of capital assets (land and easements, structures and improvements, infrastructure, and equipment), net of accumulated depreciation and reduced by any debt attributable to the acquisition, construction, or improvement of the assets. The County uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.
- **Restricted net assets** account for 47%, \$661,745,000, of the County's total net assets. This component of net assets represents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** account for 15%, \$213,642,000, of the County's total net assets which may be used to meet the County's ongoing obligations to citizens and creditors. In unrestricted net assets, the County reported a positive balance of \$163,543,000 for governmental activities and \$50,099,000 for business-type activities.

Management's Discussion and Analysis (Unaudited)

The table below provides summarized data from the Statement of Net Assets:

Statement of Net Assets June 30, 2002 (in thousands)

	Governmental Activities	Business-type Activities	Total
Current and other assets	\$1,138,235	\$ 206,091	\$1,344,326
Capital assets	1,326,109	254,191	1,580,300
Total assets	<u>2,464,344</u>	<u>460,282</u>	<u>2,924,626</u>
Current and other liabilities	301,281	32,479	333,760
Long-term liabilities	848,423	335,461	1,183,884
Total liabilities	<u>1,149,704</u>	<u>367,940</u>	<u>1,517,644</u>
Net assets:			
Invested in capital assets, net of related debt	514,206	17,389	531,595
Restricted net assets	636,891	24,854	661,745
Unrestricted net assets	163,543	50,099	213,642
Total net assets	<u>\$1,314,640</u>	<u>\$ 92,342</u>	<u>\$1,406,982</u>

Governmental Activities

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

- Operating Grants and Contributions are revenues received from parties outside of the County, such as State and Federal agencies, and are generally restricted to one or more specific programs. In FY 2001-02, a total of \$993,977,000 of Operating Grants and Contributions revenue was received making this the largest revenue source for governmental activities. Public assistance and health care programs received 75% of the governmental activity funding from this source.
- A total of \$366,626,000 was received as charges for governmental activity services provided. Charges for services are revenues that arise from charges to external customers or applicants who purchase, use, or directly benefit from the goods, services, or privileges provided. Public protection generated 50% of this revenue source, which was primarily generated from the Sheriff's Office providing cities with contracted protection services.
- Capital Grants and Contributions resulted in the least amount of program revenue from governmental activities with \$32,364,000 received for the fiscal year. This revenue category accounts for grants and contributions received for the restricted use of capital acquisition. The majority of the revenue, 93%, was received for public ways and facilities programs and is primarily related to the construction and acquisition of flood control infrastructure capital assets such as channels, storm drains and basins.

General revenue related to governmental activities primarily consists of taxes, contractual revenue from City Redevelopment Agencies, other revenues, and investment earnings. Property tax revenue was the largest governmental activities general revenue with \$193,846,000 earned during the year; an increase of \$21,004,000, 12% from the \$172,842,000 amount earned in FY 2000-01.

Management's Discussion and Analysis (Unaudited)

Expenses: Total program expenses for governmental activities were \$1,770,166,000 for the fiscal year. The majority of these expenses, 63% were for Public Assistance and Public Protection with \$563,273,000 and \$549,019,000 respectively spent from each program.

Business-type Activities

Revenues: The County has two major business-type activities; the Regional Medical Center (RMC) and the Waste Management Department. In addition, the Housing Authority, Flood Control District and County Service Areas are included in the business-type activities of the County. Business-type activities recover all or a significant portion of their costs through user fees and charges. Therefore, 96%, \$279,847,000, of the total business-type activities revenue of \$292,286,000 for the fiscal year ended June 30, 2002 was received from charges for services and the majority of the revenue was received by the RMC, \$183,927,000.

Expenses: Total program expenses for business-type activities were \$307,120,000 for the fiscal year; of which 71%, \$218,753,000 were incurred by the RMC. Included in the RMC costs were two Internal Service Funds, which provided services to the former Health Services Agency. Since the majority of the services were provided to RMC, the functions were consolidated into RMC operations and the funds were combined with the fund financial statements for RMC and the business-type activities countywide.

Management's Discussion and Analysis (Unaudited)

The following table provides summarized information from the Statement of Activities:

Statement of Activities For the Year Ended June 30, 2002 (in thousands)

	Governmental Activities	Business-type Activities	Total
Revenues:			
Program revenues:			
Charges for services	\$ 366,626	\$ 279,847	\$ 646,473
Operating grants and contributions	993,977	-	993,977
Capital grants and contributions	32,364	12,439	44,803
General revenues:			
Property taxes	193,846	-	193,846
Sales and use taxes	27,168	-	27,168
Transient occupancy taxes	17,267	-	17,267
Other taxes	16,905	-	16,905
Contractual revenue – redevelopment	55,587	-	55,587
Motor Vehicle-In lieu of taxes	100,457	-	100,457
Investment earnings	40,061	3,965	44,026
Gain on sale of capital assets	-	1,844	1,844
Other	90,226	-	90,226
Total revenues	<u>1,934,484</u>	<u>298,095</u>	<u>2,232,579</u>
Expenses:			
General government	154,665	-	154,665
Public protection	549,019	-	549,019
Public ways and facilities	135,183	-	135,183
Health and sanitation	310,434	-	310,434
Public assistance	563,273	-	563,273
Education	9,315	-	9,315
Recreation and culture	9,332	-	9,332
Interest on long-term debt	38,945	-	38,945
Regional Medical Center	-	218,753	218,753
Waste Management Department	-	37,083	37,083
Housing Authority	-	48,720	48,720
Flood Control	-	2,271	2,271
County Service Areas	-	293	293
Total expenses	<u>1,770,166</u>	<u>307,120</u>	<u>2,077,286</u>
Excess (deficiency) before			
Special items and transfers	164,318	(9,025)	155,293
Special item-			
Loss on transfer of El Sobrante landfill	-	(813)	(813)
Transfers in (out)	(15,184)	15,184	-
Change in net assets	149,134	5,346	154,480
NET ASSETS, BEGINNING OF YEAR	<u>1,165,506</u>	<u>86,996</u>	<u>1,252,502</u>
NET ASSETS, END OF YEAR	<u>\$1,314,640</u>	<u>\$ 92,342</u>	<u>\$1,406,982</u>

Management's Discussion and Analysis (Unaudited)

FINANCIAL ANALYSIS OF FUND STATEMENTS

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

Governmental funds The focus of the County's governmental funds is to provide information on the sources, uses, and balances of current financial resources. Such information is useful in assessing the County's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the County include the General Fund, special revenue funds, capital project funds, and debt service funds. As of June 30, 2002, the County's governmental funds reported combined fund balances of \$678,366,000, an increase of \$38,389,000 in comparison with the prior year. Of this total amount, \$376,198,000 constitutes *unreserved fund balance*, which is available for spending at the County's discretion. The remainder of fund balance is *reserved* to indicate that it is *not* available for new spending because it has been committed to:

- Specific County programs \$166,966,000
- Pay outstanding debt service \$87,826,000
- Liquidate current contractual commitments \$20,377,000
- Reflect inventory balances and land held for resale that are long-term in nature and thus do not represent available spendable resources \$11,572,000
- Reflect balance of notes receivable not yet received and therefore not available as a spendable resource \$8,054,000
- Other smaller restrictions \$7,373,000

Total governmental fund revenue increased 20% from the prior fiscal year with \$1,881,347,000 being received for the fiscal year ended June 30, 2002. Expenditures also increased from the previous fiscal year (10%) with \$1,867,846,000 being expended for governmental functions. Therefore, an increase in governmental fund balance of \$38,389,000, 6% over fiscal year ended June 30, 2001, resulted from the amount of increased revenue in excess of expenses.

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$143,732,000, while total fund balance was \$217,984,000. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. The total fund balance of the General Fund at June 30, 2002 was 15% percent of the total fund expenditures for the year, while the unreserved fund balance was 10% of the \$1,502,999,000 total.

The fund balance of the General Fund increased by \$24,146,000 during the fiscal year primarily due to increases in property tax revenues, contractual revenues from City Redevelopment Agencies, motor vehicle in-lieu, and lower expenditures in appropriations that are funded by discretionary funds. In addition, the County's trust and agency funds were analyzed due to the implementation of GASB Statement Number 34 and as a result, a \$15,707,000 restatement increased the fund balance of the General Fund due to the reclassification of some of these fiduciary funds. Overall, the General Fund's performance resulted in revenues exceeding expenditures by \$32,104,000 for the current fiscal year, an increase of 152% from the prior fiscal year negative balance of \$61,875,000.

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

At the end of the fiscal year, total proprietary fund net assets were \$152,439,000, which increased \$626,000 compared to \$151,813,000 at June 30, 2001. Of the year-end balance, unrestricted net assets were as follows:

- Regional Medical Center \$18,282,000
- Waste Management Department \$25,868,000

Management's Discussion and Analysis (Unaudited)

- Other enterprise fund activities \$5,849,000
- Internal service fund activities \$48,989,000

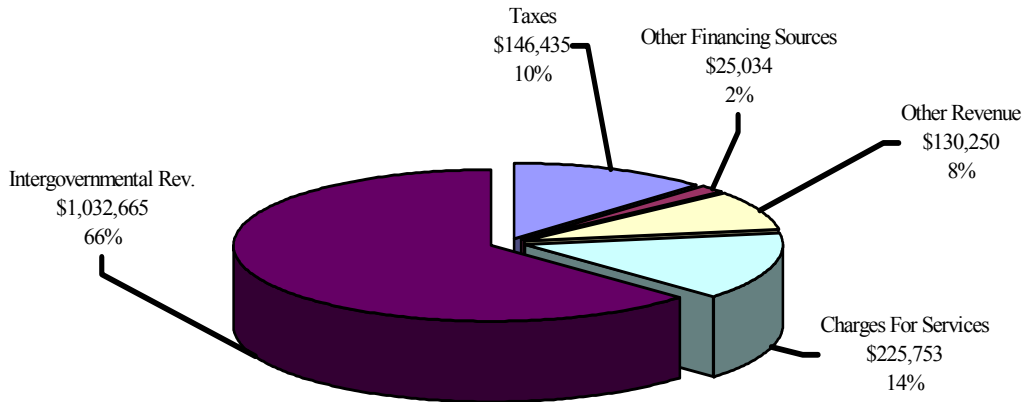
GENERAL FUND FINANCIAL ANALYSIS

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

Revenues and Other Financing Sources	Fiscal Year 2001-2002	Percent of Total	Fiscal Year 2000-2001	Percent of Total
Taxes	\$ 146,435	10%	\$ 167,991	11%
Intergovernmental revenues	1,032,665	66%	829,896	57%
Charges for services	225,753	14%	182,918	13%
Other revenue	130,250	8%	131,859	9%
Other financing sources	25,034	2%	151,103	10%
Total	\$ 1,560,137	100%	\$ 1,463,767	100%

The decrease in tax revenue is attributable to the reclassification of contractual revenue from City Redevelopment Agencies in the County to intergovernmental revenues, and there was also an increase in property tax collections. The increase in intergovernmental revenues is primarily attributable to the reclassification of contractual revenue from City Redevelopment Agencies in the County from tax revenues and increases from the State for motor vehicle in-lieu of tax; additional State funding for assistance programs provided by the Department of Child Support Services, Mental Health, and the Department of Public Social Services. Intergovernmental revenue also increased due to the reclassification of the Disproportionate Share Hospital from other financing sources. Charges for current services increased primarily for contractual law enforcement revenue for the Sheriff's department. The decrease in other financing sources is primarily attributable to the reduction of capital outlay financed by capital leases, as well as the reclassification of the Disproportionate Share Hospital to intergovernmental revenue.

**COUNTY OF RIVERSIDE
GENERAL FUND REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED JUNE 30, 2002 (IN THOUSANDS)**



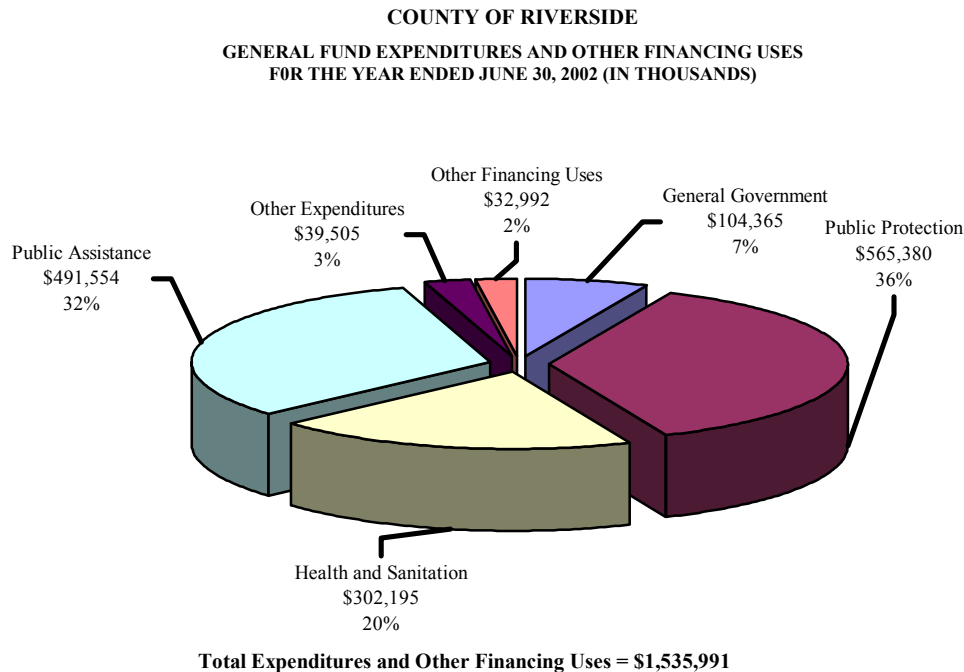
Total Revenues and Other Financing Sources = \$1,560,137

Management's Discussion and Analysis (Unaudited)

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

Expenditures and Other Financing Uses	Fiscal Year 2001-2002	Percent of Total	Fiscal Year 2000-2001	Percent of Total
General government	\$ 104,365	7%	\$ 100,553	7%
Public protection	565,380	36%	500,351	36%
Health and sanitation	302,195	20%	271,826	19%
Public assistance	491,554	32%	454,203	32%
Other expenditures	39,505	3%	47,606	3%
Other financing uses	32,992	2%	39,340	3%
Total	\$ 1,535,991	100%	\$ 1,413,879	100%

The increase in Public Protection was primarily caused by increases in salaries for Probation and Sheriff departments. Increased salaries in both Mental Health and the Health Department caused higher expenditures in Health and Sanitation. Public Assistance also experienced increased salaries and public programs that are provided by the Department of Public Social Services.



GENERAL FUND BUDGETARY HIGHLIGHTS

This section provides a summary of the primary factors attributing to the General Fund variances between: 1) the Original and the Final Amended Budget and 2) the Final Amended Budget and the Actual amounts. The Budgetary Comparison Statement displays the details of the comparison and is included in the Governmental Fund Statements section.

Management's Discussion and Analysis (Unaudited)

Variance between General Fund Original Adopted and Final Amended Budget

Estimated Revenue Variances

The original General Fund estimated revenue budget increased \$59,904,000, 3.7%, from \$1,604,502,000 to the final amended revenue budget of \$1,664,406,000. Of the increase, \$31,080,000 relates to aid received from other governmental agencies and \$15,100,000 relates to actual Motor Vehicle taxes, interest earned on Treasury investments, Assessor's Documentary Transfer Taxes and Contractual Revenues-Redevelopment being higher than originally estimated. These increases are detailed below:

Aid Received from Other Governmental Agencies:

- The County health, mental health and social services programs estimated revenue budget increased \$20,000,000 for additional restricted program money received from State Realignment revenues.
- Revenue estimates increased \$8,308,000 to fund Foster Care cost of living adjustments and program increases. Revenue was anticipated from the State and Federal government in the amounts of \$4,786,000 and \$3,522,000, respectively.
- Revenue estimates increased \$4,089,000 to offset substantial cost increases in public assistance programs, such as Foster Care, CalWORKs, and Medi-Cal administration. Revenue was anticipated from the State and Federal government in the amounts of \$2,558,000 and \$1,531,000, respectively.
- A \$3,736,000 estimated Federal government revenue increase to support increased caseload costs for in-home support services provided to the aged and disabled citizens.
- Disproportionate Share Hospital revenue \$91,000,000 was reclassified from other revenue to State Aid.

Revenue Received In Excess of Original Budget Estimate: During the mid-year and third quarter budget updates, actual revenue received was higher than estimated in the original budget, therefore, revenue estimates were increased and offset by increases in contingency to be held for future needs. Following are the significant revenue estimates increased during the year:

- Motor Vehicle In Lieu of Taxes, \$10,000,000
- Interest received on the Treasurer Investment Pool, \$3,000,000
- Documentary Transfer Taxes, \$2,600,000
- Redevelopment Contractual Revenue, \$2,100,000

Other Estimated Revenue Increases: In addition to the above increases in revenue estimates, funds held by a fiscal agent were assigned to the County once the obligations of the Community Facilities District (CFD) were discharged. As a result, revenue estimates were increased \$1,860,000 for contract revenue received as a reimbursement from the CFD. Other smaller revenue estimate increases were made during the year with the aggregate total of \$9,264,000.

Expenditure Appropriation Variances

The original General Fund appropriation budget increased \$71,105,000, 4.4%, from \$1,608,417,000 to the final amended appropriation budget of \$1,679,522,000. The significant appropriation increases were in the Health and Sanitation, Public Assistance and Public Protection programs with \$28,126,000, \$22,825,000 and \$20,677,000 budget increases, respectively. Following describes the appropriation increases to these three functions:

Health and Sanitation: The program appropriation budget increased \$28,126,000, 9%, from the \$314,088,000 to \$342,214,000. The significant factor attributing to the increase was notification of realignment revenue to be received before fiscal year-end. As a result of an increase in estimated revenue of \$20,000,000, the appropriation budget was increased to expend against the restricted Health, Mental Health and Social Service programs.

Management's Discussion and Analysis (Unaudited)

Public Assistance: The appropriation budget increased for the public assistance program by \$22,825,000, 4.5% from the \$512,427,000 original adopted budget to the final amended budget of \$535,252,000. The majority of the increase was previously discussed and funded through aid from other government agencies and includes the following:

- Foster Care cost of living adjustments and program cost increases, \$8,308,000
- Cost increases in public assistance programs, \$4,139,000 funded from aid from other governmental agencies of \$4,089,000 and \$50,000 appropriation of unanticipated program revenue received.
- In-home support services for the aged and disabled citizens had an additional appropriation increase of \$5,033,000 to support the cost associated with increased caseload services. Estimated revenue was increased \$4,581,000 for anticipated revenue from aid from other agencies (Federal and State government) and \$452,000 was funded from County contingency and realignment revenue.
- Appropriations increased \$1,500,000 to assist qualified low-income citizens with energy costs through emergency conservation methods of home weatherproofing and new appliance installation.

Public Protection: The appropriation budget increased \$20,677,000, 3.6%, from the original budget of \$568,419,000 to \$589,096,000. Significant appropriation increases include the following:

- Replacement of Sheriff's Computer Aided Dispatch (CAD) system, \$3,000,000.
- A budget increase in appropriations of \$2,805,000 for the State COPS Program. This adjustment will fund additional Deputy Sheriff front line law enforcement positions and Deputy District Attorneys to prosecute criminal cases. \$2,005,000 was funded by Citizen's Option for Public Safety Program and \$800,000 funded by additional law enforcement contract revenues from cities.
- Enhancement costs of \$2,027,000 for the County to coordinate and respond to anti-terrorism activities; funding was approved from contingencies, \$1,547,000 and \$480,000 from other revenue sources.
- Retroactive costs associated with public safety personnel rate increases for PERS (Public Employee Retirement System) retirement benefits and for increased salary and benefit costs for Public Defender personnel. Appropriation funding of \$1,874,000 is to be used from contingencies.
- Purchase of five fire engines and personnel costs to support seven three-person engine companies. Appropriations increase of \$1,706,000 to be funded from contingencies.

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

During the year, the General Fund had a positive budget variance of \$47,220,000 resulting from unexpended appropriations of \$176,523,000 and unrealized estimated revenue of \$129,303,000. The following factors contributed to the variance:

Variations with matching unrealized revenue and unexpended appropriations

The significant amount of unrealized estimated revenue resulted from costs being lower than appropriated in the following areas:

- Actual costs associated with reimbursement grants (related to Social Services, Mental Health Treatment and Medically Indigent Services) were \$74,492,000 less than appropriated, resulting in an equal amount of unrealized reimbursement revenue. The decrease in public assistance and health and sanitation program costs are due to the strong local economy and decrease in aid cases.
- The construction cost and related funding for the CAC Annex Project were included in the original budget. However, Certificates of Participation were issued during the year and construction costs were paid by an

Management's Discussion and Analysis (Unaudited)

outside trustee with the proceeds rather than by the General Fund. Since the budget was not adjusted for the project during the year, appropriations and estimated revenue were unexpended/ unrealized by \$29,225,000.

- Some of the Hospital debt service was not paid out of the General Fund with reimbursement from RMC as originally budgeted. Instead, \$12,439,000 of State Construction Renovation Reimbursement Program (SB 1732) funding was received by RMC during the year and paid directly against the debt service requiring no use of General Fund proceeds. No adjustment was made to the budget for the unexpended appropriations and unrealized revenue.

Revenue Variance

In addition, to the \$116,156,000 of unrealized revenue detailed above as a result of unexpended appropriations, the one significant factor attributing to the remaining \$13,147,000 unrealized General Fund revenue was the result of \$4,860,000 of funding not being disbursed from the State Medi-Cal disproportionate share program. The money was anticipated in the budget and no adjustment was made for the money not being received.

Expenditure Variances

General Fund expenditures were \$1,502,999,000, which were \$176,523,000, 10.5%, less than the final amended appropriation budget of \$1,679,522,000. In addition to the \$116,156,000 unexpended appropriations detailed above with associated cost reimbursement revenue unrealized, \$60,367,000 of General Fund appropriations were not expended during the year. The Public Protection program and debt service interest were the two most significant factors attributing to the unexpended appropriations as follows:

Public Protection: Expenditures were \$23,716,000, 4% less than the final amended budget of \$589,096,000. Significant appropriation increases include the following:

- Salaries and benefit costs resulted in \$10,987,000 of unexpended appropriations. The delayed opening of the Southwest Juvenile Hall was a significant factor attributing to the savings. Costs were budgeted for a full year of operations, however, the Hall did not open until December 2002 and it was not fully staffed until late in the fiscal year. In addition, there was a lag in replacing experienced staff reassigned to the new facility.
- Capital assets resulted in a \$5,948,000 savings in appropriations, mainly attributed to the inability to award a contract to purchase fire engines during the year.
- Services and supplies resulted in a \$9,693,000 savings. Child Support Services ended the fiscal year with \$4,775,000 of unexpended appropriations out of a budget of \$27,556,000.

Debt Service: Low interest rates on variable rate debt attributed to unexpended appropriation savings of \$26,474,000. The final amended appropriation for debt service interest was \$42,875,000. However, due to low interest rates during the year actual interest costs were \$16,401,000.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets As of June 30, 2002, the County's capital assets for both its governmental and business-type activities amounted to \$1,580,300,000 (net of accumulated depreciation). The capital assets include land and easements, land improvements, construction in progress, infrastructure (channels, storm drains, basins, roads, traffic signals, bridges and parks), structures and improvements and equipment. The total increase in the County's capital assets for the current period was 5%, or \$82,241,000.

The County constructed a \$97,500,000 Southwest Justice Center (SWJC), which included an expansion of the jail, a 12-courtroom courthouse, and a 100-bed juvenile detention facility. The jail expansion, juvenile detention facility, and courthouse were completed in February 2001, August 2001, and October 2002, respectively. The SWJC was financed with \$20,000,000 in cash and state grants, and \$77,500,000 was financed through the County of Riverside

Management's Discussion and Analysis (Unaudited)

Asset Leasing Corporation (CORAL). Repayment will be from Criminal Justice Facility, Courthouse Construction Investment Trust Funds, and the General Fund.

The County began construction of an annex to the downtown Riverside County Administrative Center (CAC) in May 2001, which was completed in October 2002. The annex is a five story, 96,000 square foot building adjacent to the existing CAC. The annex accommodates a board hearing room and office space for the Board of Supervisors, Clerk of the Board of Supervisors, County Executive Office and Riverside County Transportation Commission. Along with the annex, the County constructed a 750-space parking structure adjacent to the CAC. The \$31,900,000 project was financed through CORAL with repayment to come from the General Fund.

Major capital asset events during the current fiscal year included the following:

- The June 30, 2002 construction in progress balance included a \$67,710,000 increase to capital assets comprised of the following projects:
 - The County Administrative Center (CAC) Annex/Parking Lot, \$21,681,000
 - Road, bridge and signal infrastructure, \$18,535,000
 - Murrieta Southwest Justice Center (SWJC) Courthouse, \$16,672,000
 - Waste Management Headquarters, \$5,600,000
 - Channels, storm drains and basins (infrastructure), \$3,806,000
 - Other smaller projects, \$1,416,000

In addition, \$45,535,000 of projects were completed during the fiscal year and transferred from construction in progress to the following capital asset accounts:

- Structures and improvements, \$44,621,000
- Infrastructures: Flood storm drains, \$914,000
- Capital asset additions for infrastructure was \$60,069,000 comprised of the following:
 - Roads: \$34,103,000
 - Flood Storm Drains: \$12,289,000
 - Bridges: \$4,829,000
 - Flood Dams and Basins: \$2,646,000
 - Flood Channels: \$2,164,000
 - Traffic Signals \$2,052,000
 - Landfill Liners and Other: \$1,986,000

Total infrastructure retirements were \$17,789,000 and related to the Waste Management Department's disposal of the El Sobrante Landfill site. Notes 11 and 23 to the financial statements further explain the site disposal and related financial statement impact.

- At the end of June 30, 2002, significant commitments for capital expenditures include the following:
 - Southwest Justice Center Courts construction: \$46,450,000
 - County Administrative Center Annex/Parking construction: \$9,413,000
 - Flood storm drains projects: \$2,716,000

Management's Discussion and Analysis (Unaudited)

In the government-wide financial statements, all depreciable capital assets were depreciated from acquisition date to the end of the fiscal year. However, in the fund financial statements of the governmental funds, capital assets are accounted for as expenditures when payments are made.

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

The County's Capital Assets (net of depreciation, in thousands)

	Governmental Activities		Business-type Activities		Total		Increase/ (Decrease)
	2002	2001	2002	2001	2002	2001	Percent of Change
Infrastructure	\$ 374,392	\$ 321,233	\$ 19,666	\$ 29,657	\$ 394,058	\$ 350,890	12%
Land and Easements	281,214	273,997	23,057	23,912	304,271	297,909	2%
Land Improvements	99	100	9,181	9,660	9,280	9,760	(5%)
Structures and Improvements	505,570	475,418	168,195	174,415	673,765	649,833	4%
Equipment	80,189	89,852	23,385	26,278	103,574	116,130	(11%)
Construction in Progress	84,645	68,035	10,707	5,502	95,352	73,537	30%
Total	\$1,326,109	\$1,228,635	\$254,191	\$269,424	\$1,580,300	\$1,498,059	5%

Pursuant to GASB Statement No. 34, an extended period of deferral (fiscal year ending June 30, 2006) is available before the requirement is effective to record and depreciate infrastructure assets acquired prior to July 1, 2001. As a result, the retroactive historical value of the County's transportation infrastructure assets (roads, bridges, and traffic signals that were completed prior to July 1, 2001) were not included in the government-wide financial statements, but will be included before June 30, 2006. The County's infrastructure assets are recorded at historical cost in the government-wide financial statements as required by GASB Statement No. 34. All current year additions to infrastructure assets are depreciated according their useful life.

Additional information about the County's capital assets can be found in Note 9 to the financial statements.

Debt Administration Under the direction of the Board of Supervisors, the County's Debt Advisory Committee reviews all debt issuances of the County and its financing component unit organizations and advises the Board accordingly. On June 30, 2002, the County had several debt issues outstanding, principally certificates of participation - lease rental obligations.

Net bonded debt per capita equaled \$310.24 as of June 30, 2002. The calculated legal debt limit for the County is \$1,217,268,000. However, in October 2001, Moody's Investors Service placed a "negative outlook" on the credit rating for California counties (Riverside County included) noting it "primarily reflects the possibility that the State could address a significant part of any budget shortfall by diverting revenues from local governments, particularly counties." Following are the investment ratings maintained by the County:

	Moody's Investors Service, Inc.	Standards & Poor's Corp.
Long-term lease debt	A3	A
Issuer credit	A1	AA-

Since 1981, the County has issued Tax and Revenue Anticipation Notes (TRANS) to provide needed cash to cover the projected cash flow deficits of the County's General Fund during the fiscal year July 1 through June 30. In FY 2001-02, the County, as a participant in the California Statewide Communities Development Authority Pool, issued

Management's Discussion and Analysis (Unaudited)

\$229,485,000 in TRANs to satisfy short-term cash flow needs. The Authority Pool received ratings "MIG 1" from Moody's Investors Service, Inc. and "SP-1+" from Standard & Poor's Rating Services.

In October 1993, the Board of Supervisors formally passed a resolution necessary for the County to adopt the Teeter Plan (alternate method of property tax distribution). The Plan required the "buy-out" of delinquent secured taxes and the annual advance of unpaid taxes to participating agencies. Funding for the County's on-going obligations under Teeter for FY 2001-02 was accomplished through the sale of County of Riverside Teeter Obligation Tax-Exempt Commercial Paper Notes in the amount of \$40,981,000. The \$40,981,000 was comprised of \$31,923,000 (representing the amount of FY 2001-02 delinquent property taxes) and \$9,058,000 (representing prior years' property taxes still delinquent). The Letter of Credit provider is Westdeutsche Landesbank Girozentrale, and the repayment is now a pledge of the General Fund.

The table below lists the County's outstanding long-term liabilities at June 30, 2002 (in thousands):

	Governmental Activities	Business-type Activities	Total
Loans payable	\$ 67,854	\$ -	\$ 67,854
Notes payable	3,126	-	3,126
Bonds payable	91,758	233,454	325,212
Certificates of participation	381,101	3,884	384,985
Total outstanding	<u>\$ 543,839</u>	<u>\$ 237,338</u>	<u>\$ 781,177</u>

On July 1, 2002, the County issued \$38,075,000 in certificates of participation to finance the construction of a County Administrative Center (CAC) Annex and parking structure project.

Additional information regarding the County's short and long-term debt is included in Notes 13 and 14 to the financial statements and Tables 8, 9, 10 and 11 in the Statistical section.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The County continues to be extremely vulnerable to the State's budget and fiscal picture brought on by the energy crisis, the weakness in the stock markets and the State's near-term economic growth. FY 2002-03 outlook for the County is positive, but long-term it is uncertain as the County's finances are heavily influenced by the State's budget. The County has recently implemented cost containment measures. Actions include limiting equipment purchases and travel expenditures to those that are absolutely essential and filling only critical vacant employment positions, or those funded solely by revenue other than the County General Fund.

Additional information is included in Note 24 of the financial statements regarding the "State of California Fiscal Outlook" as issued on November 14, 2002 by the California Legislative Analyst's Office (LAO) in the "California's Fiscal Outlook, LAO Projections, 2002-03 Through 2007-08" report. The nonpartisan Legislative Analyst projected that, absent any corrective actions by the State's Legislators, California will be facing a \$35,000,000,000 General Fund deficit by the end of FY 2002-03.

The County's employee retirement benefit contribution rate for miscellaneous members was reduced to zero for FY 2000-01 and 2001-02, but increased to 3% for maximum salary times years of service at age 60 for FY 2002-03 due to an amendment to the CalPERS pension plan for Miscellaneous members, which was negotiated and implemented effective July 11, 2002. The enacted increase provides a benefit of 3% per year of service at age 60. The County's contribution for Safety members was increased to 13.844% for FY 2002-03, as compared to 11.824% for FY 2001-02, due in part to losses in investment returns over the last two years. The employer rate for both plans is subject to further changes in future years, as it continues to reflect changes in investment return and the County's growth rate, among other factors. Based on the negative performance of the CalPERS fund, CalPERS is estimating that the

Management's Discussion and Analysis (Unaudited)

County's Miscellaneous and Safety contribution rates for FY 2003-04 will increase to 9.786% (Miscellaneous) and 17.014% (Safety). FY 2004-05 is projected at 15.3% (Miscellaneous) and 25.1% (Safety). Additional information regarding the County's retirement plans is included in Notes 19, 20 and 21 of the financial statements and schedules of retirement funding progress are included in the Required Supplementary Information section.

Assessed property values increased 10.49% in FY 2001-02 and 11.45% in FY 2002-03 yielding a total assessed property tax roll of \$110,000,000,000 for FY 2002-03. According to the County Assessor, the \$11,300,000,000 increase is attributable to the 2% annual C.P.I. increase, ownership changes, and new construction in the County. The increase also takes into affect the reductions in assessed property values as the result of Proposition 8. The assessed values of 80,206 properties were affected by the Proposition 8 reductions in FY 2002-03.

Regional Medical Center (RMC) projects a net loss of \$18,900,000 by fiscal year-end June 30, 2003. RMC says it is due to an anticipated loss of SB 855 net benefit of \$5,000,000 due to a decrease in Disproportionate Share Hospital (DSH) revenue and the State's 2003 budget related directly to SB 855, benefit cost increases of \$5,000,000 mainly attributed to retirement fund contributions and increased cost of supplies and services, \$7,600,000, attributed to a 4% increase in patient volume. RMC anticipates a cash shortfall at fiscal year-end that will require a County General Fund subsidy of \$8,000,000. RMC Administration is working on possible solutions to reduce the projected year-end deficit.

The County budget for FY 2002-03 assumed a beginning General Fund balance of \$36,200,000. Estimated discretionary revenues were \$35,300,000 higher than those in the previous Final Budget based on an improved outlook for the County. The change in total estimated discretionary General Fund income represents an 11% increase.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the County of Riverside, Office of the Auditor-Controller, County Administrative Center, 4080 Lemon Street - 11th Floor, P.O. Box 1326, Riverside, CA 92502-1326; Phone: (909) 955-3800; Fax: (909) 955-3802; web site: www.auditorcontroller.org.

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements
June 30, 2002

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, recreation and culture services. 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 are combined with data of the primary government. A discretely presented component unit, on the other hand, 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 year-end.

Blended Component Units

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

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

Riverside County Desert Facilities Corporation (Desert Facilities). Desert Facilities has its own five member governing body and provides service almost entirely to the primary government (the County) through the purchase or construction of land and/or facilities, which are then leased back to the County. Desert Facilities is reported as a governmental fund type.

County of Riverside Redevelopment Agency (RDA). The governing body of the RDA is the County's governing body. 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 governing board of CORAL is appointed by the County's governing board and CORAL provides services entirely to the County through the purchase or construction of land and/or facilities, which are then leased back to the County. CORAL is reported as a governmental fund type.

Riverside County Service Areas (CSAs). The governing body of the CSAs is the County's governing body. 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.

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Blended Component Units (Continued)

Riverside County Public Financing Authority (Public Financing Authority). The governing body of the Public Financing Authority is the County's governing body. The Public Financing Authority was formed for the public 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 Court Financing Corporation (Corporation). The governing body of the Corporation is the County's governing body. The Corporation assists the County by providing for the acquisition, construction and renovation of public facilities and improvements. The Corporation is reported as a governmental fund type.

County of Riverside District Court Financing Corporation (District Corporation). The governing body of the District Corporation is the County's governing body. The District Corporation assists the County by providing for the acquisition, construction and renovation of certain leased premises and other public facilities and improvements. The District Corporation is reported as a governmental fund type.

Discretely Presented Component Unit

Riverside County Children and Families Commission (Commission). The governing body of the Commission is appointed by and serves at the will of the County's governing body, and does not share governing members. The Commission was formed to develop, adopt, promote and implement early childhood development programs, which do not directly benefit the County.

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

The basic financial statements also include an Investment Trust fund to account for cash and investments held by the County Treasurer for numerous self-governed school and special districts. The financial reporting for these governmental entities, which are independent of the County, is limited to the total amount of cash and investments and other assets, and the related fiduciary responsibility of the County for disbursement of these assets. Activities of the school districts and special districts are administered by boards which are separately elected and which are independent of the Board. The County Auditor-Controller makes disbursements upon the request of the responsible self-governed special district officers. The Board has no effective authority to govern, manage, approve budgets, assume financial accountability, establish revenue limits, or to appropriate surplus funds available in these entities. Therefore, these entities are fiscally independent of the County. Twenty-four 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.

Implementation of Governmental Accounting Standards Board Statements and Interpretation

Governmental Accounting Standards Board Statement No. 34

In the current year, the County adopted the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This statement affects the manner in which the County records transactions and presents financial information. State and local governments have traditionally used a financial reporting model substantially different from the one used to prepare private-sector financial reports.

GASB Statement No. 34 establishes new requirements and a new reporting model for the annual financial reports of state and local governments. The statement was developed to make annual reports of state and local governments easier to understand and more useful to the people who use governmental financial information to make decisions.

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Implementation of Governmental Accounting Standards Board Statements and Interpretation

Governmental Accounting Standard Board Statement No. 34 (Continued)

Management's Discussion and Analysis - GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the County's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to the analysis provided in the annual reports of private-sector organizations.

Government-wide Financial Statements –The reporting model includes financial statements prepared using full accrual accounting for all of the County's activities. This approach includes not just current assets and liabilities, but also capital and other long-term assets as well as long-term liabilities. Accrual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter.

Statement of Net Assets –The statement of net assets is designed to display the financial position of the government. The County now reports all capital assets, including infrastructure assets, in the government-wide statement of net assets and reports depreciation expense in the statement of activities. The net assets of the County are broken down into three categories – (1) invested in capital assets, net of related debt, (2) restricted, and (3) unrestricted.

Statement of Activities –The statement of activities reports expenses and revenues in a format that focuses on the cost of each of the County's functions. The expense of individual functions is compared to the revenue generated directly by the function.

Accordingly, the County has recorded other long-term assets and liabilities in the statement of net assets, and has reported all revenues and the cost of providing services under the accrual basis of accounting in the statement of activities.

Governmental Accounting Standards Board Statement No. 37

In the current year, the County also adopted the provisions of GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*. This statement amends GASB Statement No. 34 to either (1) clarify certain provisions or (2) modify other provisions that GASB believes may have unintended consequences in some circumstances. Accordingly, the County considered the effects of this statement when adopting the provisions of GASB Statement No. 34, as previously described.

Governmental Accounting Standards Board Statement No. 38

In the current year, the County adopted the provisions of GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. This statement modifies, establishes and rescinds certain financial statement disclosure requirements. Accordingly, certain footnote disclosures have been revised to conform to the provisions of GASB Statement No. 38.

Governmental Accounting Standards Board Interpretation No. 6

In the current year, the County adopted the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. This interpretation clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice. This interpretation impacts the fund level financial statements required by GASB Statement No. 34 but has no direct impact on the government-wide financial statements. See Note 4.

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Future Governmental Accounting Standards Board Statements

Governmental Accounting Standards Board Statement No. 39

In May 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This statement is effective for periods beginning after June 15, 2003. This statement amends GASB Statement No. 14 by providing additional guidance in determining whether certain organizations should be reported as component units. The County has elected not to early implement GASB No. 39 and has not determined its effect on the County's financial statements.

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, except for fiduciary activities. It is the County's policy to make eliminations to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the County and between the County and its discretely presented component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which 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, 29% (\$7,017,000) of the County's \$24,554,000 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:

The General Fund is the County's primary operating fund. It is used to account for all revenues and expenditures necessary to carry out 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, recreation and culture services.

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

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

The County reports the following major enterprise funds:

- The *Regional Medical Center* 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 Center. Revenue for this fund is primarily from charges for services and secondarily from the County's General Fund.
- The *Waste Management Department (Waste)* accounts for solid waste revenues earned, expenses incurred, 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. This operation prepares and maintains the County's Solid Waste Management Plan, provides environmental monitoring in accordance with State mandates, and administers landfill closure and acquisition.

The County reports the following additional fund types:

- *Internal Service Funds* account for the County's fleet services, information services, printing services, supply services, financial system (OASIS project), risk management, temporary assistance pool, 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 user 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.

Due to the new fund classifications presented under GASB Statement No. 34, four risk management funds providing employee benefits and insurance were reclassified from internal service funds to a pension trust and agency funds. In addition, the medical center data processing, health agency support services, and transportation equipment funds were consolidated into the fund statements of the Regional Medical Center enterprise fund and transportation special revenue fund.

- *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.
- *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.
- *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 include public guardian conservatorship, public social service foster care and maintenance and children's trust, which were reported prior to the implementation of GASB Statement 34, in agency funds.

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

- *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 government-wide, proprietary, and fiduciary 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. Nonexchange 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 take place. 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 (i.e. bond issuance proceeds) are recognized when they become susceptible to accrual – that is, when they become both measurable and available. Revenues are considered to be 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 and are accrued when received within sixty days after fiscal year-end. While revenue received from expenditure driven (cost-reimbursement) grants, contract and other nonexchange transactions, as defined by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transaction*, are considered available and accrued if expected to be received within twelve months after 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, 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.

Because the governmental fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide financial statements for governmental activities, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund financial statements to the governmental-wide statements.

Cash Deposits 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.

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Deposits and Investments (Continued)

Pooled investments, including U.S. Treasury and Agency securities, are carried at fair value based on current market prices received from an independent registered investment advisor. Other County investments in U.S. Treasury and Agency securities are carried at fair value based on quoted market prices. Repurchase agreements are carried at fair value based on quoted market prices, except for repurchase agreements maturing within 90 days of June 30, 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.

The fair value of 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 plus accrued interest of the participants' percentage participation at the date of such withdrawal. The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2002 to support the valuation.

State law requires that all operating monies of the County, school districts and certain special districts be held by the County Treasurer. Collectively, these mandatory deposits constituted approximately 85.9% of the funds on deposit in the County Treasury. In addition, the Auditor-Controller determined districts and agencies constituting approximately 14.1% of the total funds on deposit in the County Treasury represented discretionary deposits.

In December 1994, the Board of Supervisors created an Investment Oversight Committee to work with the County Treasurer to oversee County investment policies. The Committee reviews the County's investment strategy and the status of the County's investments and reports its findings to the Board. The Investment Oversight Committee has reviewed and approved investment policies for funds held outside the County Treasury.

Receivables and Payables

The Regional Medical Center accounts receivable are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The estimated allowance for uncollectibles and allowance for contractals are \$65,125,000 and \$273,330,000 respectively. The allowance for doubtful accounts, \$42,953,000, as reported parenthetically on the County's June 30, 2001 financial report did not include an estimated uncollectible amount for contractual receivables. The Regional Medical Center has contracted with Medi-Cal managed care plan to provide services to patients enrolled with Medicare and Medi-Cal programs. The Regional Medical Center receives a fixed monthly premium payment for each patient enrolled. Revenue under this agreement is recognized in the period in which the Regional Medical Center is required to provide services. The net reported patient accounts receivables reported on the statement of net assets did not change.

All jurisdictions within California derive their taxing authority via State Constitution and various legislative provisions contained in the Government Code and 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 XIII A of the California State Constitution and statutory provisions. The total FY 2001-02 gross assessed valuation of the County was \$99,049,270,000.

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

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables and Payables (Continued)

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. They become a lien on real property on January 1 preceding the fiscal year for which taxes are levied. These tax payments can be made in two equal installments; the first is due November 1 and delinquent with penalties after December 10; the second is due February 1 and delinquent with penalties after April 10. Secured property taxes, which are delinquent and unpaid as of June 30 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. Additional tax liens are created when there is a change in ownership of property or upon completion of new construction. Tax bills for these new tax liens are issued throughout the fiscal year and contain various payments and delinquent dates but are generally due within one year. If the new tax liens are lower, the taxpayer receives a tax refund rather than a tax bill. Unsecured personal property taxes are not a lien against real property. These taxes are due on January 1, and become delinquent, if unpaid, on August 31.

During the 1993-94 fiscal year, the County authorized an alternative property tax distribution method referred to as the "Teeter Plan". This method allows for a 100% distribution of the current secured property tax levy to entities electing the alternative method, as compared to the previous method where only the current levy less any delinquent taxes were distributed. This results in the General Fund receiving distributions of approximately 50-55% in December, 40-45% in April and the remaining 5% in July 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 flow to the County General Fund. For FY 2001-02, \$9,000,000 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 fund. 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.

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, and flood control channels, storm drains and dams and basins. The capitalization threshold for equipment is \$5,000, except for Regional Medical Center equipment for which the threshold is \$500 because of regulatory reporting requirements. 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
Bridges	50 years
Parks trails and improvements	27.5 years
Buildings	25-50 years
Improvements	10-20 years
Equipment	3-20 years

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

Interest is capitalized on construction in progress in the proprietary funds in accordance with Statement of Financial Accounting Standards No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax Exempt Borrowings and Certain Gifts and Grants*. Accordingly, 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. There was no capitalized interest reported on construction in progress for FY 2001-02.

Pursuant to GASB Statement No. 34, an extended period of deferral (fiscal year ending June 30, 2006) is available before the requirement is effective to record and depreciate infrastructure assets acquired prior to July 1, 2001. As a result, the retroactive historical value of the County's transportation infrastructure assets (roads, bridges, and traffic signals that were completed prior to July 1, 2001) have not been included in the government-wide financial statements, but will be included before June 30, 2006. The County's infrastructure assets are recorded at historical cost in the government-wide financial statements as required by GASB Statement No. 34. All current year additions to infrastructure assets are depreciated.

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.

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, Desert Facilities and Housing Authority outstanding debt include certain covenants pertaining to the disposition of bond proceeds for construction, acquisition, and for bond redemption purposes. Waste 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 RDA, had a market value of \$9,742,000 at June 30, 2002.

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, 2002, the amount of accrued vacation and holiday pay reported in the government-wide financial statements was \$113,430,000.

The County allows unlimited accumulation of sick leave. Upon retirement, disability retirement or death of an employee, unused accumulated sick leave is paid to the employee or the employee's estate at the rate of ten (10) percent of the current salary for five full years of service, plus two (2) percent for each additional year to a maximum of fifty (50) percent with the total payment no more than 120 days of full pay. In addition, there is an optional payout of sick leave for health insurance premiums for certain employees.

Deferred Revenue

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

Long-term Debt

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

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Bond Issuance Costs

Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Bond issuance costs associated with the issuance of bonds for the Riverside County Regional Medical Center were incurred upon issuance for each of the outstanding Lease Revenue Bond series. As such, they are capitalized and amortized over the life of the related issuance. Issuance costs for the 1993 Series A & B, 1997 Series A, and 1997 Series B & C, aggregated \$1,847,000, \$1,390,000, and \$1,350,000, respectively. Accumulated amortization at June 30, 2002 for the 1993 Series A & B, 1997 Series A, and 1997 Series B & C aggregated \$830,000, \$314,000, and \$344,000, respectively.

Landfill Closure and Post-Closure Care Costs

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

Waste, under State and Federal regulations, may be required to perform corrective action for contaminate releases at any of its active or inactive landfills. Waste 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 provides for these costs based on the most recent cost study information available.

Interfund Transactions

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances". Advances between funds, as reported in the governmental fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

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

Net Assets

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

- ❑ 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 or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- ❑ Unrestricted Net Assets – This category represents net assets of the County, not restricted for any project or other purpose.

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Encumbrances

Encumbrances, which are commitments related to executory contracts for goods or services, are recorded for budgetary control purposes in the General, Special Revenue and Capital Projects Funds. Encumbrance accounting is utilized to assure effective budgetary control and accountability. Encumbrances outstanding at year-end represent the estimated amount of expenditures ultimately to result if the unperformed contracts in process at year-end are completed.

Encumbrances outstanding at year-end do not constitute expenditures or liabilities. Unencumbered appropriations lapse at year-end and encumbrances outstanding at that time are reported as a reservation of fund balance and reappropriated in the subsequent year.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not appropriable or legally restricted for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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.

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 CORAL, Desert Facilities and the District Corporation (included in the Debt Service Funds) and CORAL and the District Corporation (included in the Capital Projects Funds).

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, Fixed Assets, Operating 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.

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

Each year the original budget, as published in a separate report, the “Final Budget”, is adjusted to reflect increases or decreases in revenues and changes in fund balance, offset by an equal amount of increased appropriations for new reimbursement contracts. 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 only for the General Fund and any major special revenue funds (Flood Control) for which the County legally adopts annual budgets, and are part of the basic financial statements. The budgetary comparison statements provide 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 and are presented at the legal level of budgetary control.

Excess of Expenditures Over Appropriations

General Fund capital outlay expenditures of \$1,001,000 related to capital leases were unbudgeted. These expenditures were funded by the related “other financing sources”.

Deficit Net Assets

The following funds had deficit net assets at June 30, 2002 (in thousands):

	Deficit Net Assets
Enterprise Fund:	
Regional Medical Center	2,671
Internal Service Fund:	
Information Services	1,998

With the increased costs of health care and reduced allocation of revenue from the State disproportionate share program (Senate Bill 855), the Regional Medical Center had deficit net assets of \$2,671,000 at June 30, 2002. Contributing to the deficit was a 15.3% (\$26,618,000) increase in operating expenses, while operating revenue only increased 3.7% subsidy to the hospital (\$7,179,000) from July 1, 2001 to June 30, 2002. To lessen the impact of the deficit in net assets in the General Fund, the hospital intends on decreasing expenses, where possible, while maximizing collections through patient demographic mix, including increases from third-party payer sources.

The deficit in net assets associated with the Information Services Internal Service Fund primarily resulted from personnel services. The County plans to employ budgetary strategies necessary to cure these accumulated deficits, including seeking additional revenue sources and, where necessary, reducing non-essential and/or non-mandated services in order to reduce costs.

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

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 25)	Long-term Assets and Liabilities	Internal Service Funds	Eliminations	Statement of Net Assets Totals (Page 21)
Assets:					
Cash and investments	\$ 439,780	\$ -	\$ 135,998	\$ -	\$ 575,778
Receivable:					
Accounts receivable	7,895	-	1,672	-	9,567
Interest	5,608	-	256	-	5,864
Taxes	12,163	-	-	-	12,163
Due from other governments	204,883	-	224	-	205,107
Notes receivable	8,054	-	-	-	8,054
Inventories	1,830	-	1,724	-	3,554
Due from other funds	17,548	-	1,527	(19,075)	-
Internal balances	-	-	-	15,527	15,527
Restricted cash and investments	292,459	-	-	-	292,459
Advances to other funds	2,955	-	-	(2,955)	-
Land held for resale	9,742	-	-	-	9,742
Capital assets:					
Nondepreciable	-	365,859	-	-	365,859
Depreciable, net	-	908,746	51,504	-	960,250
Bond issuance costs	-	420	-	-	420
Total assets	<u>\$ 1,002,917</u>	<u>\$ 1,275,025</u>	<u>\$ 192,905</u>	<u>\$ (6,503)</u>	<u>\$ 2,464,344</u>
Liabilities:					
Accounts payable	\$ 32,752	\$ -	\$ 5,043	\$ -	\$ 37,795
Salaries and benefits payable	34,001	-	2,799	-	36,800
Due to other funds	5,343	-	1,060	(6,403)	-
Due to other governments	34,665	-	-	-	34,665
Due to third-party parties	11,485	-	-	-	11,485
Accrued interest payable	-	4,767	-	-	4,767
Deposits payable	1,826	-	-	-	1,826
Deferred revenue	163,498	(32,663)	-	-	130,835
Teeter note payable	40,981	-	-	-	40,981
Other liabilities	-	-	2,127	-	2,127
Long-term liabilities due within one year					
Capital lease obligations	-	7,493	17,493	-	24,986
Certificates of participation	-	9,046	-	-	9,046
Loans payable	-	897	-	-	897
Notes payable	-	2,196	-	-	2,196
Compensated absences	-	32,842	1,372	-	34,214
Estimated claims liability	-	-	14,391	-	14,391
Long-term liabilities due in more than one year					
Bonds payable	-	91,758	-	-	91,758
Capital lease obligations	-	76,081	22,803	-	98,884
Certificates of participation	-	372,055	-	-	372,055
Loans payable	-	66,957	-	-	66,957
Notes payable	-	930	-	-	930
Accreted interest payable	-	911	-	-	911
Compensated absences	-	65,578	2,401	-	67,979
Estimated claims liability	-	-	63,219	-	63,219
Total liabilities	<u>324,551</u>	<u>698,848</u>	<u>132,708</u>	<u>(6,403)</u>	<u>1,149,704</u>
Fund balances/net assets:					
Total fund balances/net assets	678,366	576,177	60,197	(100)	1,314,640
Total liabilities and fund balances/net assets	<u>\$ 1,002,917</u>	<u>\$ 1,275,025</u>	<u>\$ 192,905</u>	<u>\$ (6,503)</u>	<u>\$ 2,464,344</u>

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 4 – RESTATEMENTS OF BEGINNING FUND BALANCE/RETAINED EARNINGS/NET ASSETS

The County's beginning fund balance/net assets have been restated to reflect the cumulative effect of the implementation of GASB No. 34 and Interpretation No. 6 (in thousands).

Fund Reclassification

Agency Funds – Due to the implementation of GASB Statement No. 34, the County evaluated over 500 agency funds totaling \$665,420,000. For the funds that did not meet the definition of an agency fund, the balances and activities were reclassified to the General Fund, nonmajor governmental funds, enterprise funds, or investment trust funds. As a result, the beginning net assets were restated by \$33,578,000 in governmental funds. The cash and equity was restricted in the respective funds for all but \$517,000 of the adjustments in the governmental funds. Also, \$164,669,000 is due to agency funds reclassification of which \$154,730,000 was reclassified to investment trust, and \$9,939,000 was reclassified to private purpose trust.

Internal Service Funds- Four Risk Management funds providing employees benefits and insurance were reclassified from internal service funds to pension trust or agency fund. In addition, the Medical Center Data Processing, Health Agency Support Services, and Transportation Equipment funds were consolidated into the Regional Medical Center Enterprise Fund and Transportation Special Revenue Fund. This resulted in a restatement of \$2,219,000 in governmental funds, \$1,969,000 in Enterprise Funds, \$6,986,000 in internal service funds and a restatement of \$2,336,000 in pension trust funds.

Other Restatements

Other restatements of net assets totaled \$41,909,000 and were as follows:

Governmental Funds – A net decrease of \$40,902,000 in governmental funds was a result of the following: A decrease of \$42,883,000 in net assets due to the Teeter short-term notes payable reclassification from the general long-term account group to governmental funds. RDA net assets increased by \$1,211,000 due to recording a loan receivable for expenditures in prior years; an increase of \$144,000 was the result of a restructured loan payable that was deferred to a future period; and a decrease of \$38,000 was due to recording cash received in prior years as income that should have offset the loans receivable. CORAL increased \$3,000 to correct an error of prior year adjustment. Air Quality Improvement expendable trust fund balance of \$661,000 was reclassified to a special revenue fund which resulted in an increase in the special revenue fund.

Proprietary Funds – A net decrease of \$1,007,000 in enterprise funds was a result of the following: A decrease in net assets due to Housing Authority identified and expensed \$1,341,000 grant expenses that were operational in nature from prior years; an increase of \$228,000 in Animal Spay & Neuter was as result of recording prior year equity transfer; Blythe Marina increased net assets by \$106,000 because a prior year adjustment was not recorded.

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

**NOTE 4 – RESTATEMENTS OF BEGINNING FUND BALANCE/RETAINED EARNINGS/NET ASSETS
(CONTINUED)**

A summary of the restatements as of June 30, 2001 are as follows (in thousands):

	Governmental Funds	Proprietary Funds		Fiduciary Funds	Total
		Enterprise	Internal Service		
Fund balances/retained earnings/net assets as of June 30, 2001, as previously reported	\$ 645,082	\$ 75,833	\$ 65,997	\$ 901,319	\$ 1,688,231
Reclassification of contributed capital to net assets	-	14,139	5,806	-	19,945
Fund balances/net assets as of June 30, 2001, as restated for reclassification of contributed capital	645,082	89,972	71,803	901,319	1,708,176
Reclassification of agency funds to governmental, enterprise funds and other fiduciary funds	33,578	-	-	164,669	198,247
Reclassification of internal service funds to governmental funds, enterprise funds, and fiduciary funds	2,219	(1,969)	(6,986)	2,336	(4,400)
Other restatements	(40,902)	(1,007)	-	-	(41,909)
Total restatement of beginning fund balance/net assets	(5,105)	(2,976)	(6,986)	167,005	151,938
Fund balances/net assets as of June 30, 2001, as restated	639,977	86,996	64,817	<u>\$1,068,324</u>	<u>\$ 1,860,114</u>
Reconciliation of fund balances/net assets as of June 30, 2001, as restated, to net assets as of June 2001:					
Capital assets, nondepreciable	342,032	-	-		
Capital assets, depreciable, net	835,616	-	-		
Compensated absences	(84,038)	-	-		
Bonds payable	(91,758)	-	-		
Capital lease obligations	(90,914)	-	-		
Certificates of participation	(351,896)	-	-		
Loans payable	(68,684)	-	-		
Notes payable	(20,724)	-	-		
Accrued interest payable	(8,287)	-	-		
Accreted interest payable	(635)	-	-		
Reclassification of net assets of internal service funds to governmental activities	64,817	-	(64,817)		
Net assets as of June 30, 2001, as restated	<u>\$ 1,165,506</u>	<u>\$ 86,996</u>	<u>\$ -</u>		

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 5 – CASH AND INVESTMENTS

The County's cash and investments are considered to be cash on hand, demand deposits and investments. A significant amount is held by the County Treasurer in a cash and investment pool. As provided for by the Government Code, the County maintains a cash and investment pool that is available for all funds of the County, as well as the funds of other agencies within the County for which the County Treasury is the depository. The County Treasury is not a depository for any public agencies outside the County. The purpose of the Treasurer's pool is to maximize interest earnings through pooled investment activities. Interest earned on the pooled funds is apportioned quarterly based on the average ending daily balance of each fund. Also included are cash and investments held by CORAL, RDA, Housing, Flood Control, and other blended component units.

State statutes and County policy authorize the County to invest in obligations of the U.S. Treasury, Federal agencies, a U.S. Government-sponsored enterprise, the State of California, local government agencies, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, reverse repurchase agreements, guaranteed investment contracts, bond anticipation notes, medium term corporate bonds and negotiable certificates of deposit issued by national and State licensed or chartered banks or Federal or State savings and loan associations.

Cash Deposits

In accordance with the Governmental Accounting Standards Board Statement 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, the County's deposits at June 30, 2002 are categorized in the following manner (in thousands).

		<u>Carrying Amount</u>	<u>Bank Balance</u>
Category 1 -	Insured or collateralized with securities held by the County or by its agent in the County's name.	\$ 12,812	\$ 12,812
Category 2 -	Collateralized with securities held by the pledging financial institution's trust department or agent in the County's name.	141,543	141,543
Category 3 -	Uncollateralized or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the County's name.	324	324
	Total	<u>\$ 154,679</u>	<u>\$ 154,679</u>

County warrants, unlike checks, are deducted from the County carrying value of cash at the time the warrants are presented for payment to the bank. There is no timing difference between when the County records the warrants as presented for payment and when the bank is authorized to honor the warrants by the County; therefore, the carrying balance of deposits at June 30, 2002 equals the bank balance. All expenditures for which warrants have been issued at June 30, 2002 are recognized in the operating funds at the time the warrants are issued. The liability for the payment of the warrants and the cash to fund the payment are recorded in a specific agency fund for Warrant Clearing.

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 5 – CASH AND INVESTMENTS (CONTINUED)

Investments

In accordance with Governmental Accounting Standard Board Statement 3, the County's investments are categorized separately below to give an indication of the level of custodial credit risk assumed by the County at year-end.

Category 1 includes investments that are insured, or registered, or held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments held by the counterparty, or by its trust department or agent, but not in the County's name.

The County's investments are categorized as follows (in thousands):

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Fair Value</u>
U.S. government securities	\$1,278,827	\$ 3,683	\$ -	\$ 1,282,510
Bankers' acceptances	43,793	-	-	43,793
Negotiable certificates of deposit	5,000	-	-	5,000
Commercial paper	337,417	-	-	337,417
Repurchase agreements	-	588,397	-	588,397
Local agency obligations	-	1,421	-	1,421
Bank investment contracts	-	-	387	387
Total	<u>\$1,665,037</u>	<u>\$ 593,501</u>	<u>\$ 387</u>	<u>2,258,925</u>

Investments not subject to categorization:

Local agency investment fund	2,363
Guaranteed investment contracts	67,180
Mutual funds	12,782
Total investments	<u>\$ 2,341,250</u>

The Local Investment Advisory Board (Board) has oversight responsibility for the State's Local Agency Investment Fund (LAIF). The Board consists of five members as designated by State statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the County's portion in the pool.

Summary of Cash and Investments

Total deposits	\$ 154,679
Total investments	<u>2,341,250</u>
	<u>\$ 2,495,929</u>

Total County cash and investments are reported as follows (in thousands):

	<u>Total Governmental Activities</u>	<u>Total Business-type Activities</u>	<u>Total Component Unit</u>	<u>Total Fiduciary Funds</u>	<u>Total</u>
Cash and investments	\$ 575,778	\$ 35,115	\$ 60,175	\$ 1,436,249	\$ 2,107,317
Restricted cash and investments	292,459	96,153	-	-	388,612
Total cash and investments	<u>\$ 868,237</u>	<u>\$ 131,268</u>	<u>\$ 60,175</u>	<u>\$ 1,436,249</u>	<u>\$ 2,495,929</u>

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 5 – CASH AND INVESTMENTS (CONTINUED)

A summary of deposits and investments held by the County Treasurer are as follows (in thousands):

	Fair Value	Principal	Interest Rate Percent Range	Maturity Range
Total Deposits	\$ 142,444	\$ 142,444	0.00-3.66	06/30/02
Bankers' acceptances	43,793	43,793	1.73-1.95	07/05/02-09/03/02
Commercial paper	333,396	333,396	1.74-1.93	07/01/02-08/21/02
Local agency obligations	4,021	4,021	2.59	06/30/03-06/01/05
U.S. Treasury	199,819	199,753	1.65-1.66	07/11/02-07/25/02
U.S. Agency	1,079,008	1,074,839	1.74-6.51	07/01/02-04/19/04
Mutual Funds	1,000	1,000	1.75	07/30/02
Repurchase Agreement	500,000	500,000	1.85-1.95	07/01/02
Negotiable certificates of deposit	5,000	5,000	2.81	10/15/02
Total Investments	<u>2,166,037</u>	<u>2,161,802</u>		
Total Deposits and Investments	<u><u>\$ 2,308,481</u></u>	<u><u>\$2,304,246</u></u>		

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's investment pool as of June 30, 2002 (in thousands):

Statement of Net Assets

Net assets held in trust for all pool participants	<u>\$ 2,308,481</u>
Equity of internal pool participants	<u>\$ 1,127,366</u>
Equity of external pool participants	<u>1,181,115</u>
Total equity	<u><u>\$ 2,308,481</u></u>

Statement of Changes in Net Assets

Net assets at July 1, 2001	\$ 2,004,893
Net change in investments by pool participants	<u>303,588</u>
Net assets at June 30, 2002	<u><u>\$ 2,308,481</u></u>

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 6 – RESTRICTED CASH AND INVESTMENTS

The amount of assets restricted by legal and contractual requirements at June 30, 2002 is as follows (in thousands):

	General Fund	Nonmajor Governmental Funds	Regional Medical Center	Waste Management Department	Nonmajor Enterprise Funds
1985 Certificates	\$ -	\$ 20,812	\$ -	\$ -	\$ -
1989/1993 Hospital Bonds	-	-	23,175	-	-
1993 Master Refunding	-	2,723	-	-	-
1997 A Hospital	-	-	156	-	-
1997 Family Law Court	-	921	-	-	-
1997 Historic Court House	-	2,421	-	-	-
1997 Lease Refunding	-	1,208	-	-	-
1998 Larson Justice Center	-	43	-	-	-
1997 B/C Hospital	-	-	110	-	-
2000 Southwest Justice Center	-	14,310	-	-	-
Waste Management	-	-	-	70,332	-
Housing Authority Bond	-	-	-	-	2,380
Desert Facilities Corporation	-	148	-	-	-
District Court Project	-	671	-	-	-
Restricted Program Money	198,081	-	-	-	-
Teeter Commercial Paper Notes	-	37,948	-	-	-
CAC Annex	-	13,173	-	-	-
Total Restricted Assets	\$ 198,081	\$ 94,378	\$ 23,441	\$ 70,332	\$ 2,380

At June 30, 2002 County management believes that the County is in compliance with all significant terms of its debt agreements and all State statute requirements.

NOTE 7 - RECEIVABLES

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

Receivables – Governmental Activities:	General Fund	Flood Control	Nonmajor Governmental Funds	Internal Service Funds	Total Governmental Activities
Accounts	\$ 4,331	\$ 724	\$ 2,840	\$ 1,672	\$ 9,567
Interest	3,465	211	1,932	256	5,864
Taxes	4,310	1,050	6,803	-	12,163
Due from other governments	187,736	161	16,986	224	205,107
Notes	-	-	8,054	-	8,054
Total receivables	\$ 199,842	\$ 2,146	\$ 36,615	\$ 2,152	\$ 240,755

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 7 – RECEIVABLES (CONTINUED)

Receivables – Business-type Activities:	Regional Medical Center	Waste Management Department	Nonmajor Funds	Total Business- type Activities
Accounts	\$ 382,905	\$ 3,562	\$ 480	\$ 386,947
Interest	-	199	9	208
Taxes	-	-	11	11
Due from other governments	28,506	198	1,994	30,698
Gross receivables	411,411	3,959	2,494	417,864
Less: allowance for contractals	(273,330)			(273,330)
allowance for uncollectibles	(65,125)	(4)	(4)	(65,133)
Total receivables	<u>\$ 72,956</u>	<u>\$ 3,955</u>	<u>\$ 2,490</u>	<u>\$ 79,401</u>

Governmental funds report deferred revenue in connection with receivables for revenue not considered available to liquidate liabilities of the current period. Governmental and enterprise funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

At June 30, 2002, the various components of deferred revenue and unearned revenue reported were as follows (in thousands):

	<u>Unavailable</u>	<u>Unearned</u>
Governmental activities:		
General fund:		
Due from other funds	\$ 15,027	\$ -
Due from other governments	17,636	-
Resources received that do not yet meet the criteria for revenue recognition	-	110,948
Nonmajor funds:		
Resources received that do not yet meet the criteria for revenue recognition	-	19,887
Total governmental activities	<u>\$ 32,663</u>	<u>\$ 130,835</u>

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 8 – INTERFUND TRANSACTIONS

Interfund Receivables/ Payables

The composition of interfund balances as of June 30, 2002 is as follows (in thousands):

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Regional Medical Center	\$ 15,867
	Waste Management	306
	Internal Service Funds	22
		<u>16,195</u>
Flood Control	Nonmajor Enterprise Funds	93
	Internal Service Funds	118
		<u>211</u>
Nonmajor Governmental Funds	General Fund	638
	Waste Management	287
	Nonmajor Governmental Funds	217
		<u>1,142</u>
Regional Medical Center	General Fund	<u>3,879</u>
Nonmajor Enterprise Funds	Flood Control	<u>17</u>
Internal Service Funds	General Fund	6
	Flood Control	559
	Internal Service Funds	920
	Nonmajor Governmental Funds	27
	Nonmajor Enterprise Funds	15
		<u>1,527</u>
Total		<u>\$ 22,971</u>

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.

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 8– INTERFUND TRANSACTIONS (CONTINUED)

Interfund Receivables/ Payables

Advances to /from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Regional Medical Center	\$ 2,955
Total		<u>\$ 2,955</u>

The balance of \$2,955,000 advance to the Regional Medical Center fund from the General Fund resulted from loans made to provide for cash flow needs and to provide financing resources.

Transfers

Transfers are indicative of funding for capital projects, lease payments or debt service, subsidies of various County operations and re-allocations of special revenue. The following schedule briefly summarizes the County's transfer activity (in thousands):

(a) Between Governmental and Business-type Activities:

Transfer out	Transfer in	Amount	Purpose
<i>Operating or debt subsidy:</i>			
General Fund	Regional Medical Center	\$ 15,184	Operating Contribution
Total		<u>\$ 15,184</u>	

(b) Between Funds within the Governmental or Business-type Activities:¹

Transfer out	Transfer in	Amount	Purpose
<i>Operating or debt subsidy:</i>			
General Fund	Nonmajor Governmental Funds	\$ 8	Recreation and Cultural Services Museums
	Nonmajor Governmental Funds	1	Economic Development Community Projects
	Nonmajor Governmental Funds	26	Leases
	Nonmajor Governmental Funds	261	Leases
	Nonmajor Governmental Funds	<u>17,512</u>	Debt Service Payments
		<u>17,808</u>	
Flood Control	Nonmajor Governmental Funds	1,216	Capital Project Lease Payments and Debt Service
		<u>\$ 1,216</u>	

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

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 8 – INTERFUND TRANSACTIONS (CONTINUED)

Transfers (Continued)

(b) Between Funds within the Governmental or Business-type Activities:

Transfer out	Transfer in	Amount	Purpose
Nonmajor Governmental Funds	General Fund	\$ 2,004	Administrative expense
	General Fund	238	Leases
	General Fund	20,345	Fire services – tax transfer
	General Fund	1,251	Engineering
	General Fund	5	Road related expenses
	General Fund	10	Community Block Development Grant (CDBG)
	General Fund	112	Law enforcement
	General Fund	68	Extra duty-National Date festival
		<u>24,033</u>	
	Nonmajor Governmental Funds	53	Project – Elmwood Street
	Nonmajor Governmental Funds	1,148	Economic Development and Community projects
	Nonmajor Governmental Funds	115	Leases
	Nonmajor Governmental Funds	655	Fire Services-Tax Transfer
	Nonmajor Governmental Funds	298	County Service Area/Intra County
	Nonmajor Governmental Funds	3	Planning and engineering services
	Nonmajor Governmental Funds	22	Road related expenses
	Nonmajor Governmental Funds	20	Office expense
	Nonmajor Governmental Funds	6,934	To meet debt service obligations
	Nonmajor Governmental Funds	1,245	To meet cash shortages
	Nonmajor Governmental Funds	1,262	Debt service payments
	Nonmajor Governmental Funds	1	Debt service payments
	Nonmajor Governmental Funds	233	Capital project debt service fund closure
		<u>11,989</u>	
Total		<u>\$ 55,046</u>	

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 9 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2002 was as follows (in thousands):

	Balance July 1, 2001 (As restated)	Additions	Retirements	Transfers & Adjustments	Balance June 30, 2002
<u>Governmental activities:</u>					
<i>Capital assets, not being depreciated:</i>					
Land & easements	\$ 273,997	\$ 7,217	\$ -	\$ -	\$ 281,214
Construction in progress	68,035	59,391	-	(42,781)	84,645
Total capital assets, not being depreciated	<u>342,032</u>	<u>66,608</u>	<u>-</u>	<u>(42,781)</u>	<u>365,859</u>
<i>Capital assets, being depreciated</i>					
Infrastructure					
Flood channels	182,744	2,164	-	-	184,908
Flood storm drains	154,538	12,289	-	914	167,741
Flood dams and basins	25,392	2,646	-	-	28,038
Roads	-	34,103	-	-	34,103
Traffic signals	-	2,052	-	-	2,052
Bridges	-	4,829	-	-	4,829
Parks trails and improvements	1,231	-	-	-	1,231
Land improvements	110	-	-	-	110
Structures and improvements	577,940	617	-	41,867	620,424
Equipment	254,931	30,389	(40,379)	(1,576)	243,365
Total capital assets, being depreciated	<u>1,196,886</u>	<u>89,089</u>	<u>(40,379)</u>	<u>41,205</u>	<u>1,286,801</u>
Less accumulated depreciation for:					
Infrastructure	(42,672)	(5,838)	-	-	(48,510)
Land improvements	(10)	(1)	-	-	(11)
Structures and improvements	(102,522)	(12,332)	-	-	(114,854)
Equipment	(165,079)	(37,777)	39,627	53	(163,176)
Total accumulated depreciation	<u>(310,283)</u>	<u>(55,948)</u>	<u>39,627</u>	<u>53</u>	<u>(326,551)</u>
Total capital assets, being depreciated, net	<u>886,603</u>	<u>33,141</u>	<u>(752)</u>	<u>41,258</u>	<u>960,250</u>
Governmental activities capital assets, net	<u>\$ 1,228,635</u>	<u>\$ 99,749</u>	<u>\$ (752)</u>	<u>\$ (1,523)</u>	<u>\$ 1,326,109</u>

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 9 – CAPITAL ASSETS (CONTINUED)

Capital asset activity for the year ended June 30, 2002 was as follows (in thousands):

	Balance July 1, 2001 (As restated)	Additions	Retirements	Transfers & Adjustments	Balance June 30, 2002
<u>Business-type activities:</u>					
<i>Capital assets, not being depreciated:</i>					
Land & easements	\$ 23,912	\$ 16	\$ (737)	\$ (134)	\$ 23,057
Construction in progress	5,502 ²	8,319	-	(3,114) ³	10,707
Total capital assets, not being depreciated	<u>29,414</u>	<u>8,335</u>	<u>(737)</u>	<u>(3,248)</u>	<u>33,764</u>
<i>Capital assets, being depreciated</i>					
Land improvements	11,588	144	-	-	11,732
Infrastructure-landfill liners	37,074	1,983	(17,561)	-	21,496
Infrastructure-other	3,712	3	(228)	-	3,487
Structures and improvements	219,501	-	(3,885)	2,754	218,370
Equipment	89,932	5,170	(1,865)	520	93,757
Total capital assets, being depreciated	<u>361,807</u>	<u>7,300</u>	<u>(23,539)</u>	<u>3,274</u>	<u>348,842</u>
Less accumulated depreciation for:					
Land improvements	(1,928)	(623)	-	-	(2,551)
Infrastructure-landfill liners	(10,109)	(1,066)	6,779	-	(4,396)
Infrastructure-other	(1,020)	(129)	228	-	(921)
Structures and improvements	(45,086)	(5,795)	706	-	(50,175)
Equipment	(63,654)	(8,488)	1,770	-	(70,372)
Total accumulated depreciation	<u>(121,797)</u>	<u>(16,101)</u>	<u>9,483</u>	<u>-</u>	<u>(128,415)</u>
Total capital assets, being depreciated, net	<u>240,010</u>	<u>(8,801)</u>	<u>(14,056)</u>	<u>3,274</u>	<u>220,427</u>
Business-type activities capital assets, net	<u>\$ 269,424</u>	<u>\$ (466)</u>	<u>\$ (14,793)</u>	<u>\$ 26</u>	<u>\$ 254,191</u>

² Included reduction of \$1,341,000 per Housing Authority's prior year adjustments of grant expenses.

³ Included reduction of \$291,000 per Housing Authority's adjustments of grant expenses and \$69,000 Regional Medical Center's canceled projects.

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 9 – CAPITAL ASSETS (CONTINUED)

At July 1, 2001, the County made the following restatements to capital assets (in thousands):

Governmental activities capital assets

As reported in the general fixed assets account group – June 30, 2001	\$ 706,496
Record Transportation land	58,986
Record structures and improvements adjustments	109,825
Record Blended Component Units (Parks and Flood Control) adjustments, net of accumulated depreciation of \$49,964	449,432
Record accumulated depreciation for structures and improvements	(96,682)
Record accumulated depreciation for equipment	(58,428)
Reclassify internal service funds' capital assets, net of accumulated depreciation of \$91,011	50,987
Reclassify Transportation internal service fund to special revenue fund, net of accumulated depreciation of \$14,198	8,019
Governmental activities capital assets as restated – July 1, 2001	\$1,228,635

Depreciation

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

General government	\$ 6,875
Public protection	10,291
Health and sanitation	4,554
Public assistance	3,956
Public ways and facilities	9,868
Education	30
Recreation and culture	550
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	19,824
Total depreciation expense – governmental functions	\$ 55,948

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

Regional Medical Center	\$11,233
Waste Management	3,184
Housing Authority	1,615
County Service Areas	19
Flood Control	50
Total depreciation expense – business-type functions	\$ 16,101

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 9 – CAPITAL ASSETS (CONTINUED)

Discretely presented component unit

Activity for the Riverside County Children and Families Commission for the year ended June 30, 2002, was as follows (in thousands):

	Balance July 1, 2001 (As restated)	Additions	Retirements	Transfers & Adjustments	Balance June 30, 2002
<i>Capital assets, being depreciated</i>					
Equipment	\$ 76	\$ 9	\$ (21)	\$ -	\$ 64
Total capital assets, being depreciated	76	9	(21)	-	64
Less accumulated depreciation for:					
Equipment	(12)	(1)	-	-	(13)
Total accumulated depreciation	(12)	(1)	-	-	(13)
Total capital assets, net	\$ 64	\$ 8	\$ (21)	\$ -	\$ 51

NOTE 10 – LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS

Waste has recorded approximately \$66,779,000 as landfill closure and post-closure care expense to date (based on the use of the estimated capacities of the landfill ranging from 22.0% to 100%). 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 total cost of \$31,421,000 as the remaining estimated capacity of 17,700,000 tons is filled. Waste expects all currently permitted landfill capacities to be filled by 2024. The total estimate of approximately \$98,200,000 is based on what it would cost to perform all closure and post-closure care at year-end. Actual costs may be different due to inflation, changes in technology or changes in regulations.

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

Facility Name	Cumulative Expense	Capacity Used as of June 30, 2002	Estimated Years Remaining
Anza (Anza)	\$ 2,517	100.0%	-
Badlands (Moreno Valley)	4,950	27.2%	18
Blythe (Blythe)	1,283	22.0%	18
Coachella (Coachella)	8,304	100.0%	-
Desert Center (Desert Center)	647	68.8%	9
Double Butte (Winchester)	9,635	100.0%	-
Edom Hill (Cathedral City)	15,859	90.6%	2
Highgrove (Riverside)	6,415	100.0%	-
Lamb Canyon (Beaumont)	5,985	33.5%	22
Mead Valley (Perris)	8,264	100.0%	-
Mecca II (Mecca)	1,482	94.3%	3
Oasis (Oasis)	1,438	69.5%	18
	<u>\$ 66,779</u>		

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 10 – LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS (CONTINUED)

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, Waste has implemented Pledge of Revenue agreements between Waste and the California Integrated Waste Management Board (CIWMB) for seven active landfills and five 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 Waste and the CIWMB. Waste is in compliance with these requirements, and investments of \$58,983,000 are held for these purposes at June 30, 2002 and are classified as restricted assets in the basic financial statements. 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 – LANDFILL OPERATING AGREEMENT

In September 1985, the Department entered into an agreement with Waste Management, Inc. (the Corporation) to co-operate the El Sobrante landfill site. On September 1, 1998, the County Board of Supervisors (the Board) approved an amendment to the agreement between the County and the Corporation regarding a major expansion at the El Sobrante landfill. The Corporation was required to obtain all necessary permits to proceed with the project. These permits were finalized on August 6, 2001 and on August 28, 2001 the Board redefined the start date of the amended agreement as July 1, 2001 for reasons that would mutually benefit both the County and the Corporation. The amended agreement transfers responsibility for the closure, post-closure and remediation liabilities and the ownership of the associated Citicorp Trust Fund to the Corporation. The agreement also transfers responsibility for and ownership of the liner to the Corporation. The Corporation is responsible to perform and fund all remediation, closure and post-closure needs subsequent to the transfer date. Under the new agreement the County will operate the gate scales and fee booth as well as be responsible for the Load Check at El Sobrante landfill. The Corporation will reimburse the County for providing these services at a rate to be determined based on the actual cost of services and paid at an estimated per ton rate throughout the fiscal year. The current rate at June 30, 2002 was estimated to be \$.43 a ton for Out of County tons delivered to El Sobrante landfill. The County has agreed to pay the Corporation for disposal of In County waste tonnage at El Sobrante landfill at an average rate of approximately \$18 a ton after an initial credit of \$10 million was exhausted. The credit was exhausted in May 2002. (See Note 23: Special Item – Loss on Transfer of El Sobrante Landfill Liner.)

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 12 – OPERATING LEASES

The following is a schedule by year of future minimum rental payments, which includes an average 4.5 percent 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, 2002 (in thousands):

<u>Year Ending June 30:</u>	
2003	\$ 20,860
2004	18,435
2005	15,078
2006	10,174
2007	6,337
2008-2012	17,898
2013-2017	6,324
2018-2022	5
2023-2027	5
Total Minimum Payments	<u>\$ 95,116</u>

Rental expense was \$27,463,000 principally in the General Fund for the year ended June 30, 2002.

NOTE 13 – SHORT-TERM DEBT

Tax and Revenue Anticipation Notes

On July 3, 2001, the County issued \$229,485,000 of Tax and Revenue Anticipation Notes (TRANs), paid June 28, 2002. The Notes yield an interest rate of 5.10%.

Tax-Exempt Commercial Paper Note

In December 1993, the County adopted the Teeter Plan, an 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). As a necessary component for the issuance of the commercial paper, the County entered into an agreement with a financial institution to provide \$31,923,000 in direct pay letters of credit. During FY 2001-02, the County retired \$33,825,000 of the \$42,883,000 principal amount outstanding at June 30, 2001 and issued tax-exempt commercial paper notes of \$31,923,000. No amounts were drawn on the letter of credit, which expires November 19, 2002.

Short-term debt activity for the year ended June 30, 2002, was as follows (in thousands):

	<u>Balance</u> <u>July 1, 2001</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2002</u>
FY 2000-01 TRANs	\$ 228,395	\$ -	\$ 228,395	\$ -
FY 2001-02 TRANs	-	229,485	229,485	-
Teeter Notes	42,883	31,923	33,825	40,981
Total	<u>\$ 271,278</u>	<u>\$ 261,408</u>	<u>\$ 491,705</u>	<u>\$ 40,981</u>

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 14 – LONG-TERM OBLIGATIONS

Long-term obligations of the County consist of capital lease obligations, bonds and 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 \$1,217,268,000.

Capital Leases

Capital leases for governmental funds are recorded both as capital expenditures and as an other financing source 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.

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, 2002 (in thousands):

Year Ending June 30:	Governmental Activities	Business-type Activities
2003	\$ 29,528	\$ 1,965
2004	24,638	1,872
2005	17,115	1,515
2006	11,746	372
2007	10,208	232
2008-2012	35,926	254
2013-2017	22,567	-
2018-2022	3,497	-
2023-2027	3,234	-
2028-2032	125	-
Total minimum payments	158,584	6,210
Less amount representing interest	(34,714)	(520)
Present value of net minimum lease payments	\$123,870	\$ 5,690

The statement of net assets includes the Palm Desert Financing Authority capital lease of \$6,510,000 for the construction of the Blythe County Administrative Center.

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 14– LONG-TERM OBLIGATIONS (CONTINUED)

Certificates of Participation, Bonds, Notes, and Loans Payable

General obligation bonds are not secured by collateral. Revenue for retirement of such bonds is provided from ad valorem taxes on property within the jurisdiction of the governmental unit issuing the bonds. Not-for-profit corporation certificates of participation and revenue bonds are secured by certain facilities or annual base rental lease payments payable by various County departments for use of the facilities constructed or purchased from the bond proceeds.

On June 27, 1988, RDA agreed to reimburse CORAL for a portion of the \$169,400,000, 1985 Certificates of Participation (the 1985 Certificates). The amount to be reimbursed by the RDA is determined by multiplying the ratio of the assessed property value of the RDA over the assessed unincorporated property value of the County times the original issuance of the 1985 Certificates. At June 30, 2002, the total obligation from RDA was \$5,307,000. CORAL financed debt is used by various departments within the County to acquire equipment and by the County to finance land acquisition and construction of structures and improvements. Assets thus acquired are financed through a master lease agreement. The benefiting departments are assigned proportionate shares of debt that represents their usage and are billed through a master lease agreement. Proprietary funds recognize their portion of assigned debt in the individual funds. Departments who are part of a governmental fund maintain their portion of debt in the government-wide statement of net assets.

RDA approved the issuance of Bond Anticipation Notes (BAN) in an amount not to exceed \$6,500,000 to the Treasurer and Tax Collector of the County, for the financing of a Sports Park. The note has been issued as a single note upon which advances are made by the Treasurer upon receipt of a disbursement request from the RDA. Interest on the note shall accrue upon each such advance from the date thereof at 50 basis points above the rate for the Treasurer's Pooled Investment Fund and shall include a three-year maturity from the date of the advance. RDA drew down \$410,000 in 1999 and an additional \$6,090,000 during the fiscal year ended June 30, 2000 for a total balance outstanding of \$6,500,000. During the current fiscal year, RDA made a principal payment of \$3,803,000 leaving an outstanding balance of \$1,321,000 as June 30, 2002.

During the year ended June 30, 2002, the County incurred interest costs of \$57,348,000.

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 14 – LONG-TERM OBLIGATIONS (CONTINUED)

Certificates of Participation, Bonds, Notes, and Loans Payable (Continued)

A summary of long-term debt obligations follows (in thousands):

Governmental Activities

<u>Type of indebtedness (purpose)</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at June 30, 2002</u>
<u>Certificates of Participation:</u>					
<u>CORAL</u>					
1985 Certificate: Serial Certificate	12/01/02 – 12/01/15	Variable	\$3,500 - \$15,100	\$169,400	\$112,200
<u>CORAL</u>					
1993 Master Refunding: Serial Certificate	11/01/02 – 11/01/06	4.75% - 5.75%	\$2,655 - \$2,785	27,390	7,450
Term Certificate	11/01/07 – 11/01/18	5.75%	\$305 - \$880	6,250	6,250
1993 Master Refunding				33,640	13,700
<u>CORAL</u>					
1997 Historic Courthouse: Serial Certificate	11/01/02 – 11/01/10	4.40% - 5.50%	\$180 - \$555	3,750	3,305
Serial Capital Appreciation Certificate (net of future capital appreciation of \$1,251)	11/01/11 – 11/01/14	6.00% - 6.10%	\$247 - \$261	1,015	1,015
Term Certificate	11/01/15 – 11/01/27	5.75% - 5.88%	\$735 - \$2,015	17,070	17,070
1997 Historic Courthouse				21,835	21,390
<u>CORAL</u>					
1997 Family Law: Serial Certificate	11/01/02 – 11/01/11	4.30% - 5.75%	\$215 - \$330	3,465	2,680
Term Certificate	11/01/12 – 11/01/27	5.70%	\$345 - \$800	8,700	8,700
1997 Family Law				12,165	11,380
<u>CORAL</u>					
1997 Lease Refunding: Serial Certificate	11/01/02 – 11/01/12	4.25% - 5.00%	\$1,011 - \$1,955	29,481	16,646
Term Certificate	11/01/13 – 11/01/17	5.125%	\$1,310 - \$1,595	7,250	7,250
Term Certificate	11/01/18 – 11/01/21	5.125%	\$1,680 - \$1,955	7,260	7,260
1997 Lease Refunding				43,991	31,156
<u>CORAL</u>					
1998 Larson Justice Center: Serial Certificate	12/01/02 – 12/01/12	3.70% - 4.75%	\$1,015 - \$1,550	18,185	13,845
Term Certificate	12/01/13 – 12/01/18	5.15%	\$1,625 - \$2,075	11,055	11,055
Term Certificate	12/01/19 – 12/01/21	5.17%	\$2,175 - \$2,400	6,860	6,860
1998 Larson Justice Center				36,100	31,760

The ending balance of the 1997A Historic Courthouse (\$21,390,000) reflects a reduction of \$363,000, which represents an amount reclassified to accreted interest payable.

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 14 – LONG-TERM OBLIGATIONS (CONTINUED)

Certificates of Participation, Bonds, Notes, and Loans Payable (Continued)

Governmental Activities (Continued)

Type of indebtedness (purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2002
<i>Certificates of Participation:</i>					
<u>CORAL</u>					
2000 Southwest Justice Center:					
Term Certificate	11/01/04 – 11/01/13	4.88% - 5.40%	\$1,445 - \$2,240	\$ 17,945	\$ 17,945
Term Certificate	11/01/14 – 11/01/32	4.84%	\$2,400 - \$6,200	76,300	76,300
2000 Southwest Justice Center				<u>94,245</u>	<u>94,245</u>
<u>CORAL</u>					
2001 CAC Annex:					
Serial Certificate	11/01/03 – 11/01/26	5.00% - 5.40%	\$610 - \$1,880	27,120	27,120
Term Certificate	11/01/30	5.13%	\$8,540	8,540	8,540
Term Certificate	11/01/31	5.75%	\$2,415	2,415	2,415
2001 CAC Annex				<u>38,075</u>	<u>38,075</u>
<u>Desert Facilities Corporation</u>					
Monterey Avenue Project					
Term Certificate	11/01/02 – 11/01/20	9.00%	\$200 - \$800	8,800	7,800
<u>Court Financing Corporation</u>					
Bankruptcy Courthouse Acquisition Project					
Term Certificate	11/01/02 – 11/01/27	7.50%	\$230 - \$1,420	18,000	17,230
<u>District Court Financing Corporation</u>					
United States District Court Project					
Serial Capital Appreciation Certificate (net of future capital appreciation of \$4,488)	12/15/15 – 06/15/20	7.59%	\$640 - \$844	2,165	2,165
Total Certificates of Participation				<u>478,416</u>	<u>381,101</u>
<i>Bonds Payable:</i>					
<u>CORAL (Sheriff Department)</u>					
1997 B & C (Hospital):					
Term Bonds (Series C)	06/01/19	7.94%	\$1,733	1,733	1,733
<u>RDA</u>					
2001 Tax Allocation Bonds	10/01/05 – 10/01/35	3.55% - 5.25%	\$830 - \$6,680	90,025	90,025
Total Bonds Payable				<u>91,758</u>	<u>91,758</u>

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 14 – LONG-TERM OBLIGATIONS (CONTINUED)

Certificates of Participation, Bonds, Notes, and Loans Payable (Continued)

Governmental Activities (Continued)

<u>Type of indebtedness (purpose)</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at June 30, 2002</u>
<i>Notes Payable:</i>					
<u>Flood Control</u>					
1992 Zone 2 Negotiable Promissory Notes	09/01/02	5.80%	\$590	\$ 4,750	\$ 590
<u>Flood Control</u>					
1995 Zone 6 Negotiable Promissory Notes	09/01/02 – 09/01/05	4.75% - 5.05%	\$ 285 - \$ 325	2,675	1,215
<u>RDA</u>					
Bond Anticipation Notes	01/20/03	5.50%	\$1,321	6,500	1,321
Total Notes Payable				<u>13,925</u>	<u>3,126</u>
<i>Loans Payable:</i>					
<u>RDA</u>					
1998 Loans Payable	10/01/02 – 10/01/33	4.20% - 5.63%	\$855 - \$4,240	68,296	66,525
<u>RDA</u>					
2000 Loans Payable	01/01/03 – 01/01/15	9.90%	\$42 - \$158	1,329	1,329
Total Loans Payable				<u>69,625</u>	<u>67,854</u>
Total Governmental Activities				<u>\$ 653,724</u>	<u>\$ 543,839</u>

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 14 – LONG-TERM OBLIGATIONS (CONTINUED)

Certificates of Participation, Bonds, Notes, and Loans Payable (Continued)

Business-type Activities

Type of indebtedness (purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2002
<i>Certificates of Participation:</i>					
<u>Waste Management Department</u>					
1997 Lease Refunding:					
Serial Certificate	11/01/02	4.25% - 5.00%	\$200	\$ 2,325	\$ 200
<u>Regional Medical Center</u>					
1997 Lease Refunding:					
Serial Certificate	11/01/02 – 11/01/06	4.25% - 5.00%	\$684 - \$1,040	11,754	3,684
Total Certificates of Participation				14,079	3,884
<i>Bonds Payable:</i>					
<u>Regional Medical Center</u>					
1993 A & B (Hospital):					
Serial Bonds (Series A)	06/01/03 – 06/01/05	5.90% - 6.75%	\$8,010 - \$9,000	53,400	25,500
Term Bonds (Series A)	06/01/06 – 06/01/12	5.90% - 6.50%	\$9,500 - \$13,870	81,135	81,135
Term Bonds (Series B)	06/01/13 – 06/01/14	7.94%	\$7,050 - \$7,475	14,525	14,525
1993 A & B (Hospital)					
Bond Discount				(613)	(224)
Loss on Defeasance				(17,264)	(6,358)
				131,183	114,578
<u>Regional Medical Center</u>					
1997 A (Hospital):					
Serial Capital Appreciation Bonds (net of future capital appreciation of \$115,291)	06/01/03 – 06/01/13	5.70% - 6.01%	\$3,034 - \$3,445	41,170	41,170
<u>Regional Medical Center</u>					
1997 B & C (Hospital):					
Serial Bonds (Series B)	06/01/03 – 06/01/19	4.10% - 5.50%	\$290 - \$255	4,785	4,015
Term Bonds (Series B)	06/01/03 – 06/01/19	5.00% - 5.70%	\$475 - \$11,475	63,935	63,935
Term Bonds (Series C)	06/01/19	7.94%	\$1,532	1,532	1,532
1997 B & C (Hospital)					
Bond Discount				(36)	(27)
Loss on Defeasance				(4,506)	(3,359)
				65,710	66,096

The ending balance of the 1997A Hospital (\$41,170,000) reflects a reduction of \$8,949,000, which represents an amount reclassified to accreted interest payable.

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 14 – LONG-TERM OBLIGATIONS (CONTINUED)

Certificates of Participation, Bonds, Notes, and Loans Payable (Continued)

Business-type Activities (Continued)

<u>Type of indebtedness (purpose)</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at June 30, 2002</u>
<i>Bonds Payable:</i>					
<u>Housing Authority</u>					
1986 Series A	11/01/02-11/01/06	7.38%	\$200 - \$335	\$ 1,960	\$ 1,160
<u>Housing Authority</u>					
1998 Series A:					
Term Bonds	12/01/02-12/01/07	6.25%	\$75 - \$90	780	505
Term Bonds	12/01/08-12/01/18	6.85%	\$100 - \$200	1,625	1,625
				<u>2,405</u>	<u>2,130</u>
<u>Housing Authority</u>					
1998 Series B:					
Serial Bonds	06/01/03-06/01/08	4.10%-4.60%	\$140 - \$175	1,485	935
Term Bonds	06/01/09-06/01/19	5.00%	\$180 - \$295	2,570	2,570
				<u>4,055</u>	<u>3,505</u>
<u>Housing Authority</u>					
1998 Series C:					
Term Bonds	06/01/03-06/01/28	6.40%	\$75 - \$360	5,085	4,815
				<u>251,568</u>	<u>233,454</u>
Total Bonds Payable					
				<u>251,568</u>	<u>233,454</u>
Total Business-type Activities				<u>\$ 265,647</u>	<u>\$ 237,338</u>

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 14 – LONG-TERM OBLIGATIONS (CONTINUED)

Certificates of Participation, Bonds, Notes, and Loans Payable (Continued)

As of June 30, 2002, annual debt service requirements of governmental activities to maturity are as follows (in thousands):

Year ending June 30:	Loans Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2003	\$ 897	\$ 3,715	\$ 2,196	\$ 109
2004	946	3,674	295	39
2005	996	3,629	310	24
2006	1,031	3,580	325	8
2007	1,082	3,529	-	-
2008-2012	6,367	16,740	-	-
2013-2017	8,295	14,853	-	-
2018-2022	9,915	12,459	-	-
2023-2027	12,985	9,395	-	-
2028-2032	17,085	5,310	-	-
2033-2037	8,255	703	-	-
Total	\$ 67,854	\$ 77,587	\$ 3,126	\$ 180

Year ending June 30:	Bonds Payable		Certificates of Participation	
	Principal	Interest	Principal	Interest
2003	\$ -	\$ 4,729	\$ 9,046	\$ 27,318
2004	-	4,764	10,705	26,489
2005	-	4,764	10,690	25,657
2006	830	4,764	11,505	24,889
2007	1,325	4,735	12,185	24,038
2008-2012	7,535	22,762	77,256	102,043
2013-2017	9,530	20,762	96,977	60,867
2018-2022	14,008	17,399	58,527	33,886
2023-2027	15,720	13,529	46,220	19,198
2028-2032	20,175	9,080	41,790	6,570
2033-2037	22,635	3,117	6,200	147
Total	\$ 91,758	\$ 110,405	\$ 381,101	\$ 351,102

As of June 30, 2002, annual debt service requirements of business-type activities to maturity are as follows (in thousands):

Year ending June 30:	Bonds Payable		Certificates of Participation	
	Principal	Interest	Principal	Interest
2003	\$ 8,790	\$ 12,001	\$ 884	\$ 361
2004	9,295	11,443	960	327
2005	9,830	10,889	1,000	289
2006	10,445	10,291	1,040	135
2007	11,190	9,629	-	-
2008-2012	65,515	36,871	-	-
2013-2017	66,029	18,019	-	-
2018-2022	45,356	2,647	-	-
2023-2027	16,612	417	-	-
2028-2032	360	23	-	-
2033-2037	-	-	-	-
Total requirements	243,422	112,230	3,884	1,112
Bond Discount	(251)	-	-	-
Loss on Defeasance	(9,717)	-	-	-
Total	\$ 233,454	\$ 112,230	\$ 3,884	\$ 1,112

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 14 – LONG-TERM OBLIGATIONS (CONTINUED)

Accreted Interest Payable

The following is a summary of the changes in accreted interest payable for the year ended June 30, 2002 (in thousands):

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002
<u>Governmental activities:</u>				
<i>Certificates of Participation:</i>				
CORAL (1997 Historic Courthouse)	\$ 284	\$ 80	\$ -	\$ 364
District Court Financing Corporation (U.S. District Court Project)	351	196		547
Total governmental-type activities	<u>\$ 635</u>	<u>\$ 276</u>	<u>\$ -</u>	<u>\$ 911</u>
<u>Business-type activities:</u>				
<i>Lease Revenue Bonds:</i>				
Regional Medical Center (1997 A Hospital)	\$ 11,976	\$ 3,203	\$ -	\$ 15,179
Total business-type activities	<u>\$ 11,976</u>	<u>\$ 3,203</u>	<u>\$ -</u>	<u>\$ 15,179</u>

The accreted interest payable balances at June 30, 2002 represent accreted interest on the 1997 Historic Courthouse, the U.S. District Court Project, and the 1997 A Hospital Serial Capital Appreciation Bonds. The original issues were \$1,015,000 for the 1997 Historic Courthouse, \$2,165,000 for the U.S. District Court Project, and \$41,170,000 for the 1997 A Hospital Serial Capital Appreciation Bonds. The total accreted value on the bonds and certificates upon maturity will be \$2,630,000 for the 1997 Historic Courthouse, \$7,200,000 for the U.S. District Court Project, and \$171,640,000 for the 1997 A Hospital Serial Capital Appreciation Bonds.

Defeasance of Debt

On November 1, 1993, the County issued \$33,640,000 of CORAL Certificates of Participation (1993 Master Refunding Project). The proceeds from the sale of the 1993 certificates were applied to the refunding and defeasance of \$32,730,000 aggregate principal of leasehold mortgage bonds, leasehold revenue bonds and certificates of participation previously issued. Accordingly, the refunded debt has been eliminated and the advance refunding certificates included in the financial statements. The amount of the refunded debt outstanding at June 30, 2002 was \$13,545,000.

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 14 – LONG-TERM OBLIGATIONS (CONTINUED)

Defeasance of Debt (Continued)

On September 30, 1997, the Riverside County Public Financing Authority issued \$69,625,000 in Revenue Bonds to concurrently loan to the Redevelopment Agency for the County of Riverside, at the same interest rate, funds to advance refund \$11,095,000 of outstanding 1991 Tax Allocation Bonds and redeem \$17,395,000 of 1990 Tax Allocation Bonds. Proceeds from this transaction were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1991 Bonds. As a result, the 1991 Bonds are considered to be defeased and the liability for those Bonds has been removed from the financial statements. The amount of the refunded debt outstanding at June 30, 2002 was \$10,745,000.

On April 21, 1998, the County issued \$36,100,000 of CORAL Certificates of Participation (1998 Larson Justice Center). The proceeds from the sale of the certificates were used to advance refund \$31,700,000 of 1994 Desert Facilities Corporation Certificates of Participation. Accordingly, the refunded certificates have been eliminated and the advance refunding certificates included in the financial statements. The amount of the refunded debt outstanding at June 30, 2002 was \$28,865,000.

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 \$122,810,000 of Mortgage Revenue Bonds has been issued and \$111,592,000 is outstanding as of June 30, 2002. 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 \$215,408,000 at June 30, 2002, 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.

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 14 – LONG-TERM OBLIGATIONS (CONTINUED)

Special Assessment Bonds (Continued)

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.

Flood Control has issued special assessment bonds, totaling \$8,315,000 as of June 30, 2002, 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 has established a reserve from bond proceeds for potential delinquencies. If a delinquency occurs in the payment of any assessment installment, Flood has the duty to transfer the amount of such delinquent installment from the Reserve Fund into the Redemption Fund assessment installment. Flood'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 \$13,470,000 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.

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 14 – LONG-TERM OBLIGATIONS (CONTINUED)

Changes in long-term liabilities

The following is a summary of long-term liabilities transactions for the year ended June 30, 2002 (in thousands):

	Balance July 1, 2001 (as restated)	Additions	Reductions	Balance June 30, 2002	Amounts Due Within One Year
<u>Governmental activities:</u>					
Debt long-term liabilities:					
Bonds payable	\$ 91,758	\$ -	\$ -	\$ 91,758	\$ -
Capital lease obligations	132,721	18,823	(27,674)	123,870	24,986
Certificates of participation	353,096	38,075	(10,070)	381,101	9,046
Loans payable	68,684	-	(830)	67,854	897
Notes payable	20,724	-	(17,598)	3,126	2,196
Total debt long-term liabilities	<u>666,983</u>	<u>56,898</u>	<u>(56,172)</u>	<u>667,709</u>	<u>37,125</u>
Other long-term liabilities:					
Accreted interest payable	635	276	-	911	-
Compensated absences	89,490	14,044	(1,341)	102,193	34,214
Estimated claims liability	71,876	30,478	(24,744)	77,610	14,391
Total other long-term liabilities	<u>162,001</u>	<u>44,798</u>	<u>(26,085)</u>	<u>180,714</u>	<u>48,605</u>
Total governmental activities – long-term liabilities	<u>\$ 828,984</u>	<u>\$ 101,696</u>	<u>\$ (82,257)</u>	<u>\$ 848,423</u>	<u>\$ 85,730</u>
<u>Business-type activities:</u>					
Debt long-term liabilities:					
Bonds payable, net of unamortized discount and losses on bond defeasance*	\$ 240,458	\$ -	\$ (7,004)	\$ 233,454	\$ 8,790
Capital lease obligations	1,647	6,330	(2,287)	5,690	1,727
Certificates of participation	5,219	-	(1,335)	3,884	884
Notes payable	4,709	-	(4,709)	-	-
Total debt long-term liabilities	<u>252,033</u>	<u>6,330</u>	<u>(15,335)</u>	<u>243,028</u>	<u>11,401</u>
Other long-term liabilities:					
Accreted interest payable	11,976	3,203	-	15,179	-
Accrued closure and post-closure care costs	53,115	2,569	(13,440)	42,244	3,350
Compensated absences	10,415	922	(100)	11,237	916
Accrued remediation costs	24,302	285	(814)	23,773	1,335
Total other long-term liabilities	<u>99,808</u>	<u>6,979</u>	<u>(14,354)</u>	<u>92,433</u>	<u>5,601</u>
Total business-type activities – long-term liabilities	<u>\$ 351,841</u>	<u>\$ 13,309</u>	<u>\$ (29,689)</u>	<u>\$ 335,461</u>	<u>\$ 17,002</u>

*The reduction in bonds payable amount of \$7,004,000 includes amortized discount of \$37,000 and losses on bond defeasance of \$1,249,000 during FY 2001-02.

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 15 – FUND BALANCES

Fund balances, which are not available for appropriation or are not considered “expendable available financial resources”, are reserved. Unreserved fund balances that have been earmarked by the Board for specified purpose are considered designated. Such reserved and designated fund balances at June 30, 2002 are as follows (in thousands):

Reserved:	General Fund	Flood Control	Nonmajor Governmental Funds	Total Governmental Funds
Encumbrances	\$ 1,872	\$ 2,716	\$ 15,789	\$ 20,377
Imprest cash	304	1	175	480
Inventories	1,018	-	812	1,830
Notes receivable	-	-	8,054	8,054
Advances	2,955	-	-	2,955
Restricted program money	67,753	-	99,213	166,966
Construction	-	-	143	143
Receivables	-	-	3,389	3,389
General	350	-	56	406
Land held for resale	-	-	9,742	9,742
Debt service	-	-	87,826	87,826
Total reserved fund balances	<u>74,252</u>	<u>2,717</u>	<u>225,199</u>	<u>302,168</u>
Designated:				
OASIS Project	2,266	-	-	2,266
Strategic Planning	24,109	-	-	24,109
Probation	2,091	-	-	2,091
Tobacco Settlement	19,119	-	-	19,119
Restricted Program Money	9,853	-	-	9,853
Capital projects and programs	27,170	-	63,664	90,834
Total designated fund balances	<u>84,608</u>	<u>-</u>	<u>63,664</u>	<u>148,272</u>
Total unreserved-undesignated fund balances	59,124	109,640	59,162	227,926
Total fund balances	<u>\$ 217,984</u>	<u>\$ 112,357</u>	<u>\$ 348,025</u>	<u>\$ 678,366</u>

See Note 1 for information regarding the reserves for encumbrances and inventories. The general reserve was established under the provisions of Government Code Section 29086 for "dry period" financing, which is that period before the property tax apportionment is received by a fund. The County also issues Tax and Revenue Anticipation Notes to finance the General Fund's "dry period."

On the Statement of Net Assets there are restricted cash and investments associated with reserved and unreserved fund balances of special revenue, debt service, and capital project funds that are contained in the cash and investments asset account. (see pages 25, 102-103, 114-115, and 122-123)

NOTE 16 – 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, which have occurred. Estimated liability accruals include those incidents that are reported as well as an amount for those incidents that occurred but are unreported (i.e., IBNRs) 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.

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 16 – RISK MANAGEMENT (CONTINUED)

The County supplements its self-insurance for general liability, medical malpractice and workers' compensation with catastrophic excess insurance coverages. General liability utilizes a policy providing coverage on a per occurrence basis. Limits under the policy are \$10,000,000, subject to a self-insured retention (SIR) of \$1,000,000 for each claim. The medical malpractice utilizes an excess policy providing coverage on a per occurrence basis. Limits under the policy is \$10,000,000 subject to a self-insured retention of \$1,100,000. The general liability policy provides an additional \$10,000,000 in limits for medical malpractice excess the medical malpractice programs policy limits. The maximum limits under the excess workers' compensation, Section A, are statutory (unlimited) and Section B, employer liability is \$5,000,000 per claim subject to a \$500,000 SIR for each accident for employee injury and for disease. The County does occasionally structure settlements when feasible and agreeable to both parties. The amount of settlements has not exceeded insurance coverage for each of the past three fiscal years.

The County's property insurance program is insured for All Risk subject to a \$50,000,000 deductible and Flood subject to a 2% deductible; Tower 1 has \$300,000,000 in limits, Tower IV (RCRMC) has \$290,000,000 in limits, Tower V (jails) has \$440,000,000 in limits. Earthquake (scheduled locations = \$1 million in value) for each Tower is \$75,000,000 in limits, subject to a 5% of replacement value deductible. Boiler and machinery provides up to \$100,000,000 in limits, with various deductibles. Should a catastrophic event occur and losses exceed the limits, the County would be responsible. The limits in all Towers are shared with other counties on a per event basis.

The activities related to such programs are accounted for in Internal Service Funds. Accordingly, estimated liabilities for claims, including loss adjustment expenses, filed or to be filed for incidents that have occurred through June 30, 2002 are reported in these funds. Where certain funds have an accumulated deficit or insufficient reserves, the County developed a method to provide funding to reduce the deficit and increase the reserves. If the funding is above the Board of Supervisors approved 70% confidence level, a one-time holiday on department charges is granted. Revenues of these Internal Service Funds are primarily provided by other County funds and are intended to cover self-insured claim payments, insurance premiums, and operating expenses; they do not however, cover catastrophic events and other uninsured liabilities. Cash available in the Risk Management Internal Service Funds at June 30, 2002 plus revenues to be collected during fiscal year 2002-03 are expected to be sufficient to cover all fiscal year 2002-03 payments. The carrying amount of unpaid claim liabilities is \$77,610,000. The liabilities are discounted at 6%.

Changes in the balances of claims liabilities during the past two fiscal years for all self-insurance funds combined are as follows (in thousands):

	June 30, 2001	June 30, 2002
Unpaid claims, beginning of year	\$ 61,783	\$ 71,876
Increase (decrease) in provision for insured events of prior years	14,010	(40)
Incurred claims for current year	26,185	43,009
Claim payments	(30,102)	(37,235)
Unpaid claims, end of year	\$ 71,876	\$ 77,610

Unpaid claims, end of year for June 30, 2001 has been reclassified to include a \$592,000 adjustment for the Unemployment Insurance fund. This was not part of the Actuarial review.

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 17 – MEDI-CAL AND MEDICARE PROGRAMS

The Regional Medical Center provides services to patients covered by various reimbursement programs. The principal programs are the Medicare, the State of California Medi-Cal, and the County Medically Indigent Services Program (MISP) and Indigent Adult (IA) programs. Net patient service revenue is recorded at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including a provision for doubtful accounts and estimated retroactive adjustments under reimbursement agreements with federal and state government programs and other third-party payors. 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 contractually agreed-upon per discharge rate and outpatient services are reimbursed under a schedule of maximum allowable reimbursement provided by the California Department of Health Services. Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient nonacute services, certain outpatient services, and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. 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 service revenue. In 2002 such differences amounted to a \$226,000 increase to net patient service revenue. The Regional Medical Center's Medicare cost reports have been audited by the fiscal intermediary through June 30, 1999.

During 1991, legislation was enacted by the State of California to provide supplemental Medi-Cal payments to hospitals that serve a disproportionately high percentage of Medi-Cal and other low-income patients. The Regional Medical Center has recorded net patient service revenue of approximately \$24,874,000 from disproportionate Medi-Cal reimbursement under this program for the year ended June 30, 2002.

The continuation of government reimbursement programs is contingent upon Federal, State and County government policies.

NOTE 18 – JOINTLY GOVERNED ORGANIZATIONS

Under Title III of the Government Code, the County has participated in jointly governed organizations with various entities for various purposes. The boards of directors are composed of one representative of each member organization (with one exception). 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. Therefore, none of the following jointly governed organizations are included as component units, either blended or discretely, in these financial statements.

The jointly governed organizations in which the County participated at June 30, 2002 are as 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.

Coachella Valley Association of Governments was formed in November 1973 with the cities of Coachella, Desert Hot Springs, Indian Wells, Indio, Palm Springs and Rancho Mirage. 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.

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 18 – JOINTLY GOVERNED ORGANIZATIONS (CONTINUED)

Riverside County Habitat Conservation (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 and Orange 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 and 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.

NOTE 19 – RETIREMENT PLAN

Plan Description

The County, Flood Control, Park and Waste contribute to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' Retirement Law. The County selects optional benefit provisions from the benefit menu by contract with PERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. A separate report for the various County plans within CalPERS is not available. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office - 400 P Street, Sacramento, CA 95814.

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 19 – RETIREMENT PLAN (CONTINUED)

Funding Policy

Active plan members in the CalPERS are required to contribute 7% (9% for safety employees) of their annual covered salary. The County makes the contribution required of County employees hired prior to January 9, 1992 on their behalf and for their account. Miscellaneous member (non-prosecution unit) employees hired after the above date make their own contributions for the first five years. Miscellaneous prosecution unit member employees hired on or after September 3, 1992 make their own contributions for the first year. With some exceptions, safety member employees hired after June 25, 1992 make their own contributions for the first three years. For certain bargaining units, the County makes the contribution required of the employees on their behalf, regardless of hire date. The County, Flood, Parks and Waste are required to contribute the actuarially determined remaining amounts necessary to fund the benefit for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. For fiscal year 2001-02, the contribution rates were:

	<u>County</u>	<u>Flood</u>	<u>Parks</u>	<u>Waste</u>
Miscellaneous	0.000%	0.000%	0.000%	7.828%
Safety	11.824%	-	-	-

The contribution requirements of the plan member established by the State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost

For fiscal year 2001-02, the annual pension costs for CalPERS was equal to the employer's required and actual contributions as noted below (in thousands):

	<u>County</u>	<u>Flood</u>	<u>Parks</u>	<u>Waste</u>
Miscellaneous	\$ -	\$ -	\$ -	\$ 859
Safety	\$15,968	-	-	-

The required contribution for fiscal year 2001-02 was determined as part of the June 30, 2000 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service. Both (a) and (b) include an inflation component of 3.5%. The actuarial value of CalPERS' assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two to five year period (smoothed market value) depending on the size of investment gains and/or losses. CalPERS' unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization periods at June 30, 2000 (in years) are:

	<u>County</u>	<u>Flood</u>	<u>Parks</u>	<u>Waste</u>
Miscellaneous	20	20	20	20
Safety	20	-	-	-

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 19 – RETIREMENT PLAN (CONTINUED)

Annual Pension Cost (Continued)

Riverside County – Miscellaneous

Three-Year Trend Information
(Dollar Amounts in Thousands)

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2000	\$ -	100%	\$ -
June 30, 2001	\$ -	100%	\$ -
June 30, 2002	\$ -	100%	\$ -

Riverside County - Safety

Three-Year Trend Information
(Dollar Amounts in Thousands)

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2000	\$ -	100%	\$ -
June 30, 2001	\$ -	100%	\$ -
June 30, 2002	\$ 15,968	100%	\$ -

Flood Control and Water Conservation District

Three-Year Trend Information
(Dollar Amounts in Thousands)

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2000	\$ -	100%	\$ -
June 30, 2001	\$ -	100%	\$ -
June 30, 2002	\$ -	100%	\$ -

Regional Park and Open-Space District

Three-Year Trend Information
(Dollar Amounts in Thousands)

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2000	\$ 101	100%	\$ -
June 30, 2001	\$ 99	100%	\$ -
June 30, 2002	\$ -	100%	\$ -

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 19 – RETIREMENT PLAN (CONTINUED)

Annual Pension Cost (Continued)

Waste Management Department

Three-Year Trend Information
(Dollar Amounts in Thousands)

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2000	\$ 940	100%	\$ -
June 30, 2001	\$ 877	100%	\$ -
June 30, 2002	\$ 859	100%	\$ -

NOTE 20– DEFINED BENEFIT PENSION PLAN

County of Riverside

The County provides a Defined Benefit Pension Plan to employees who are not eligible for social security or CalPERS retirement benefits through the County. This plan is subject to IRC Section 401(a), and is self-funded and self-administered. Contributions made to the Plan are deposited with the County Treasurer, who invests the contributions. A participant is 100% vested immediately. Participants in the plan are required to contribute 3.75% of their compensation to the plan. The County contribution is 1.75%.

Annual Pension Cost

Three-Year Trend Information
(Dollar Amounts in Thousands)

Calendar Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2000	\$ 327	100%	\$ -
2001	\$1,721	100%	\$ -
2002	\$1,938	100%	\$ -

As of June 30, 2002, the Fund has a cash balance of \$4,983,000. In December 2001, it was discovered that overpayments were made in the lump sum distributions to those participants terminated from this plan in 1999 and 2000. Of the \$723,000 that must be recovered for the Plan Trust, \$192,348 has been returned. Payments over time have been arranged for \$372,735 and claims for a total of \$120,000 are pending action by the Court. Additional Court filings are being prepared for the remaining funds.

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 20 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Housing Authority

On May 22, 2001 the County Board of Supervisors approved and authorized action to transition employees of Housing to County employees retroactive to May 3, 2001. These employees became subject to the provisions of the PERS retirement plan with no carry over vesting from the prior retirement plan. Employees will be 100% vested in the PERS retirement plan after 5 years of uninterrupted service.

Before Housing employees became County employees, the Authority fully funded a defined contribution pension plan on behalf of qualified employees and for their account. During the current fiscal year, Housing participated in the PERS plan through the County of Riverside and was not required and did not make any contributions to the prior plan.

The following information details plan activity during the current fiscal year (in thousands):

Total covered payroll	\$ 4,786
Total payroll subject to PERS	\$ 3,387
Employer contribution retirement and actual contribution	\$ 110

NOTE 21 – POST-RETIREMENT BENEFITS

In addition to providing retirement benefits, the County provides certain post-retirement benefits for retired employees, specifically, certain health insurance premium costs to qualifying retired employees and their eligible dependents or survivors pursuant to an agreement with PERS. Employees with a minimum of five years of service and are age 50 at retirement qualify to receive the post-retirement benefits. Currently, approximately 1,678 retirees meet the eligibility requirements and are covered. PERS is responsible for administering the benefits to the retirees.

The contributions are funded on a pay-as-you-go basis, which is allocated among the operating departments based on the proportionate number of current employees and amounted to approximately \$996,000 for the year ended June 30, 2002.

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 22 – COMMITMENTS AND CONTINGENCIES

Lawsuits and Other Claims

The County has been named as a defendant in numerous 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 County and Auditor-Controller are defendants in a Petition for Writ of Mandate and Complaint for an Accounting and Money Damages filed by 5 cities within the County, based upon previous year(s) property tax allocation. The trial court sustained the demurrers filed by defendants and dismissed the cities' complaint, without leave to amend. The plaintiffs appeal for a rehearing has been denied at the appellate court level and the Supreme Court has denied the plaintiffs petition for review, reaffirming the decision at the appellate court level.

Federal Grant Revenue

Compliance examinations for the fiscal year ended June 30, 2002 identified certain items of noncompliance with Federal grants and regulations. The total amount of expenditures which may 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 audit is pending completion.

Commitments

At June 30, 2002, the County has various noncancelable construction contracts with outside contractors through Capital Projects and General Fund financing, of which approximately \$56,380,000 will be payable upon future performance under the contracts.

Waste enters into various construction and consulting contracts to facilitate its landfill operations and is in the process of installing landfill liners at Badlands, 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 approximate \$16,863,000 which will be capitalized as the costs are incurred.

County of Orange v. Assessment Appeal Board

An Orange County Superior Court ruled that an illegal assessment method was used in recapturing Proposition 13 values. Orange County is considering asking for appellate court review of the ruling. While there may eventually be some potential impact to Riverside County, it is not determinable or quantifiable at this time. On December 12, 2002, this case was granted class-action status by the Superior Court.

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 22 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

Remediation Contingencies

Waste is presently aware of groundwater contamination at 12 of its landfills, 8 of which are closed. Waste is also aware of air/gas contamination at 17 landfills, 10 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 approximately \$23,773,000. At June 30, 2002, Waste has accrued \$23,773,000 for the estimated costs related to the remediation of these landfills. Remediation expense for FY 2001-02 is reported as a negative expense resulting from prior estimates, current estimates and current actual expenses, in accordance with GASB 18.

Waste has established a remediation restricted cash fund to set aside funds for future remediation costs, as they are required to be performed. Investments of \$10,248,000 are held for these purposes at June 30, 2002 and are classified as restricted assets in the basic financial statements.

Metropolitan Water District of Southern California v. Superior Court et al.

On October 16, 2001, the Court of Appeal, Second District, ruled on Metropolitan Water District of Southern California v. Superior Court et al. The Court of Appeal ruled that the Metropolitan Water District was required to enroll in the Public Employee Retirement System (PERS) certain workers hired through private contract service providers. The Metropolitan Water District subsequently petitioned the California Supreme Court for review of the appellate court's decision. The Supreme Court granted the petition and the case is now pending in that court. While there may eventually be some potential to impact Riverside County, it is not determinable or quantifiable at this time.

NOTE 23 – SPECIAL ITEM - LOSS ON TRANSFER OF EL SOBRANTE LANDFILL LINER

On August 28, 2001, the County of Riverside Board of Supervisors acknowledged the fulfillment of all the prerequisites required for the implementation of an operating agreement originally approved in September 1998 between Waste Management Inc. (the Corporation) and the Department. To optimize the agreement for all parties the start date for operations under the expanded agreement was established as July 1, 2001, and the transfer of assets and liabilities required by the agreement was made during the year.

Transfer of net capital assets (landfill liner)	\$ (10,781)
Transfer of investments (restricted investments)	(12,353)
Transfer of restricted cash and cash equivalents	(1,572)
Transfer of closure and postclosure liability accruals	13,440
Purchased services (El Sobrante credit)	10,453
Special Item - Loss on transfer of El Sobrante landfill liner	<u>\$ (813)</u>

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2002

NOTE 24 – SUBSEQUENT EVENTS

Tax and Revenue Anticipation Notes

On July 1, 2002, the County as a participant in the California Statewide Communities Development Authority Pool issued \$175,000,000 of Tax and Revenue Anticipation Notes, due June 30, 2003. The Notes will yield interest at the rate of 3.00% per annum from their date of issuance and delivery until the Notes are paid in full. The notes, in accordance with California law, are general obligations of the County, but are payable only out of the taxes, income, revenues, cash receipts, and other monies of the County attributable to fiscal year 2002-03 and legally available for payment thereof. Proceeds from the notes will be used for fiscal year 2002-03 General Fund expenditures, including current expenditures, capital expenditures, and the discharge of other obligations or indebtedness of the County.

Teeter Notes

In October 2002, the County issued \$34,775,000 in Tax Exempt Commercial Paper Notes.

City of Temecula

As a result of a co-operative effort between the County and City of Temecula to clarify certain terms and conditions of the original 1991 “Agreement”, which transferred the County Redevelopment Plan to the City of Temecula upon incorporation of the City, the City will pay \$6,000,000 to the County from bond proceeds resulting from a refunding of a current issue. The County can only use these funds for capital expenditures but will be able to deposit the funds in a capital expenditure reserve until projects are identified. The City agrees to pay the County within 90 days after the Agency issues tax allocation bonds in an amount sufficient to net the sum of \$6,000,000 after the payment of incidental expenses, but in no event later than one year after the execution of the Amended and Restated Agreement, dated January 9, 2002.

State of California Fiscal Outlook

The California Legislative Analyst’s Office (LAO) issued its “California’s Fiscal Outlook, LAO Projections, 2002-03 Through 2007-08” report. The nonpartisan Legislative Analyst projected that California will be facing a \$35 billion General Fund deficit by the end of FY 2002-03, absent any corrective actions by the State’s Legislators.

The report blamed the looming shortfall in large part on the gap between State spending and revenue collections caused by the stock market decline and the corresponding reduction in State tax receipts. The LAO projects that general fund revenue collections in FY 2002-03 will fall \$4,100,000,000 short of projections and \$6,500,000,000 short of projections in FY 2003-04, largely due to projected declines in personal income tax receipts. It is currently not known to what extent the State’s projected deficit will ultimately impact the County.

The Effects of the Economy on CalPERS

Based on the negative performance of the CalPERS fund, CalPERS is estimating that the County’s Miscellaneous and Safety contribution rates for FY 2003-04 will increase to 9.786% and 17.014%, respectively. FY 2004-05 is projected at 15.3% (Miscellaneous) and 25.1% (Safety). They will be accounted for in 2003-04 and future budget years.