COUNTY OF RIVERSIDE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
June 30, 2002

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January 31, 2003

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

Chairperson and Members of the Board:

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

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

- The Introductory Section includes the transmittal letter, a list of principal officials, the County of Riverside's organizational chart, and a copy of the Certificate of Achievement for Excellence in Financial Reporting for the year ended June 30, 2001.

- The Financial Section includes the independent auditor's report on the basic financial statements; Management's Discussion and Analysis (Required Supplementary Information), basic financial statements (which include the financial statements of the County's governmental activities, business-type activities, the County's discretely presented component unit, each major fund, and the aggregate remaining fund information of the County as of June 30, 2002); other required supplementary information; schedules of funding progress for defined benefit pension plans; and other supplementary information (which includes combining and individual non-major fund financial statements as well as other budgetary comparison schedules).

- The Statistical Section includes selected financial and demographic information, generally presented on a multi-year basis.

The County of Riverside is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Information related to this single audit, including the schedule of expenditures of federal awards, findings and questioned costs, and the independent auditor's report on internal control and compliance with applicable laws and regulations, are included in a separate annual publication.

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

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

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

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

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

PROFILE OF THE GOVERNMENT

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

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

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

PLANNING AND GROWTH MANAGEMENT

Strategic Plan

The County Strategic Plan ("Strategic Vision") was adopted by the Board of Supervisors in December 1998, and was revised in April 2000. This plan encompasses all areas of County operations with the general objectives of improving quality of service, increasing efficiency and enhancing communication and understanding and coordination between County agencies and other units of local government.

The "Integrated Plan" Project

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

Trial Court Facilities

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

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

Development Agreement Fees

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

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

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

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

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

Development Mitigation Fees

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

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

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

Development Impact Fees

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

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

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

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

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

FINANCIAL INFORMATION

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

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

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

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

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

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

Cash Management 99.79%, $154,355,000, of the County's cash deposits were either insured by federal depository insurance or collateralized. All collateral on cash deposits was held either by the County, its agent, or a financial institution's trust department in the County's name. Approximately 73.71%, $1,665,037,000, of the categorized investments held by the County at June 30, 2002, are classified in the category of lowest custodial credit risk as defined by the Governmental Accounting Standards Board. This category includes investments that are insured, or registered, or held by the County or its agent in the County's name. The maturities of the investments in the County Treasurer's investment pool generally range from 1 month to 3 years, with the average weighted maturity being 180 days. The average yield based upon book value is 2.7% for the fiscal year ended June 30, 2002.

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

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

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

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

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

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

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

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

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

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

OTHER INFORMATION

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

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

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

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

Acknowledgments

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

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

Respectfully Submitted,

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

MANAGEMENT'S

DISCUSSION AND ANALYSIS

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

Management's Discussion and Analysis *(Unaudited)*

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

The blended component units are:

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

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

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

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

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

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

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

- *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for the Regional Medical Center (RMC), Waste Management Department, County Service Areas, Housing Authority, and Flood Control. Individual fund statements are presented in the Supplementary Information section, except for RMC and Waste Management Department financial statements, which were reported in a separate column of the proprietary fund statements due to materiality criteria promulgated by GASB Statement No. 34.

- *Internal service funds* are used to report activities that provide supplies and services for certain County programs and activities. The County uses internal service funds to account for its fleet services, information services, printing services, supply services, financial system, risk management, temporary assistance pool and flood control equipment. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the propriety fund financial statements. Individual fund financial information for each internal service fund is provided in the Supplementary Information section.

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

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

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

FINANCIAL HIGHLIGHTS

- The assets of the County of Riverside exceeded its liabilities at the close of the FY 2001-02 by $1,406,982,000 (*net assets*). Of this amount, $213,642,000 (*unrestricted net assets)* may be used to meet the County's ongoing obligations to citizens and creditors, $661,745,000 (*restricted net assets*) is restricted by external sources or through enabling legislation for specific purposes and $531,595,000 is invested in capital assets, net of related debt.

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

- As of June 30, 2002, the total fund balance of the governmental funds was $678,366,000, an increase of $38,389,000 in comparison with the prior year. Approximately 33% of the combined fund balances, $227,926,000 was available to meet the County's current and future needs (*unreserved-undesignated fund balance*).

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

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

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

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

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

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

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

Governmental Activities

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

- Operating Grants and Contributions are revenues received from parties outside of the County, such as State and Federal agencies, and are generally restricted to one or more specific programs. In FY 2001-02, a total of $993,977,000 of Operating Grants and Contributions revenue was received making this the largest revenue source for governmental activities. Public assistance and health care programs received 75% of the governmental activity funding from this source.

- A total of $366,626,000 was received as charges for governmental activity services provided. Charges for services are revenues that arise from charges to external customers or applicants who purchase, use, or directly benefit from the goods, services, or privileges provided. Public protection generated 50% of this revenue source, which was primarily generated from the Sheriff's Office providing cities with contracted protection services.

- Capital Grants and Contributions resulted in the least amount of program revenue from governmental activities with $32,364,000 received for the fiscal year. This revenue category accounts for grants and contributions received for the restricted use of capital acquisition. The majority of the revenue, 93%, was received for public ways and facilities programs and is primarily related to the construction and acquisition of flood control infrastructure capital assets such as channels, storm drains and basins.

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

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

Business-type Activities

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

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

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

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

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

FINANCIAL ANALYSIS OF FUND STATEMENTS

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

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

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

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

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

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

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

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

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

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

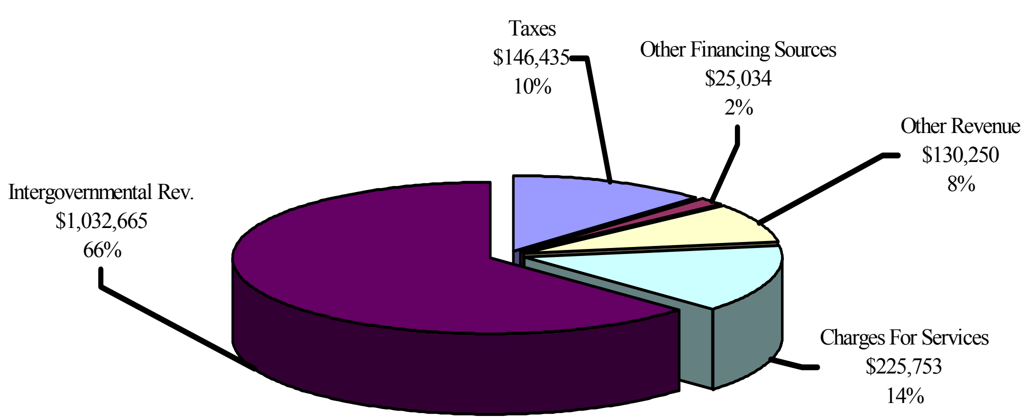
GENERAL FUND FINANCIAL ANALYSIS

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

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

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

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



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

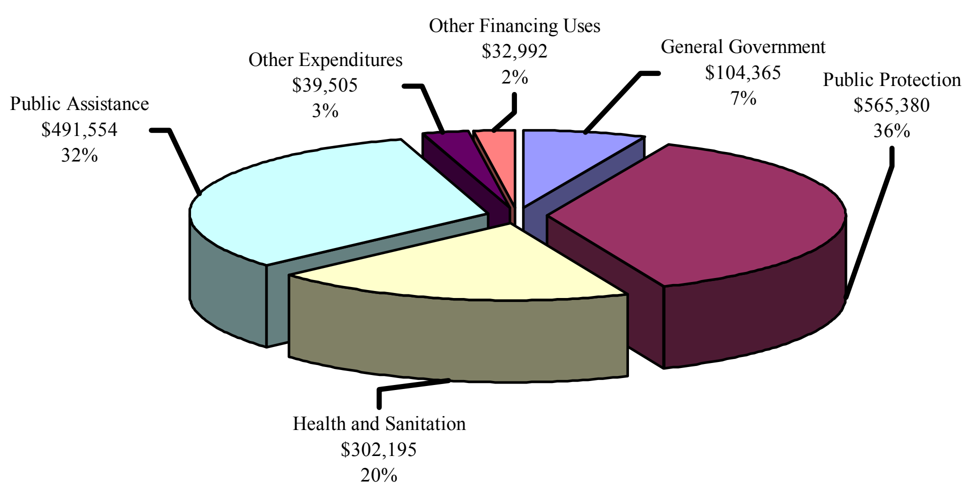
Expenditures and other financing uses for the General Fund, including comparative amounts from the preceding year, are shown in the following tabulation (in thousands):

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

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

COUNTY OF RIVERSIDE

GENERAL FUND EXPENDITURES AND OTHER FINANCING USES
F0R THE YEAR ENDED JUNE 30, 2002 (IN THOUSANDS)



Total Expenditures and Other Financing Uses = $1,535,991

GENERAL FUND BUDGETARY HIGHLIGHTS

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

Variance between General Fund Original Adopted and Final Amended Budget

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

Aid Received from Other Governmental Agencies:

- The County health, mental health and social services programs estimated revenue budget increased $20,000,000 for additional restricted program money received from State Realignment revenues.

- Revenue estimates increased $8,308,000 to fund Foster Care cost of living adjustments and program increases. Revenue was anticipated from the State and Federal government in the amounts of $4,786,000 and $3,522,000, respectively.

- Revenue estimates increased $4,089,000 to offset substantial cost increases in public assistance programs, such as Foster Care, CalWORKs, and Medi-Cal administration. Revenue was anticipated from the State and Federal government in the amounts of $2,558,000 and $1,531,000, respectively.

- A $3,736,000 estimated Federal government revenue increase to support increased caseload costs for in-home support services provided to the aged and disabled citizens.

- Disproportionate Share Hospital revenue $91,000,000 was reclassed from other revenue to State Aid.

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

- Motor Vehicle In Lieu of Taxes, $10,000,000

- Interest received on the Treasurer Investment Pool, $3,000,000

- Documentary Transfer Taxes, $2,600,000

- Redevelopment Contractual Revenue, $2,100,000

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

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

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

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

- Foster Care cost of living adjustments and program cost increases, $8,308,000

- Cost increases in public assistance programs, $4,139,000 funded from aid from other governmental agencies of $4,089,000 and $50,000 appropriation of unanticipated program revenue received.

- In-home support services for the aged and disabled citizens had an additional appropriation increase of $5,033,000 to support the cost associated with increased caseload services. Estimated revenue was increased $4,581,000 for anticipated revenue from aid from other agencies (Federal and State government) and $452,000 was funded from County contingency and realignment revenue.

- Appropriations increased $1,500,000 to assist qualified low-income citizens with energy costs through emergency conservation methods of home weatherproofing and new appliance installation.

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

- Replacement of Sheriff's Computer Aided Dispatch (CAD) system, $3,000,000.

- A budget increase in appropriations of $2,805,000 for the State COPS Program. This adjustment will fund additional Deputy Sheriff front line law enforcement positions and Deputy District Attorneys to prosecute criminal cases. $2,005,000 was funded by Citizen's Option for Public Safety Program and $800,000 funded by additional law enforcement contract revenues from cities.

- Enhancement costs of $2,027,000 for the County to coordinate and respond to anti-terrorism activities; funding was approved from contingencies, $1,547,000 and $480,000 from other revenue sources.

- Retroactive costs associated with public safety personnel rate increases for PERS (Public Employee Retirement System) retirement benefits and for increased salary and benefit costs for Public Defender personnel. Appropriation funding of $1,874,000 is to be used from contingencies.

- Purchase of five fire engines and personnel costs to support seven three-person engine companies. Appropriations increase of $1,706,000 to be funded from contingencies.

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

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

Variances with matching unrealized revenue and unexpended appropriations

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

- Actual costs associated with reimbursement grants (related to Social Services, Mental Health Treatment and Medically Indigent Services) were $74,492,000 less than appropriated, resulting in an equal amount of unrealized reimbursement revenue. The decrease in public assistance and health and sanitation program costs are due to the strong local economy and decrease in aid cases.

- The construction cost and related funding for the CAC Annex Project were included in the original budget. However, Certificates of Participation were issued during the year and construction costs were paid by an outside trustee with the proceeds rather than by the General Fund. Since the budget was not adjusted for the project during the year, appropriations and estimated revenue were unexpended/ unrealized by $29,225,000.

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

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

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

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

- Salaries and benefit costs resulted in $10,987,000 of unexpended appropriations. The delayed opening of the Southwest Juvenile Hall was a significant factor attributing to the savings. Costs were budgeted for a full year of operations, however, the Hall did not open until December 2002 and it was not fully staffed until late in the fiscal year. In addition, there was a lag in replacing experienced staff reassigned to the new facility.

- Capital assets resulted in a $5,948,000 savings in appropriations, mainly attributed to the inability to award a contract to purchase fire engines during the year.

- Services and supplies resulted in a $9,693,000 savings. Child Support Services ended the fiscal year with $4,775,000 of unexpended appropriations out of a budget of $27,556,000.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

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

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

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

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

- The June 30, 2002 construction in progress balance included a $67,710,000 increase to capital assets comprised of the following projects:

  - The County Administrative Center (CAC) Annex/Parking Lot, $21,681,000
  - Road, bridge and signal infrastructure, $18,535,000
  - Murrieta Southwest Justice Center (SWJC) Courthouse, $16,672,000
  - Waste Management Headquarters, $5,600,000
  - Channels, storm drains and basins (infrastructure), $3,806,000
  - Other smaller projects, $1,416,000

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

  - Structures and improvements, $44,621,000
  - Infrastructures: Flood storm drains, $914,000

- Capital asset additions for infrastructure was $60,069,000 comprised of the following:

  - Roads: $34,103,000
  - Flood Storm Drains: $12,289,000
  - Bridges: $4,829,000
  - Flood Dams and Basins: $2,646,000
  - Flood Channels: $2,164,000
  - Traffic Signals $2,052,000
  - Landfill Liners and Other: $1,986,000

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

- At the end of June 30, 2002, significant commitments for capital expenditures include the following:

  - Southwest Justice Center Courts construction: $46,450,000
  - County Administrative Center Annex/Parking construction: $9,413,000
  - Flood storm drains projects: $2,716,000

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

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

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

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

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

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

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

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

REQUEST FOR INFORMATION

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