

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2006

NOTE 13 – 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 \$2.1 billion.

Capital Leases

Capital leases for governmental funds are recorded both as capital expenditures and as 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.

See note 9 (Capital Assets) for Assets under Capital Leases for related disclosure information by major asset class.

The following is a schedule by year of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of June 30, 2006 (in thousands):

<u>Year Ending June 30, 2006</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2007	\$ 20,824	\$ 3,452
2008	15,493	3,258
2009	11,622	2,910
2010	9,276	2,606
2011	7,061	2,057
2012-2016	19,740	2,682
2017-2021	7,424	-
2022-2026	3,441	-
2027-2031	7,784	-
Total minimum payments	<u>102,665</u>	<u>16,965</u>
Less amount representing interest	<u>(18,836)</u>	<u>(1,972)</u>
Present value of net minimum lease payments	<u>\$ 83,829</u>	<u>\$ 14,993</u>

The statement of net assets includes the Palm Desert Financing Authority capital lease of \$ 6.2 million for the construction of the Blythe County Administrative Center.

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, 2006</u>
<i>Certificates of Participation:</i>					
<u>CORAL</u>					
1985 Certificate:	12/01/06 –12/01/15	Variable	\$4,400 -\$15,100	\$ 169,400	\$ 94,900
Serial Certificates				<u>169,400</u>	<u>94,900</u>

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2006

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

Type of indebtedness (purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2006
<i>Certificates of Participation (Continued):</i>					
<u>CORAL</u>					
2005A - Capital Improvement & Family Law Court Refunding					
Serial Certificates	11/01/06 – 11/01/25	3.0% - 5.00%	\$275 - \$2,160	\$ 28,495	\$ 28,220
Term Certificates	11/01/26 – 11/01/33	5.00%	\$9,905	9,905	9,905
Term Certificates	11/01/34 – 11/01/36	5.00%	\$13,265	13,265	13,265
2005-A Family Law				<u>51,665</u>	<u>51,390</u>
<u>CORAL</u>					
2005B - Historic Courthouse Refunding project					
Serial Certificates	11/01/06 – 11/01/25	3.0% - 5.00%	\$325 - \$1,740	18,835	18,510
Term Certificates	11/01/26 – 11/01/27	5.00%	\$3,775	3,775	3,775
2005-B Historic Courthouse				<u>22,610</u>	<u>22,285</u>
<u>CORAL</u>					
1997 Lease Refunding:					
Serial Certificate	11/01/06 – 11/01/12	4.25% - 5.00%	\$2,385 - \$1,830	43,560	11,155
Term Certificate	11/01/13 – 11/01/17	5.13%	\$1,310 - \$1,595	7,250	7,250
Term Certificate	11/01/18 – 11/01/21	5.13%	\$1,680 - \$1,955	7,260	7,260
1997 Lease Refunding				<u>58,070</u>	<u>25,665</u>
<u>CORAL</u>					
1998 Larson Justice Center:					
Serial Certificate	12/01/06 – 12/01/12	3.70% - 4.75%	\$1,065 - \$1,550	18,185	9,520
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				<u>36,100</u>	<u>27,435</u>
<u>CORAL</u>					
2001 CAC Annex:					
Serial Certificate	11/01/06 – 11/01/26	5.00% - 5.13%	\$616 - \$1,880	27,120	25,200
Term Certificate	11/01/27 – 11/01/30	5.13%	\$8,540	8,540	8,540
Term Certificate	11/1/31	5.75%	\$2,415	2,415	2,415
2001 CAC Annex				<u>38,075</u>	<u>36,155</u>
<u>CORAL</u>					
2006 Series A - Cap Imp Project					
Serial Certificate	11/01/08 – 11/01/26	3.75% - 5.13%	\$585 - \$1,235	16,425	16,425
Term Certificate	11/01/27 – 11/01/31	4.75%	\$1,295 - \$1,560	7,130	7,130
Term Certificate	11/01/32 – 11/01/35	5.00%	\$1,635 - \$1,895	7,050	7,050
Term Certificate	11/01/36 – 11/01/37	4.63%	\$1,990 - \$2,080	4,070	4,070
2006 A- Cap Improv Proj				<u>\$ 34,675</u>	<u>\$ 34,675</u>

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2006

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

Type of indebtedness (purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2006
<i>Certificates of Participation (Continued):</i>					
<u>CORAL</u>					
<i>2003A -Historic Court Project</i>					
Serial Certificate	11/01/06 – 11/01/18	3.00% - 4.63%	\$260 - \$400	\$ 4,125	\$ 4,125
Term Certificate	11/01/19 – 11/01/23	5.00%	\$420 - \$510	2,320	2,320
Term Certificate	11/01/24 – 11/01/28	5.00%	\$535 - \$650	2,955	2,955
Term Certificate	11/01/29 – 11/01/33	5.13%	\$720 - \$835	3,790	3,790
2003A-Historic Court Project				<u>13,190</u>	<u>13,190</u>
<u>CORAL</u>					
<i>2003B –Capital Facilities Refunding</i>					
Serial Certificate	11/01/06 – 11/01/11	2.00% - 4.20%	\$300 - \$900	8,685	7,060
2003B- Capital Facilities				<u>8,685</u>	<u>7,060</u>
<u>CORAL</u>					
<i>1990 Monterey Ave Project</i>					
Serial Certificate	11/01/06 – 11/01/20	9.00%	\$200 - \$800	8,800	7,000
Monterey Ave				<u>8,800</u>	<u>7,000</u>
<u>Court Financing Corporation</u>					
Bankruptcy Courthouse					
Acquisition Project	11/01/05– 11/01/27	7.50%	\$230 - \$1,420	16,120	14,195
Term Certificate				<u>16,120</u>	<u>14,195</u>
<u>District Court Financing</u>					
U.S. District Court Project					
(Net of capital appreciation of \$5,035)	12/15/15 – 06/15/20	7.59%	\$640 - \$844	2,165	2,165
Term /Series 1999	6/15/15	1.93%	Variable	17,635	11,591
Term /Series 2002	6/15/20	3.00%	Variable	925	780
Term certificate				<u>20,725</u>	<u>14,536</u>
Total Certificates of Participation				\$ 478,115	\$ 348,486
<i>Bonds Payable:</i>					
<u>CORAL</u>					
2000 Southwest Justice Center:					
Term Certificate	11/01/05 – 11/01/13	4.88% - 5.40%	\$1,445 - \$2,240	\$ 17,945	\$ 14,990
Term Certificate	11/01/05 – 11/01/32	5.20%	\$2,400 - \$6,200	76,300	76,300
Southwest Justice Center				<u>\$ 94,245</u>	<u>\$ 91,290</u>

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2006

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

Type of indebtedness (purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2006
<i>Bonds Payable(Continued):</i>					
<i>CORAL (Sheriff Department)</i>					
1997 B & C (Hospital):					
Term Bonds (Series C)	6/1/19	5.81%	\$1,733	\$ 1,733	\$ 1,733
Bonds Payable				<u>1,733</u>	<u>1,733</u>
<i>RDA</i>					
2005 Tax Alloc Revenue	10/01/06 – 10/01/37	4.50% - 5.00%	\$1,995 - \$6,490	144,075	144,075
Bonds Payable				<u>144,075</u>	<u>144,075</u>
<i>RDA</i>					
2001 Tax Allocation Bonds	10/01/05 – 10/01/35	3.55% - 5.25%	\$830 - \$6,680	90,025	89,195
Bonds Payable				<u>90,025</u>	<u>89,195</u>
<i>RDA</i>					
2004 A_Tax Alloc Housing	10/01/05 – 10/01/37	4.75% - 5.00%	\$4,700 - \$16,015	38,225	38,225
Bonds Payable				<u>38,225</u>	<u>38,225</u>
<i>RDA</i>					
2004 A-T_Tax Alloc Housing	10/01/05 – 10/01/28	2.90% - 4.87%	\$1,800 - \$7,955	37,000	35,200
Bonds Payable				<u>37,000</u>	<u>35,200</u>
<i>RDA</i>					
2005 Tax Allocation Housing/ Refunding	10/01/05 – 10/01/33	3.00% - 4.50%	\$365 - \$4,120	18,245	17,880
Bonds Payable				<u>18,245</u>	<u>17,880</u>
<i>Taxable Pension Obligation</i>					
Pension Oblig.Bonds (Series 2005-A) PERS contract	8/15/05 – 8/15/35	4.91%	\$3,155 - \$5,530	400,000	396,845
Bonds Payable				<u>400,000</u>	<u>396,845</u>
Total Bonds Payable				\$ 823,548	\$ 814,443
<i>Loans Payable:</i>					
<i>RDA</i>					
1998 Loans Payable	10/01/05 – 10/01/33	3.50% - 7.00%	\$695 - \$11,135	\$ 68,296	\$ 11,595
2000 Loans Payable	01/01/05 – 01/01/15	3.50% - 7.00%	\$56 - \$956	1,329	1,708
2004 Loans Payable (TAB)	10/01/05 – 01/01/37	2.50% - 5.00%	\$2,705 - \$40,300	102,785	100,080
Total Loans Payable				172,410	113,383
Total Governmental Activities				\$ 1,474,073	\$ 1,276,312

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2006

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

Business-Type 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, 2006</u>
<i>Bonds Payable:</i>					
<u>Regional Medical Center</u>					
1993 A & B (Hospital):					
Term Bonds (Series A)	06/01/06 – 06/01/12	5.90% - 6.50%	\$7,050 - \$13,870	\$ 81,135	\$ 39,125
Term Bonds (Series B)	06/01/13 – 06/01/14	5.41%	\$7,050 - \$7,475	14,525	14,525
Bond Discount				-	(26)
Loss on Defeasance (net)				-	(2,931)
1993 A & B – bonds				<u>95,660</u>	<u>50,693</u>
<u>Regional Medical Center</u>					
1997A (Hospital): Serial Capital					
Capital Apprec Bonds (net of future cap apprec of 104,487)	06/01/13 – 06/01/26	5.70% - 6.01%	\$3,034 - \$3,445	41,170	41,170
1997A RCRMC bonds				<u>41,170</u>	<u>41,170</u>
<u>Regional Medical Center</u>					
Serial Bonds (Series B)	06/01/05 – 06/01/19	4.10% - 5.50%	\$315 - \$455	4,785	2,775
Term Bonds (Series B)	06/01/05 – 06/01/19	5.00% - 5.70%	\$475 - \$11,475	63,935	63,935
Term Bonds (Series C)	6/1/2019	5.81%	\$3,265	3,265	3,265
Less: Sheriff's Part (Series C)				(1,733)	(1,733)
Bond Discount				-	(21)
Loss on Defeasance (net)				-	(2,439)
1997 B & C (Hospital)				<u>70,252</u>	<u>65,782</u>
<u>Regional Medical Center</u>					
2003 A & B (Hospital):					
Term Bonds (Series A)	06/01/05 – 06/01/09	2.50% - 5.00%	\$ 9,415 - \$11,030	56,140	27,780
Term Bonds (Series B)	06/01/05 – 06/01/07	3.35%	\$4,040	4,040	4,040
Bond Premium				-	894
Loss on Defeasance (net)				-	(199)
2003 A & B – bonds				<u>60,180</u>	<u>32,515</u>
<u>Housing Authority</u>					
1998 Series A:					
Term Bonds	12/01/05-12/01/07	6.25%	\$60 - \$90	780	270
Term Bonds	12/01/08-12/01/18	6.85%	\$100 - \$200	1,625	1,545
Deferred Charges					(833)
Term Bonds				<u>2,405</u>	<u>982</u>
Total Bonds Payable				<u>269,667</u>	<u>191,142</u>
Total Business-type Activities				<u>\$ 269,667</u>	<u>\$ 191,142</u>

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2006

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

As of June 30, 2006, annual debt service requirements of governmental activities to maturity are as follows (in thousands):

Governmental Year ending June 30, 2006:	Loans Payable		Certificates of Participation	
	Principal	Interest	Principal	Interest
2007	\$ 1,351	\$ 5,647	\$ 12,695	\$ 23,386
2008	1,393	5,587	14,057	22,613
2009	1,449	5,518	15,900	21,442
2010	1,522	5,445	17,122	20,145
2011	1,600	5,387	17,849	18,716
2012-2016	9,136	25,653	112,218	66,768
2017-2021	11,607	22,825	56,416	33,830
2022-2026	14,035	19,405	37,905	20,984
2027-2031	17,950	15,362	34,335	11,717
2032-2036	25,320	9,912	23,430	4,336
2037-2041	28,020	719	6,559	253
Total	\$ 113,383	\$ 121,460	\$ 348,486	\$ 244,190

Governmental Year ending June 30, 2006:	Bonds Payable	
	Principal	Interest
2007	\$ 10,165	\$ 39,475
2008	11,680	38,741
2009	13,040	38,215
2010	14,385	33,354
2011	29,540	64,261
2012-2016	121,730	176,276
2017-2021	172,518	137,619
2022-2026	202,775	88,454
2027-2031	126,545	48,299
2032-2036	99,395	15,006
2037-2041	12,670	958
Total	\$ 814,443	\$ 680,659

As of June 30, 2006, annual debt service requirements of business-type activities to maturity are as follows (in thousands):

Business-type Year ending June 30, 2006:	Bonds Payable	
	Principal	Interest
2007	\$ 10,620	\$ 12,572
2008	11,060	12,397
2009	11,515	12,222
2010	12,735	11,982
2011	13,555	11,469
2012-2016	63,669	49,088
2017-2021	54,065	35,058
2022-2026	19,478	15,190
Total Requirements	196,697	159,978
Bond Premium, net	894	-
Bond Discount	(47)	-
Deferred	(833)	-
Loss on Defeasance (net)	(5,569)	-
Total	\$ 191,142	\$ 159,978

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2006

NOTE 13 – 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, 2006 (in thousands):

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006
<u>Governmental Activities:</u>				
<i>Certificates of Participation:</i>				
Court Financing (US District Court Project)	\$ 1,231	\$ 264	\$ -	\$ 1,495
Total governmental-type activities	\$ 1,231	\$ 264	\$ -	\$ 1,495
<u>Business-type Activities:</u>				
<i>Lease Revenue Bonds:</i>				
Regional Medical Center (1997A Hosp)	\$ 25,983	\$ 4,048	\$ -	\$ 30,031
Total business-type activities	\$ 25,983	\$ 4,048	\$ -	\$ 30,031

The accreted interest payable balances at June 30, 2006 represent accreted interest on the U.S. District Court Project and the 1997 A Hospital Serial Capital Appreciation Bonds. The original issues were \$2.2 million for the U.S. District Court Project and \$41.2 million for the 1997 A Hospital Serial Capital Appreciation Bonds. The total accreted value on the bonds and certificates upon maturity will be \$7.2 million for the U.S. District Court Project, and \$171.6 million for the 1997 A Hospital Serial Capital Appreciation Bonds.

The increases of \$264 thousand and \$4 million, respectively, represent current year's accretion. Accumulation accretion at June 30, 2006 is \$30 million. The U.S. District Court Financing accounts for the remainder of \$1.5 million. The un-accreted balances at June 30, 2006 are \$145.7 million for the 1997-A hospital (RCRMC) project and \$5 million for the U.S. District Court.

Bonds, Certificates of Participation/ Refunding

During fiscal-year 2005-2006, CORAL issued \$34.7 million 2006-Certificates of Participation, Series A (2006 A Capital Improvements Projects). The COPs carried an interest rate of 4.0%. The 2006 Series A were issued to provide funding for certain improvements and construction of capital facilities of the County and to fund capitalized interest costs, fund a reserve fund and pay costs of issuance.

Interest on the 2006 Series A Certificates of Participation (COPs) is payable initially November 1, 2008, and semi-annually thereafter on November 1 and May 1 of each year until November 1, 2037. CORAL's COPs will be repaid through lease agreements with the County that are structured to meet principal and interest requirements when due.

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2006

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

In addition, during the current fiscal year, the County of Riverside Board of Supervisors approved the dissolution of the Desert Facilities Corporation, and authorized CORAL to assume the outstanding obligations of the Corporation, including \$7 million of the outstanding Certificates and \$125.1 thousand of restricted cash and cash equivalents. The Corporation was established to finance the construction of a courthouse project for use by the County. In 1990, the Corporation issued \$8.8 million of Certificates of Participation to finance the Monterey Avenue Improvement Project. The 1990 Monterey Avenue Project was issued as a series of seven-day variable rate Certificates of Participation. The payments on the bonds are secured by base-rental lease payments from the County of Riverside. The bonds are not the obligation of the County. The base-rental payments are solely available to the extent that the County prepares an annual appropriation for such amounts. The County has covenanted that annual appropriations will be made.

During fiscal year ended June 30, 2006, the Redevelopment Agency issued the 2006 Tax Allocation Revenue Bonds for financing projects in the Agency's five redevelopment project areas. The Redevelopment Agency issued five separate series of bonds and re-sold those bonds to the Authority, to be pooled and sold pursuant to the Marks Roos Act. The Bonds are limited obligations of the Riverside County Public Financing Authority.

The Agency entered into loan agreements, per the above, with the Riverside County Public Financing Authority for \$144 million to assist the Agency in purchasing bonds to refinance long-term debt that was issued in 1997, and for project improvements in the five project areas. The balance outstanding as of June 30, 2006, is \$ 144 million.

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.

Defeasance of Debt

In August 2005, the County Redevelopment Agency received \$144 million in Loans Payable from the Riverside County Public Financing Authority that provide a portion of the proceeds which were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1997 loan payable for \$33.7 million. As a result, the refunding portion of the 1997 loan payable is considered to be defeased and the liability has been removed from the government activities column of the Statement of Net Assets. The advanced refunding resulted in a deferred loss-on-refunding (difference between the reacquisition amount and the net carrying amount of the old debt) of \$674 thousand. This advanced refunding was undertaken to reduce total debt service payments over the next 28 years by \$8.4 million and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$2 million.

In April 2005, CORAL issued \$51.6 million of Certificates of Participation, 2005 Series A (Capital Improvement and Family Law Court Refunding). Eleven million of the proceeds from the sale of the certificates were used to advance refund \$10.7 million of the 1997 Family Law Court Certificates of Participation. The advance refunding resulted in a deferred loss-on-refunding (difference between the reacquisition price and the net carrying amount of the old debt) of approximately \$634 thousand. CORAL completed the advanced refunding and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately \$351 thousand. Accordingly, the refunded certificates have been eliminated and the advance refunding certificates have been included in the financial statements. The amount of the defeased debt outstanding at June 30, 2006, was \$10.5 million.

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2006

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

In April 2005, CORAL issued \$22.6 million of Certificates of Participation, 2005 Series B (Historic Courthouse Refunding). The proceeds from the sale of the certificates were used to advance refund \$21.2 million of the 1997 Historic Courthouse Certificates of Participation. The advance refunding resulted in a deferred loss-on-refunding (difference between the reacquisition price and the net carrying amount of the old debt) of approximately \$1.6 million. CORAL completed the advanced refunding and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately \$670 thousand. Accordingly, the refunded certificates have been eliminated and the advance refunding certificates have been included in the financial statements. The amount of the defeased debt outstanding at June 30, 2006, was \$19.3 million.

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 \$ 69.4 million of Mortgage Revenue Bonds has been issued and \$62.9 million is outstanding as of June 30, 2006. 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 \$205.4 million at June 30, 2006, to provide financing or improvements benefiting certain property owners. Special assessment bonds consist of Community Facilities District Bonds and Assessment District Bonds. The County, including its special districts, is not liable for the payment of principal or interest on the bonds, which are obligations solely of the benefited property owners. Certain debt service transactions relating to certain special assessment bonds are accounted for in the Agency Funds.

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

The Riverside County Flood Control and Water Conservation District (Flood Control) has issued special assessment bonds, totaling \$5.8 million as of June 30, 2006, for the construction of flood control facilities. The bonds are to be repaid through special assessment revenue and are not considered obligations of Flood Control. In accordance with bond covenants, Flood Control has established a reserve for potential delinquencies. If a delinquency occurs in the payment of any assessment installment, Flood Control has the duty to transfer the amount of such delinquent installment from the Reserve Fund into the Redemption Fund assessment installment. Flood Control's liability to advance funds for bond redemption in the event of delinquent assessment installments is limited to the reserves established.

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2006

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

State Appellate Court Financing

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

Interest Rate Swap

Objective and Terms: As a means to lower financing costs and to reduce the risks associated with the fluctuation in market interest rates, the County entered into an interest rate swap in connection with the Southwest Justice Center Series 2000 B Leasehold Revenue Bonds in the amount of \$76.3 million. The intention of the swap was to effectively change the variable interest rate on the bonds to a synthetic fixed-rate of 5.20%. The Bonds and the related swap agreement mature on November 1, 2032, and the swap's notional amount of \$76.3 million matches the \$76.3 million variable-rate bonds. The swap was effective at the same time the bonds were issued on May 24, 2000.

Starting in fiscal year 2014-15, the notional value of the swap and the principal amount of the associated debt will decline. Under the swap agreement, through June 1, 2003, the County paid Citigroup Financial Products, Inc., (Citigroup) a fixed payment rate of 5.20% and Citigroup paid the County an amount equal to the weighted average variable rate interest payable on the outstanding Revenue Bonds. After June 1, 2003, the County paid the Citigroup (Holding Company) a fixed rate of 5.2% and receives from Citigroup a variable payment (Floating Rate Option) computed on the weighted average rate paid on the Bonds during any calculation period. Conversely, the Bond variable-rate coupons have historically been similar to the Bond Market Association Municipal Swap Index (BMA).

Fair Value: Because interest rates have increased since the prior year, the swap had a negative fair value of \$(13.3 million) as of June 30, 2006. Because of the coupons on the Southwest Justice Center, Series B variable-rate bonds adjust to changing interest rates, the Bonds do not have a corresponding fair value increase. The fair value was the quoted market price from Citigroup at June 30, 2006.

Credit /Basis Risks: The swap counterparty was rated Aa1 by Moody's and AA- by Standard & Poor's as of June 30, 2006. The swap agreement specifies that if the long-term senior unsecured debt rating of Citigroup is withdrawn, suspended or falls below A- (Standard & Poor) or A3 (Moody's), a collateral agreement will be executed within 30 days or the fair value of the swaps will be fully collateralized by the counterparty.

The swap exposes the County to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the bonds. As of June 30, 2006, the County's rate was 64% of LIBOR, or 3.4140%, whereas BMA was 3.82%. The synthetic rate on the bonds at June 30, 2006 was 1.7860%.

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2006

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)
(in thousands):

<u>Fiscal Year</u> <u>Ended June 30, 2006</u>	<u>Variable Rate Bonds</u>		<u>Net Swap</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Payments</u>	
2007	\$ -	\$ 2,605	\$ 1,363	\$ 3,968
2008	-	2,605	1,363	3,968
2009	-	2,605	1,363	3,968
2010	-	2,605	1,363	3,968
2011	-	2,605	1,363	3,968
2012 - 2016	7,500	12,519	6,549	19,068
2017 - 2021	15,600	10,208	5,340	15,548
2022 - 2026	20,400	7,060	3,693	10,754
2027 - 2031	26,600	2,970	1,554	4,524
2032	6,200	-	-	-
	<u>\$ 76,300</u>	<u>\$ 45,782</u>	<u>\$ 23,950</u>	<u>\$ 69,732</u>

Swap Payment and Associated Debt: Using rates as of June 30, 2006, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rate remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Termination Risks:

The County always has the right to terminate the swaps. If the swaps are terminated, the variable rate Bonds would no longer carry synthetic fixed-interest rates. Also, if at the time of termination the swaps had negative fair values, the County would be liable to Citigroup for a payment equal to the swaps' fair values.

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2006

NOTE 13 – 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, 2006 (in thousands):

	Balance	New	Payments	Balance	Amounts Due
	July 1, 2005	Additions	/ Reclass	June 30, 2006	Within
					One Year
Governmental activities:					
Debt long-term liabilities:					
Bonds payable	\$ 678,028	\$ 144,075	\$ (7,660)	\$ 814,443	\$ 10,165
Capital lease obligations	75,845	25,023	(17,039)	83,829	13,188
Certificates of participation	325,572	34,675	(11,761)	348,486	12,695
Loans payable	150,019	-	(36,636)	113,383	1,351
Notes payable	325	-	(325)	-	-
Total debt long-term liabilities	1,229,789	203,773	(73,421)	1,360,141	37,399
Other long-term liabilities:					
Accreted interest payable	1,231	264	-	1,495	-
Compensated absences*	111,983	10,775	(572)	122,186	70,071
Estimated claims liabilities	126,743	51,127	(47,706)	130,164	37,945
Other long-term liability	1,500	-	-	1,500	-
Total other long-term liabilities	241,457	62,166	(48,278)	255,345	108,016
Total governmental activities – long-term liabilities	\$ 1,471,246	\$ 265,939	\$ (121,699)	\$ 1,615,486	\$ 145,415
Business-type activities:					
Debt long-term liabilities:					
Bonds payable, net of un-amortized discount and losses**	\$ 200,555	\$ 6,317	\$ (15,730)	\$ 191,142	\$ 10,620
Capital lease (RCRMC)	13,551	4,824	(3,382)	14,993	2,880
Total debt long-term liabilities	214,106	11,141	(19,112)	206,135	13,500
Other long-term liabilities:					
Accreted interest payable	25,983	4,048	-	30,031	-
Accrued closure and post-closure	39,430	13,910	(2,656)	50,684	4,262
Compensated absences*	13,918	1,934	(325)	15,527	8,804
Accrued remediation costs	17,562	308	(1,000)	16,870	1,218
Other long-term liability	616	6,795	(616)	6,795	-
Total other long-term liabilities	97,509	26,995	(4,597)	119,907	14,284
Total business-type activities – long-term liabilities	\$ 311,615	\$ 38,136	\$ (23,709)	\$ 326,042	\$ 27,784

* Obligations for compensated absences have been paid from the fund associated with the obligation.

** The reduction in bonds payable amount of \$15.7 million includes a bond premium of \$894 thousand, a bond discount amortization of \$47 thousand, deferred charges of \$833 thousand and losses on bond defeasance of \$5.6 million during FY 2005-06.



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COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2006

NOTE 14 – FUND BALANCES

Fund balances that 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 a specified purpose are considered designated. Such reserved and designated fund balances at June 30, 2006 are as follows (in thousands):

	Major Funds			Total
	General Fund	Public Facilities Improvements	Redevelopment Capital Projects	Major Governmental Funds
Reserved:				
Encumbrances	\$ 7,052	\$ -	\$ 63,780	\$ 70,832
Imprest cash	395	1	-	396
Inventories	1,806	-	1,021	2,827
Advances	20	-	-	20
Program operations	90,813	568	-	91,381
Construction	-	222,414	-	222,414
General	350	-	-	350
Land held for resale	-	-	23,590	23,590
Total reserve fund balance	100,436	222,983	88,391	411,810
Unreserved:				
Unreserved, designated:				
Strategic planning	88,557	-	-	88,557
Public safety	18,844	-	-	18,844
Program operations	55,922	-	120,313	176,235
Capital projects and programs	114,510	-	-	114,510
Total unreserved, designated fund balances	277,833	-	120,313	398,146
Total unreserved, undesignated fund balances	68,649	-	-	68,649
Total fund balances	\$ 446,918	\$ 222,983	\$ 208,704	\$ 878,605

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2006

NOTE 14 – FUND BALANCES (Continued)

	<u>Nonmajor Funds</u>			Total Nonmajor Governmental Funds	Total Major Governmental Funds	Total Governmental Funds
	Special Revenue Funds	Debt Service Funds	Capital Projects Funds			
Reserved:						
Encumbrances	\$ 15,637	\$ -	\$ 880	\$ 16,517	\$ 70,832	\$ 87,349
Imprest cash	183	-	-	183	396	579
Inventories	868	-	-	868	2,827	3,695
Notes receivable	14,703	-	-	14,703	-	14,703
Advances	-	-	-	-	20	20
Program operations	5,785	-	-	5,785	91,381	97,166
Construction	243	-	50,964	51,207	222,414	273,621
Receivables	1,354	-	-	1,354	-	1,354
General	51	32,415	24,786	57,252	350	57,602
Debt service	-	47,520	-	47,520	-	47,520
Land held for resale	2,489	-	-	2,489	23,590	26,079
Total reserved fund balances	41,313	79,935	76,630	197,878	411,810	609,688
Unreserved:						
Unreserved, designated:						
Strategic planning	-	-	-	-	88,557	88,557
Public safety	-	-	-	-	18,844	18,844
Program operations	212,407	-	-	212,407	176,235	388,642
Capital projects and programs	-	-	2,056	2,056	114,510	116,566
Total unreserved, designated fund balances	212,407	-	2,056	214,463	398,146	612,609
Total unreserved, undesignated fund balances	109,608	-	-	109,608	68,649	178,257
Total fund balances	\$ 363,328	\$ 79,935	\$ 78,686	\$ 521,949	\$ 878,605	\$ 1,400,554

Net Assets. The government-wide statement of net assets reports \$582 million of restricted net assets for governmental activities, of which \$218.9 million is restricted by enabling legislation.

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."

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements
June 30, 2006

NOTE 15 – RISK MANAGEMENT

The County is self-insured for general liability, medical malpractice, and workers' compensation claims. The County records estimated liabilities for general liability, medical malpractice and workers' compensation claims filed or estimated to be filed for incidents that have occurred. Estimated liability accruals include those incidents that are reported as well as an amount for those incidents that 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.

The County supplements its self-insurance for general liability, medical malpractice and workers' compensation with catastrophic excess insurance coverage. General liability utilizes a policy providing coverage on a per occurrence basis. Limits under the policy are \$15 million, subject to a self-insured retention (SIR) of \$1million for each claim. A deductible is a form of self-insured retention. The County also purchases an additional \$10 million in excess limits for a total of \$25 million in limits for general liability. Medical malpractice utilizes an excess policy providing coverage on claims made. Limits under the malpractice policy are \$10 million subject to a self-insured retention of \$1.1 million. The general liability policy provides an additional \$10 million in excess limits for medical malpractice (excess the medical malpractice programs \$10 million policy limit) for a total of \$20 million. The maximum limit under the excess workers' compensation, Section A, is \$200 million; Section B, employer liability is \$5 million per claim. Section A is subject to a \$2 million SIR for each accident, employee injury, or disease. Settlements have not exceeded coverage for each of the past three fiscal years

The County's property insurance program provides insurance coverage for all risks subject to a \$50 thousand deductible; Flood coverage is subject to a 2% deductible within a 100-year flood zone and \$25 thousand outside a 100-year flood zone. The County's property is categorized into four (4) Towers and each Tower provides \$600 million in limits. Earthquake (covering scheduled locations equal to or greater than \$1 million in value and lesser valued locations where such coverage is required by contract) has a sub-limit in each Tower of \$75million with an additional \$125 million excess rooftop limit available to any one Tower. Earthquake is subject to a deductible equal to 5% of replacement cost value subject to a \$500 thousand minimum. Boiler and Machinery provides up to \$100 million in limits, with various deductibles. The limits in each Tower are shared with other counties on a per event basis. Should a catastrophic event occur and losses exceed the limits, the County would be responsible.

The activities related to such programs are accounted for in Internal Service Funds. Accordingly, estimated liabilities for claims, including loss adjustment expenses, filed or to be filed, for incidents that have occurred through June 30, 2006 are reported in these funds. Where certain funds have an accumulated deficit or insufficient reserves, the County provides funding to reduce the deficit and increase the reserves. If the funding is above the Board of Supervisors approved 70% confidence level an appropriate reduction in funding including a one-time holiday on department charges is granted. Revenues for these Internal Service Funds are primarily provided by other County departments and are intended to cover the self-insured claim payments, insurance premiums, and operating expenses. The revenue is not used to cover catastrophic events and other uninsured liabilities. Cash available in the Risk Management Internal Service Funds at June 30, 2006 plus revenues to be collected during fiscal year 2006-07 are expected to be sufficient to cover all fiscal year 2006-07 payments. The carrying amount of unpaid claim liabilities is \$130.1 million. The liabilities are discounted at 5%.

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, 2005	June 30, 2006
Unpaid claims, beginning of year	\$ 117,258	\$ 126,743
Increase (decrease) in provision for insured events of prior years	12,399	(808)
Incurred claims for current year	41,013	51,127
Claim payments	(43,927)	(46,898)
Unpaid claims, end of year	\$ 126,743	\$ 130,164

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2006

NOTE 16 – MEDI-CAL AND MEDICARE PROGRAMS

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

Inpatient services rendered to Medi-Cal program beneficiaries are reimbursed at a 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. The fiscal intermediary has audited the Regional Medical Center's Medicare cost reports through June 30, 2003 and through June 30, 2002 for Medi-Cal.

During 1991, legislation (SB855) 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 \$ 45.6 million from disproportionate Medi-Cal reimbursement under this program for the year ended June 30, 2006. The continuation of government reimbursement programs is contingent upon Federal, State and County government policies.

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2006

NOTE 17 – JOINTLY GOVERNED ORGANIZATIONS

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

A representation of the jointly governed organizations on which the County served at June 30, 2006 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.

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

Van Horn Regional Treatment Facility was organized in January 1991 with Los Angeles, San Diego, San Bernardino 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.

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2006

NOTE 17 – JOINTLY GOVERNED ORGANIZATIONS (Continued)

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

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

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

Coachella Valley Conservation Commission (CVCC) was formed in October 2005. The CVCC is a Joint Powers Agreement Agency comprised of the cities of Coachella, Cathedral City, Desert Hot Springs, Indian Wells, Indio, La Quinta, Palm Desert, Palm Springs, Rancho Mirage, Riverside, and the Coachella Valley Water District as well as the Imperial Irrigation District. The purpose of the CVCC was to implement the Coachella Valley Multiple Species Habitat Conservation Plan (CVMSHCP). The CVMSHCP goal is to enhance and maintain biological diversity and ecosystem processes while allowing future economic growth.

NOTE 18 – RETIREMENT PLAN

Plan Description

The County, Flood Control and Water Conservation District (Flood Control), the Regional Park and Open-Space District (Park District) and Waste Management contribute to the California Public Employees Retirement System (CalPERS). Under GASB 27, County Miscellaneous and Safety, and Flood Control are considered single employer defined benefit pension plans, while Park District and Waste Management are considered multiple employer defined benefit pension plans because of its pooling configuration. 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. State statutes within the Public Employees' Retirement Law have established a menu of benefit provisions as well as other requirements. 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. Separate financial reports for the various County plans within CalPERS are not available. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office - 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members in CalPERS are required to contribute 8% (9% for safety employees) of their annual covered salary. The County contributes 1% of the total 8% contribution required of Miscellaneous member County employees hired prior to July 11, 2002, on their behalf and for their account. The County makes the full 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 dates make their own contributions for the first five years. Prior to October 25, 2005, Miscellaneous prosecution unit member employees hired on or after September 3, 1992, made their own contributions for the first year. Effective October 25, 2005, the County makes the full contribution required of all Miscellaneous prosecution unit member employees. 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 Control, Park District and Waste Management are required to contribute the actuarially determined remaining amounts necessary to fund the benefit for its members. The actuarial methods

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2006

NOTE 18 – RETIREMENT PLAN (Continued)

and assumptions used are those adopted by the CalPERS Board of Administration. For fiscal year 2005-06, the contribution rates were:

	<u>County</u>	<u>Flood Control</u>	<u>Park District</u>	<u>Waste Management</u>
Miscellaneous	11.751%	14.296%	20.502%	19.951%
Safety	17.013%	-	-	-

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

Annual Pension Cost

For fiscal year 2005-06, the annual pension costs for CalPERS is equal to the employer's required and actual contributions as noted below (in thousands):

	<u>County</u>	<u>Flood Control</u>	<u>Park District</u>	<u>Waste Management</u>
Miscellaneous	\$ 75,534	\$ 1,577	\$ 757	\$ 656
Safety	\$ 29,176	\$ -	\$ -	\$ -

The required contribution for fiscal year 2005-06 was determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses) and; (b) projected salary increases that vary by duration of service. Both (a) and (b) include an inflation component of 3.0%. The actuarial value of CalPERS assets was increased from 100% to 110% of the market value of investments. CalPERS unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payrolls on a closed basis. CalPERS has notified the County that the actuarial assumptions regarding the inflation rates will be revised for the next evaluation period. The remaining amortization periods in years at June 30, 2006 are:

	<u>County</u>	<u>Flood Control</u>	<u>Parks District</u>	<u>Waste Management</u>
Miscellaneous	19	18	17	18
Safety	22	-	-	-

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 (Asset)
June 30, 2004	\$ 52,100	100.00%	\$ -
June 30, 2005	\$ 79,036	493.70%	\$ (311,162)
June 30, 2006	\$ 75,534	90.73%	\$ (304,161)

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
June 30, 2006

NOTE 18 – RETIREMENT PLAN (Continued)

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 (Asset)
June 30, 2004	\$ 26,076	100.00%	\$ -
June 30, 2005	\$ 36,430	335.28%	\$ (85,713)
June 30, 2006	\$ 29,176	93.39%	\$ (83,784)

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 (Asset)
June 30, 2004	\$ -	-	\$ -
June 30, 2005	\$ 1,192	100.00%	\$ -
June 30, 2006	\$ 1,577	100.00%	\$ -

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 (Asset)
June 30, 2004	\$ 302	100.00%	\$ -
June 30, 2005	\$ 2,238	100.00%	\$ -
June 30, 2006	\$ 757	100.00%	\$ -

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 (Asset)
June 30, 2004	\$ 824	100.00%	\$ -
June 30, 2005	\$ 848	100.00%	\$ (4,120)
June 30, 2006	\$ 656	100.00%	\$ (3,686)

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements
June 30, 2006

NOTE 19 – DEFINED BENEFIT PENSION PLAN

County of Riverside

The County provides a Defined Benefit Pension Plan for part-time and temporary employees who are not eligible for social security or CalPERS retirement benefits through the County. This single-employer pension plan is subject to IRC Section 401(a), 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's current contribution level is 5.03%. The contribution level is based on the actuarial valuation in process. A separate audited GAAP-basis pension plan report is not available for this plan.

Annual Pension Cost

Three-Year Trend Information
(Dollar Amounts in Thousands)

Calendar Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	\$ 813	100%	\$ -
2005	\$ 616	100%	\$ -
2006	\$ 633	100%	\$ -

As of June 30, 2006, the Fund had a cash balance of \$10.2 million.

Housing Authority

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

Before the Authority employees became County employees, the Authority fully funded a defined contribution pension plan on behalf of qualified employees. During the current fiscal year, the Authority participated in the CalPERS plan through the County of Riverside and was not required and did not make any contributions to the prior plan. In August 2002 the prior pension plan was formally terminated and plan assets were distributed to the entitled employees in accordance with written instructions as specified by each current or former employee.

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

Total Authority Gross Salaries:	\$ 5,971
Total Authority Regular Salaries Subject to CalPERS:	\$ 4,460
Total Authority Contributions Required and Paid:	\$ 988

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2006

NOTE 20 – POST-RETIREMENT BENEFITS

In addition to providing retirement benefits, the County provides certain post-retirement health insurance premium payments to qualifying retired employees and their eligible dependents or survivors pursuant to collective bargaining agreements and Board resolutions. Employees with a minimum service of five years who are at least 50 years of age at retirement qualify to receive the post-retirement benefits. Approximately 1,877 retirees meet these requirements and are covered under the eligibility requirements. CalPERS is responsible for administering the benefits for retirees in certain employee bargaining units. Waste Management, Flood, and Park Districts have not been a part of CalPERS-administered Health Plans since December 31, 2002. In addition, most of the County's employee bargaining units have withdrawn from the CalPERS-administered health plans and are now enrolled with County-administered health plans.

The contributions for retirees and beneficiaries are funded on a pay-as-you-go basis, which are allocated among the operating departments based on the proportionate number of current employees. For the year ended June 30, 2006, CalPERS-administered health plan expenditures amounted to approximately \$326,000 and County-administered health plan expenditures amounted to approximately \$906,000, respectively.

The County of Riverside did obtain an actuarial valuation of its Post-Employment Health Benefits obligations, calculated in accordance with GASB 45 standards as of January 1, 2006. Based on the combination of plans and contribution levels that the County offers, the present value of future benefits, assuming a 4.5% interest rate, was estimated to be \$237 million, while the annual normal cost is \$10 million. If the accrued actuarial liability of \$142 million were amortized over a 30-year period, the total annual required contribution (normal cost plus amortization amount) would be \$16 million. Taking the implicit rate subsidy into account, the County's actual payment obligation would be approximately 30% of the amounts above. Approximately 70% of the liability is attributable to the "implicit subsidy," arising from the combination of "pre-65" retirees with active employees for rate purposes.

NOTE 21 – COMMITMENTS AND CONTINGENCIES

Lawsuits and Other Claims

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

Federal Grant Revenue

Compliance examinations for the fiscal year ended June 30, 2005, identified certain items of noncompliance with Federal grants and regulations. The total amount of expenditures that could be disallowed by the granting agencies cannot be determined at this time; however county management does not expect such amounts, if any, to be material to the basic financial statements.

The fiscal year 2005-06 Single Audit of federal awards report is expected to be submitted to the Federal Audit Clearinghouse on or before March 30, 2007.

Commitments

At June 30, 2006, the County had various non-cancelable contracts and construction-in-progress with outside contractors. These contracts were financed through either the General Fund or Capital Projects funds. \$177.5 million will be payable upon future performance under the contracts.

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2006

NOTE 21 – COMMITMENTS AND CONTINGENCIES (Continued)

Landfill Construction and Consulting Contracts

The Waste Management Department (Waste) entered into various construction and consulting contracts to facilitate its landfill operations and is in the process of installing landfill liners at Lamb Canyon in accordance with State and Federal laws and regulations. Waste expects to complete the installation of several landfill liners over the next five years and estimates additional future costs to be \$ 22.7 million. These additional costs will be capitalized as the costs are incurred.

Remediation Contingencies

Waste is presently aware of groundwater contamination at 9 of its landfills, 6 of which are closed. Waste is also aware of air/gas contamination at 17 landfills, 11 of which are closed. Based on engineering studies, Waste estimates the present value of the total costs of corrective action for foreseeable contaminate releases at \$16.9 million. At June 30, 2006, Waste has accrued \$16.9 million for the estimated costs related to the remediation of these landfills. Remediation expense for fiscal year 2006 results from prior estimates, current estimates, and current actual expenses.

Waste has established a remediation restricted cash fund and 17 remediation restricted cash escrow funds to set aside funds for future remediation costs as they are require to be performed. Investments of \$16.9 million and \$16.1 million are held for these purposes at June 30, 2006 and 2005, respectively, and are classified as restricted cash and investments in the accompanying statements of net assets.

NOTE 22 – SUBSEQUENT EVENTS

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

On July 1, 2006, the County as a participant in the California Statewide Communities Development Authority Pool issued \$235 million of Tax and Revenue Anticipation Notes in the form of Series A-4 Bonds due June 29, 2007. The stated interest rate for the A-4 Bonds is set at 4.5% per annum with a yield of 3.56%.

The issuance is divided into two entities: \$167 million for the Tax and Revenue Anticipation Notes and the other \$68 million to pre-pay a portion of the County's CalPERS contribution for 2006-07. Between the prepayment discount of 3.66%, and earnings on cash flow the County expects to net \$1.9 million in cost savings.

In accordance with California law, the TRANS Bonds are general obligations of the County and are payable only out of the taxes, income, revenues, cash receipts, and other monies of the County attributable to fiscal year 2006-07 and legally available for payment thereof. Proceeds for the Bonds will be used for fiscal year 2006-07 General Fund expenditures, including current expenditures, capital expenditures, and the discharge of other obligations or indebtedness of the County.

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2006

NOTE 22 – SUBSEQUENT EVENTS (Continued)

Educational Revenue Augmentation Fund (ERAF)

To meet its obligations to fund education at specified levels under Proposition 98, the state enacted legislation that shifted partial financial responsibility for funding education to local government (cities, counties and special districts). The state did this by instructing county auditors to shift the allocation of local property tax revenues from local government to “educational revenue augmentation funds” (ERAFs), directing that specified amounts of city, county and other local agency property taxes be deposited into these funds to support schools. For 2006-2007, the State has directed the following ERAF tax shifts: First, a transfer of \$298.5 million to the Vehicle License Fee Property Tax Compensation Fund for distribution of 50% in January and 50% in May. Secondly, the State has directed a transfer of \$80.7 million to the Sales and Use Tax Compensation Fund for distribution of 50% in January and 50% in May. The total ERAF transfer for 2006-2007 is \$379.2 million.

Trial Court Facilities Act of 2002 (SB 1732)

The bill provides for the transfer of the responsibility of a county to provide necessary and suitable court facilities by authorizing the transfer of that responsibility from the county to the Judicial Council pursuant to an agreement to be negotiated between the county and the Judicial Council, as specified, between July 1, 2003, and June 30, 2007.

Transfer of responsibility may occur not earlier than July 1, 2004, and not later than June 30, 2007. The bill further imposes a state-mandated local program by expanding various duties of a county with respect to court facilities. This bill would establish the Court Facilities Trust Fund to be financed by specified payments by each county. In general, the County is held responsible for maintenance-of-effort contributions.

Responsibility for the Larson Justice Center, Moreno Valley Court, and Family Law Court was transferred to the State in October 2004, October 2005, and December 2006 respectively. Twenty (20) buildings are subject to the Trial Court Facilities Act of 2002.

<u>Facility</u>	<u>Date Transferred to State</u>	<u>Annual Payment Obligation</u>
Larson Justice Center	October, 2004	\$ 559,761
Moreno Valley Court	October, 2005	251,250
Family Law Court	December, 2006	<u>269,190</u>
Annual Payment Obligation		<u>\$ 1,080,201</u>

SB1732 provides an exception to such transfers for historic facilities. In November 2006, the Board approved a memorandum of understanding between the County and the Judicial Council of California, stating that the County will retain title, responsibility for funding and operation of the Historic Courthouse, and no payments are required to be paid to the state for this facility as long as it remains a working court facility.

The Effects of the Economy on CalPERS

Based on past negative performance of the CalPERS fund, CalPERS has estimated that the County’s Miscellaneous and Safety contribution rates for fiscal year 2006-07 will be 11.916% and 18.031%, respectively. Fiscal year 2007-08 contribution rates for Miscellaneous and Safety are estimated at 12.051% and 18.625%, respectively. They will be accounted for in fiscal year 2006-07 and future budget years.



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