

**BASIC FINANCIAL STATEMENTS-
NOTES TO THE BASIC FINANCIAL
STATEMENTS**

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Component Units

While each of these component units is legally separate from the County, the County is financially accountable for these entities. Financial accountability is primarily demonstrated by the County's Board acting as, or appointing, the governing board for each of the component units and its ability to impose its will. Because of their relationship with the County and the nature of their operations, component units are, in substance, part of the County's operations and, accordingly, the activities of these component units are combined, or blended with the activities of the County for purposes of reporting in the accompanying basic financial statements. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the County.

In conformity with generally accepted accounting principles, the financial statements of thirteen component units have been included and combined with financial data of the County. Eleven component units have an integral relationship with and serve as an extension of the County. Using the criteria of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity*, management has determined that each entity is presented as a blended component unit due to the composition of each governing board and the control of the day-to-day activities through the budget process. Two component units are presented discretely. Each blended and discretely presented component unit has a June 30 fiscal year-end.

Blended Component Units

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

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

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

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

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

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

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

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Blended Component Units (Continued)

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

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

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

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

Discretely Presented Component Units

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

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

Palm Desert Financing Authority (PDFA) is a joint powers authority between the County of Riverside and Palm Desert Successor Agency (the Agency) established on January 1, 2002 under Section 6502 of the Joint Powers Act, California Government Code Section 6500. The County and the Agency agreed to create the PDFA for the purpose of establishing a vehicle to reduce local borrowing costs, promote greater use of existing and new financial instruments and mechanisms, and assist local agencies in the financing of public capital improvements. Although the PDFA is a legally separate entity, in substance under GASB Statement No. 61, the County is financially accountable for the PDFA's issuance of the lease revenue bond that is under the PDFA's management (2008 Series A).

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

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

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Presentation of Financial Information Related to County Fiduciary Responsibilities

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

Basis of Presentation

Government-wide Financial Statements

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

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the County and for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Expenses by function have been adjusted for any internal service profit/loss existing at fiscal year-end. In addition, 34.98% or \$15.2 million, of the County's \$43.5 million indirect costs, allocated through the Countywide Cost Allocation Program (COWCAP), have been included in the expenses of those functions which can obtain reimbursement through State and Federal Programs or other charges. Program revenues include (1) charges paid by the recipients of goods or services offered by the programs and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

Fund Financial Statements

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

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

The County reports the following major governmental funds:

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

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Transportation fund accounts for revenue consist primarily of the County's share of highway user taxes and are supplemented by Federal funds, vehicle code fines, and fees and reimbursements for engineering services provided. The fund was established to provide for maintenance and construction of roadways and for specialized engineering services to other governmental units and the public.

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

Teeter debt service fund accounts for revenue from collection of delinquent taxes, which is then used to pay principal of the debt issued to finance the Teeter plan.

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

The County reports the following major enterprise funds:

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

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

Housing Authority was established to provide affordable, decent, safe housing opportunities to low and moderated income families including elderly and handicapped persons, while supporting programs to foster economic self-sufficiency.

The County reports the following additional fund types:

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

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

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

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

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

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

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

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

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

Cash and Investments

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

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

Securities, including U.S. Treasury and Agency securities, are carried at fair value/cost based on current market prices on a monthly basis. Repurchase agreements are carried at fair value based on quoted market prices, except for repurchase agreements maturing within ninety days of June 30, 2014, which are carried at cost. Bond anticipation notes are carried at fair value/cost. Commercial paper is carried at amortized cost/cost. Investments in bankers' acceptances and nonparticipating guaranteed investment contracts are carried at cost. Participating guaranteed

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Cash and Investments (Continued)

investment contracts are carried at fair value based on net realizable value. Mutual funds are carried at fair value based on the funds' share price. Local Agency Obligations are carried at cost based on the value of each participating dollar.

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

State law requires that the County treasurer hold all operating monies of the County, school districts, and certain special districts. Collectively, these mandatory deposits constituted approximately 76.9% of the funds on deposit in the County treasury. In addition, the Auditor-Controller determined districts and agencies constituting approximately 23.1% of the total funds on deposit in the County treasury represented discretionary deposits.

Receivables

The RMC accounts receivable are reported at their gross value and, where appropriate, are reduced by contractual allowances and the estimated uncollectible amounts. The estimated allowance for uncollectibles and allowance for contractals are \$217.6 million and \$801.8 million, respectively. The RMC has contracted with a Medi-Cal managed care plan to provide services to patients enrolled with Medicare and Medi-Cal programs. The RMC receives a fixed monthly premium payment for each patient enrolled. Revenue under this agreement is recognized in the period in which the RMC is required to provide services.

Property taxes

All jurisdictions within California derive their taxing authority from the State Constitution and various legislative provisions contained in the Government Code and the Revenue and Taxation Code. Property is assessed by the County Assessor and State Board of Equalization at 100.0% of full cash or market value (with some exceptions) pursuant to Article XIII A of the California State Constitution and statutory provisions. The total for fiscal year 2013-14 gross assessed valuation of the County was \$213.2 billion.

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

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

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

Property taxes are levied on both real and personal property and are recorded as receivables at the date of levy. Secured property taxes are levied on or before the first business day of September of each year. These taxes become a lien on real property on January 1 proceeding the fiscal year for which taxes are levied. Tax payments can be made in two equal installments; the first is due November 1 and are delinquent with penalties after December 10; the second is due February 1 and are delinquent with penalties after April 10. Secured property taxes that are delinquent and unpaid as of June 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 years, the property is sold at public auction and the proceeds are used to pay the delinquent amounts due and any excess is remitted, if claimed, to the taxpayer.

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

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Property Taxes (Continued)

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

During fiscal year 1993-94, the County authorized an alternative property tax distribution method referred to as the “Teeter plan.” This method allows for a 100.0% distribution of the current secured property tax levy to entities electing the alternative method, as compared to the previous method where only the current levy less any delinquent taxes was distributed. This results in the general fund receiving distributions of approximately 50.0-55.0% in December, 40.0-45.0% in April and the remaining balance in the fall of each year. The Teeter plan also provides that all of the payments of redemption penalties and interest on delinquent secured property taxes of participating agencies flow to a Tax Loss Reserve Fund (TLRF). Any amounts on deposit in the TLRF greater than 1.0% of the tax levy for participating entities may flow to the County general fund. For fiscal year 2013-14, \$31.0 million was transferred from the TLRF to the general fund.

Prepaid Items and Inventories

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The prepaid assets recorded in the governmental funds do not reflect current appropriable resources and thus, an equivalent portion of fund balance is nonspendable. The consumption method is used to account for prepaid items. Under the consumption method, prepaid items are recorded as expenditures during the period benefited by the prepayment.

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

Capital Assets

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

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 financial statements and proprietary funds.

The estimated useful lives are as follows:

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

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Capital Assets (Continued)

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

Leases

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

Restricted Assets

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

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, 2014, the amount of accrued vacation, holiday pay, and sick leave reported in the government-wide statement of net position was \$218.8 million.

The County allows unlimited accumulation of sick leave. Upon service retirement, disability retirement, or death of an employee or officer, and subject to the provisions of any applicable agreement between the employing agency and the CalPERS, unused accumulated sick leave for most employees with at least 5 but less than 15 years of service shall be credited at the rate of 50.0% of current salary value thereof provided however, that the total payment shall not exceed a sum equal to 960 hours of full pay.

Unused accumulated sick leave for employees with more than 15 or more years of service shall be credited at the rate of the current salary value provided however, that the total payment shall not exceed a sum equal to 960 hours of full pay. In addition, the employee may also elect to place the payable amount of sick leave into a VEBA (Voluntary Employee Beneficiary Association) account which may be used for future health care costs.

Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63 and GASB Statement No. 65, the County recognizes deferred outflows and inflows of resources. The deferred outflow of resources is defined as a consumption of net position by the government that is applicable to the future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period. Refer to Note 15 for a detailed listing of the deferred inflows of resources the County has recognized.

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Long-term Debt

The County reports long-term debt of governmental funds in the government-wide statement of net position. 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 position. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary fund and the government-wide statement of net position.

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 position. Bond premiums and discounts, bond issuance costs, and deferred losses on refundings are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount, and deferred losses on refundings.

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

Landfill Closure and Post-Closure Care Costs

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

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

Interfund Transactions

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

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

Net Position

The government-wide financial statements and proprietary fund financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted net position, or unrestricted net position.

Net Investment in Capital Assets – This category groups all capital assets, including infrastructure, into one component of net position. 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.

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Net Positions (Continued)

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

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

Fund Balance

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

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

Fund Balance Policy

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

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

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

The Board establishes, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution (ordinances and resolutions are considered of equal authority with respect to fund balance). This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

Spending Prioritization for Fund Categories

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

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Minimum Fund Balance Policy for Governmental Funds

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

The County shall commit a portion of the general fund for disaster relief. The use of these funds will be restricted to one-time or short-term expenditures that are the result of a natural disaster or act of terrorism. The funds restricted for this purpose shall be at least 2.0% of discretionary revenue or \$15.0 million, whichever is greater.

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

Special revenue fund balances shall be kept at the higher of the minimum level dictated by the funding source or an amount that does not fall below zero. In the event that the fund balance drops below the established minimum levels, the department with primary responsibility for expending the special revenue will develop a plan to replenish the balance to established minimum levels within 2 years and submit the plan to the Board for approval.

The County shall maintain a minimum unassigned fund balance in its general fund of at least 25.0% of the fiscal year's estimated discretionary revenue. A significant portion of the minimum unassigned fund balance may be used for one-time or short-term expenditures caused by an economic crisis and should be designated within an "Economic Uncertainty" account. Use of these stabilization funds should be as the last resort in balancing the County budget. In the general fund unassigned fund balance, commitments for economic uncertainty is \$124.7 million and budget stabilization of \$53.9 million, which is 29.0% of discretionary revenue.

Use of Estimates

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

Current Governmental Accounting Standards Board Statements

GASB Statement No. 66

In March of 2012, GASB issued Statement No. 66, *Technical Correction – 2012 – an amendment of GASB Statement No. 10 and No. 62*. The objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standard Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements*. GASB Statement No. 66 amends GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provisions that limits fund based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, it will cause governments to base their decisions about fund type classification on the nature of the activity to be reported. GASB Statement No.66 also amends GASB Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. GASB Statement No. 66 is effective for periods beginning after December 15, 2012.

GASB Statement No. 67

In June of 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans- an amendment of GASB Statement No. 25*. The objective of this statement is to improve financial reporting by state and local governmental pension plans. This resulted from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. GASB Statement No. 67 amends the

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Current Governmental Accounting Standards Board Statements (Continued)

GASB Statement No. 67 (Continued)

requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. GASB Statement No. 67 is effective for periods beginning after June 15, 2013.

GASB Statement No. 70

In October of 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Non-Exchange Financial Guarantees*. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive non-exchange financial guarantees. This statement requires a government that extends a non-exchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. GASB Statement No. 70 is effective for periods beginning after June 15, 2013. The County has elected not to early implement this statement.

Future Governmental Accounting Standards Board Statements

GASB Statement No. 68

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

Governmental Accounting Standards Board Statement No. 69

In January of 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The objective of this statement is to establish accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. GASB Statement No. 69 is effective for periods beginning after December 15, 2013. The County has elected not to early implement this statement.

Governmental Accounting Standards Board Statement No. 71

In November of 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The objective of this statement is to address an issue regarding application of the transition provisions of GASB Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. GASB Statement No. 71 is applied simultaneously with the provision of GASB Statement 68. The County has elected not to early implement this statement.

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

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

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

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

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

Excess of expenditures over appropriations

For the year ended June 30, 2014, expenditures exceeded appropriations in capital outlay by \$3.0 million in the general fund. This excess of expenditures resulted from the acquisition of \$3.0 million of capital leases. Accordingly, this is being funded by other financing sources-capital leases.

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 3 – RESTATEMENTS OF BEGINNING FUND BALANCES / NET POSITION

The County's beginning net position has been restated to reflect the cumulative effect of prior year adjustments. A summary of the restatements as of June 30, 2014 is as follows (In thousands):

Government-wide:

| Description | Primary Government | |
|---|----------------------------|-----------------------------|
| | Governmental Activities | Business-type Activities |
| Government-wide net position as of June 30, 2013, as previously reported | \$ 4,321,196 | \$ 301,792 |
| Fund financial statements: | | |
| Prior period adjustments: | | |
| Accrued developer mitigation fees and capital grant | (1,767) | - |
| Advance from third party | (1,329) | - |
| Net position as of June 30, 2013, as restated | <u>\$ 4,318,100</u> | <u>\$ 301,792</u> |

Fund Financials:

| Description | Governmental Funds | | |
|---|--------------------------------------|---|--|
| | Major | Nonmajor Fund | |
| | Transportation Special Revenue | Regional Park and Open-Space Special Revenue | Regional Park and Open-Space Capital Projects |
| Fund balances as of June 30, 2013, as previously reported | \$ 94,302 | \$ 9,156 | \$ 8,843 |
| Prior period adjustments: | | | |
| Accrued developer mitigation fees and grant (1) | (1,663) | - | (104) |
| Reclassified fund balances for expenditures not properly recorded (2) | - | 2,167 | (2,167) |
| Advance from third party (3) | (1,329) | - | - |
| Fund balances as of June 30, 2013, as restated | <u>\$ 91,310</u> | <u>\$ 11,323</u> | <u>\$ 6,572</u> |

- (1) A prior period adjustment of \$1.8 million was made to decrease the governmental activities' beginning net position. The adjustment was made due to prior year accrued developer mitigation fees for road projects were uncollectible.
- (2) A prior period adjustment of \$2.2 million was made to restate the beginning balance of special revenue and capital projects fund by reimbursing special revenue fund for expenditures erroneously recorded for several capital improvement projects which resulted in net to zero.
- (3) A prior period adjustment of \$1.3 million was made to decrease the governmental activities' beginning net position. The adjustment was made due to prior year advance received from third party that was incorrectly recorded as revenue before the eligibility requirements have been met.

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 4 – CASH AND INVESTMENTS

As of June 30, 2014, cash and investments are classified in the accompanying financial statements as follows (In thousands):

| | Governmental Activities | Business-type Activities | Discretely Presented Component Unit | Fiduciary Funds | Total |
|---------------------------------|----------------------------|-----------------------------|--|--------------------|--------------|
| Cash and investments | \$ 1,015,240 | \$ 29,814 | \$ 42,039 | \$ 3,524,491 | \$ 4,611,584 |
| Restricted cash and investments | 503,422 | 153,790 | 11,410 | - | 668,622 |
| Total cash and investments | \$ 1,518,662 | \$ 183,604 | \$ 53,449 | \$ 3,524,491 | \$ 5,280,206 |

As of June 30, 2014, cash and investments consist of the following (In thousands):

| | |
|----------------------------|---------------------|
| Deposits | \$ 180,985 |
| Investments | 5,099,221 |
| Total cash and investments | <u>\$ 5,280,206</u> |

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

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

| Authorized investment type | Maximum Maturity | Maximum Percentage of Portfolio | Maximum Investment in One Issuer |
|---|---------------------|---------------------------------------|--|
| Municipal bonds (MUNI) | 3 Years | 15% | 5% ** |
| U.S. treasuries | 5 Years | 100% | N/A |
| Local agency obligations (LAO) | 3 Years | 2.5% | 2.5% |
| Federal agencies | 5 Years | 100% | N/A |
| Commercial paper (CP) | 270 Days | 40% | 5% * |
| Certificate & time deposits (NCD & TCD) | 1 Year | 25% | 5% * |
| Repurchase agreements (REPO) | 45 Days | 40% / 25% | 20% |
| Reverse REPOS | 60 Days | 10% | 10% |
| Medium term notes (MTNO) | 3 Years | 20% | 5% * |
| CalTRUST short term fund | Daily Liquidity | 1% | 1% |
| Money market mutual funds (MMF) | Daily Liquidity | 20% | None |
| Local agency investment fund (LAIF) | Daily Liquidity | Max \$50M | N/A |
| Cash/deposit account | N/A | N/A | N/A |

* Maximum of 5% per issuer in combined commercial paper, certificate & time deposits, and medium term notes.

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

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 4 – CASH AND INVESTMENTS (Continued)

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

As of June 30, 2014, the County and Component Units had the following investments (In thousands):

| | Fair Market Value | Interest Rate Range | Maturity | Weighted Average Maturity (Years) | Minimum Legal Rating | Rating (1) June 30, 2014 | % of Portfolio |
|--|----------------------|------------------------|---------------|--|----------------------------|-----------------------------|-------------------|
| County treasurer investments | | | | | | | |
| Federal home loan bank | \$ 1,043,020 | 0.075 - 1.800% | 08/14 - 06/19 | 2.43 | N/A | AA+/Aaa | 21.56% |
| Federal national mortgage association | 837,666 | 0.065 - 1.650% | 10/14 - 01/19 | 2.72 | N/A | AA+/Aaa | 17.32% |
| Federal home loan mortgage corp. | 276,665 | 0.081 - 1.625% | 09/14 - 03/19 | 3.00 | N/A | AA+/Aaa | 5.72% |
| US treasuries | 285,173 | 0.250 - 0.750% | 10/14 - 08/17 | 0.63 | N/A | AA+/Aaa | 5.90% |
| Federal farm credit bonds | 417,036 | 0.130 - 0.680% | 08/14 - 12/16 | 0.78 | N/A | AA+/Aaa | 8.62% |
| Negotiable certificate of deposits | 80,000 | 0.130 - 0.150% | 07/14 - 09/14 | 0.15 | A1/P1 | AA-/Aa1 | 1.65% |
| Commercial paper | 797,349 | 0.070 - 0.150% | 07/14 - 10/14 | 0.12 | A1/P1 | AA+/Aa1 | 16.48% |
| Wells fargo repo | 150,000 | 0.100% | 07/14 | 0.00 | A1/P1 | N/R | 3.10% |
| UB Managed Rate | 150,000 | 0.079% | 07/14 | 0.00 | N/A | N/R | 3.10% |
| Money market mutual funds (3) | 385,000 | 0.019 - 0.067% | 07/14 | 0.00 | AAA/Aaa | AAA/Aaa | 7.96% |
| Municipal bonds | 70,691 | 0.200 - 0.540% | 10/14 - 05/16 | 0.82 | AA- ⁽²⁾ | AA+/Aa1 | 1.46% |
| Farmer mac | 290,145 | 0.080 - 1.650% | 08/14 - 06/19 | 0.99 | N/A | N/R | 6.00% |
| Caltrust short term fund | 54,000 | 0.403% | 07/14 | 0.00 | N/A | AAA/Aaa | 1.12% |
| Local agency obligations | 425 | 0.472% | 06/20 | 5.96 | N/A | N/R | 0.01% |
| Total county treasurer investments | 4,837,170 | | | | | | 100.00% |
| Investments outside the county treasury | | | | | | | |
| Blended component unit investments | | | | | | | |
| Money market mutual funds (3) | 79,044 | 0.010 - 0.420% | 07/14 | 0.00 | AAA/Aaa | AAA/Aaa | 31.54% |
| Investment agreements | 119,219 | 2.385 - 4.460% | 12/14 - 11/36 | 5.47 | AA-/Aa2 | AA+/A1 | 47.57% |
| Commercial paper | 6,995 | 0.207% | 10/14 | 0.00 | AA-/Aa2 | AA+/A1 | 2.79% |
| Money market mutual funds (4) | 39,677 | 0.000% | N/A | 0.00 | N/A | N/R | 15.83% |
| Local agency investment funds | 5,706 | 0.000% | N/A | 0.00 | N/A | N/R | 2.27% |
| Total blended component units | 250,641 | | | | | | 100.00% |
| Discretely presented component units | | | | | | | |
| Palm desert financing authority | | | | | | | |
| Money market mutual funds (3) | 11,410 | 0.000% | N/A | 0.45 | AAA | AAA | 100.00% |
| Total discretely presented component units | 11,410 | | | | | | 100.00% |
| Total investments | \$ 5,099,221 | | | | | | |

(1) Investment ratings are from S&P and Moody's.

(2) A rating permitted for the State of California securities.

(3) Government Code requires money market mutual funds to be rated.

(4) Housing Authority and Inland Empire Tobacco Securitization Authority do not require money market mutual funds to be rated.

Investment in State Investment Pool

The County of Riverside is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The State Treasurer's Office reports its investments at fair value. The fair value of securities in the State Treasurer's pooled investment program, including LAIF, generally is based on quoted market prices. The State Treasurer's Office performs a quarterly fair market valuation of the pooled investment program portfolio and a monthly fair market valuation of all securities held against carrying cost. These valuations and financial statements are posted to the State Treasurer's Office website at www.treasurer.ca.gov. The fair value of the County's investment in this pool is reported in the accompanying financial statements at amounts based upon the County's prorata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. As of June 30 2014, CORAL has \$2.5 million, Housing Authority has \$2.5 million and Regional Medical Center has \$0.7 million in LAIF.

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 4 – CASH AND INVESTMENTS (Continued)

Investments Authorized by Debt Agreements

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

Disclosures Relating to Interest Rate Risk

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

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will be able to recover the value of its investment or collateral securities that are in the possession of another party. Neither the California Government Code nor the County's investment policy contain legal or policy requirements that would limit the County's exposure to custodial credit risk for deposits or investments except for the following provision for deposits: the California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure County deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. GASB Statement No. 40 requires that a disclosure is made with respect to custodial credit risks relating to deposits. The County has cash deposits with fiscal agents in excess of federal depository insurance limits held in collateralized accounts with securities held by Union Bank in the amount of \$303.0 million. Investment securities are registered and held in the name of Riverside County.

Concentration of Credit Risk

The investment policy of the County contains certain limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. In accordance with GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, the County should provide information about the concentration of credit risk associated with their investments in any one issuer that represent 5% or more of total County investments. These investments are identified on the investment table on page 61.

Credit Risk

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

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 5 – RESTRICTED CASH AND INVESTMENTS

The amount of assets restricted by legal and contractual requirements at June 30, 2014 is as follows (In thousands):

| | |
|--|-------------------|
| General Fund | |
| Restricted program money | \$ 350,158 |
| Total general fund | <u>350,158</u> |
| Flood Control | |
| Restricted program money | 1,916 |
| Total Flood Control | <u>1,916</u> |
| Teeter Debt Service | |
| Teeter commercial paper notes | 57,482 |
| Total teeter debt service | <u>57,482</u> |
| Other Governmental Funds | |
| 1985 Certificates | 18,418 |
| 1990 Monterey Avenue | 131 |
| 2003 A Historic Courthouse | 477 |
| 2005 A Capital Improvement Family Law | 3,523 |
| 2005 B Historic Refunding | 2,881 |
| 2006 A Capital Improvements | 2,186 |
| 2007 A Public Safety & Refunding | 5,824 |
| 2008 A Southwest Justice Center | 1,462 |
| 2009 Larson Justice Center | 2,724 |
| 2009 Public Safety & Woodcrest Lib Refunding | 624 |
| 2012 CAC Annex | 2,541 |
| 2013A PD/ Probation and Technology | 21,355 |
| 2014 A/B Court Facilities Projects | 2,086 |
| Bankruptcy Court | 7,495 |
| District court Financing Corporation | 1,175 |
| Inland Empire Tobacco Securitization Authority | 19,573 |
| Public Financing Authority | 1,391 |
| Total other governmental funds | <u>93,866</u> |
| Regional Medical Center | |
| Hospital bonds | 46,466 |
| Restricted program money | 14,077 |
| Total Regional Medical Center | <u>60,543</u> |
| Waste Management | |
| Remediation costs | 28,139 |
| Closure and post-closure care costs | 29,200 |
| Customer deposits | 445 |
| Deferred revenue | 8,562 |
| Deposit payable | 38 |
| Total Waste Management | <u>66,384</u> |
| Housing Authority | |
| Housing authority bond | 23,983 |
| Total Housing Authority | <u>23,983</u> |
| Other Enterprise Funds | |
| Restricted program money - Flood | 2,880 |
| Total other enterprise funds | <u>2,880</u> |
| Discretely Presented Component Unit | |
| Palm Desert Financing Authority | 11,410 |
| Total discretely presented component unit | <u>11,410</u> |
| Total restricted cash and investments | <u>\$ 668,622</u> |

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 6 – RECEIVABLES

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

| Receivables | | | | | | Total |
|---------------------------------|------------------|-----------------|------------------|-----------------|-------------------|-------------------|
| Governmental activities: | | | | | Due From | Governmental |
| | Accounts | Interest | Taxes | Loans | Other Govts | Activities |
| General fund | \$ 11,281 | \$ 650 | \$ 9,849 | \$ - | \$ 333,728 | \$ 355,508 |
| Transportation | 941 | 38 | 11 | - | 16,667 | 17,657 |
| Flood Control | 522 | 117 | 1,046 | - | 106 | 1,791 |
| Teeter debt service | - | 11 | 70,659 | - | - | 70,670 |
| Public facilities improvements | - | 61 | - | - | 287 | 348 |
| Nonmajor governmental funds | 1,760 | 121 | 1,340 | - | 12,054 | 15,275 |
| Internal service funds | 3,801 | 81 | - | 1,800 | 702 | 6,384 |
| Total receivables | <u>\$ 18,305</u> | <u>\$ 1,079</u> | <u>\$ 82,905</u> | <u>\$ 1,800</u> | <u>\$ 363,544</u> | <u>\$ 467,633</u> |

| Receivables | | | | | | Allowance | Total |
|----------------------------------|---------------------|--------------|--------------|------------------|-------------------|-----------------------|-------------------|
| Business-type activities: | | | | | Due From | for | Business-type |
| | Accounts | Interest | Taxes | Loans | Other Govts | uncollectibles | Activities |
| Regional Medical Center | \$ 1,077,968 | \$ - | \$ - | \$ - | \$ 112,991 | \$ (1,019,418) | \$ 171,541 |
| Waste Management | 4,468 | 48 | - | - | 63 | - | 4,579 |
| Housing Authority | 267 | - | - | 73,981 | 2,352 | (112) | 76,488 |
| Nonmajor funds | 251 | 5 | 12 | - | 12 | - | 280 |
| Total receivables | <u>\$ 1,082,954</u> | <u>\$ 53</u> | <u>\$ 12</u> | <u>\$ 73,981</u> | <u>\$ 115,418</u> | <u>\$ (1,019,530)</u> | <u>\$ 252,888</u> |

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 7 – INTERFUND TRANSACTIONS

(a) Interfund Receivables/ Payables

The composition of interfund balances as of June 30, 2014 is as follows (In thousands):

Due to/from other funds :

| Payable Fund | Receivable Fund | | | |
|---------------------------------------|------------------|----------------|---------------|---------------------|
| | General Fund | Transportation | Flood Control | Teeter Debt Service |
| General Fund | | | | |
| Delinquent property tax | \$ - | \$ - | \$ - | \$ 35 |
| Interfund activity | 1 | 208 | - | - |
| Total general fund | - | - | - | - |
| Transportation | | | | |
| Interfund activity | 236 | - | - | - |
| Total transportation | - | - | - | - |
| Flood Control | | | | |
| Interfund activity | - | - | - | - |
| Total Flood Control | - | - | - | - |
| Teeter Debt Service | | | | |
| Delinquent property tax | 250 | - | - | - |
| Interfund activity | 8,475 | - | - | - |
| Total teeter debt service | - | - | - | - |
| Other Governmental Funds | | | | |
| Interfund activity | 985 | - | - | - |
| Total other governmental funds | - | - | - | - |
| Regional Medical Center | | | | |
| Law enforcement | 624 | - | - | - |
| Total Regional Medical Center | - | - | - | - |
| Other Enterprise Funds | | | | |
| Interfund activity | - | - | 2 | - |
| Total other enterprise funds | - | - | - | - |
| Internal Service Funds | | | | |
| Interfund activity | 586 | - | 11 | - |
| Total internal service funds | - | - | - | - |
| Total receivable | \$ 11,157 | \$ 208 | \$ 13 | \$ 35 |

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

Advances to/from other funds:

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

The general fund advanced \$2.5 million to RCIT for technology initiative costs.

Workers compensation fund advanced \$2.0 million to public facilities capital project improvement fund for East County Detention Center.

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 7 – INTERFUND TRANSACTIONS (Continued)

(a) Interfund Receivables/ Payables (Continued)

| Receivable Fund | | | | |
|--------------------------------|---------------------------|---------------------------|------------------|---------------------------------------|
| Other Governmental Funds | Other Enterprise Funds | Internal Service Funds | Total Payable | |
| | | | | General Fund |
| \$ - | \$ - | \$ - | \$ 35 | Delinquent property tax |
| - | - | 4 | 213 | Interfund activity |
| - | - | - | <u>248</u> | Total general fund |
| | | | | Transportation |
| 2 | - | - | 238 | Interfund activity |
| - | - | - | <u>238</u> | Total transportation |
| | | | | Flood Control |
| - | - | 59 | 59 | Interfund activity |
| - | - | - | <u>59</u> | Total Flood Control |
| | | | | Teeter Debt Service |
| - | - | - | 250 | Delinquent property tax |
| - | - | - | 8,475 | Interfund activity |
| - | - | - | <u>8,725</u> | Total teeter debt service |
| | | | | Other Governmental Funds |
| - | - | - | 985 | Interfund activity |
| - | - | - | <u>985</u> | Total other governmental funds |
| | | | | Regional Medical Center |
| - | - | - | 624 | Law enforcement |
| - | - | - | <u>624</u> | Total Regional Medical Center |
| | | | | Other Enterprise Funds |
| - | 1 | - | 3 | Interfund activity |
| - | - | - | <u>3</u> | Total other enterprise funds |
| | | | | Internal Service Funds |
| - | - | 17 | 614 | Interfund activity |
| - | - | - | <u>614</u> | Total internal service funds |
| <u>\$ 2</u> | <u>\$ 1</u> | <u>\$ 80</u> | <u>\$ 11,496</u> | Total receivable |

Advances to/from other funds (Continued):

Waste Management advance \$24.0 million to public facilities capital project improvement fund for East County Detention Center.

Waste Management advanced \$25.9 million to RMC for Huron Consulting Services.

Waste Management advanced \$5.0 million to general fund to assist with the acquisition of property for Western Riverside County Regional Conservation Authority

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 7 – INTERFUND TRANSACTIONS (Continued)

Transfers

(b) Between Funds within the Governmental Activities:¹

| Transfer Out | Transfers In | | | | |
|--|------------------|------------------|-----------------|---------------------|---|
| | General Fund | Transportation | Flood Control | Teeter Debt Service | Public Facilities Improvements Capital Projects |
| General Fund | | | | | |
| Capital projects | \$ - | \$ - | \$ - | \$ - | \$ 4,799 |
| Debt service | - | - | - | 696 | - |
| Operating contribution | - | - | - | - | - |
| Pension obligation | - | - | - | - | - |
| Reimbursement | - | 2,421 | - | - | - |
| Total general fund | - | - | - | - | - |
| Transportation | | | | | |
| Capital projects | - | - | - | - | 1,285 |
| Pension obligation | - | - | - | - | - |
| Reimbursement | 2,775 | - | - | - | - |
| Total transportation | - | - | - | - | - |
| Flood Control | | | | | |
| Operating contribution | - | - | - | - | - |
| Reimbursement | - | - | - | - | - |
| Total Flood Control | - | - | - | - | - |
| Teeter Debt Service | | | | | |
| Reimbursement | 333 | - | - | - | - |
| Total teeter debt service | - | - | - | - | - |
| Public Facilities Improvements Capital Projects | | | | | |
| Capital projects | 29,908 | 10,380 | - | - | - |
| Reimbursement | 3,227 | - | - | - | - |
| Total public facilities imprv cap prog | - | - | - | - | - |
| Other Governmental Funds | | | | | |
| Capital projects | - | 41 | - | - | 172 |
| Debt service | - | - | - | - | - |
| Fire | 47,453 | - | - | - | - |
| Pension obligation | 166 | - | - | - | - |
| Reimbursement | 10,656 | 1,766 | - | - | - |
| Total other governmental funds | - | - | - | - | - |
| Regional Medical Center | | | | | |
| Pension obligation | - | - | - | - | - |
| Total Regional Medical Center | - | - | - | - | - |
| Waste Management | | | | | |
| Pension obligation | - | - | - | - | - |
| Total Waste Management | - | - | - | - | - |
| Housing Authority | | | | | |
| Pension obligation | - | - | - | - | - |
| Total Housing Authority | - | - | - | - | - |
| Other Enterprise Funds | | | | | |
| Reimbursement | - | - | - | - | - |
| Total other enterprise funds | - | - | - | - | - |
| Internal Service Funds | | | | | |
| Business services | - | - | - | - | - |
| Pension obligation | - | - | - | - | - |
| Reimbursement | 499 | - | 2,932 | - | - |
| Total internal service funds | - | - | - | - | - |
| Total transfers in | <u>\$ 95,017</u> | <u>\$ 14,608</u> | <u>\$ 2,932</u> | <u>\$ 696</u> | <u>\$ 6,256</u> |

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

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 7 – INTERFUND TRANSACTIONS (Continued)

Transfers (Continued)

(b) Between Governmental and Business-type Activities:

Transfers In

| Other Governmental Funds | Regional Medical Center | Other Enterprise Funds | Internal Service Funds | Total Transfers Out | |
|--------------------------------|----------------------------|---------------------------|---------------------------|------------------------|---|
| | | | | | General Fund |
| \$ 7,930 | \$ - | \$ - | \$ - | \$ 12,729 | Capital projects |
| 43,438 | - | - | - | 44,134 | Debt service |
| - | 10,000 | - | - | 10,000 | Operating contribution |
| 23,863 | - | - | - | 23,863 | Pension obligation |
| 7,771 | 1 | - | 102 | 10,295 | Reimbursement |
| - | - | - | - | <u>101,021</u> | Total general fund |
| | | | | | Transportation |
| - | - | - | - | 1,285 | Capital projects |
| 922 | - | - | - | 922 | Pension obligation |
| 39 | - | - | - | 2,814 | Reimbursement |
| - | - | - | - | <u>5,021</u> | Total transportation |
| | | | | | Flood Control |
| 1 | - | - | - | 1 | Operating contribution |
| 900 | - | - | 146 | 1,046 | Reimbursement |
| - | - | - | - | <u>1,047</u> | Total Flood Control |
| | | | | | Teeter Debt Service |
| - | - | - | - | 333 | Reimbursement |
| - | - | - | - | <u>333</u> | Total teeter debt service |
| | | | | | Public Facilities Improvements Capital Projects |
| 2,059 | 5,000 | - | - | 47,347 | Capital projects |
| 2 | - | - | 1 | 3,230 | Reimbursement |
| - | - | - | - | <u>50,577</u> | Total public facilities imprv cap prog |
| | | | | | Other Governmental Funds |
| - | - | - | - | 213 | Capital projects |
| 25,216 | - | - | - | 25,216 | Debt service |
| - | - | - | - | 47,453 | Fire |
| 617 | - | - | - | 783 | Pension obligation |
| 8,926 | - | - | - | 21,348 | Reimbursement |
| - | - | - | - | <u>95,013</u> | Total other governmental funds |
| | | | | | Regional Medical Center |
| 4,934 | - | - | - | 4,934 | Pension obligation |
| - | - | - | - | <u>4,934</u> | Total Regional Medical Center |
| | | | | | Waste Management |
| 256 | - | - | - | 256 | Pension obligation |
| - | - | - | - | <u>256</u> | Total Waste Management |
| | | | | | Housing Authority |
| 192 | - | - | - | 192 | Pension obligation |
| - | - | - | - | <u>192</u> | Total Housing Authority |
| | | | | | Other Enterprise Funds |
| - | - | 15 | - | 15 | Reimbursement |
| - | - | - | - | <u>15</u> | Total other enterprise funds |
| | | | | | Internal Service Funds |
| - | - | - | 5,965 | 5,965 | Business services |
| 1,873 | - | - | - | 1,873 | Pension obligation |
| - | - | 26 | - | 3,457 | Reimbursement |
| - | - | - | - | <u>11,295</u> | Total internal service funds |
| <u>\$ 128,939</u> | <u>\$ 15,001</u> | <u>\$ 41</u> | <u>\$ 6,214</u> | <u>\$ 269,704</u> | Total transfers in |

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 8 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows (In thousands):

| | Balance July 1, 2013 | Prior Period Adjustments | Additions | Retirements | Transfers | Balance June 30, 2014 |
|---|-------------------------|-----------------------------|-------------------|-------------------|------------------|--------------------------|
| Governmental activities: | | | | | | |
| <i>Capital assets, not being depreciated:</i> | | | | | | |
| Land & easements | \$ 469,522 | \$ - | \$ 39,108 | \$ (641) | \$ - | \$ 507,989 |
| Construction in progress | 815,227 | - | 171,771 | - | (111,467) | 875,531 |
| Total capital assets, not being depreciated | 1,284,749 | - | 210,879 | (641) | (111,467) | 1,383,520 |
| <i>Capital assets, being depreciated:</i> | | | | | | |
| Infrastructure | | | | | | |
| Flood channels | 259,922 | - | - | - | - | 259,922 |
| Flood storm drains | 388,658 | - | 8,219 | - | 1,082 | 397,959 |
| Flood dams and basins | 31,215 | - | - | - | 2,753 | 33,968 |
| Roads | 1,631,202 | - | 43,833 | - | - | 1,675,035 |
| Traffic signals | 18,973 | - | - | - | - | 18,973 |
| Bridges | 105,200 | - | 300 | - | - | 105,500 |
| Runways | 22,148 | - | - | - | 2,031 | 24,179 |
| Communication towers | | - | - | - | 16,146 | 16,146 |
| Parks trails and improvements | 12,285 | - | - | - | 2 | 12,287 |
| Land improvements | 110 | - | - | - | - | 110 |
| Structures and improvements | 1,470,922 | - | 29,635 | (4,041) | 32,518 | 1,529,034 |
| Equipment | 412,980 | - | 56,707 | (21,214) | 57,014 | 505,487 |
| Total capital assets, being depreciated | 4,353,615 | - | 138,694 | (25,255) | 111,546 | 4,578,600 |
| Less accumulated depreciation for: | | | | | | |
| Infrastructure | (1,054,516) | - | (70,438) | - | - | (1,124,954) |
| Land improvements | (23) | - | (1) | - | - | (24) |
| Structures and improvements | (367,608) | - | (33,136) | 1,362 | - | (399,382) |
| Equipment | (302,825) | - | (30,559) | 20,098 | (79) | (313,365) |
| Total accumulated depreciation | (1,724,972) | - | (134,134) | 21,460 | (79) | (1,837,725) |
| Total capital assets, being depreciated, net | 2,628,643 | - | 4,560 | (3,795) | 111,467 | 2,740,875 |
| Governmental activities capital assets, net | \$ 3,913,392 | \$ - | \$ 215,439 | \$ (4,436) | \$ - | \$ 4,124,395 |

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 8 – CAPITAL ASSETS (CONTINUED)

Capital asset activity for the year ended June 30, 2014 was as follows (In thousands):

| | Balance July 1, 2013 | Prior Period Adjustments | Additions | Retirements | Transfers | Balance June 30, 2014 |
|---|-------------------------|-----------------------------|------------------|-------------------|-----------------|--------------------------|
| Business-type activities: | | | | | | |
| <i>Capital assets, not being depreciated:</i> | | | | | | |
| Land & easements | \$ 21,358 | \$ - | \$ 4,419 | \$ - | \$ - | \$ 25,777 |
| Construction in progress | 65,006 | - | 28,482 | (1,505) | (39,455) | 52,528 |
| Concession arrangements | 8,830 | - | - | - | - | 8,830 |
| Total capital assets, not being depreciated | 95,194 | - | 32,901 | (1,505) | (39,455) | 87,135 |
| <i>Capital assets, being depreciated:</i> | | | | | | |
| Land improvements | 11,662 | - | - | - | - | 11,662 |
| Infrastructure-landfill liners | 55,226 | - | - | - | 11,824 | 67,050 |
| Infrastructure-other | 23,501 | - | 66 | - | 1,065 | 24,632 |
| Structures and improvements | 219,914 | - | 1,024 | - | 2,732 | 223,670 |
| Equipment | 80,401 | 425 | 4,382 | (1,792) | 23,755 | 107,171 |
| Total capital assets, being depreciated | 390,704 | 425 | 5,472 | (1,792) | 39,376 | 434,185 |
| Less accumulated depreciation for: | | | | | | |
| Land improvements | (8,582) | - | (582) | - | - | (9,164) |
| Infrastructure-landfill liners | (26,653) | - | (2,735) | - | - | (29,388) |
| Infrastructure-other | (8,230) | - | (1,128) | - | - | (9,358) |
| Structures and improvements | (98,858) | - | (6,020) | - | - | (104,878) |
| Equipment | (68,283) | (425) | (6,067) | 1,642 | 79 | (73,054) |
| Total accumulated depreciation | (210,606) | (425) | (16,532) | 1,642 | 79 | (225,842) |
| Total capital assets, being depreciated, net | 180,098 | - | (11,060) | (150) | 39,455 | 208,343 |
| Business-type activities capital assets, net | \$ 275,292 | \$ - | \$ 21,841 | \$ (1,655) | \$ - | \$ 295,478 |

Depreciation

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

| | |
|---|--------------------------|
| General government | \$ 32,088 |
| Public protection | 16,648 |
| Health and sanitation | 1,376 |
| Public assistance | 973 |
| Public ways and facilities | 63,238 |
| Recreation and culture | 1,107 |
| Education | 3,418 |
| 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 | <u>15,286</u> |
| Total depreciation expense – governmental functions | <u>\$ 134,134</u> |

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 8 – CAPITAL ASSETS (CONTINUED)

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

| | | |
|--|-----------|---------------|
| Regional Medical Center | \$ | 9,947 |
| Waste Management | | 5,150 |
| Housing Authority | | 1,425 |
| County Service Areas | | 3 |
| Flood Control | | 7 |
| Total depreciation expense – business-type functions | <u>\$</u> | <u>16,532</u> |

Capital Leases

Leased property under capital leases by major class (In thousands):

| | <u>Governmental</u> | <u>Business-type</u> |
|--------------------------------|---------------------|----------------------|
| Land | \$ 2,223 | \$ - |
| Structures and improvements | 88,506 | - |
| Equipment | 79,608 | 12,503 |
| Less: Accumulated amortization | <u>(54,052)</u> | <u>(9,573)</u> |
| Total leased property, net | <u>\$ 116,285</u> | <u>\$ 2,930</u> |

Discretely Presented Component Unit

Activity for the Riverside County Children and Families Commission for the year ended June 30, 2014 was as follows (In thousands):

| | Balance July 1, 2013 | Additions | Retirements | Balance June 30, 2014 |
|--|-------------------------|-----------------|-------------|--------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ - | \$ 373 | \$ - | \$ 373 |
| Construction in progress | - | 19 | - | 19 |
| Total capital assets, not being depreciated | <u>-</u> | <u>392</u> | <u>-</u> | <u>392</u> |
| Capital assets, being depreciated | | | | |
| Building and improvements | - | 1,868 | - | 1,868 |
| Machinery and equipment | 44 | 11 | - | 55 |
| Total capital assets, being depreciated | <u>44</u> | <u>1,879</u> | <u>-</u> | <u>1,923</u> |
| Less accumulated depreciation for: | | | | |
| Building and improvements | - | (7) | - | (7) |
| Machinery and equipment | (44) | (2) | - | (46) |
| Total accumulated depreciation | <u>(44)</u> | <u>(9)</u> | <u>-</u> | <u>(53)</u> |
| Total capital assets, being depreciated, net | <u>-</u> | <u>1,870</u> | <u>-</u> | <u>1,870</u> |
| Total capital assets, net | <u>\$ -</u> | <u>\$ 2,262</u> | <u>\$ -</u> | <u>\$ 2,262</u> |

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 9 – SERVICE CONCESSION ARRANGEMENTS (SCA)

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements (SCA)* defines an SCA as a type of public-private or public-public partnership. As used in GASB Statement Number 60, an SCA is an arrangement between a government (the transferor) and an operator in which all of the following criteria are met:

- a) The transferor conveys to the operator the right and related obligation to provide public service through the use and operation of a capital assets (referred to in the statement as a “facility”) in exchange for significant consideration, such as an up-front payment, installment payments, a new facility, or improvements to an existing facility.
- b) The operator collects and is compensated by fees from third parties.
- c) The transferor determines or has the ability to modify or approve what services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services.

The County has determined that the following arrangements meet the criteria set forth above (where the County is the transferor) and therefore included these SCA in the County’s financial statements. GASB Statement No. 60 also provides guidance on accounting treatment if the County were acting as an operator of another government’s facility. The County has determined that there are no incidences where the County would qualify as such an operator.

McIntyre Park Campground

On October 15, 1985, and as later amended, the Park District (“the Park”) entered into an agreement with California East Coast, Inc. (the “company”), under which the company will operate and collect user fees from a campground, camp store, boat launch and recovery ramp, day-use area and marina fuel station through a lease with the Park at McIntyre County Park through the year 2047. The company will pay the Park between ten and seventeen percent of the revenues it earns from the operation of the campground. The company is required to operate and maintain the campground in accordance with the Lease Contract. The Park reports the campground as a capital asset with a carrying amount of \$51.6 thousand at year-end. The Park has received no upfront payments or installment payments that are required to be reported as a deferred inflow of resources on the financial statements. The Park also has no contractual obligations to sacrifice financial resources that meet the criteria to be recognized as a liability.

Riviera RV Resort

On or about January 1, 1970, and as later amended, the County of Riverside and later the Park entered into an agreement with Cavan Inc., now Destiny RV, LLC who assigned its lease rights to Riviera-Reynolds (the “company”). Under the terms of the agreement, the company is permitted to engage in the operation of a travel trailer park, rental of spaces in the park, food service operations including a grocery store, boat launching ramp and other associated camping functions through June 2044. The company will pay the Park the greater of \$3.0 hundred or seven percent of gross receipts earned from operation of the RV Park. The Park reports the RV Park as a capital asset with a carrying amount of \$131.4 thousand at year-end. The Park has received no upfront payments or installment payments that are required to be reported as a deferred inflow of resources on the financial statements. The Park also has no contractual obligations to sacrifice financial resources that meet the criteria to be recognized as a liability.

Edom Hill Transfer Station

On November 2, 2002, the Waste Management Department entered into a 30-year agreement with Burrtec Recovery and Transfer LLC (Burrtec), under which Burrtec has the rights to construct the Edom Hill Transfer Station in order to serve the traditional users/wasteshed of the closed Edom Hill Landfill and operate the transfer station.

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 9 – SERVICE CONCESSION ARRANGEMENTS (SCA) (continued)

A summary of the important details and capital assets pertaining to this SCA can be found below. (In thousands)

| | <u>Date SCA Entered Into</u> | <u>Term of SCA</u> | <u>Expiration of SCA</u> | <u>Revenue Sharing</u> | <u>Minimum Rent Payment (per month)</u> |
|----------------------------|----------------------------------|------------------------|------------------------------|---|---|
| McIntyre Park Campground | 10/15/1985 | 62 years | 10/15/2047 | Between 10.0% and 17.0% of the revenues it earns from the operation of the campground. | \$ - |
| Riviera RV Resort | 1/1/1970 | 43 years | 6/30/2044 | Greater of \$300 or 7.0% of gross receipts earned from operation of the RV park. | - |
| Edom Hill Transfer Station | 11/2/2002 | 30 years | 11/2/2032 | Service Fee ranging from \$4.41 to \$4.13 per ton, Disposal fee of \$23.00 per ton, and City Mitigation Fee of \$1 per ton for all incoming solid waste | - |
| | | | | | <u>\$ -</u> |

Capital assets balance for the SCA for the year ended June 30, 2014 and over the term of the agreement are as follows: (In thousands)

| | <u>Structures & Structure Improvements</u> |
|----------------------------|--|
| McIntyre Park Campground | \$ 52 |
| Riviera RV Resort | 131 |
| Edom Hill Transfer Station | 8,830 |
| | <u>\$ 9,013</u> |

The deferred inflows of resources activity for the SCA for the year ended June 30, 2014 are as follows: (In thousands)

| | <u>Balance July 1, 2013</u> | <u>Additions/ Restatements</u> | <u>Amortization¹</u> | <u>Balance June 30, 2014</u> |
|---------------------------------------|---------------------------------|------------------------------------|---------------------------------|----------------------------------|
| SCA Capital Assets | | | | |
| McIntyre Park Campground ² | \$ - | \$ - | \$ - | \$ - |
| Riviera RV Resort ² | - | - | - | - |
| Edom Hill Transfer Station | 8,396 | - | (434) | 7,962 |
| Total Deferred inflows | <u>\$ 8,396</u> | <u>\$ -</u> | <u>\$ (434)</u> | <u>\$ 7,962</u> |

¹ Amortization calculate using straight-line method for the term of the agreement for the SCA

² No upfront payments received or installment payments that are required to be reported as a deferred inflow of resources

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 10 - LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS

State and federal laws and regulations require Waste Management to place a final cover on all active landfills when closed and to perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. Waste Management will recognize the remaining estimated cost of \$19.3 million as the remaining estimated capacity of 15.0 million tons is filled. Waste Management expects all currently permitted landfill capacities to be filled by 2087. The total estimate of \$67.4 million is based on what it would cost to perform all closure and post-closure care costs at present value. Actual costs may be different due to inflation, changes in technology, or changes in regulations.

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

| Facility Name (City) | Cumulative Expense | Capacity Used as of June 30, 2014 % | Estimated Years Remaining |
|-------------------------------|-----------------------|---|---------------------------------|
| Anza (Anza) | \$ 1,525 | 100.0 | - |
| Badlands (Moreno Valley) | 12,826 | 60.7 | 10 |
| Blythe (Blythe) | 8,294 | 36.7 | 33 |
| Coachella (Coachella) | 3,559 | 100.0 | - |
| Desert Center (Desert Center) | 1,558 | 69.6 | 73 |
| Double Butte (Winchester) | 2,049 | 100.0 | - |
| Edom Hill (Cathedral City) | 7,798 | 100.0 | - |
| Highgrove (Riverside) | 1,828 | 100.0 | - |
| Lamb Canyon (Beaumont) | 19,136 | 56.8 | 7 |
| Mead Valley (Perris) | 3,284 | 100.0 | - |
| Mecca II (Mecca) | 3,657 | 99.4 | 23 |
| Oasis (Oasis) | <u>1,926</u> | 84.7 | 49 |
| | <u>\$ 67,440</u> | | |

Waste Management is required by state and federal laws and regulations to make annual contributions to a trust fund to finance closure and post-closure care. Title 27 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 22228 and 22245 of the CCR, the County has implemented Pledge of Revenue agreements between the County and the California Department of Resources, Recycling and Recovery (CalRecycle) for six active landfills and six closed landfills to demonstrate financial responsibility for post-closure maintenance costs. Waste Management has determined that the projected net revenues, after current operating costs, from tipping fees during the 30 year period of post-closure care maintenance will, during each year of this period, be greater than the yearly monitoring and post-closure care maintenance costs for each landfill. It is agreed that the amount of these Pledge of Revenue agreements may increase or decrease to match any adjustments to the identified cost estimates, which is mutually agreed to by the Waste Management and the CalRecycle. Waste Management complies with these requirements and investments of \$29.2 million are held for these purposes at June 30, 2014 and are classified as restricted assets in the statement of net position. Waste Management expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional post-closure requirements are determined (due to changes in technology or applicable laws or regulations) these costs may need to be covered by charges to future landfill users.

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 11 – OPERATING LEASES

The following is a schedule of future minimum rental payments 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, 2014 (In thousands):

| Year Ending June 30 | |
|------------------------|-------------------|
| 2015 | \$ 36,558 |
| 2016 | 29,931 |
| 2017 | 25,292 |
| 2018 | 14,127 |
| 2019 | 7,690 |
| 2020-2024 | 15,702 |
| 2025-2029 | 1,305 |
| 2030-2034 | 1,326 |
| 2035-2039 | 1,023 |
| 2040-2044 | <u>443</u> |
| Total Minimum Payments | <u>\$ 133,397</u> |

Total rental expenditure/expense for the year ended June 30, 2014 was \$109.5 million, of which \$12.8 million was recorded in the enterprise funds.

NOTE 12 – ADVANCES FROM GRANTORS AND THIRD PARTIES

Under both the accrual and modified accrual basis of accounting, revenue may be recognized only when earned. Therefore, the government-wide statement of net position as well as governmental and enterprise funds defer revenue recognition in connection with resources that have been received as of year-end, but not yet earned. Assets recognized in connection with a transaction before the earnings process is complete are offset by a corresponding liability for advances from grantors and third parties.

The balance as of June 30, 2014 of advances from grantors and third parties are as follows (In thousands):

| | <u>Balance</u> <u>June 30, 2014</u> |
|---|--|
| General Fund: | |
| Advances on state grants for probation services | \$ 41,581 |
| Advances on state & federal grants for mental health services | 131,481 |
| Advances on state grants & other 3rd party advances for public health services | 10,835 |
| Advances on state funding for social services | 71,035 |
| Advances on state & federal grants for sheriff services | 8,240 |
| Advances on state grants & other 3rd party advances for environmental health services | 1,982 |
| Advances on state grants for district attorney services | 1,925 |
| Advances from flood control and water conservation district for permits | 1,095 |
| Advances on candidate statements for registrar of voters | 220 |
| Other advances | <u>505</u> |
| Total general fund | <u>\$ 268,899</u> |

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 12 – ADVANCES FROM GRANTORS AND THIRD PARTIES (Continued)

The balance as of June 30, 2014 of advances from grantors and third parties are as follows (In thousands):

| | |
|--|-------------------|
| Transportation Special Revenue Fund: | |
| Developer fees | 6,224 |
| Senate Bill (SB) 621 Indian gaming | 1,028 |
| Advances from developers for median projects | 4,144 |
| Survey fees | 1,014 |
| Utility relocation | 260 |
| Mitigation fees | 1,308 |
| Comprehensive transportation plan | 17 |
| Plan review and inspection fees | 547 |
| Deposit based fees | 277 |
| Total transportation special revenue fund | 14,819 |
| Flood Special Revenue Fund: | |
| Advances for flood control projects | 545 |
| Total flood special revenue fund | 545 |
| Other Governmental Funds: | |
| Camping and recreation fees | 563 |
| Advance from state for community service block grant | 290 |
| Advance from state for the employment training panel project | 22 |
| Advance from 3rd parties for recreational events | 14 |
| Lease revenue from Library Systems & Services Inc. | 208 |
| Advance from state for bio-terrorism programs | 351 |
| Advances for aviation projects | 12 |
| Total other governmental funds | 1,460 |
| Grand total of advances from grantors and third parties | \$ 285,723 |

NOTE 13 – SHORT-TERM DEBT

Tax and Revenue Anticipation Notes (TRANS)

On October 16, 2013, the County issued \$119.8 million of tax exempt TRAN, which will be repaid on October 15, 2014. The notes were issued with a yield rate of 0.20% for Series Bond D and 0.37% for Series Bond E. This was to provide needed cash to cover the projected intra-period cash-flow deficits of the County's general fund during the fiscal year July 1 through June 30.

Tax-Exempt Commercial Paper Notes (Teeter)

In December 1993, the County adopted the Teeter plan, the alternative method for the distribution of secured property taxes and other assessments. In order to fulfill the requirements of the plan, the County obtained cash for the "buyout" of delinquent secured property taxes and the annual advance of current unpaid taxes to all entities that elected to participate in the Teeter plan. The current financing takes place through the sale of Tax-exempt Commercial Paper Notes (Teeter notes). During fiscal year 2013-14, the County retired \$67.6 million of the \$142.8 million principal amount outstanding at June 30, 2013. The County then issued \$44.3 million of Series E notes, leaving an outstanding balance of \$119.5 million at June 30, 2014.

Short-term debt activity for the year ended June 30, 2014, was as follows (In thousands):

| | Balance | | | | Balance |
|---------------------|---------------|------------|--------------|----|---------------|
| | June 30, 2013 | Additions | Reductions | | June 30, 2014 |
| Fiscal year 2013-14 | | | | | |
| TRANS | \$ - | \$ 119,770 | \$ (119,770) | \$ | - |
| Teeter notes | 142,840 | 44,258 | (67,636) | \$ | 119,462 |
| Total | \$ 142,840 | \$ 164,028 | \$ (187,406) | \$ | 119,462 |

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 14 – LONG-TERM OBLIGATIONS

Long-term obligations of the County consist of capital lease obligations, bonds, notes, and other liabilities which are payable from the general, debt service, enterprise, and internal service funds. The calculated legal debt limit for the County is \$2.6 billion.

Capital Leases

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

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

The following is a schedule by year of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of June 30, 2014 (In thousands):

| <u>Fiscal Year Ending June 30</u> | <u>Palm Desert Financing Authority</u> | <u>Other Governmental Activities</u> | <u>Total Governmental Activities</u> | <u>Business- type Activities</u> |
|--|--|--|--|--|
| 2015 | \$ 6,316 | \$ 14,790 | \$ 21,106 | \$ 2,340 |
| 2016 | 6,307 | 11,711 | 18,018 | 868 |
| 2017 | 6,313 | 6,015 | 12,328 | 478 |
| 2018 | 6,310 | 4,223 | 10,533 | 214 |
| 2019 | 6,309 | 3,549 | 9,858 | 55 |
| 2020-2024 | 18,921 | 4,261 | 23,182 | - |
| 2025-2029 | - | 493 | 493 | - |
| Total minimum payments | 50,476 | 45,041 | 95,517 | 3,955 |
| Less amount representing interest | (11,053) | (4,642) | (15,695) | (101) |
| Present value of net minimum lease payments | <u>\$ 39,423</u> | <u>\$ 40,399</u> | <u>\$ 79,822</u> | <u>\$ 3,854</u> |

The statement of net position includes the Palm Desert Financing Authority capital lease of \$39.4 million for the construction and acquisition of certain public facilities within the County, including the Palm Desert Sheriff's Station, community centers, the Blythe County Administrative Center, an animal shelter and a clinic facility.

The following schedules provide details of all certificates of participation, bonds payable, and notes payable for the County of Riverside that are outstanding as of June 30, 2014 (In thousands):

| <u>Type of Indebtedness</u> | <u>Original Borrowing</u> | <u>Interest Rates to Maturity</u> | <u>Final Maturity</u> | <u>Outstanding at June 30, 2014</u> |
|--|-------------------------------|---|---------------------------|---|
| Governmental activities: | | | | |
| Certificate of participations | | | | |
| <u>CORAL</u> | | | | |
| 1985 Serial Certificates | \$ 169,400 | Variable | 2015 | \$ 28,000 |
| 1990 Monterey Avenue: Serial Certificates | 8,800 | Variable | 2020 | 4,400 |
| 2005A - Capital Improvement & Family Law Court Refunding: Serial Certificates | 28,495 | 3.00% - 5.00% | 2025 | 20,165 |

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 14 – LONG-TERM OBLIGATIONS (Continued)

| <u>Type of Indebtedness</u> | <u>Original Borrowing</u> | <u>Interest Rates to Maturity</u> | <u>Final Maturity</u> | <u>Outstanding at June 30, 2014</u> |
|---|-------------------------------|---|---------------------------|---|
| Certificate of Participation (Continued) | | | | |
| 2005A - Capital Improvement & Family Law Court Refunding: Term Certificate | \$ 9,905 | 5.00% | 2033 | \$ 9,905 |
| 2005A - Capital Improvement & Family Law Court Refunding: Term Certificate | 13,265 | 5.00% | 2036 | 13,265 |
| 2005B - Historic Courthouse Refunding: Serial Certificates | 18,835 | 3.00% - 5.00% | 2025 | 14,250 |
| 2005B - Historic Courthouse Refunding: Term Certificates | 3,775 | 5.00% | 2027 | 3,775 |
| 2006 Series A - Capital Improvement Project: Serial Certificates | 16,425 | 3.75% - 5.13% | 2026 | 12,530 |
| 2006 Series A - Capital Improvement Project: Term Certificates | 7,130 | 4.75% | 2031 | 7,130 |
| 2006 Series A - Capital Improvement Project: Term Certificates | 7,050 | 5.00% | 2035 | 7,050 |
| 2006 Series A - Capital Improvement Project: Term Certificates | 4,070 | 4.63% | 2037 | 4,070 |
| 2007 Series A - Public Safety Communication and Refunding Projects | 73,775 | 4.00%-5.00% | 2017 | 3,045 |
| 2007 Series B - Public Safety Communication and Refunding Projects | 37,350 | Auction Rate | 2021 | 37,350 |
| 2009 Series A - Public Safety Communication and Woodcrest Library Refunding Projects | 45,685 | Variable | 2039 | 45,345 |
| 2009 Larson Justice Center Refunding: Serial Certificates | <u>24,680</u> | 2.00%-5.00% | 2021 | <u>18,800</u> |
| Total CORAL | <u>468,640</u> | | | <u>229,080</u> |
| <u>Court Financing Corporation</u> | | | | |
| Bankruptcy Courthouse: Acquisition Project Term Certificate | <u>16,120</u> | 7.50% | 2020 | <u>7,290</u> |
| Total Court Financing Corporation | <u>16,120</u> | | | <u>7,290</u> |
| <u>District Court Financing Corporation</u> | | | | |
| U.S. District Court Project: Term/Series 1999 | 2,165 | 7.59% | 2017 | 2,165 |
| U.S. District Court Project: Term/Series 1999 | 17,635 | 1.93% | 2015 | 1,658 |
| U.S. District Court Project: Term/Series 2002 | <u>925</u> | 3.00% | 2020 | <u>400</u> |
| Total District Court Financing Corporation | <u>20,725</u> | | | <u>4,223</u> |
| Total certificate of participations | <u>\$ 505,485</u> | | | <u>\$ 240,593</u> |
| Bonds payable | | | | |
| <u>CORAL</u> | | | | |
| 2012 CAC Annex Refunding Project | \$ 33,360 | 2.00%-5.00% | 2031 | \$ 30,680 |
| 2008 A Southwest Justice Center: Term Certificate | 78,895 | 5.16% | 2032 | 78,895 |
| 1997 B & C (Hospital): Term Bonds (Series C) | 1,733 | 5.81% | 2019 | 1,733 |
| 2013 Probation & RCIT: Term Bonds (Series A) | 66,015 | 3.00%-5.25% | 2043 | 66,015 |
| 2014 Lease Refunding Court Facilities Project, Series A | 10,890 | 2.00%-5.00% | 2033 | 10,890 |
| 2014 Lease Refunding Court Facilities Project, Series B | <u>7,605</u> | .55%-2.73% | 2019 | <u>7,605</u> |
| Total CORAL | <u>198,498</u> | | | <u>195,818</u> |

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 14 – LONG-TERM OBLIGATIONS (Continued)

| <u>Type of Indebtedness</u> | <u>Original Borrowing</u> | <u>Interest Rates to Maturity</u> | <u>Final Maturity</u> | <u>Outstanding at June 30, 2014</u> |
|--|-------------------------------|---|---------------------------|---|
| Bonds payable (continued) | | | | |
| <u>Taxable Pension Obligation Bonds</u> | | | | |
| Pension Obligation Bonds (Series 2005-A) | \$ 400,000 | 4.91%-5.04% | 2035 | \$ 334,510 |
| Total Taxable Pension Obligation Bonds | <u>400,000</u> | | | <u>334,510</u> |
| <u>Inland Empire Tobacco Securitization Authority</u> | | | | |
| Series 2007 A | 87,650 | 4.63%-5.10% | 2021 | 57,144 |
| Series 2007 B | 53,758 | 5.75% | 2026 | 53,758 |
| Series 2007 C-1 | 53,542 | 6.63% | 2036 | 53,542 |
| Series 2007 C-2 | 29,653 | 6.75% | 2045 | 29,653 |
| Series 2007 D | 23,457 | 7.00% | 2057 | 23,457 |
| Series 2007 E | 18,948 | 7.63% | 2057 | 18,948 |
| Series 2007 F | <u>27,076</u> | 8.00% | 2057 | <u>27,076</u> |
| Total Inland Empire Tobacco Securitization Authority | <u>294,084</u> | | | <u>263,578</u> |
| <u>Riverside County Public Financing Authority</u> | | | | |
| Series 2012 | <u>17,640</u> | 3.00% - 5.00% | 2021 | <u>16,280</u> |
| Total Riverside County Public Financing Authority | <u>17,640</u> | | | <u>16,280</u> |
| Total bonds payable | <u>\$ 910,222</u> | | | <u>\$ 810,186</u> |
| Loans payable | | | | |
| <u>CORAL</u> | | | | |
| 2011 Monroe Park Building Refunding | \$ 5,535 | 3.54% | 2021 | \$ 3,890 |
| Total 2011 Monroe Park Building Refunding | <u>5,535</u> | | | <u>3,890</u> |
| Total loans payable | <u>\$ 5,535</u> | | | <u>\$ 3,890</u> |
| Total governmental activities | <u>\$ 1,421,242</u> | | | <u>\$ 1,054,669</u> |
| Business-type activities: | | | | |
| Bonds payable | | | | |
| <u>Regional Medical Center</u> | | | | |
| 1997 A Serial Capital Appreciation Bonds (net of future capital appreciation of \$130.5 million) | \$ 41,170 | 5.70% - 6.01% | 2026 | \$ 35,301 |
| 1997 Term bond (Series C) | 1,532 | 5.81% | 2019 | 872 |
| 2012 Term bond (Series A) | 87,510 | 2.00%-5.00% | 2029 | 92,993 |
| 2012 Term bond (Series B) | <u>3,020</u> | 3.25% | 2019 | <u>2,890</u> |
| Total Regional Medical Center | <u>133,232</u> | | | <u>132,056</u> |

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 14 – LONG-TERM OBLIGATIONS (Continued)

| <u>Type of Indebtedness</u> | <u>Original Borrowing</u> | <u>Interest Rates to Maturity</u> | <u>Final Maturity</u> | <u>Outstanding at June 30, 2014</u> |
|--|-------------------------------|---|---------------------------|---|
| Bonds payable (Continued) | | | | |
| <u>Housing Authority</u> | | | | |
| 1998 Series A: Term Bonds | \$ 2,405 | 6.85% | 2018 | \$ 885 |
| Total Housing Authority | <u>2,405</u> | | | <u>885</u> |
| Total bonds payable | <u>\$ 135,637</u> | | | <u>\$ 132,941</u> |
| Total business-type activities | <u>\$ 135,637</u> | | | <u>\$ 132,941</u> |
| Discretely Presented Component Unit: | | | | |
| Bonds payable | | | | |
| <u>Palm Desert Financing Authority</u> | | | | |
| 2008 Lease Revenue Bond Series A: Serial Certificate | \$ 43,845 | 4.00%-5.50% | 2018 | \$ 22,619 |
| 2008 Lease Revenue Bond Series A: Term Certificate | <u>28,600</u> | 6.00% | 2022 | <u>28,600</u> |
| Total Palm Desert Financing Authority | <u>72,445</u> | | | <u>51,219</u> |
| Total bonds payable | <u>\$ 72,445</u> | | | <u>\$ 51,219</u> |
| Total discretely presented component unit | <u>\$ 72,445</u> | | | <u>\$ 51,219</u> |

As of June 30, 2014, annual debt service requirements of governmental activities to maturity are as follows (In thousands):

| Governmental Fiscal Year Ending June 30 | <u>Loans Payable</u> | | <u>Certificates of Participation</u> | |
|---|----------------------|-----------------|--------------------------------------|------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2015 | \$ 540 | \$ 133 | \$ 30,433 | \$ 12,124 |
| 2016 | 560 | 114 | 32,433 | 9,288 |
| 2017 | 585 | 94 | 18,182 | 7,711 |
| 2018 | 605 | 73 | 18,110 | 7,398 |
| 2019 | 620 | 51 | 19,800 | 6,387 |
| 2020-2024 | 980 | 35 | 60,810 | 19,689 |
| 2025-2029 | - | - | 24,815 | 11,590 |
| 2030-2034 | - | - | 18,920 | 6,490 |
| 2035-2039 | - | - | 16,670 | 1,569 |
| 2040-2044 | - | - | 420 | 8 |
| Total | <u>\$ 3,890</u> | <u>\$ 500</u> | <u>\$ 240,593</u> | <u>\$ 82,254</u> |

| Governmental Fiscal Year Ending June 30 | <u>Bonds Payable</u> | |
|---|----------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2015 | \$ 31,480 | \$ 28,903 |
| 2016 | 23,350 | 31,594 |
| 2017 | 25,640 | 30,351 |
| 2018 | 105,614 | 28,048 |
| 2019 | 32,278 | 24,497 |
| 2020-2024 | 192,940 | 87,096 |
| 2025-2029 | 92,380 | 45,105 |
| 2030-2034 | 94,355 | 24,185 |
| 2035-2039 | 73,652 | 10,340 |
| 2040-2044 | 18,620 | 2,884 |
| 2045-2049 | 29,653 | 1,945 |
| 2050-2054 | - | - |
| 2055-2059 | 90,224 | 4,671 |
| Total | <u>\$ 810,186</u> | <u>\$ 319,619</u> |

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 14 – LONG-TERM OBLIGATIONS (Continued)

As of June 30, 2014, annual debt service requirements of business-type activities to maturity are as follows (In thousands):

| Business-type Fiscal Year Ending June 30 | Bonds Payable | | Other Long-term Liabilities | |
|--|-------------------|-------------------|-----------------------------|-------------|
| | Principal | Interest | Principal | Interest |
| 2015 | \$ 12,851 | \$ 6,880 | \$ - | \$ - |
| 2016 | 13,464 | 6,952 | 6,795 | - |
| 2017 | 14,686 | 6,465 | - | - |
| 2018 | 14,307 | 5,988 | - | - |
| 2019 | 11,651 | 8,631 | - | - |
| 2020-2024 | 22,023 | 82,194 | - | - |
| 2025-2029 | 29,231 | 37,718 | - | - |
| 2030-2034 | 9,535 | 381 | - | - |
| Total requirements | 127,748 | 155,209 | 6,795 | - |
| Bond discount/premium, net | 5,848 | - | - | - |
| Loss on defeasance (net) | (655) | - | - | - |
| Total | \$ 132,941 | \$ 155,209 | \$ 6,795 | \$ - |

| Discretely Presented Component Unit Fiscal Year Ending June 30 | Bonds Payable | |
|--|------------------|------------------|
| | Principal | Interest |
| 2015 | \$ 5,325 | \$ 2,940 |
| 2016 | 5,580 | 2,673 |
| 2017 | 5,880 | 2,380 |
| 2018 | 6,200 | 2,057 |
| 2019 | 6,540 | 1,716 |
| 2020-2022 | 22,060 | 2,699 |
| Total requirements | 51,585 | 14,465 |
| Bond discount/premium, net | (366) | - |
| Total | \$ 51,219 | \$ 14,465 |

Accreted Interest Payable

The following is a summary of the changes in accreted interest payable for the year ended June 30, 2014 (In thousands):

| | Balance June 30, 2013 | Additions | Reductions | Balance June 30, 2014 |
|--|--------------------------|-----------|------------|--------------------------|
| <u>Governmental Activities:</u> | | | | |
| <i>Certificates of Participation:</i> | | | | |
| Court Financing (U.S. District Court Project) | \$ 4,037 | \$ 479 | \$ - | \$ 4,516 |
| <i>Bonds:</i> | | | | |
| Inland Empire Tobacco Securitization Authority | 90,624 | 16,483 | - | 107,107 |
| Total governmental-type activities | \$ 94,661 | \$ 16,962 | \$ - | \$ 111,623 |
| <u>Business-type Activities:</u> | | | | |
| <i>Lease Revenue Bonds:</i> | | | | |
| Regional Medical Center (1997A Hosp) | \$ 61,113 | \$ 5,990 | \$ (4,322) | \$ 62,781 |
| Total business-type activities | \$ 61,113 | \$ 5,990 | \$ (4,322) | \$ 62,781 |

The accreted interest payable balances at June 30, 2014 represent accreted interest on the U.S. District Court project, the 2007 Inland Empire Tobacco Securitization Authority Bonds, and the 1997 A Hospital Serial Capital Appreciation Bonds. The original issues were \$2.2 million for the U.S. District Court Project, \$294.1 million for the 2007 Inland Empire Tobacco Securitization Authority Bonds, and \$41.2 million for the 1997 A Hospital Serial Capital Appreciation Bonds. The total accreted value on the bonds and certificates upon maturity will be \$7.2 million for the U.S. District Court Project, \$171.6 million for the 1997 A Hospital Serial Capital Appreciation Bonds and \$3.5 billion for the 2007 Inland Empire Tobacco Securitization Authority Bonds. The County is under no obligation to make payments of accreted value of or redemption premiums, if any, or interest on the Series 2007 Bonds.

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 14 – LONG-TERM OBLIGATIONS (Continued)

Accreted Interest Payable (Continued)

The increases of \$17.0 million and \$1.7 million represent current year's accretion for governmental activities and business-type activities respectively. The accumulated accretion for business-type activities is \$62.8 million at June 30, 2014. The accumulated accretion for U.S. District Court Financing and the Inland Empire Tobacco Securitization Authority in governmental activities is \$111.6 million. The un-accreted balances at June 30, 2014 are \$58.4 million for the 1997-A Hospital Riverside County Regional Medical Center (RCRMC) project, \$2.7 million for the U.S. District Court, and \$3.4 billion for the Inland Empire Tobacco Securitization Authority Capital Appreciation Bonds.

Bonds, Certificates of Participation / Refunding

On July 1, 2013, Riverside Asset Leasing Corporation issued \$66.0 million in lease revenue bonds. The Series 13A (Public Defender/Probation Building and Riverside County Technology Solutions Center Projects) are being issued to acquire, construct, improve, furnish and equip buildings that will house the offices for the County of Riverside's Public Defender, Probation Department and Information and Technology Department. The new bonds have an interest rate of 3.0% to 5.0%.

In June 2014, CORAL issued \$18.5 million in lease revenue bonds. The Series 2014 A and B are being issued to provide funds to: currently refund and defease all of the outstanding Taxable Refunding Certificates of Participation (Historic Courthouse Project) 2003 Series A, currently refund and defease all the outstanding County of Riverside Refunding Certificates of Participation (capital facilities projects), 2003 Series B, advance refund and defease all of the outstanding Taxable Refunding Certificates of Participation (Bankruptcy Court Project), Series 2003, and pay costs of issuance in connection with the issuance and delivery of the Series 2014 Bonds. The new bonds have an interest rate of 2.0% to 4.0%.

Defeasance of Debt

In April 2005, CORAL issued \$22.6 million of Certificates of Participation, Series B (2005 Series B – Historic Courthouse Refunding). The proceeds from the sale of the certificates were used to advance refund \$21.1 million of the Historic Courthouse Certificates of Participation. Accordingly, the refunded certificates have been eliminated and the advance refunding certificates have been included in the financial statements. The amount of the defeased debt outstanding at June 30, 2014, was \$705.0 thousand.

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

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

On February 28, 2011, CORAL issued \$5.5 million in private placement bonds (2011 Monroe Building) to provide funds to refund and redeem the notes payable relating to the 2007 Monroe Park Building loan with an outstanding principal amount of \$5.4 million and to pay certain cost of issuance incurred in connection with this refunding. The reacquisition price exceeded the net carrying amount of the old debt by \$140.0 thousand. This amount is being netted against the new debt and amortized over the new debt's life. The transaction resulted in an economic gain of \$527.2 thousand and a reduction of \$339.2 thousand in future debt service payments.

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 14 – LONG-TERM OBLIGATIONS (Continued)

Defeasance of Debt (Continued)

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

In July 2012, CORAL issued \$90.5 million in lease revenue bonds (2012 Series A and Taxable Series B County of Riverside Capital Projects) to provide funds to refund and prepay CORAL's Leasehold Revenue Bonds, 1997 Series B with an outstanding principal amount of \$64.4 million; to provide funds (\$30.0 million) for improvements to the Medical Center Campus; deposit funds into the debt service reserve fund; and pay certain cost of issuance incurred in connection with this refunding. The refunding resulted in a redemption premium of \$639.6 thousand for the 1997 Series B lease revenue bonds and a net premium of \$6.9 million for the 2012 Series A and Taxable Series B. The reacquisition price exceeded the net carry amount of the old debt by \$26.6 million. This amount is being netted against the new debt and amortized over the new debt's life. The transaction resulted in an economic gain of \$8.0 million and a reduction of \$7.1 million in future debt service payments.

In June 2014, CORAL issued \$18.5 million in lease revenue bonds (2014 A & B Court Facilities Project) to provide funds mainly to refund in the 2003 A Historic Courthouse Projects, 2003 B Capital Facilities Project Refunding, and 2003 Bankruptcy Court Project (a County bond) with a total outstanding principal amount of \$20.0 million; and to pay certain cost of issuance incurred in connection with this refunding. The refunding resulted in a premium of \$756.0 thousand for the 2014 A and B Court Facilities Project. The reacquisition price exceeded the net carry amount of the old debt by \$1.5 million. This amount is being netted against the new debt and amortized over the new debt life. The transaction resulted in an economic gain of \$4.2 million and a reduction of \$3.4 in future debt service payments.

Single Family and Multi-Family Mortgage Revenue Bonds

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

A total of \$34.2 million of Mortgage Revenue Bonds have been issued and \$29.7 million is outstanding as of June 30, 2014. 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 \$70.8 million at June 30, 2014, 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.

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 14 – NOTE LONG-TERM OBLIGATIONS (Continued)

Special Assessment Bonds (Continued)

The Flood Control has issued special assessment bonds, totaling \$1.7 million as June 30, 2014, for the construction of flood control facilities. The bonds are to be repaid through special assessment revenue and are not considered obligations of Flood Control. In accordance with bond covenants, Flood Control has established a reserve for potential delinquencies. If a delinquency occurs in the payment of any assessment installment, Flood Control has the duty to transfer the amount of such delinquent installment from the reserve fund into the redemption fund assessment installment. Flood Control's liability to advance funds for bond redemption in the event of delinquent assessment installments is limited to the reserves established.

State Appellate Court Financing

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

Interest Rate Swap

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

Terms: The bonds and the related swap agreement mature on November 1, 2032, and the swap's notional amount of \$76.3 million approximately matches a portion of \$78.9 million variable-rate bonds. The swap was effective at the same time the bonds were issued on May 24, 2000, and was amended and restated as of December 10, 2008. The interest rate swap agreement was novated in January 2012 to substitute Wells Fargo Bank, N.A. as the new counterparty. The notional value of the swap and the principal amount of the associated debt decline starting in fiscal year 2014-2015. Under the amended and restated swap agreement, CORAL pays Wells Fargo Bank, N.A. a fixed payment rate of 5.2%. CORAL receives an interest rate equal to an amount not to exceed the maximum interest rate payable on the bonds, expressed as a decimal, equal to 64.0% of the monthly London Interbank Offered Rate (LIBOR) in the relevant calculation period. Conversely, the bonds' variable-rate coupons have historically been similar to the Bond Market Association Municipal Swap Index (BMA). Under GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, the interest rate swap contract qualifies as a derivative financial instrument and a cash flow hedging. CORAL's net cash outflow or payment under the interest rate swap contract was \$278.7 thousand for the year ended June 30, 2014.

Fair Value: As of June 30, 2014 and 2013, the swap had a negative fair value of \$25.7 million and \$26.8 million, respectively, an increase in fair value of \$1.1 million occurred during the fiscal year 2013-14. The fair value was recorded in the County's statement of net position as interest rate swap liability and deferred outflow in the assets section. Because the coupons on the Southwest Justice Center Series 2008A Leasehold Revenue Refunding Bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was the quoted market price from Wells Fargo Bank, N.A. at June 30, 2014.

Credit Risks: The swap counterparty was rated Aa3 by Moody's and AA- by Standard & Poor's and Fitch as of February 2013. The swap agreement specifies that if the long-term senior unsecured debt rating of Wells Fargo, N.A. is withdrawn, suspended or falls below BBB (Standard & Poor) or Baa2 (Moody's), a collateral agreement will be executed within 30 days or the fair value of the swaps will be fully collateralized by the counterparty.

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 14 – LONG-TERM OBLIGATIONS (Continued)

Interest Rate Swap (Continued)

Basis Risks: The swap exposes CORAL to basis risk should the relationship between London Interbank Offered Rate (LIBOR) and BMA converge, changing the synthetic rate on the bonds. If a change occurs that results in the rates moving to convergence, the expected cost savings may not be realized. As of June 30, 2014, CORAL's rate was 64.0% of LIBOR, or 0.1%, whereas Municipal Swap Index or the reset rate on bonds was 0.1%. The synthetic rate on the bonds at June 30, 2014 was 5.2%.

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

Swap Payment and Associated Debt: Using rates as of June 30, 2014, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows (In thousands):

| Fiscal Year Ending June 30, 2014 | Variable Rate Bonds | | Net Swap Payments | Total Interest |
|-------------------------------------|---------------------|------------------|----------------------|-------------------|
| | Principal | Interest | | |
| 2015 | \$ - | \$ 1,099 | \$ 2,835 | \$ 3,934 |
| 2016 | 2,470 | 1,078 | 2,781 | 3,859 |
| 2017 | 2,690 | 1,040 | 2,685 | 3,725 |
| 2018 | 2,895 | 1,000 | 2,580 | 3,580 |
| 2019 | 3,000 | 958 | 2,470 | 3,428 |
| 2020-2024 | 18,095 | 4,054 | 10,460 | 14,514 |
| 2025-2029 | 23,370 | 2,563 | 6,611 | 9,174 |
| 2030-2034 | 23,780 | 679 | 1,745 | 2,424 |
| | <u>\$ 76,300</u> | <u>\$ 12,471</u> | <u>\$ 32,167</u> | <u>\$ 44,638</u> |

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

Changes in long-term liabilities

The following is a summary of governmental activities long-term liabilities transactions for the year ended June 30, 2014 (In thousands):

| | Balance June 30, 2013 | New Additions | Payments / Reclass | Balance June 30, 2014 | Amounts Due Within One Year |
|---|--------------------------|-------------------|-----------------------|--------------------------|-----------------------------------|
| Governmental activities: | | | | | |
| Debt long-term liabilities: | | | | | |
| Bonds payable | \$ 744,460 | \$ 84,510 | \$ (18,784) | \$ 810,186 | \$ 31,480 |
| Capital lease obligations | 67,748 | 30,158 | (18,084) | 79,822 | 17,252 |
| Certificates of participation | 282,095 | - | (41,502) | 240,593 | 30,433 |
| Loans payable | 4,420 | - | (530) | 3,890 | 540 |
| Total debt long-term liabilities | <u>1,098,723</u> | <u>114,668</u> | <u>(78,900)</u> | <u>1,134,491</u> | <u>79,705</u> |
| Other long-term liabilities: | | | | | |
| Accreted interest payable | 94,661 | 16,962 | - | 111,623 | - |
| Compensated absences (a) | 165,728 | 30,453 | (1,536) | 194,645 | 101,615 |
| Estimated claims liabilities (b) | 130,919 | 49,424 | (37,884) | 142,459 | 34,262 |
| Accrued remediation costs (c) | 2,793 | - | (219) | 2,574 | 600 |
| Total other long-term liabilities | <u>394,101</u> | <u>96,839</u> | <u>(39,639)</u> | <u>451,301</u> | <u>136,477</u> |
| Total governmental activities – long-term liabilities | <u>\$ 1,492,824</u> | <u>\$ 211,507</u> | <u>\$ (118,539)</u> | <u>\$ 1,585,792</u> | <u>\$ 216,182</u> |

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

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 14 – LONG-TERM OBLIGATIONS (Continued)

Changes in long-term liabilities (Continued)

The following is a summary of business-type activities long-term liabilities transactions for the year ended June 30, 2014 (In thousands):

| | Balance June 30, 2013 | New Additions | Payments / Reclass | Balance June 30, 2014 | Amounts Due Within One Year |
|---|--------------------------|------------------|-----------------------|--------------------------|-----------------------------------|
| <u>Business-type activities:</u> | | | | | |
| Debt long-term liabilities: | | | | | |
| Bonds payable, net of un-amortized discount and losses | \$ 143,710 | \$ - | \$(10,769) | \$ 132,941 | \$ 12,851 |
| Capital lease (RMC) | 7,224 | 681 | (4,051) | 3,854 | 2,324 |
| Total debt long-term liabilities | <u>150,934</u> | <u>681</u> | <u>(14,820)</u> | <u>136,795</u> | <u>15,175</u> |
| Other long-term liabilities: | | | | | |
| Accreted interest payable | 61,113 | 5,990 | (4,322) | 62,781 | 216 |
| Accrued closure and post-closure costs | 54,125 | 1,345 | - | 55,470 | 263 |
| Compensated absences | 24,061 | 3,100 | (2,996) | 24,165 | 11,432 |
| Accrued remediation costs | 36,665 | - | (721) | 35,944 | 156 |
| OPEB obligation, net | 113 | 13 | - | 126 | - |
| Other long-term liabilities (a) | 6,795 | - | - | 6,795 | - |
| Total other long-term liabilities | <u>182,872</u> | <u>10,448</u> | <u>(8,039)</u> | <u>185,281</u> | <u>12,067</u> |
| Total business-type activities – long-term liabilities | <u>\$ 333,806</u> | <u>\$ 11,129</u> | <u>\$(22,859)</u> | <u>\$ 322,076</u> | <u>\$ 27,242</u> |
| <u>Discretely Presented Component Unit</u> | | | | | |
| Debt long-term liabilities: | | | | | |
| Bonds payable | \$ 56,245 | \$ - | \$ (5,026) | \$ 51,219 | \$ 5,325 |
| Other long-term liabilities: | | | | | |
| Compensated absences | 279 | 82 | (204) | 157 | 87 |
| Total discretely presented component unit – long-term liabilities | <u>\$ 56,524</u> | <u>\$ 82</u> | <u>\$(5,230)</u> | <u>\$ 51,376</u> | <u>\$ 5,412</u> |

(a) The Housing Authority (Business-type Activity) has two notes payable, totaling \$6.8 million, under “Other long-term liabilities.”

Disclosure of Pledged Revenues

Inland Empire Tobacco Securitization Authority, a blended component unit of the County, issued \$294.1 million of tobacco asset-backed bonds. The bonds are solely secured by pledging a portion of County tobacco assets*** made payable to the County pursuant to agreements with the State and other parties. The portion of revenues that will be used to pay the debt service are (i) the County tobacco assets to the extent consisting of or relating to amounts due to the County after the first \$10.0 million has been paid to the County in each year beginning on January 1, 2008 and ending on December 31, 2020, (ii) the County tobacco assets to the extent consisting of or relating to amounts due to the County after the first \$11.5 million has been paid to the County in each year beginning on January 1, 2021 and ending on December 31, 2026, (iii) the County tobacco assets to the extent consisting of or relating to amounts due to the County from and after January 1, 2027, and (iv) the County tobacco assets to the extent consisting of or relating to the applicable percentage of a lump sum payment of 16.2% to the County and 83.8% to the Inland Empire Tobacco Securitization Authority for calendar year 2014. During the fiscal year ended June 30, 2014, \$19.3 million was received by the Inland Empire Tobacco Securitization Authority; \$10.0 million, or 51.9%, was distributed to the County per the above agreement, leaving \$9.3 million, or 48.1%, of the specific tobacco settlement revenues available to be pledged (see page 135). The County is under no obligation to make payments of the principal or accreted value of or redemption premiums, if any, or interest on the Series 2007 bonds in the event that revenues are insufficient for the payment thereof.

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

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 14 – LONG-TERM OBLIGATIONS (Continued)

Disclosure of Pledged Revenues (Continued)

The Housing Authority 1998 bonds are secured by an agreement with the City of Corona, which has pledged to pay \$218.0 thousand to the Housing Authority each year until the bonds are redeemed in their entirety on December 1, 2018. The bond indenture requires the Housing Authority to remit the entire \$218.0 thousand received each year to the bond trustee to pay for the bond's annual debt service payments, which in fiscal year 2014 was \$135.0 thousand (principal) and \$83.0 thousand (interest).

The Housing Authority reports the \$218.0 thousand received each year as revenue. In fiscal year 2013-14, the \$218.0 thousand represented about 0.06% of the total expenses of the Housing Authority. MBIA Insurance Corporation has issued a surety bond in lieu of a cash funded reserve. The outstanding balance as of June 30, 2014, before applying the deferred charge, was \$885.0 thousand.

Proposition 1A Borrowing by the State of California

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8.0% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in-lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2014. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the County, Flood Control and Park District was \$38.4 million, \$4.2 million and \$386.7 thousand, respectively.

Authorized with the fiscal year 2009-10 State budget package, the Proposition 1A Securitization Program was instituted by the California Statewide Communities Development Authority ("California Communities"), a joint powers authority sponsored by the California State Association of Counties and the League of California Cities, to enable local governments to sell their Proposition 1A receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the Proposition 1A receivables and issued bonds ("Prop 1A Bonds") to provide local agencies with cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010. The purchase price paid to the local agencies equaled 100.0% of the amount of the property tax reduction. All transaction costs of issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. The County participated in the securitization program and accordingly property taxes have been recorded in the same manner as if the State had not exercised its rights under Proposition 1A. The receivable sale proceeds were equal to the book value and, as a result, no gain or loss was recorded.

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 15 – DEFERRED INFLOWS OF RESOURCES

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the County recognized deferred inflows of resources in the governmental and government-wide financial statements. These items are an acquisition of net position by the County that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

The largest portions of the County’s deferred inflows of resources are SB90 and Teeter tax loss reserve. SB90 is California SB 90 of 1972 which established a requirement that the State reimburse local government agencies for the costs of new programs or increased levels of service on programs mandated by the State. Teeter tax loss reserve pursuant to California Revenue and Taxation Code Section 4703 was established as a tax loss reserve fund for covering losses that may occur in the amount of tax liens as a result of special sales of tax defaulted property.

Deferred inflows of resources balances for the year ended June 30, 2014 were as follows (In thousands):

| | Balance <u>June 30, 2014</u> |
|--------------------------------------|---------------------------------|
| Governmental activities: | |
| General Fund: | |
| SB 90 | \$ 40,740 |
| Teeter tax loss reserve | 19,706 |
| Property tax | 5,095 |
| Sales tax | <u>388</u> |
| Total general fund | <u>65,929</u> |
| Flood Control Special Revenue Fund: | |
| Property tax | 981 |
| Special assessments | <u>63</u> |
| Total special revenue fund | <u>1,044</u> |
| Total governmental activities | <u>\$ 66,973</u> |
| Business-type activities: | |
| Housing Authority Fund: | |
| Grants received in advance | \$ 722 |
| Waste Management Fund: | |
| Service concession arrangement | <u>7,962</u> |
| Total business-type activities | <u>\$ 8,684</u> |

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 16 – FUND BALANCES

Fund balances that presented in the following categories: nonspendable, restricted, committed, assigned, and unassigned. (See Note 1 for a description of each categories. A detailed schedule of fund balances as of June 30, 2014 is as follows (In thousands):

| | Major Funds | | | | Total Major Governmental Funds |
|---------------------------------|---------------------|-----------------------|----------------------|--|---------------------------------------|
| | General Fund | Transportation | Flood Control | Public Facilities Improvements Capital Projects | |
| Fund balances: | | | | | |
| Nonspendable | | | | | |
| Inventory | \$ 1,682 | \$ 1,089 | \$ - | \$ - | \$ 2,771 |
| Prepaid items | - | - | - | - | - |
| Imprest cash | 363 | 12 | 1 | - | 376 |
| Permanent fund | - | - | - | - | - |
| Total nonspendable | 2,045 | 1,101 | 1 | - | 3,147 |
| Restricted | | | | | |
| Aging | - | - | - | - | - |
| Air quality planning | 446 | - | - | - | 446 |
| Auto theft interdiction | 417 | - | - | - | 417 |
| CAP local initiative program | - | - | - | - | - |
| Child support services | 126 | - | - | - | 126 |
| Code enforcement | 81 | - | - | - | 81 |
| Construction & capital projects | - | - | - | 98,262 | 98,262 |
| Court services | 13,165 | - | - | - | 13,165 |
| Debt services | 1,674 | - | - | - | 1,674 |
| Developer impact fees | 1,090 | - | - | - | 1,090 |
| District attorney | 19,002 | - | - | - | 19,002 |
| Domestic violence | 1,390 | - | - | - | 1,390 |
| Education | 88 | - | - | - | 88 |
| Emergency medical services | 6,119 | - | - | - | 6,119 |
| Equipment | - | 676 | - | - | 676 |
| Environmental health | 268 | - | - | - | 268 |
| Public facilities | 285 | - | - | 23,636 | 23,921 |
| Fire protection | - | - | - | 1,950 | 1,950 |
| Geographical info system | - | - | - | - | - |
| Hazmat | 2,993 | - | - | - | 2,993 |
| HUD/CDBG home grants | - | - | - | - | - |
| Humane services | 203 | - | - | - | 203 |
| Landscape maintenance | - | 3,360 | - | - | 3,360 |
| Libraries | - | - | - | - | - |
| Lightings maintenance | - | - | - | - | - |
| Mental health | 7,220 | - | - | - | 7,220 |
| Modernization | 11,549 | - | - | - | 11,549 |
| NPDES | - | - | - | - | - |
| Other purposes | 3,559 | - | - | - | 3,559 |
| Parks and recreation | - | - | - | 12 | 12 |
| Probation | 113 | - | - | - | 113 |
| Public assistance | 2,701 | - | - | - | 2,701 |
| Public defender | 333 | - | - | - | 333 |
| Public health | 745 | - | - | - | 745 |
| Public protection | - | - | - | - | - |
| Public safety revenue | 29,089 | - | - | - | 29,089 |
| Roads | - | 58,731 | - | - | 58,731 |
| Sheriff patrol | 7,093 | - | - | - | 7,093 |
| Teeter tax losses | 7,846 | - | - | - | 7,846 |
| Total restricted | 117,595 | 62,767 | - | 123,860 | 304,222 |

Note: Encumbrances - see Note 23– Contingencies and Commitments

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 16 – FUND BALANCES (Continued)

| Nonmajor Funds | | | | | | |
|-----------------------------|--------------------------|------------------------------|-------------------|---|--------------------------------|---------------------------------|
| Special Revenue Funds | Debt Service Funds | Capital Projects Funds | Permanent Fund | Total Nonmajor Governmental Funds | Total Governmental Funds | |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ 2,771 | Fund balances: |
| 14 | - | 580 | - | 594 | 594 | Nonspendable |
| 106 | - | - | - | 106 | 482 | Inventory |
| - | - | - | 508 | 508 | 508 | Prepaid items |
| 120 | - | 580 | 508 | 1,208 | 4,355 | Imprest cash |
| | | | | | | Permanent fund |
| | | | | | | Total nonspendable |
| | | | | | | Restricted |
| 544 | - | - | - | 544 | 544 | Aging |
| - | - | - | - | - | 446 | Air quality planning |
| - | - | - | - | - | 417 | Auto theft interdiction |
| 1,269 | - | - | - | 1,269 | 1,269 | CAP local initiative program |
| - | - | - | - | - | 126 | Child support services |
| - | - | - | - | - | 81 | Code enforcement |
| - | - | 27,262 | - | 27,262 | 125,524 | Construction & capital projects |
| - | - | - | - | - | 13,165 | Court services |
| - | 78,253 | - | - | 78,253 | 79,927 | Debt services |
| - | - | - | - | - | 1,090 | Developer impact fees |
| - | - | - | - | - | 19,002 | District attorney |
| 198 | - | - | - | 198 | 1,390 | Domestic violence |
| - | - | - | - | - | 286 | Education |
| - | - | - | - | - | 6,119 | Emergency medical services |
| - | - | - | - | - | 676 | Equipment |
| - | - | - | - | - | 268 | Environmental health |
| - | - | - | - | - | 23,921 | Public facilities |
| 5,072 | - | - | - | 5,072 | 7,022 | Fire protection |
| 1,144 | - | - | - | 1,144 | 1,144 | Geographical info system |
| - | - | - | - | - | 2,993 | Hazmat |
| 1,472 | - | - | - | 1,472 | 1,472 | HUD/CDBG home grants |
| - | - | - | - | - | 203 | Humane services |
| - | - | - | - | - | 3,360 | Landscape maintenance |
| 25,803 | - | - | - | 25,803 | 25,803 | Libraries |
| 7,004 | - | - | - | 7,004 | 7,004 | Lightings maintenance |
| - | - | - | - | - | 7,220 | Mental health |
| - | - | - | - | - | 11,549 | Modernization |
| 5,858 | - | 95 | - | 5,953 | 5,953 | NPDES |
| 2,286 | - | - | - | 2,286 | 5,845 | Other purposes |
| 805 | - | 1,418 | - | 2,223 | 2,235 | Parks and recreation |
| - | - | - | - | - | 113 | Probation |
| 1,102 | - | - | - | 1,102 | 3,803 | Public assistance |
| - | - | - | - | - | 333 | Public defender |
| 9,024 | - | - | - | 9,024 | 9,769 | Public health |
| 5,134 | - | - | 27 | 5,161 | 5,161 | Public protection |
| - | - | - | - | - | 29,089 | Public safety revenue |
| 6,578 | - | - | - | 6,578 | 65,309 | Roads |
| 1,791 | - | - | - | 1,791 | 8,884 | Sheriff patrol |
| - | - | - | - | - | 7,846 | Teeter tax losses |
| 75,084 | 78,253 | 28,775 | 27 | 182,139 | 486,361 | Total restricted |

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 16 – FUND BALANCES (Continued)

| | Major Funds | | | | Total Major Governmental Funds |
|---------------------------------|-------------------|------------------|-------------------|---|--------------------------------------|
| | General Fund | Transportation | Flood Control | Public Facilities Improvements Capital Projects | |
| Fund balances: | | | | | |
| Committed | | | | | |
| Code enforcement | \$ - | \$ 1,658 | \$ - | \$ - | \$ 1,658 |
| Community improvement | 565 | - | - | - | 565 |
| Construction & capital projects | - | 374 | - | 3,000 | 3,374 |
| Developer impact fees | - | - | - | - | - |
| Disaster relief | 15,000 | - | - | - | 15,000 |
| District attorney | 32 | - | - | - | 32 |
| EDA special projects | - | - | - | - | - |
| Education | - | - | - | - | - |
| Environmental programs | 1,910 | 212 | - | - | 2,122 |
| Facilities | 1,000 | - | - | - | 1,000 |
| NPDES | - | - | 7,799 | - | 7,799 |
| Other purposes | 331 | - | - | - | 331 |
| Parks | - | - | - | - | - |
| Planning | 142 | - | - | - | 142 |
| DPSS realignment growth | 4,300 | - | - | - | 4,300 |
| SB90 | 1,380 | - | - | - | 1,380 |
| Sheriff correction | 7,573 | - | - | - | 7,573 |
| Solar program | - | - | - | - | - |
| Youth protection | 587 | - | - | - | 587 |
| Flood protection | - | - | 250,781 | - | 250,781 |
| Total committed | 32,820 | 2,244 | 258,580 | 3,000 | 296,644 |
| Assigned | | | | | |
| Air quality | - | - | - | - | - |
| Airports | - | - | - | - | - |
| California children services | 343 | - | - | - | 343 |
| Capital improvement projects | 5 | - | - | 754 | 759 |
| Code enforcement | 50 | - | - | - | 50 |
| Construction & capital projects | - | - | - | 7,049 | 7,049 |
| Debt service | - | - | - | - | - |
| EDA special projects | - | - | - | - | - |
| Equipment | - | 4,414 | - | - | 4,414 |
| Humane services | 247 | - | - | - | 247 |
| Low income health prog | 1,610 | - | - | - | 1,610 |
| Other purposes | 980 | - | - | - | 980 |
| Parks | - | - | - | - | - |
| Probation | 3,438 | - | - | - | 3,438 |
| Public health | 751 | - | - | - | 751 |
| RCIT radio project | - | - | - | - | - |
| Registrar of voters | 200 | - | - | - | 200 |
| Roads | - | 9,649 | - | - | 9,649 |
| Special assessments | - | - | - | - | - |
| Veterans | 148 | - | - | - | 148 |
| Total assigned | 7,772 | 14,063 | - | 7,803 | 29,638 |
| Unassigned | 203,444 | - | - | - | 203,444 |
| Total fund balances | \$ 363,676 | \$ 80,175 | \$ 258,581 | \$ 134,663 | \$ 837,095 |

Note: Encumbrances - see Note 23 – Contingencies and Commitments

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 16 – FUND BALANCES (Continued)

| Nonmajor Funds | | | | | | |
|-----------------------------|--------------------------|------------------------------|-------------------|---|--------------------------------|---------------------------------|
| Special Revenue Funds | Debt Service Funds | Capital Projects Funds | Permanent Fund | Total Nonmajor Governmental Funds | Total Governmental Funds | |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,658 | Fund balances: |
| - | - | - | - | - | 565 | Committed |
| - | - | - | - | - | 3,374 | Code enforcement |
| 5,408 | - | - | - | 5,408 | 5,408 | Community improvement |
| - | - | - | - | - | 15,000 | Construction & capital projects |
| - | - | - | - | - | 32 | Developer impact fees |
| 1,871 | - | - | - | 1,871 | 1,871 | Disaster relief |
| 330 | - | - | - | 330 | 330 | District attorney |
| - | - | - | - | - | 2,122 | EDA special projects |
| - | - | - | - | - | 1,000 | Education |
| - | - | - | - | - | 7,799 | Environmental programs |
| - | - | - | - | - | 331 | Facilities |
| 1,182 | - | - | - | 1,182 | 1,182 | NPDES |
| - | - | - | - | - | 142 | Other purposes |
| - | - | - | - | - | 4,300 | Parks |
| - | - | - | - | - | 1,380 | Planning |
| - | - | - | - | - | 7,573 | DPSS realignment growth |
| 959 | - | - | - | 959 | 959 | SB90 |
| - | - | - | - | - | 587 | Sheriff correction |
| - | - | - | - | - | 250,781 | Solar program |
| 9,750 | - | - | - | 9,750 | 306,394 | Youth protection |
| | | | | | | Flood protection |
| | | | | | | Total committed |
| | | | | | | Assigned |
| 36 | - | - | - | 36 | 36 | Air quality |
| 2,161 | - | - | - | 2,161 | 2,161 | Airports |
| - | - | - | - | - | 343 | California children services |
| - | - | 16,666 | - | 16,666 | 17,425 | Capital improvement projects |
| - | - | - | - | - | 50 | Code enforcement |
| - | 2,152 | - | - | 2,152 | 7,049 | Construction & capital projects |
| 494 | - | - | - | 494 | 2,152 | Debt service |
| - | - | - | - | - | 494 | EDA special projects |
| - | - | - | - | - | 4,414 | Equipment |
| - | - | - | - | - | 247 | Humane services |
| - | - | - | - | - | 1,610 | Low income health prog |
| 5,352 | - | - | - | 5,352 | 6,332 | Other purposes |
| 3,443 | - | - | - | 3,443 | 3,443 | Parks |
| - | - | - | - | - | 3,438 | Probation |
| - | - | - | - | - | 751 | Public health |
| - | - | 253 | - | 253 | 253 | RCIT radio project |
| - | - | - | - | - | 200 | Registrar of voters |
| - | - | - | - | - | 9,649 | Roads |
| 1,813 | - | - | - | 1,813 | 1,813 | Special assessments |
| - | - | - | - | - | 148 | Veterans |
| 13,299 | 2,152 | 16,919 | - | 32,370 | 62,008 | Total assigned |
| | | | | | | Unassigned |
| | | | | | 203,444 | |
| \$ 98,253 | \$ 80,405 | \$ 46,274 | \$ 535 | \$ 225,467 | \$ 1,062,562 | Total fund balances |

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 17 – RISK MANAGEMENT

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

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

The County's property insurance program provides insurance coverage for all risks subject to a \$50.0 thousand per occurrence deductible; flood coverage is subject to a 2.0% deductible per unit within a 100-year flood zone and \$25.0 thousand per unit deductible outside a 100-year flood zone. (A 'unit' is defined as; a separate building, contents in a separate building, property in the open (yard) or, time element coverage in a separate building.) The County's property is categorized into four towers and the overall all risk coverage is \$600 million. Earthquake (covering scheduled locations equal to or greater than \$1.0 million in value and lesser valued locations where such coverage is required by contract) has a sub-limit in each tower of \$90.0 million with an additional \$290.5 million excess rooftop limit available to any one tower. The excess rooftop limit may be triggered during the policy year if a covered earthquake event somewhere in the state has depleted the initial underlying limits. Earthquake coverage is subject to a deductible equal to 5.0% of replacement cost value per unit subject to a \$100.0 thousand minimum per unit. Boiler and machinery provide up to \$100.0 million in limits, with various deductibles. The limits in each tower are shared with other counties on a per event basis. Should a catastrophic event occur and losses exceed the limits, the County would be responsible.

The activities related to such programs are accounted for in Internal Service Funds (ISF). Accordingly, estimated liabilities for claims, including loss adjustment expenses, filed or to be filed, for incidents that have occurred through June 30, 2014 are reported in these funds. Where certain ISF funds have an accumulated deficit or insufficient reserves, the County provides funding to reduce the deficit and increase the reserves. If the funding is above the Board of Supervisors approved 70.0% confidence level, an appropriate reduction in funding including a one-time holiday on department charges may be granted. For fiscal year 2013-14 the Board of Supervisors approved continued reduced funding at slightly below the 55.0% confidence level for the general liability ISF and for the workers' compensation ISF. Funding for the medical malpractice ISF was at the 70.0% confidence level. Revenues for these internal service funds are primarily provided by other county departments and are intended to cover the self-insured claim payments, insurance premiums, and operating expenses. The revenue is not used to cover catastrophic events and other uninsured liabilities. Cash available in the risk management and workers' compensation ISF at June 30, 2014 plus revenues to be collected during fiscal year 2014-2015 are expected to be sufficient to cover all fiscal year 2014-15 payments. The carrying amount of unpaid claim liabilities is \$142.5 million. The liabilities are discounted at 2.0% for general liability and medical malpractice and 2.5% for workers' compensation.

| | June 30, 2013 | June 30, 2014 |
|--|-------------------|-------------------|
| Unpaid claims, beginning of year | \$ 130,438 | \$ 130,919 |
| Increase (decrease) in provision for insured events of prior years | (2,148) | 2,840 |
| Incurred claims for current year | 44,713 | 46,584 |
| Claim payments | (42,084) | (37,884) |
| Unpaid claims, end of year | <u>\$ 130,919</u> | <u>\$ 142,459</u> |

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 18 – MEDI-CAL AND MEDICARE PROGRAMS

The RMC provides services to patients covered by various reimbursement programs. The principal programs are Medicare, the State of California Medi-Cal, and the County Medically Indigent Services Program (MISP) and Low Income Health Plan (LIHP) which ended on December 31, 2013 and was replaced by the Medi-Cal Managed Care AB85 Expansion 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 per diem rate based upon estimated certified public expenditures (CPEs) and outpatient services are reimbursed under a schedule of maximum allowable reimbursement provided by the California Department of Health Care Services. Inpatient acute care services rendered to Medicare program beneficiaries are reimbursed based upon pre-established rates for diagnostic-related groups. Inpatient non-acute services, certain outpatient services, and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost-reimbursement methodology subject to payment caps and indexing formulas. The RMC is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the RMC and audit thereof by the Medicare fiscal intermediary. Normal estimation differences between final settlements and amounts accrued in previous years are reflected in net patient services revenue. The fiscal intermediary has audited the RMC's Medicare cost reports thru June 30, 2012 and Medi-Cal cost reports through June 30, 2012. The RMC has received notices of program reimbursement (NPR), a written notice reflecting the intermediary's final determination of the total amount of reimbursement due the medical center for Medicare through June 30, 2012. For Medi-Cal Fee for Service, the RMC is final settled thru the California public hospital P-14 cost reports. Notice of final settlement has been received thru June 30, 2007.

In September 2005, the State of California significantly modified its Medi-Cal program under a new waiver with the Centers for Medicare and Medicaid Services (CMS). In connection with the new waiver, the State legislature passed the Medi-Cal Hospital Uninsured Demonstration Project Act, or SB 1100, which replaced the SB 855 and SB 1255 programs. For the SB 1100 program, the State continues to provide supplemental payments to the hospital for uncompensated care. However, the use of intergovernmental transfers (IGTs) by the State, as the non-federal match, was modified to a methodology consisting of CPEs up to 50 percent of costs or Federal Medical Assistance Program (FMAP) rate. The Regional Medical Center has recorded net patient revenue of \$89.2 million for SB 1100 for the fiscal year ended June 30, 2014, of which \$35.7 million is from the Delivery System Reform Incentive Program (DSRIP), a waiver incentive based payment component of the Section 1115 Medicaid Waiver.

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

NOTE 19 – 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, 2014 follows:

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

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 19 – JOINTLY GOVERNED ORGANIZATIONS (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 19 – JOINTLY GOVERNED ORGANIZATIONS (Continued)

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

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

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

NOTE 20 – RETIREMENT PLAN

Plan Descriptions

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

CalPERS issues a comprehensive annual financial report (CAFR) which details its plan assets, liabilities, and plan activity. The County receives an annual actuarial valuation report which summarizes plan assets, liabilities, and employer rates for its plans. Under GASB Statement No. 27*, both the County (Miscellaneous and Safety) and Flood Control are considered single-employer defined benefit pension plans, while the Park District and Waste Management are considered cost-sharing multi-employer defined benefit pension plans due to their pooling composite. Copies of the CalPERS CAFR may be obtained from: California Public Employees' Retirement System, 400 Q Street, P.O. Box 942701, Sacramento, CA 94229-2701.

**GASB Statement No. 68 replaces GASB Statement No. 27 effective the first fiscal year beginning after June 15, 2014. GASB 68 will require additional reporting.*

Funding Policy

Active plan members in CalPERS may be required to contribute up to 8.0% (Miscellaneous employees) and up to 9.0% (Safety employees) of their annual covered salary as specified in the governing Memorandum of Understanding or as provided by state statute.

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

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 20 – RETIREMENT PLAN (Continued)

Public Employees’ Pension Reform Act (PEPRA)

For some time, pension reform has been a topic of debate at local and national levels. Riverside County took the lead in initiating pension reform with its bargaining units. As a result of bargaining, County employees were required to pay their Employee Paid Member Contribution (EPMC), and a new retirement Tier (Tier II) was added to both the Miscellaneous and Safety units of the County. At the same time, Governor Brown initiated proposals that resulted in changes to the pension benefits. Due to the recent passage of Assembly Bill (AB) 340, which created the Public Employees’ Pension Reform Act (PEPRA), new lower retirement benefit formulas, final compensation periods, and new contribution requirements were implemented for new employees hired on or after January 1, 2013. The lower retirement benefit formula as a result of PEPRA (Tier) III is 2% at 62 for Miscellaneous and 2.7% at 57 for Safety. Employee contribution rates for Tier III vary based on PEPRA rules. Listed below is a table with the new retirement options and provision changes.

| | Plan | EPMC | Earliest Retirement Age | PEPRA Compensation Limits | Final Compensation | Effective Date |
|------------------------------------|------------|------|-------------------------|---------------------------|--------------------|----------------|
| County Plan Tier I | | | | | | |
| Miscellaneous | 3.0% at 60 | Yes | 50 | N/A | 12 months | N/A |
| Safety | 3.0% at 50 | Yes | 50 | N/A | 12 months | N/A |
| County Plan Tier II | | | | | | |
| Miscellaneous | 2.0% at 60 | No | 50 | N/A | 36 months | 8/23/2012 |
| Safety | 2.0% at 50 | No | 50 | N/A | 36 months | 8/23/2012 |
| County Plan Tier III(PEPRA) | | | | | | |
| Miscellaneous | 2.0% at 62 | No | 52 | \$ 115,064 | 36 months | 1/1/2013 |
| Safety | 2.7% at 57 | No | 50 | 138,077 | 36 months | 1/1/2013 |

Early Retirement Incentive

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

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

Early Retirement Incentive Table

| Early Retirement Incentive | Window Periods | Total Eligible Employees | Employees Electing Early Retirement Incentive | Estimated Increase in Employer Contribution Rate | FY in Which Employer Contribution Rate will Increase |
|----------------------------|--|--------------------------|---|--|--|
| Local Miscellaneous | 01/01 - 03/31/2009 | 3,400 | 678 | 0.4% | 2011/2012 |
| Local Safety | 07/11 - 10/08/2009 ⁽¹⁾ 07/15 - 10/13/2009 ⁽²⁾ | 653 | 151 | 0.4% | 2012/2013 |
| Local Miscellaneous | 02/11 - 08/09/2010 | 3,597 | 578 | 0.3% | 2013/2014 |

(1) = District Attorney (2) = Sheriff

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 20 – RETIREMENT PLAN (Continued)

For fiscal year 2013-14, the employer and employee contribution rates were:

| | County Miscellaneous | County Safety | Flood Control | Park District | Waste Management |
|---------------------------------|-------------------------|------------------|------------------|---------------|---------------------|
| County contribution rates: | | | | | |
| County Tier I | 15.6% | 24.1% | 17.7% | 17.4% | 20.6% |
| County Tier II | 15.6% | 24.1% | 17.7% | 8.6% | N/A |
| County Tier III | 15.6% | 24.1% | 17.7% | 6.7% | N/A |
| Plan Members contribution rates | | | | | |
| County Tier I | 8.0% | 9.0% | 8.0% | 8.0% | 8.0% |
| County Tier II | 7.0% | 9.0% | 7.0% | 7.0% | N/A |
| County Tier III | 6.5% | 10.8% * | 6.5% | 6.5% | N/A |

*During the term of Memorandum of Understanding (MOU), the employee contributions pursuant to the cost-sharing provision cannot exceed less than that which the employees are obligated under the MOU to contribute.

Annual Pension Cost

For fiscal year 2013-14, the annual pension costs for CalPERS is equal to the employer's required and actual contributions as noted below (In thousands):

| | County | | | Waste | |
|---|---------------|---------------|---------------|---------------|------------|
| | Miscellaneous | County Safety | Flood Control | Park District | Management |
| Annual required contribution | \$ 130,936 | \$ 70,751 | \$ 2,803 | \$ 839 | \$ 478 |
| Interest on net pension obligation (asset) | (26,141) | (7,201) | (129) | - | - |
| Adjustment to annual required contribution | 20,187 | 5,561 | 341 | - | 434 |
| Annual pension cost | 124,982 | 69,111 | 3,015 | 839 | 912 |
| Contributions made | (130,936) | (70,751) | (2,876) | (839) | (478) |
| Increase (decrease) in net pension obligation (asset) | (5,954) | (1,640) | 139 | - | 434 |
| Net pension obligation (asset) beginning of year | (348,545) | (96,010) | (1,667) | - | (648) |
| Net pension obligation (asset) end of year | \$ (354,499) | \$ (97,650) | \$ (1,528) | \$ - | \$ (214) |

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 20 – RETIREMENT PLAN (Continued)

Three-Year Trend Information
(In thousands)

| | Fiscal Year Ended | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation (Asset) |
|------------------------|----------------------|---------------------------------|-------------------------------------|--------------------------------------|
| County - Miscellaneous | June 30, 2012 | \$ 101,805 | 106.5 % | \$ (341,828) |
| | June 30, 2013 | 105,898 | 106.3 | (348,545) |
| | June 30, 2014 | 124,982 | 104.8 | (354,499) |
| County - Safety | June 30, 2012 | 56,859 | 103.2 | (94,160) |
| | June 30, 2013 | 60,209 | 103.1 | (96,010) |
| | June 30, 2014 | 69,111 | 102.4 | (97,650) |
| Flood Control | June 30, 2012 | 2,710 | 94.9 | (1,806) |
| | June 30, 2013 | 2,991 | 95.4 | (1,667) |
| | June 30, 2014 | 3,015 | 95.4 | (1,528) |
| Park District | June 30, 2012 | 793 | 100.0 | - |
| | June 30, 2013 | 851 | 100.0 | - |
| | June 30, 2014 | 839 | 100.0 | - |
| Waste Management | June 30, 2012 | 937 | 53.7 | (1,082) |
| | June 30, 2013 | 912 | 52.4 | (648) |
| | June 30, 2014 | 912 | 52.4 | (214) |

Actuarial Methods and Assumptions

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

| | County Miscellaneous | County Safety | Flood Control | Park District | Waste Management |
|-----------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| Actuarial valuation | 6/30/2013 | 6/30/2013 | 6/30/2013 | 6/30/2013 | 6/30/2013 |
| Actuarial cost method | Entry Age | Entry Age | Entry Age | Entry Age | Entry Age |
| Amortization method | Level Percent of Payroll, Open | Level Percent of Payroll, Open | Level Percent of Payroll, Open | Level Percent of Payroll, Open | Level Percent of Payroll, Open |
| Asset valuation method | Market Value | Market Value | Market Value | Market Value | Market Value |
| Actuarial assumptions: | | | | | |
| Investment rate of return | 7.5% | 7.5% | 7.5% | 7.5% | 7.5% |
| Projected salary increases* | 3.3%-14.2% | 3.3%-14.2% | 3.3%-14.2% | 3.3%-14.2% | 3.3%-14.2% |
| Inflation | 2.8% | 2.8% | 2.8% | 2.8% | 2.8% |
| Payroll growth | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% |

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

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 20 – RETIREMENT PLAN (Continued)

Funded Status and the Funding Progress

The following is funded status information for each plan as of June 30, 2014, which is the most recent actuarial valuation date (In thousands):

| | Actuarial Value of Assets (a) | Actuarial Liability (AAL)- Entry Age (b) | Unfunded AAL(UAAL) (Excess of assets over AAL) (b - a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL (Excess of Assets over AAL) as a Percentage of Covered Payroll ((b-a)/c) |
|------------------------|----------------------------------|--|--|-----------------------|------------------------|---|
| County - Miscellaneous | \$ 3,974,442 | \$ 5,008,807 | \$ 1,034,365 | 79.35 % | \$ 856,593 | 120.75 % |
| County - Safety | 1,776,122 | 2,285,586 | 509,464 | 77.71 | 271,367 | 187.74 |
| Flood Control | 102,350 | 138,854 | 36,504 | 73.71 | 14,937 | 244.39 |
| Park District** | 903,411 | 1,081,962 | 178,551 | 83.50 | 153,162 | 116.58 |
| Waste Management** | 903,411 | 1,081,962 | 178,551 | 83.50 | 153,162 | 116.58 |

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

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

NOTE 21 – DEFINED BENEFIT PENSION PLAN

Plan Descriptions and Contribution Information

Plan Description. The County provides a part-time and temporary employees' retirement plan (the Plan) to provide retirement benefits to eligible employees as a substitute for benefits under social security. The Plan is an IRS Section 401(a) defined benefit plan. This Plan is self-funded and self-administered. Effective July 20, 2010, the County Board of Supervisors appointed U.S. Bank as the Plan's investment consultant, investment manager and trustee. Contributions made to the Plan are deposited with U.S. Bank, who maintains the responsibility of investing contributions in a diversified portfolio and reported at fair value. Participants are immediately 100% vested in the Plan upon enrollment. No financial report has been issued separately for public view under defined benefit pension plan.

Contributions. Participants in the Plan are required to contribute 3.75% of their compensation to the Plan. According to the July 01, 2013 valuation, the County's current required contribution rate is 0.78%, however, the County elected to contribute 2.6 % of payroll in order to obtain a 90.0% target funded ratio within 5 years. The Plan's current funded ratio is 93.4%. The Plan actuary annually calculates the minimum recommended employer contribution rate through preparation of an actuarial valuation report and the County determines the contribution rates. Administrative costs of the Plan are paid by the Trustee from Plan assets.

Membership for the plan consisted of the following at July 1, 2013, the date of the latest actuarial valuation:

Number of participants:

| | |
|---------------------------------|--------------|
| Active plan members | 1,919 |
| Terminated and inactive members | 7,142 |
| Retirees | 180 |
| Total | <u>9,241</u> |

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 21 – DEFINED BENEFIT PENSION PLAN (Continued)

Summary of Significant Accounting Policies

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

Method Used to Value Investments. Prior to the transition to U.S. Bank, investments of the pension trust were fully invested in the County pool and reported at fair value. On September 28, 2010 Plan Investments were transferred to the new Trustee and Investment Manager, U.S. Bank. U.S. Bank invests Plan funds according to the Plan's Investment Policy. As of June 30, 2014, assets were invested in cash equivalents (1.0%), equities (67.0%), and fixed income (32.0%).

Schedule of Annual Pension Cost and the Net Pension Obligation (NPO) for 2014 and the two preceding years were as follows (In thousands):

| Fiscal Year Ending | Annual Required Contribution (ARC) | Interest on NPO | Adjustment to the ARC | Annual Pension Cost | Actual Contribution | NPO End of Year | Percentage Contributed |
|-----------------------|---|--------------------|--------------------------|---------------------------|------------------------|--------------------|---------------------------|
| 2012 | \$ 160 | \$ (240) | \$ (747) | \$ (827) | \$ 559 | \$ (5,071) | 68.00 % |
| 2013 | 622 | (330) | 446 | 738 | 946 | (5,279) | 128.00 |
| 2014 | 335 | (353) | 378 | 360 | 968 | (5,887) | 268.89 |

Annual Pension Cost and Net Pension Obligation (In thousands):

| | |
|---|--------------------------|
| Annual required contribution | \$ 335 |
| Interest on net pension obligation (asset) | (353) |
| Adjustment to annual required contribution | 378 |
| Annual pension cost | <u>360</u> |
| Contributions made | <u>(968)</u> |
| Increase (decrease) in net pension obligation (asset) | (608) |
| Net pension obligation (asset) beginning of year | <u>(5,279)</u> |
| Net pension obligation (asset) end of year | <u><u>\$ (5,887)</u></u> |

Schedule of Funding Progress

The funded status of the Plan as of July 1, 2013, the most recent actuarial valuation date and the two preceding years were as follows (In thousands):

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|--|---|-----------------------------------|-----------------------|---------------------------|---|
| July 1, 2011 | \$ 23,063 | \$ 27,079 | \$ 4,016 | 85.17 % | \$ 33,657 | 11.93 % |
| July 1, 2012 | 23,654 | 24,307 | 653 | 97.31 | 32,424 | 2.01 |
| July 1, 2013 | 26,805 | 28,706 | 1,901 | 93.38 | 33,139 | 5.74 |

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 21 – DEFINED BENEFIT PENSION PLAN (Continued)

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

Actuarial Methods and Assumptions

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

| | |
|-------------------------------|--------------------------------|
| Valuation date | 7/1/2013 |
| Actuarial cost method | Projected Unit Credit |
| Amortization method | Level-Dollar Projected Payroll |
| Remaining amortization period | 20 years - Open |
| Asset valuation method | Market Value plus Receivables |
| Actuarial assumptions: | |
| Investment rate of return | 5.0% |
| Projected salary increases | 3.0% |
| Inflation rate | 3.0% |

NOTE 22 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Descriptions

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

The post employment benefits provide:

- The County provides retiree medical benefits for eligible retirees enrolled in County sponsored plans. The benefits are provided in the form of:
 - Monthly County contributions toward the retiree’s medical premium, and
 - Monthly contributions of \$25 per month to the Riverside Sheriffs’ Association (RSA) Benefit Trust for RSA law enforcement retirees.
- Previously, the County allowed certain retirees to receive coverage prior to age 65 by paying premiums that were developed by blending active and retiree costs, which resulted in an implicit subsidy to retirees. The implicit subsidy has been discontinued since January 1, 2011.

A qualified Internal Revenue Code Section 115 Trust has been established for the County and Special Districts, with the exception of Waste Management, with the California Employers’ Retiree Benefit Trust (CERBT) for the purpose of receiving employer contributions that will prefund health and other post employment costs for retirees and their beneficiaries. The CERBT administers each plan’s assets and issues a financial report available for public review, which includes financial statements and required supplementary information for the trust fund. The CERBT report may be obtained from CalPERS Affiliate Programs Services Division, CERBT (OPEB), P.O. Box 1494 Sacramento, CA 95812-1494.

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 22 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Funding Policy and Annual OPEB Cost

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

Contribution requirements of the plan members and the County are established and may be amended through negotiations between the County and the respective bargaining units. The liabilities and annual cost due to the County's contractual agreements to assist with retiree health care cost are calculated in accordance with Government Accounting Standards Board (GASB) Statement No. 45. GASB requires an Annual Required Contribution (ARC) to be developed each year based on the Plan's assets and liabilities. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over 30 years (12 years for Waste Management).

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

| | <u>County</u> | <u>Flood Control</u> | <u>Park District</u> | <u>Waste Management</u> |
|---|---|---|---|---|
| Contribution rates: | | | | |
| County | Bargaining Unit Determined \$25-\$256 | Bargaining Unit Determined \$25-\$256 | Bargaining Unit Determined \$25-\$256 | Bargaining Unit Determined \$25-\$256 |
| Plan members | \$403-\$964 | \$403-\$964 | \$403-\$964 | \$403-\$964 |
| Annual required contribution | \$ 2,343 | \$ 18 | \$ - | \$ 126 |
| Interest on net OPEB obligation | (1,882) | (41) | (21) | - |
| Adjustment to annual required contribution | 1,513 | 35 | 16 | (110) |
| Annual OPEB cost | <u>1,974</u> | <u>12</u> | <u>(5)</u> | <u>16</u> |
| Contributions made | <u>(2,343)</u> | <u>(50)</u> | <u>(9)</u> | <u>(3)</u> |
| Increase in net OPEB obligation (asset) | (369) | (38) | (14) | 13 |
| Net OPEB obligation (asset) beginning of year | (25,575) | (539) | (285) | 113 |
| Net OPEB obligation (asset) end of year | <u>\$ (25,944)</u> | <u>\$ (577)</u> | <u>\$ (299)</u> | <u>\$ 126</u> |

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 and the two preceding years for each of the plans were as follows (In thousands):

| | <u>Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Percentage of OPEB Cost Contributed</u> | <u>Net OPEB Obligation (Asset)</u> |
|------------------|-------------------|-------------------------|--|------------------------------------|
| County | 06/30/12 | \$ 2,119 | 181.1 % | \$ (22,836) |
| | 06/30/13 | 2,272 | 220.6 | (25,575) |
| | 06/30/14 | 1,974 | 118.7 | (25,944) |
| Flood Control | 06/30/12 | 16 | 437.5 | (483) |
| | 06/30/13 | 13 | 530.8 | (539) |
| | 06/30/14 | 12 | 416.7 | (577) |
| Park District | 06/30/12 | (2) | 200.0 | (277) |
| | 06/30/13 | (4) | 100.0 | (285) |
| | 06/30/14 | (5) | 180.0 | (299) |
| Waste Management | 06/30/12 | (26) | 88.4 | - |
| | 06/30/13 | 117 | 3.4 | 113 |
| | 06/30/14 | 16 | 18.8 | 126 |

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 22 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Funded Status and Funding Progress

The following is funded status information for each plan as of June 30, 2014, which is the most recent actuarial valuation date (In thousands):

| | <u>County</u> | <u>Flood Control</u> | <u>Park District</u> | <u>Waste Management</u> |
|--|------------------|----------------------|----------------------|-------------------------|
| Actuarial accrued liability (a) | \$ 43,829 | \$ 546 | \$ 132 | \$ 982 |
| Actuarial value of plan assets (b) | 26,764 | 407 | 259 | - |
| Unfunded actuarial accrued liability (funding excess) (a) - (b) | <u>\$ 17,065</u> | <u>\$ 139</u> | <u>\$ (127)</u> | <u>\$ 982</u> |
| Funded ratio (b) / (a) | 61.1% | 74.5% | 196.2% | 0.0% |
| Covered payroll (c) | \$ 1,096,375 | \$ 15,688 | \$ 4,607 | \$ 2,495 |
| Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ([a] - (b)] / (c)) | 1.6% | 0.9% | -2.8% | 39.4% |

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

Actuarial Methods and Assumptions

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

| | <u>County</u> | <u>Flood Control</u> | <u>Park District</u> | <u>Waste Management</u> |
|--------------------------------------|---|---|---|--|
| Actuarial valuation date | 7/1/2013 | 7/1/2013 | 7/1/2013 | 7/1/2012 |
| Actuarial cost method | Entry age | Entry age | Entry age | Entry age |
| Amortization method | Level percentage of Payroll, open | Level percentage of Payroll, open | Level percentage of Payroll, open | Level percentage of Payroll, close |
| Remaining amortization period | 30 years | 30 years | 30 years | 10 years |
| Actuarial assumptions: | | | | |
| Investment rate of return | 7.4% | 7.4% | 7.4% | 4.5% |
| Projected salary increases | 3.0% | 3.0% | 3.0% | 3.0% |
| Healthcare inflation rate (initial) | 5.0% | 10.0% | 10.0% | 10.0% |
| Healthcare inflation rate (ultimate) | 4.0% | 5.0% | 5.0% | 5.0% |
| Inflation rate | 2.8% | 2.8% | 2.8% | 3.0% |

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 23 – 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.

Property Tax Administration Fee

On July 7, 2010, the Court of Appeal of the State of California issued a decision in favor of the cities and against the County of Los Angeles in a case brought by 47 cities regarding the calculation of Property Tax Administration Fees (PTAF). The legal issue in dispute is whether counties can include “flip” and “swap” revenues in the calculation of administrative costs that counties recover from cities. At the trial court level, the court-appointed Referee had concluded that the County of Los Angeles’ calculation of the PTAF starting in fiscal year 2006-07 comported with Section 97.75 of California’s Revenue and Taxation Code. The Court of Appeal reversed the judgment and remanded for further proceedings, holding that the County of Los Angeles’ method of calculating its fee under Section 97.75 was unlawful. It is expected that the County of Los Angeles will petition the California Supreme Court for review. In the opinion of management, the decision to the case is significant for the County of Riverside because of similar claims against this County. The potential financial impact to the County related to the outcome of this case averages approximately \$7.2 million in tax administration fees for fiscal year 2006-07 through fiscal year 2011-12. The outstanding balance as of June 30, 2014 was \$1.9 million.

County of Riverside Redevelopment Successor Agency

It is reasonably possible that the State Department of Finance could invalidate some but not all of the obligations reported on the Successor Agency’s Recognized Obligation Payment Schedule (ROPS). Sec. 34171 (d) (1) of the Health and Safety Code recognizes bonds as enforceable obligations, as defined by Section 33602 and bonds issued pursuant to Section 58383 of the Government Code, including the required debt service. The majority of the total outstanding obligations reported on the ROPS of the Successor Agency to the RDA (92.0%) consist of bond debt service payments. The range of potential loss of revenue is only between \$0 to \$126.6 million spread over the remaining life of the Successor Agency through 2045.

Federal Grant Revenue

Compliance examinations for the fiscal year ended June 30, 2013, 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 2013-14 Single Audit of federal awards report is expected to be submitted to the Federal Audit Clearinghouse on or before March 31, 2015.

Commitments

At June 30, 2014 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. \$121.4 million will be payable upon future performance under the contracts.

Landfill Construction and Consulting Contracts

The Waste Management Department entered into various construction and consulting contracts to facilitate its landfill operations and is in the process of installing landfill liners at Lamb Canyon in accordance with State and Federal laws and regulations. Waste Management expects to complete the installation of several landfill liners over the next five years and estimates additional future costs to be \$7.4 million. These additional costs will be capitalized as the costs are incurred.

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 23 – COMMITMENTS AND CONTINGENCIES (Continued)

Remediation Contingencies

Governmental Funds

Release of gasoline and diesel fuel has been reported at seven underground storage tanks. Orders have been issued by the California Regional Water Quality Control Board (CRWQCB) to assess and cleanup these sites by specific dates. It has determined the remediation plan and monitoring action are required. In addition to groundwater contamination, asbestos has been found in six facilities. As of June 30, 2014 the governmental activities reflect a \$2.6 million accrued remediation liability (Note 14). The liability has been calculated using the expected cash flow technique. The liability is subject to change over time. Cost may vary due to price fluctuations, changes in technology, results of environmental studies, changes to statute or regulations and other factors that could result in revisions to these estimates.

Enterprise Funds

Waste Management Department has established restricted cash funds to set aside for future remediation costs as they are required to be performed. Investments of \$28.1 million are held for these purposes at June 30, 2014 and are classified as accrued remediation in the statements of net position.

The Department is aware of air/gas contamination at 17 landfills, 11 of which are closed, and required to have corrective action plans. Based on engineering studies, Waste Management estimates the present value of the total costs of corrective action for foreseeable contaminate releases at \$35.1 million. At June 30, 2014, the Department has accrued \$28.1 million for the estimated costs required by CalRecycle and the Regional Water Quality Control Board (RWQCB), related to the outstanding remediation projects as needed at these landfills.

Encumbrances

The County uses “encumbrances” to control expenditure commitments for the year. Encumbrances represent commitments related to executor contracts not yet performed and purchases orders not yet filled. Commitments for such expenditure of monies are encumbered to reserve applicable appropriations. Depending on the sources(s) of funding, encumbrances are reported as part of restricted or assigned fund balance on the governmental funds balance sheet. As of June 30, 2014, the encumbrance balances for the governmental funds are reported as follows (In thousands):

| | <u>Restricted</u> | <u>Assigned</u> | <u>Total</u> |
|--|-------------------|-----------------|-----------------|
| Major Governmental Funds | | | |
| General Fund: | | | |
| California children services | \$ - | \$ 343 | \$ 343 |
| Capital improvement projects | - | 5 | 5 |
| Code enforcement | - | 50 | 50 |
| Humane services | - | 247 | 247 |
| Low income health program | - | 1,610 | 1,610 |
| Other purposes | - | 182 | 182 |
| Probation | - | 2,576 | 2,576 |
| Public health | - | 751 | 751 |
| Registrar of voters | - | 200 | 200 |
| Transportation: | | | |
| Equipment | 676 | - | 676 |
| Public Facilities Improvements Capital Projects: | | | |
| Capital improvement projects | - | 2,360 | 2,360 |
| Nonmajor Governmental Funds | | | |
| Special Revenue Funds: | | | |
| Lightings maintenance | 72 | - | 72 |
| Total Encumbrances | <u>\$ 748</u> | <u>\$ 8,324</u> | <u>\$ 9,072</u> |

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 24 – SUBSEQUENT EVENTS

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

On July 1, 2014, the County issued \$250.0 million in Tax and Revenue Anticipation Notes in the form of a 2015 Maturity bond due June 30, 2015. The stated interest rate for the bond is set at 1.5% per annum with a yield of 0.12%. Portions of the note proceeds were used to prepay CalPERS contributions for fiscal year 2014-15 in the amount of \$86.6 million. Between the prepayment discount of 3.6%, and earnings on cash flow the County expects to net \$3.2 million in cost savings. In accordance with California law, the TRANS bonds are general obligations of the County and are payable only out of the taxes, income, revenues, cash receipts, and other monies of the County attributable to fiscal year 2015 and legally available for payment thereof. Proceeds for the bonds will be used for fiscal year 2015 general fund expenditures, including current expenditures, capital expenditures, and the discharge of other obligations or indebtedness of the County.

Riverside County Bonds and Certificates of Participation

On September 2014, Fitch, one of the three major credit ratings, has assigned the County's bonds and certificates of participation ratings as follows:

- Riverside County implied general obligation (GO) bond rating at 'AA-',
- Riverside County pension obligation bonds (POB-series 2005A) at 'A+'.
- Riverside County certificates of participation (COPS- series 2003, 2005A, 2005B, 2007A, 2007B, 2009) at 'A+'.
- Riverside County Asset Leasing Corporation certification of participation (CORAL- COPS/series 2006A and lease revenue bonds (LRBs), series 1997A, 1997B, 1997C, 2013A) at 'A+'.
- Riverside County Palm Desert Financing Authority lease revenue bonds (LRBs) (series 2003A) at 'A+'.
- Riverside County Public Financing Authority (LRBs) (series 2012) at 'A+'.
- Southwest Communities Financing Authority lease revenue bonds (LRBs) (series 2008A) at 'A+'.

Fitch's reasoning is summarized in the following paragraphs:

The County's base suffered significantly during the recession, with budgeted fiscal year 2014 discretionary revenues representing the first year of growth since fiscal year 2008. The challenged revenue environment led to multiple years of significant deficits, which management resolved by instituting a multiyear expenditure reduction plan that achieved structural balance in fiscal year 2013. Audited fiscal year 2013 general fund operations produced a \$20.7 million net surplus (a modest 1% of spending), raising the total and unrestricted general fund balances to sound levels of \$357.2 million (15% of spending and transfers out) and \$252.6 million (10.6%) respectively.

Fiscal year 2014 operations were structurally balanced, and stronger than budgeted revenues helped to add nearly \$20.0 million to the County's budget stabilization reserve. The structural balance results from years of cost-cutting, including hiring freezes, furlough days, early retirements, attrition and layoffs. The fiscal year 2014 performance also reflects an improved revenue environment, with fiscal year 2014 assessed value (AV) up 4.0% year over year and sales tax revenues estimated to climb 8.0%. The recently adopted fiscal year 2015 budget is also balanced and benefits from a further 7.8% increase in AV.

The County's housing market was one of the worst affected in the nation, with average home values falling over 50.0% and AV contracting 15.7% in fiscal years 2009–2013. The housing market has improved significantly in recent months, with a 16.0% year-over-year gain as of August 2014. Home values remain 30.0% below their prerecession peak but have increased by 48.0% since February 2012. Home price gains have contributed to solid AV growth of 4.0% in fiscal year 2014 and 7.8% for fiscal year 2015.

Regional Medical Center has experienced several consecutive years of structural imbalance that have resulted in operating deficits, reduced reserves and internal borrowing from the County. The hospital reported a \$27.1 million deficit for fiscal year 2013 and projected a two-year total of \$83.2 million earlier this year, although it now estimates the two-year figure at a much reduced level of \$40.0 million. Unrestricted net position have declined accordingly, falling to negative \$32.6 million in fiscal year 2013 on a budget of approximately \$450.0 million.

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2014

NOTE 24 – SUBSEQUENT EVENTS (Continued)

Riverside County Bonds and Certificates of Participation (Continued)

Regional Medical Center's operating deficits are supported by internal borrowing from the County. In addition, the hospital enterprise has received a \$26.0 million loan from the County's waste management enterprise to pay consultant fees. The combined estimated borrowings are equivalent to 26.0% of the fiscal year 2013 unrestricted general fund balance, or 2.8% of general fund spending. The County does not anticipate drawing on the general fund for Regional Medical Center. However, the general fund serves as the ultimate financial backstop if Regional Medical Center were unable to ultimately repay the outstanding loan balances. This concern is mitigated by the flexible nature of the internal borrowings and the County's extremely large \$1.8 billion pool of additional borrowable resources, if needed.

The County has instituted a hospital turnaround plan with the assistance of Huron Consulting Services, which has a positive record of improving operations in other hospitals. Tangible operational improvements implemented to date include replacing key members of hospital management with experienced turnaround experts and assorted new initiatives anticipated to provide \$64.0 million of ongoing savings, equivalent to 14.0% of annual spending.

Teeter Obligation Notes, Series D and E

On October 15, 2014, the County issued \$99.4 million in 2014 Teeter Obligation Notes, series D (Tax-Exempt) and \$815.0 thousand in 2014 Teeter Obligation Notes, Series E (Taxable) to refund a portion of the outstanding 2013 Teeter Obligation Notes, series D, and the outstanding 2013 Teeter Obligation Notes, Series E, and fund an advance of unpaid property taxes for agencies participating in the County's Teeter plan, and to pay the cost of issuance related to the Notes. The 2014 Notes bear an interest rate of 1.5% for 2014 Teeter Obligation Note, series D and an interest rate of .4% for 2014 Teeter Obligation Note, Series E and a maturity date of October 14, 2015 when the existing Letter of Credit will expire.

The Effects of the Economy on CalPERS

Based on past performance of the CalPERS fund, CalPERS has estimated the County's miscellaneous and safety contribution rates for fiscal year 2014-15 will be 14.5% and 21.9%, respectively. Fiscal year 2015-16 contribution rates for miscellaneous and safety are estimated at 15.5% and 23.3%, respectively. They will be accounted for in fiscal year 2013-14 and future budget years.

CORAL

In October 2014, CORAL paid off the 1985 Certificates bonds early which had an outstanding balance of \$28.0 million as of June 30, 2014.

Housing Authority

The Housing Authority expects to fully engage its mission of providing transitional rental subsidies through its non-profit arm, the Riverside Housing Corporation (RCHC), which received a grant of \$135.0 thousand from the California Endowment. The focus of this endeavor will be to serve residents of the eastern Coachella Valley who need affordable, safe, decent, and sanitary housing opportunities, and supportive programs that foster economic opportunities. Another grant for \$50.0 thousand is expected to be received from the Coachella Valley Air Quality Enhancement (CVAQ) Project, which would support RCHC's housing objective.

Further, through the RCHC, funds for the Emergency Solutions Grant (ESG) will be directed towards the expansion of eligible activities for emergency shelter and homelessness prevention activities, which include short-term and medium-term rental assistance and services to stabilize and rapidly re-house individuals and households who are homeless or at risk of becoming homeless. ESG funds are provided by the Department of Housing and Urban Development through the Riverside County's Economic Development Agency and the City of Riverside.

Inland Empire Tobacco Securitization Authority

On August 8, 2014, Fitch Ratings lowered the ratings on the Inland Empire Tobacco Securitization Corporation Series 2007 Bonds from a prior rating of B to a new rating B- as a result of Fitch's annual review.



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