

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

MANAGEMENT'S DISCUSSION AND ANALYSIS

It is presented as required supplementary information for the benefit of the readers of the Comprehensive Annual Financial Report.

Management’s Discussion & Analysis (Unaudited)

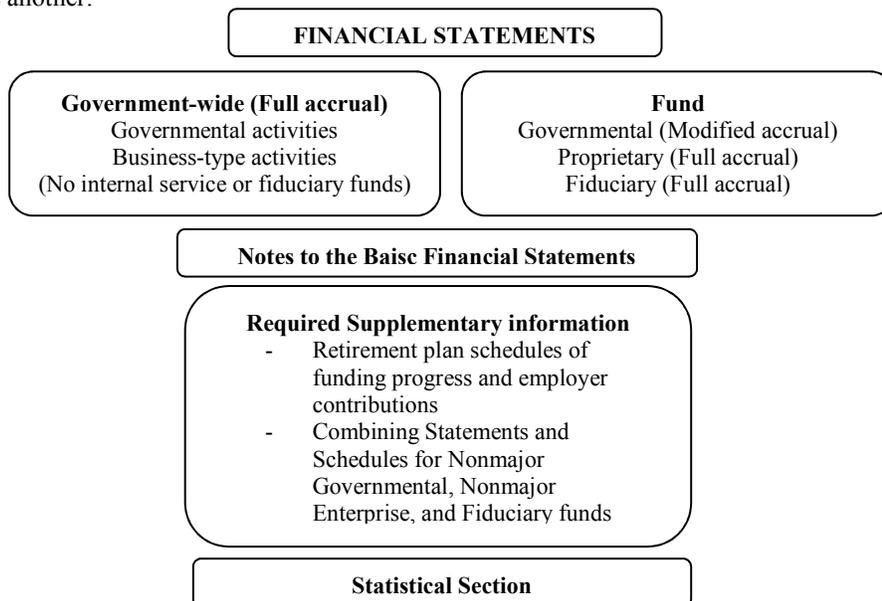
This section of the County of Riverside (the County)’s Comprehensive Annual Financial Report presents a narrative overview and analysis of the County’s financial activities for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with the Letter of Transmittal beginning on page v and the County’s basic financial statements which begin on page 29.

FINANCIAL HIGHLIGHTS

- At the close of fiscal year 2012-13, the County’s assets and deferred outflow of resources exceeded its liabilities and deferred inflow of resources by \$4.6 billion (*net position*). The net position included \$860.7 million of unrestricted resources, which may be used to meet the County’s ongoing obligations to citizens and creditors; \$644.7 million of restricted resources, which is required by external sources or through enabling legislation to be used for specific purposes; and \$3.1 billion is net investment in capital assets.
- At the close of the current fiscal year, the County’s governmental funds reported combined fund balances of \$1.1 billion, a decrease of \$218.7 million in comparison with the prior year. Approximately 17.9% of this amount (\$199.9 million) is available for spending at the County’s discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unrestricted fund balance (the total of the *committed, assigned, and unassigned* components of *fund balance*) for the general fund was \$252.6 million, or approximately 11.0 % of total general fund expenditures.
- As of July 1, 2012, the County implemented Governmental Accounting Standards Board Statement (GASB) No. 65 – *Items Previously Reported as Assets and Liabilities*. The beginning net position restated by \$10.9 million to write off the unamortized bond issuance costs that were previously reported as assets. Furthermore, unavailable revenue in governmental funds of \$68.7 million was reclassified from liability to deferred inflows of resources which were recognized as a receivable before time requirements are met, but after all other eligibility requirements have been met.
- There is a net increase of \$8.4 million in deferred inflow of resources related to service concession arrangement (SCA) for capital assets.

OVERVIEW OF THE FINANCIAL STATEMENTS

This management’s discussion and analysis (MD&A) is intended to serve as an introduction to the County’s basic financial statements. The illustration below shows how the required parts of this annual report are arranged and related to one another.



Management’s Discussion & Analysis (Unaudited)

The overview section below summarizes the major feature of the financial statements and describes the structure and contents of each of the statements in more detail.

	Government-wide Statements	Fund Financial Statements		
		Governmental	Proprietary	Fiduciary
Scope	Entire County (except fiduciary funds)	The day-to-day operating activities of the County for basic governmental services	The day-to-day operating activities of the County for business-type enterprises	Instances in which the County is the trustee or agent for someone’s resources
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset / liability information	All assets and liabilities, both financial and capital, short-term and long-term	Current assets and liabilities that come due during the year or soon thereafter; no capital assets or debt included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow / outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter, expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

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 position* presents financial information on all of the County’s assets, liabilities, deferred inflow/outflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or declining. The statement of net position in summary can be found on page 8, and in more detail on page 29.

The *statement of activities*, presented on page 10 in summary and on pages 30 - 31 in detail, provides information showing how the County’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the 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. For example, property tax revenues have been recorded that have been accrued but not yet collected, and expenditures for compensated absences have been accrued, but not paid.

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 cultural services. Governmental activities include five major funds, twenty nonmajor funds, and a representative allocation of the County’s internal service funds. The five major governmental funds are the general fund, flood control special revenue fund, transportation special revenue fund, teeter debt service fund, and public facilities improvements capital projects fund. The business-type activities of the County include three major enterprise funds, and two nonmajor funds. The major enterprise funds are the Regional Medical Center, Waste Management, and Housing Authority.

Management's Discussion & Analysis (Unaudited)

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. Although blended component units are legally separate entities, they are, in substance, part of the County's operations. Accordingly, the financial information from these units is combined with financial information of the primary government.

The financial information for the Palm Desert Financing Authority (PDFA) and the Children and Families Commission (the Commission), both legally separate component units whose governing bodies are appointed by and serve at the will of the County, are presented separately from the financial information of the primary government.

The blended component units are:

- County of Riverside Asset Leasing Corporation (CORAL)
- County of Riverside District Court Financing Corporation
- County of Riverside Bankruptcy Court Corporation
- Housing Authority of the County of Riverside
- In-Home Supportive Services Public Authority
- Riverside County Flood Control and Water Conservation District (Flood Control)
- Riverside County Regional Park and Open-Space District
- Riverside County Public Financing Authority
- Riverside County Service Areas
- Inland Empire Tobacco Securitization Authority
- Perris Valley Cemetery District

Fund Financial Statements, illustrated on pages 34 - 51, 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 Governmental Accounting Standards Board (GASB) Statement No. 34, as amended. 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 a 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. Unlike the government-wide financial statements, governmental fund financial statements often have a budgetary orientation, are prepared on the modified accrual basis of accounting, and focus primarily on the sources, uses, and balances of current financial resources. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

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 County's near-term financing decisions. The governmental funds' balance sheet and statement of revenues, expenditures, and changes in fund balances provided are accompanied by 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, capital projects, and permanent funds). The governmental fund statements present the financial information of each major fund (the general fund, transportation special revenue fund, flood control special revenue fund, teeter debt service fund, and public facilities improvements capital projects fund) in separate columns.

Management's Discussion & Analysis (Unaudited)

Financial information for the remaining governmental funds (nonmajor funds) is combined into a single, aggregated presentation. Financial information for each of these nonmajor governmental funds is presented in the supplementary information section.

Budgetary comparison statements are also included in the fund financial statements. The statements present the County's annual estimated revenue and appropriation budgets for all governmental fund budgets except for CORAL, District Court Financing Corporation, Bankruptcy Court, Inland Empire Tobacco Securitization Authority, Public Financing Authority, and Redevelopment Agency (RDA) Housing Successor Agency. The budgetary comparison statements have been provided to demonstrate compliance with their respective budgets.

Proprietary Funds are used to account for services for which the County charges customers, either outside customers or internal departments of the County. Proprietary funds statements, found on pages 46 - 49, provide the same type of information as shown in the government-wide financial statements with 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, Housing Authority, County Service Areas, and Flood Control. RMC, Waste Management, and Housing Authority financial statements are reported in separate columns of the proprietary fund statements due to the materiality criteria defined by GASB Statement No. 34. Financial information for the remaining enterprise funds (nonmajor funds) is combined into a single, aggregated presentation. Individual fund statements for County Service Areas and Flood Control are presented in the supplementary information section.
- *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 records and archive management, fleet services, information services, printing and mail services, supply services, Enterprise Solution Division (accounting and human resources information technology system), risk management, temporary assistance pool, Economic Development Agency (Facilities Management), and flood control equipment. Because these services predominantly benefit governmental rather than business-type functions, they have been included within the *governmental activities* in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund financial information for each internal service fund is provided in the supplementary information section.

Fiduciary Funds report assets held in a trustee or agency capacity for others and therefore cannot be used to support the County's programs nor be reflected in the government-wide financial statements. Fiduciary funds maintained by the County include a pension trust fund, investment trust funds, private-purpose trust funds, and agency funds. The fiduciary fund financial statements on pages 50 - 51, 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 are essential for fair presentation of the financial information in the government-wide and fund financial statements. The notes can be found on pages 53 - 117 of this report.

Required Supplementary Information, in addition to this MD&A, presents schedules of retirement plan funding progress and employer contribution. Required supplementary information can be found on pages 119 - 121 of this report.

Combining and individual fund statements and schedules provide information for nonmajor governmental funds, nonmajor enterprise funds, internal service funds, and fiduciary funds and are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 123 - 176 of this report.

Management's Discussion & Analysis (Unaudited)

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve as a useful indicator of a government's financial position. The table below focuses on the net position and changes in net position in the County's governmental and business-type activities. It presents an analysis of the County's net position as of June 30, 2013, in comparison to the prior fiscal year 2011-12. At the end of the current fiscal year, the County reported positive net position in all three categories: net investment in capital assets, restricted net position and unrestricted net position. Total assets and deferred outflow of resources, as indicated below, exceeded liabilities and deferred inflow of resources by \$4.6 billion representing an increase of \$192.2 million (\$181.3 million changes in net position and restatement of \$10.9 million, See Note 3), or 4.1%.

A more detailed statement can be found on Page 29 in the government-wide financial statements.

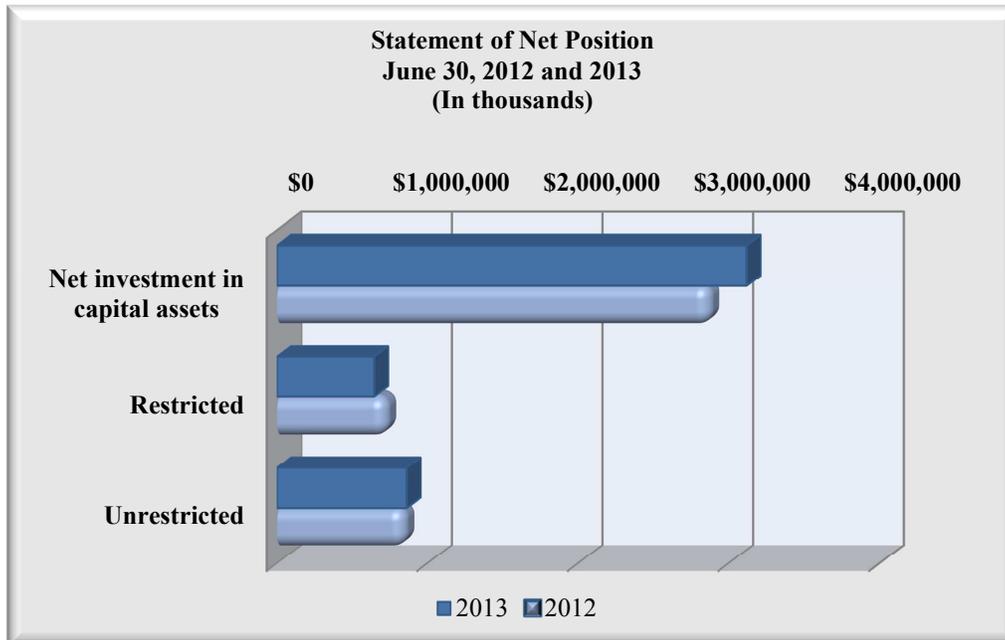
Statement of Net Position June 30, 2013 (In thousands)

	Governmental Activities		Business-type Activities		Total		Increase/ (Decrease)
	2013	2012	2013	2012	2013	2012	%
Assets:							
Current and other assets	\$ 2,542,934	\$ 2,903,152	\$ 521,110	\$ 308,604	\$ 3,064,044	\$ 3,211,756	-4.6%
Capital assets	3,913,392	3,704,789	275,292	269,673	4,188,684	3,974,462	5.4%
Total assets	6,456,326	6,607,941	796,402	578,277	7,252,728	7,186,218	0.9%
Deferred outflows of resources:							
Deferred outflows of resources:	26,821	-	347	-	27,168	-	0.0%
Total deferred outflows of resources	26,821	-	347	-	27,168	-	0.0%
Liabilities:							
Current liabilities	651,424	788,496	152,033	100,275	803,457	888,771	-9.6%
Long-term liabilities	1,492,824	1,543,912	333,806	311,845	1,826,630	1,855,757	-1.6%
Total liabilities	2,144,248	2,332,408	485,839	412,120	2,630,087	2,744,528	-4.2%
Deferred inflows of resources:							
Deferred inflows of resources:	17,703	-	9,118	-	26,821	-	0.0%
Total deferred inflows of resources	17,703	-	9,118	-	26,821	-	0.0%
Net position:							
Net investment in capital assets	2,998,987	2,740,429	118,594	130,510	3,117,581	2,870,939	8.6%
Restricted	550,326	683,835	94,346	41,103	644,672	724,938	-11.1%
Unrestricted	771,883	851,269	88,852	(5,456)	860,735	845,813	1.8%
Total net position	\$ 4,321,196	\$ 4,275,533	\$ 301,792	\$ 166,157	\$ 4,622,988	\$ 4,441,690	4.1%

Management's Discussion & Analysis (Unaudited)

Below are the three components of net position and their respective balances as of June 30, 2013:

- Net investment in capital assets was \$3.1 billion, or 67.5%, of the County's total net position compared to \$2.9 billion, or 64.6%, for fiscal year 2011-12. This component consists of capital assets such as land and easements, structures and improvements, infrastructure, and equipment, net of accumulated depreciation. The amount is further 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.
- \$644.7 million, or 13.9%, of the County's total restricted net position compared to \$724.9 million, or 16.3% for fiscal year 2011-12. This component represents external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- \$860.7 million, or 18.6%, of the County's total net position is unrestricted that may be used to meet the County's ongoing obligations to citizens and creditors. Of this amount, \$771.9 million is from governmental activities and \$88.8 million from business-type activities, compared to prior year whereas, \$851.3 million was from governmental activities and a \$5.5 million deficit from business-type activities.



Management's Discussion & Analysis (Unaudited)

The following table provides information from the Statement of Activities of the County as of June 30, 2013, as compared to the prior year:

Statement of Activities For the year ended June 30, 2013 (In thousands)

	Governmental Activities		Business-type Activities		Total		Increase/ (Decrease)
	2013	2012	2013	2012	2013	2012	%
Revenues:							
Program revenues:							
Charges for services	\$ 588,461	\$ 580,797	\$ 600,747	\$ 505,665	\$ 1,189,208	\$ 1,086,462	9.5%
Operating grants and contributions	1,503,390	1,447,694	-	-	1,503,390	1,447,694	3.8%
Capital grants and contributions	27,695	27,909	698	335.00	28,393	28,244	0.5%
General revenues:							
Property taxes	277,417	322,337	-	-	277,417	322,337	-13.9%
Sales and use taxes	29,751	26,744	-	-	29,751	26,744	11.2%
Unrestricted intergovernmental revenue	220,811	226,384	-	-	220,811	226,384	-2.5%
Investment earnings	2,035	11,801	(33)	907	2,002	12,708	-84.2%
Other	206,337	176,113	-	-	206,337	176,113	17.2%
Total revenues	2,855,897	2,819,779	601,412	506,907	3,457,309	3,326,686	3.9%
Expenses:							
General government	194,641	270,474	-	-	194,641	270,474	-28.0%
Public protection	1,065,373	1,047,202	-	-	1,065,373	1,047,202	1.7%
Public ways and facilities	89,469	84,797	-	-	89,469	84,797	5.5%
Health and sanitation	422,982	374,950	-	-	422,982	374,950	12.8%
Public assistance	807,611	827,092	-	-	807,611	827,092	-2.4%
Education	18,998	10,376	-	-	18,998	10,376	83.1%
Recreation and culture	12,274	15,806	-	-	12,274	15,806	-22.3%
Interest on long-term debt	29,453	39,098	-	-	29,453	39,098	
Regional Medical Center	-	-	473,916	417,074	473,916	417,074	13.6%
Waste Management	-	-	53,069	57,272	53,069	57,272	-7.3%
Housing Authority	-	-	90,678	91,469	90,678	91,469	-0.9%
Flood Control	-	-	2,472	2,306	2,472	2,306	7.2%
County Service Areas	-	-	459	456	459	456	0.7%
Total expenses	2,640,801	2,669,795	620,594	568,577	3,261,395	3,238,372	0.7%
Excess (deficiency) before							
Transfers	215,096	149,984	(19,182)	(61,670)	195,914	88,314	121.8%
Transfer in (out)	(1,049)	(11,702)	1,049	11,702	-	-	0.0%
Change in net position, before extraordinary items	214,047	138,282	(18,133)	(49,968)	195,914	88,314	121.8%
Extraordinary Items	(158,337)	502,639	154,589	-	(3,748)	502,639	-100.7%
Change in net position	55,710	640,921	136,456	(49,968)	192,166	590,953	-67.5%
Net position, beginning of year, as Restated	4,265,486	3,634,612	165,336	216,125	4,430,822	3,850,737	15.1%
Net position, end of year	\$ 4,321,196	\$ 4,275,533	\$ 301,792	\$ 166,157	\$ 4,622,988	\$ 4,441,690	4.1%

Management's Discussion & Analysis (Unaudited)

The following are specific major factors that resulted in the net position changes in governmental activities between fiscal years 2012-13 and 2011-12 as shown in the table of the previous page.

Revenues for governmental activities

Revenues from *Charges for services* increased by \$7.7 million, or 1.3%. 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. The increase was mainly due to law enforcement services provided to cities within the County of Riverside who have contract with the Sheriff Department for city police services.

Revenues from *Operating grants and contributions* increased by \$55.7 million, or 3.8%, due to significant changes in the following state and federal sources:

- \$19.2 million increase in state's realignment of public safety programs pursuant to Assembly Bill (AB) 118 for the reallocation of trial court security revenue from charges for services. \$11.0 million increase in state allocation of the one-half cent proposition 172 public safety sales tax funds due to the improvement in sales activity in the County as the consumer confidence rebounded. \$9.6 million increase in local revenue AB109 criminal justice program due to individuals sentenced to non-serious and non-violent crimes will serve their sentences in County jails instead of state prison. \$37.2 million increase in caseload growth for calworks and in-home support services programs due to more individuals seeking assistance primarily in food stamps and medi-cal.
- The increase was offset by \$19.1 million decrease in federal grants for nutrition information and education in Women, Infant, and Children (WIC) programs, the highway user tax was decreased as the state recaptured overpayment made in fiscal year 2011-12, and American Recovery and Reinvestment Act (ARRA) program was ended.

Revenues from *Capital grants and contributions* decreased by \$214.0 thousand or 0.8%, due to a reduction in the number of projects that were awarded by the Federal Aviation Administration (FAA) for federal capital improvement projects.

Revenues from *Property taxes* decreased by \$44.9 million, or 13.9%, due to the fact the County no longer receiving the pass through tax increment from the former Redevelopment Agency.

Revenues from *Sales and used taxes* increased by \$3.0 million, or 11.2% was mainly generated from a strong demand in new automobiles, restaurant sales particularly in quick-service and fast casual chains, and use tax from the development of solar energy projects. The rate increased from 7.75% to 8.0%. In addition, the last city to incorporate was Jurupa Valley which received over \$6.0 million in sales tax revenue in fiscal year 2011-12, no new cities are anticipated in fiscal year 2012-13 to further decrease sales tax revenue.

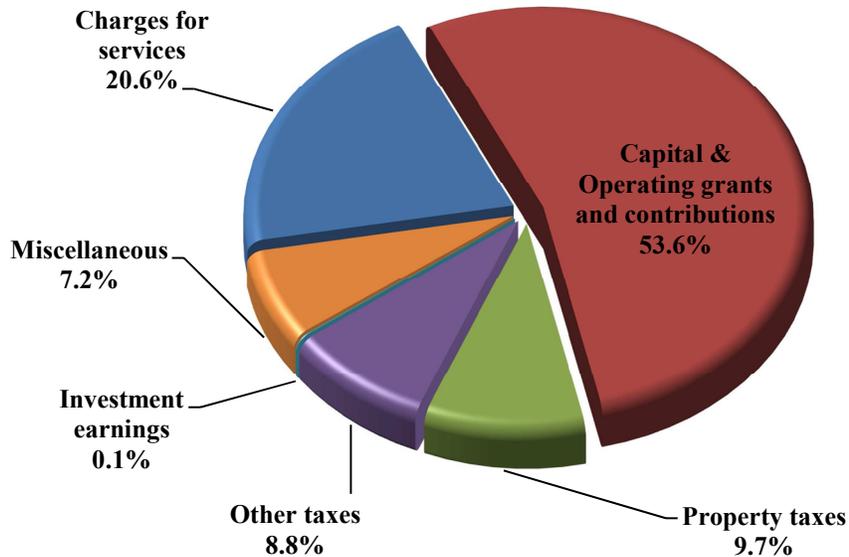
Revenues from *Unrestricted intergovernmental revenue* decreased by \$5.6 million or 2.5%. The decrease was attributed to \$4.5 million received in fiscal year 2011-12 from excess of County allocation of fiscal year 2006-07 to fiscal year 2009-10 vehicle license fee collections adjusted by State Controller Office. The realignment revenue received from vehicle license fee decreased by \$1.5 million in fiscal year 2012-13.

Revenues from *Investment earnings* decreased by \$9.8 million from \$11.8 million to \$2.0 million, or 82.8%, as a result of continual declines in interest earnings reflecting rate cuts by the Federal Reserve and decline in investment pool earnings.

The significant change in *Other revenue sources* was in Property Tax – Low and Moderate Income Housing (LMIH) Residual Assets due to the result of RDA dissolution where unencumbered low and moderate income housing set aside money AB1484 was distributed to the County according to Successor Agency debt requirement and available tax increment.

Management's Discussion & Analysis (Unaudited)

Governmental Activities Revenue by Source For fiscal year ended June 30, 2013



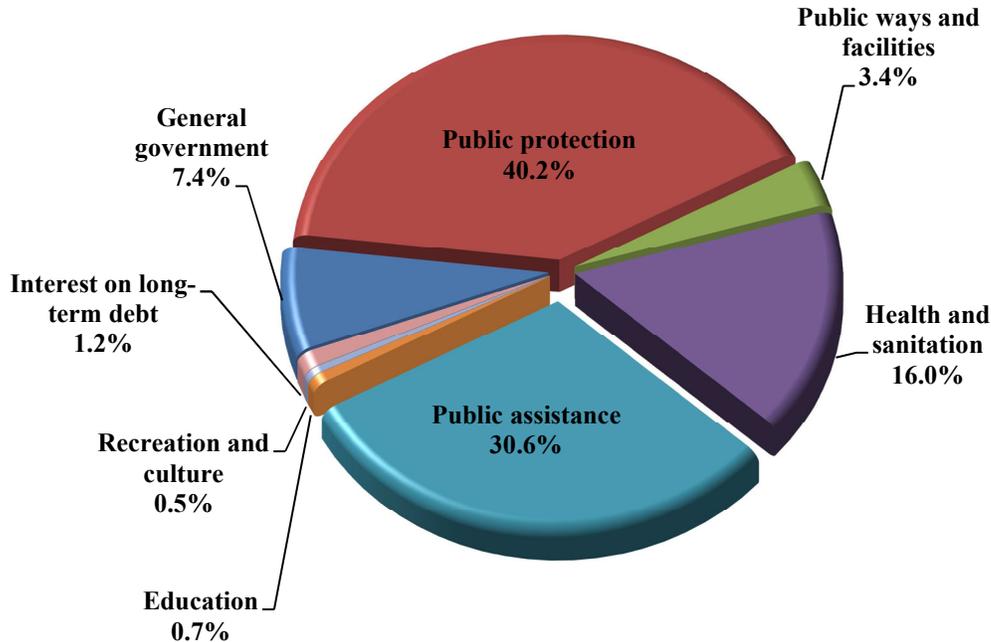
Expenses for governmental activities

Total expenses for governmental activities were \$2.6 billion for the current fiscal year, a decrease of \$29.0 million or 1.1%, as compared to prior fiscal year. The following are the key components accounting for the variance:

- General government represents \$194.6 million, or 7.4%, of the total governmental activities expenses, decreased by \$75.8 million or 28.0% from prior year. The decrease resulted from administrative and operation costs incurred by the former Redevelopment Agency for low and moderate income housing related programs, and construction costs of infrastructure and public facilities.
- Public protection represents \$1.1 billion or 40.3%, of the total governmental activities expenses, increased by \$18.2 million, or 1.7% from prior year due to sheriff's payroll and benefits, and construction costs of the new detention center. Additional analysis can be found in general fund financial analysis on page 18.
- Health and sanitation represents \$423.0 million or 16.0% of the total expenses, increased by \$48.0 million or 12.8% from prior year in services and supplies caused by the expansion of Mental Health Service Act (MHSA) formerly known as Proposition 63. It was approved by California voters to provide a 1.0% tax on personal income over \$1.0 million in order to expand and transform the county mental health service system.
- \$89.5 million, or 3.4% of the total governmental activities expenses, increased by \$4.7 million or 5.5% for public ways and facilities due to roads and road improvement projects.
- \$807.6 million or 30.6% of the total expenses, decreased by \$19.5 million or 2.4% from prior year for public assistance which was mainly due to the discontinuation of programs funded by Community Development Block Grant (CDBG) and the Neighborhood Stabilization Program. The remaining 2.3% represents education for \$19.0 million or 0.7%; recreation and culture for \$12.3 million or 0.5%, and interest on long-term debt for \$29.5 million or 1.1%.

Management's Discussion & Analysis (Unaudited)

Governmental Activities Expenses by Function For fiscal year ended June 30, 2013



Business-type Activities

The following are specific major factors that resulted in the net position changes in business-type activities between fiscal years 2012-13 and 2011-12 as shown in the above table.

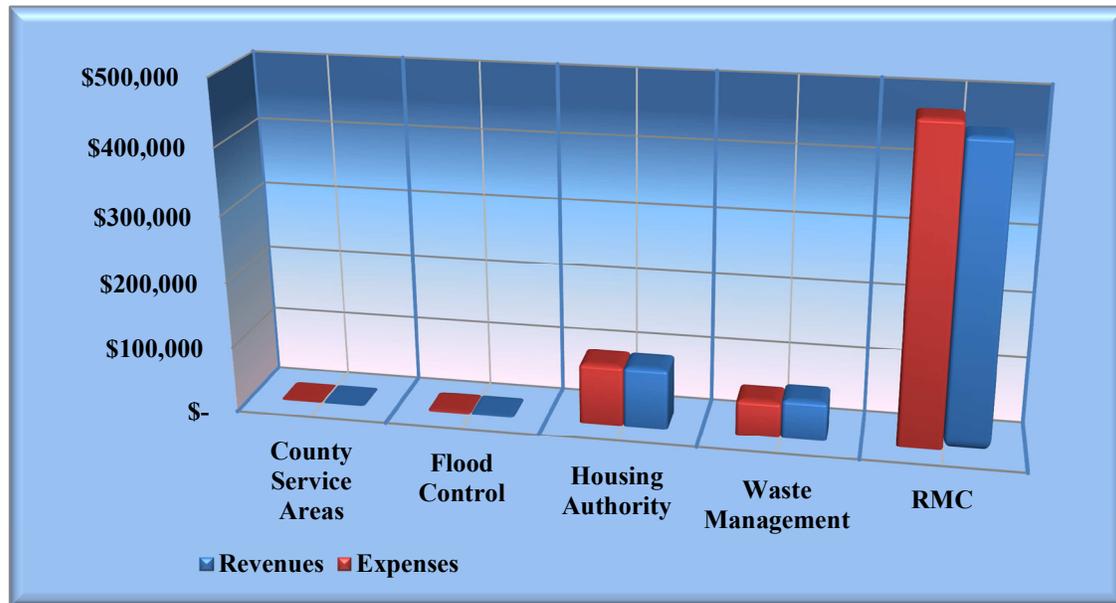
Revenues: The County has three major business-type activities: Riverside County Regional Medical Center (RMC), Waste Management, and Housing Authority. In addition, Flood Control and County Service Areas are included in the business-type activities of the County. Business-type activities recover all or a significant portion of their costs through user fees and charges and provide services primarily to non-County entities.

For the current year, \$600.7 million or 99.9%, of business-type activities program revenue was received from charges for services, a percentage consistent with the prior fiscal year. The majority of this revenue, \$450.3 million, was received by RMC as compared to \$371.8 million for the prior fiscal year. The increase was mainly attributed to the new revenue sources being earned in the current fiscal year: \$54.1 million in federal and state funds for subsidizing the costs associated with providing care to uninsured and indigent population, \$6.8 million in Hospital Quality Assurance Fee Program, \$5.7 million from Electronic Health Record (EHR) incentive program which is a reimbursement for conversion to electronic health records.

Expenses: Total expenses for business-type activities were \$620.6 million for the fiscal year compared to \$568.6 million for the prior fiscal year. This represents an increase of \$52.0 million or 9.1%. Expenses of \$473.9 million or 76.4% were incurred by RMC in the current fiscal year, as compared to \$417.1 million or 73.4%, for the prior fiscal year. In addition, expenses for Waste Management Department expenses were \$53.1 million or 8.6%, compared to \$57.3 million or 10.1% from prior fiscal year; Housing Authority expenses were \$90.7 million or 14.6% of total expenses for business-type activities, compared to prior fiscal year's expenses of \$91.5 million or 16.1%; Flood Control and County Service Areas account for the remaining 0.5% of expenses consistent with the prior fiscal year.

Management's Discussion & Analysis (Unaudited)

Revenues and Expenses Business Type Activities For fiscal year ended June 30, 2013 (In thousands)



FINANCIAL ANALYSIS OF FUND STATEMENTS

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

Governmental Fund

The focus of the County's governmental funds is to provide information on the sources, uses, and balances of spendable resources. Such information is useful in assessing the County's short-term financial requirements. In particular, the total fund balance less the nonspendable amount 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, debt service funds, and permanent fund.

As of June 30, 2013, the County's governmental funds reported combined fund balances of \$1.1 billion, a decrease of \$218.7 million in comparison with the prior year. The components of total fund balance are as follows (See Note 16 - Fund Balances for additional information):

- Nonspendable fund balance – \$5.5 million, are amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.
- Restricted fund balance – \$508.5 million, are amounts that are constrained to being used for a specific purpose by external parties such as creditors, grantors, laws, or regulations.
- Committed fund balance – \$314.4 million, are amounts that are committed for a specific purpose. These funds require action from the Board of Supervisors to remove or change the specified use.
- Assigned fund balance – \$86.4 million, are amounts that have been set aside and are intended to be used for a specific purpose but are neither restricted nor committed. Assigned amounts cannot cause a deficit in unassigned fund balance.
- Unassigned fund balance – \$199.9 million, funds that are not reported in any other category and are available for any purpose within the general fund.

Management's Discussion & Analysis (Unaudited)

Total governmental fund revenue increased by \$18.1 million or 0.7%, from the prior fiscal year with \$2.8 billion being recognized for the fiscal year ended June 30, 2013. Expenditures decreased by \$40.2 million or 1.4%, from the prior fiscal year with \$2.8 billion being expended for governmental functions during fiscal year 2012-13. Overall, governmental fund balance decreased by \$218.7 million or 16.4%. In comparison, fiscal year 2011-12 had a decrease in governmental fund balance of \$432.1 million or 24.5%, over fiscal year 2010-11.

The *general fund* is the primary operating fund of the County. At the end fiscal year 2012-13, the general fund's total fund balance was \$357.2 million, as compared to \$336.6 million in fiscal year 2011-12. As a measure of the general fund's liquidity, it is useful to compare both total fund balance and spendable fund balance to total fund expenditures. The nonspendable portion of fund balance was \$3.2 million, and the spendable portion was \$354.0 million. The current year unassigned fund balance is 8.7% of the total general fund expenditures of \$2.3 billion, as compared to 7.6% of the prior year expenditures total of \$2.3 billion. The total fund balance of the general fund for the current year is 15.6% of the total general fund expenditures as compared to 14.9% for the prior year.

Transportation and Land Management Agency fund balance decreased by \$9.3 million or 8.9%, due to numerous large interchange improvement projects costs incurred during fiscal year 2012-13: North Indian Canyon Dr. Interchange, Palm Dr./Gene Autry Trail Inter-change, Goetz Rd Bridge, Van Buren Bridge and Van Buren Blvd Interchange.

Flood control fund balance decreased by \$1.3 million or 0.5%, \$256.3 million from prior year to \$254.9 million due to construction costs increased mainly in new drainage infrastructure projects and maintenance of flood control in the district's zones.

Public Facilities Improvement Capital Project fund balance decreased from \$242.5 million to \$199.6 million, 17.7% or \$42.9 million. The decrease was due to the completion of various building construction and remodeling projects and the utilization of the reserve for construction account to reimburse costs of multiple capital projects such as, Desert Hot Springs Family Care Clinic, Blythe Animal Shelter, North Shore Yacht, Smith Correctional Facility, Palm Desert Sheriff Station, and Lake Matthew Fire Station. In addition, the construction of Eastern Region Detention Center and Van Horn Youth Treatment and Education Center started during fiscal year 2012-13.

Other Governmental Funds

The other governmental funds reported a combined net decrease in fund balance of \$185.8 million. The significant change was primarily the result of transferring assets and liabilities of all housing functions to Housing Authority of the County of Riverside from Riverside County Redevelopment Successor Housing Agency.

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 (RMC) and Waste Management are shown in separate columns of the fund statements due to materiality criteria as defined 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 the combining statements, which can be found in the supplemental information section.

At the end of the fiscal year, total proprietary fund net position were \$448.3 million, compared to \$310.4 million for prior fiscal year, increased by \$137.1 million or 44.1%. Of the year ended balances, unrestricted net position was as follows:

- Regional Medical Center: \$-32.6 million
- Waste Management: \$56.8 million
- Housing Authority: \$131.3 million
- Other enterprise fund activities: \$2.5 million
- Internal service fund activities: \$56.6 million

Management’s Discussion & Analysis (Unaudited)

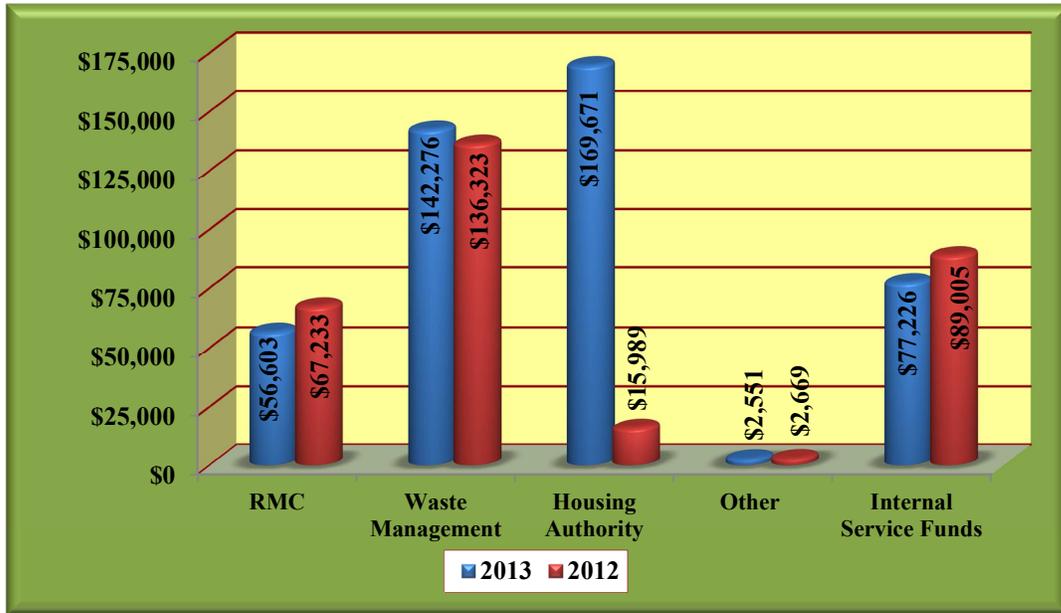
RMC’s net position decreased by \$10.6 million (\$9.8 million and restatement of \$0.8 thousands) or 15.8%, from \$67.2 million to \$56.6 million. The decrease is attributable to operating expenses including employee benefit and pension expenses, medical supply purchases, and interest expense from new bond issuance.

Waste Management’s net position increased from \$136.3 million to \$142.3 million. The increase resulted primarily from the reclassification of closure, post-closure, and remediation funds into liability accounts.

An increase of \$153.7 million in Housing Authority’s net position attributed to the following:

- Increase in total operating revenues due to the additional income received from the Housing Successor Agency leases and short-term loans.
- Gain from sale of property as a result of transfer of land parcels, loans receivables, and cash to the Housing Authority as Successor Agency for the housing functions of the former Redevelopment Agency of the County of Riverside.
- Increase in capital contribution, which is primarily related to the site improvements and modernization projects that were completed this fiscal year.

Proprietary Funds Net Position
For fiscal year ended June 30, 2013
(In Thousands)



Management's Discussion & Analysis (Unaudited)

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:

General Fund - Revenues by Source
For fiscal year ended June 30, 2013
(In Thousands)

Revenues by Sources	2013		2012		Increase / (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percentage of Change
Taxes	\$ 246,144	10.2%	\$ 216,746	9.3%	\$ 29,398	13.6%
Intergovernmental revenues	1,561,505	64.8%	1,487,205	63.5%	74,300	5.0%
Charges for services	374,750	15.6%	354,451	15.1%	20,299	5.7%
Other revenue	133,282	5.5%	156,017	6.7%	(22,735)	-14.6%
Other financing sources	94,019	3.9%	126,258	5.4%	(32,239)	-25.5%
Total	\$ 2,409,700	100.0%	\$ 2,340,677	100%	\$ 69,023	2.9%

General fund revenues had an overall increase of \$69.0 million, or 2.9%, from the prior year. The increase was due primarily to the changes in the following:

- An increase of \$29.4 million in *Taxes* from the distribution of property tax - LMIH residual assets as the result of RDA dissolution where unencumbered low and moderate income housing set aside money AB1484 according to successor agency debt requirement and available tax increment.
- The increase in *Intergovernmental revenues* was primarily attributed to allocation and realignment revenue from the State and Federal aids. See explanation previously discussed on page 11.
- *Charges for services* increased by \$20.3 million, or 5.7%, was primarily due to law enforcement services contracted with cities within Riverside County, and election services due to higher number of candidates running during fiscal year 2012-13 for governmental positions.
- The decrease in *Other revenue* was mainly due to a one time release of committed fund balance in fiscal year 2011-12 to support program activities related to public social services caused by the shortfall of state funding.
- The decreased in *Other financing sources* was mainly caused by the reimbursements from capital improvement program fund to finance capital projects costs in fiscal year 2011-12, and contribution from other county funds to finance debt service payments. In addition, the County no longer receives negotiated pass-through payments previously received from the former Redevelopment Agency.

Management's Discussion & Analysis (Unaudited)

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

General Fund - Expenditures by Function For fiscal year ended June 30, 2013 (In Thousands)

Expenditures by Function	2013		2012		Increase / (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percentage of Change
General government	\$ 103,896	4.3%	\$ 127,195	5.4%	\$ (23,299)	-18.3%
Public protection	1,043,017	43.7%	1,010,999	43.0%	32,018	3.2%
Health and sanitation	388,325	16.3%	369,165	15.7%	19,160	5.2%
Public assistance	735,057	30.8%	719,670	30.6%	15,387	2.1%
Other expenditures	22,207	0.9%	25,000	1.1%	(2,793)	-11.2%
Other financing uses	96,547	3.9%	98,045	4.2%	(1,498)	-1.5%
Total	\$ 2,389,049	100.0%	\$ 2,350,074	100.0%	\$ 38,975	1.7%

Total expenditures for general fund were \$2.4 billion, an increase of \$39.0 million, or 1.7%, from the prior year. Significant changes are as follows:

- A decrease of \$23.3 million, or 18.3% in *General government* was mainly due to capital project costs funded by capital improvement program and legal costs incurred in settlement agreement with French Valley Business Center LLC during fiscal year 2011-12.
- The significant increase in *Public protection* were including the jail population and additional positions as the result of implementation of AB109, health benefit contribution to Riverside Sheriff Association (RSA) Public Safety Unit members from \$204.0 per pay period to \$356.0, disbursements to the State of CA Department of Forestry for fire protection services, and the retirement contribution rate for Safety Plan increased from 21.3% to 22.5%.
- The increase in *Health and sanitation* was mainly due to higher than anticipated usage of institution for mental disease, state hospital, and children's programs, and out-of-network health and mental health services provided to Low Income Health Program (LIHP) participants.
- The increase in *Public assistance* was due to hiring caseworkers and support staffs which were caused by more individuals seeking assistance primarily in Food Stamps and Medi-Cal.
- *Other expenditures* decreased by \$4.5 million, or 18.1%, were mainly due to a decrease in principal and interest payments for capital asset leases for buildings and other purchases.

GENERAL FUND BUDGETARY HIGHLIGHTS

This section provides a summary of the primary factors attributing to the general fund variances between 1) the original adopted and the final amended budget, and 2) the final amended budget and the actual revenue and expenditure amounts. The budgetary comparison statement displays the details of the comparison and is included in the governmental fund statements section.

Management's Discussion & Analysis (Unaudited)

Variance between General Fund Original Adopted and Final Amended Budget

Estimated Revenue Variances

The original adopted general fund estimated revenue budget decreased by \$9.5 million, or 0.4%, from \$2.47 billion to the final amended revenue budget of \$2.46 billion. The \$9.5 million represents a decrease of \$51.3 million in charges for current services, a decrease of \$8.6 million in other revenue, offset by increases of \$23.4 million in state aid, \$14.3 million in federal aid, and \$11.6 million in taxes.

State aid: The increase in state aid of \$23.4 million, or 2.3%, was partially the result of increases of \$10.5 million for the Low Income Health Program, \$6.9 million for AB109, \$2.7 million for public health and \$1.5 million in Prop 10 funding. The increase for the LIHP will be used to cover costs associated with the out-of-network services provided by contracted and non-contracted providers for eligible LIHP participants. The increase in AB109 funding which shifts responsibility of incarcerating low level offenders from the State to Counties will add eighteen deputies, two supervisors and two accounting personnel. Lastly, the Riverside County Children and Families Commission (the Commission) awarded the Department of Public Health funding in the amount of \$2.7 million for the Nutrition and Physical Activity Self-Assessment for Child Care Program. Four positions will be added with this funding.

Federal aid: The increase in federal aid of \$14.3 million, or 2.9%, was partially the result of increases of \$5.1 million in Department of Public Social Services (DPSS) public assistance administration claims, \$3.3 in public health grants, \$2.7 Sheriff and \$2.0 Fire. DPSS increased the budget for the implementation of the Community First Choice Option, which provides home and community based attendant services and support to individuals who meet the State's nursing facility clinical eligibility standards. Public assistance administration experienced a shift in the flow of funds from the state resulting in the addition of five registered nurses and one senior public information specialist. The Sheriff received an additional \$1.0 million from the Department of Justice for a DNA grant aimed at investigating unsolved homicide cases. The Sheriff also received a \$1.1 million Indian Gaming Operation Stonegarden Grant (OPSG), intended to aid in intelligence gathering, seeking to weaken terrorist activities. The Fire Department increased their budget by rolling over the following grants from the prior fiscal year: Homeland Security and the Emergency Management Performance Grant.

Taxes: The increase in taxes of \$11.6 million, or 5.5%, was for the redevelopment – low and moderate income housing residual assets. At the direction of the State Department of Finance, the Auditor-Controller distributed the monies to the general fund, as ABX126 instructed that assets that were not essential in meeting enforceable obligations of the redevelopment agencies upon dissolution, be liquidated and distributed to taxing entities, such as the County.

Charges for current services: The net decrease of \$51.3 million, or 11.0%, for charges for current services was mainly the result of intergovernmental activities. There was also an offset of \$7.4 million due to contract increases to the following law enforcement contract cities: Coachella Valley, Eastvale, and Lake Elsinore.

Other revenue: The decrease in other revenue of \$8.6 million, or 10.2%, was primarily the result of intergovernmental activities and a reclassification of operating transfers to other financing sources. An estimate of \$3.2 million was returned to the county general fund related to a recent settlement resolving a long standing dispute for sales between fiscal years 2003 and 2012 pertaining to the tobacco master settlement agreement (MSA). Funds in the amount of \$2.2 million will be used for the Van Horn Youth Center construction and \$1.0 million will be set aside for budget stabilization. Unused Capital Improvement Program (CIP) contingency and capital funds for the Riverside Public Defender building remodel were re-appropriated to the general fund budget stabilization, with the change to bond financing of this project and completion of other projects.

Expenditure Appropriation Variances

The original adopted general fund appropriation budget of \$2.5 billion decreased by \$12.0 million, or 0.5%, during the fiscal year. The significant appropriation changes were an increase of \$20.8 million in health and sanitation, and an increase of \$18.6 million in public protection, offset by a decrease of \$44.0 million in debt service and a decrease of \$9.7 million in general government.

Management's Discussion & Analysis (Unaudited)

The major appropriation variances are described below.

General government: The appropriation budget decreased by \$9.9 million, or 5.0%, from the original adopted budget of \$197.2 million to \$187.3 million. The following information describes the significant factors for the variances:

- Salaries and employee benefits increased by \$2.4 million, or 3.0%. Of the \$2.4 million, \$1.4 million was attributed to Economic Development Agency (EDA) is plan to lay off all 25 positions that were initially slated for layoffs. The remainder is related to Human Resources projects exceeding budgeted payroll costs.
- Other charges increased by \$2.5 million, or 3.5%, mainly due to the use of community improvement designation funds to other county funds by the Board of Supervisors. These increases were offset by intergovernmental activities.
- Appropriation for contingencies decreased by \$13.7 million, or 68.6%. The Sheriff deferred six months of costs in the amount of \$6.0 million for the City of Jurupa Valley (the City), which will allow the City to remain incorporated, provide essential public safety, while working on the restoration of funding. \$1.1 million is to provide essential support and administrative services for court security funding per AB118 funding and SB1021 statutory changes, as these services were transferred from the superior courts to the counties. To cover the fourth quarter invoice owed per cooperative agreement with the California Department of Forestry, \$3.5 million was requested by the Fire Department. Past property tax administration fees (PTAF) are to be refunded to cities as a result of the ruling for disputes over tax calculations, with the first installment paid in April of 2013 for \$2.4 million.
- Intrafund transfers decreased by \$2.0 million, or 4.4%, mainly belongs to increases by the EDA Property Management division and Human Resources. The EDA Property Management division increased its budget by \$0.6 million to cover additional project cost being funded by the general fund. Human Resources increased budget by \$0.6 million due to a rise in arbitration and communication services.

Public protection: The appropriation budget increased by \$18.6 million, or 1.7%, from the original adopted budget of \$1.1 billion. The following information describes the significant factors for the variances:

- Salaries and employee benefits increased by \$2.5 million, or 0.3%, primarily due to Sheriff, Probation, Public Defender, and District Attorney for positions to implement AB109 criminal justice alignment, for which \$10.4 million was due to intergovernmental activities.
- Services and supplies increased by \$10.7 million, or 3.5%, mainly due to Sheriff, Probation, Public Defender, and District Attorney for implementation of AB109 criminal justice alignment. An increase of \$6.5 million for the Sheriff was distributed to staffing, facility improvement and operational costs, transportation costs, as well as program and jail alternatives reflecting a multi-disciplinary approach to realignment and reimbursement of the narrow banding Public Safety Enterprise Communication (PSEC) project. The Fire Department also added \$3.9 million for the California Department of Forestry and reimbursement for the narrow banding PSEC project.
- Capital assets increased by \$4.1 million, or 77.7%, primarily due to the Sheriff Correctional and Patrol equipment purchases related to AB109. Due to the congestion and the need for expansion, the correctional facilities increased security throughout the jail system.

Health and sanitation: The appropriation budget increased by \$20.8 million, or 4.8%, from the original adopted budget of \$430.1 million to \$450.8 million. The following information describes the significant factors for the variances:

- Salaries and employee benefits increased by \$3.7 million, or 1.8%, as a result of a funding increase from the state, for example, five registered nurse positions and one senior public information specialist were added to the Department of Public Health.
- Services and supplies increased by \$6.0 million, or 6.6%, mainly due increase related to fiscal year 2011-12 approved encumbrance items. In addition, Public Health received funding for the replacement equipment for 19 Women, Infant and Children (WIC) Supplemental Nutrition Program in addition to a host of other funding grants.

Management's Discussion & Analysis (Unaudited)

- Other charges increased by \$9.9 million, or 5.0%, mainly due to the \$10.5 million for the Low Income Health Program and the transfer of \$7.0 million in funding from Mental Health to the Regional Medical Center, offset by intergovernmental activity.

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

During the year, the general fund had a positive budget variance of approximately \$92.1 million resulting from unexpended appropriations of \$236.7 million, or 9.4%, and overestimated revenue of \$144.6 million, or 5.9%. The following contributed to the variance:

Revenue Variances

General fund actual revenues of \$2.3 billion were 5.9%, or \$144.6 million, less than the final amended revenue budget of \$2.5 billion. Other revenue, Charges for services, Federal aid, State aid and Rents and concessions were all less than the final budget with taxes offsetting with an increase to the final budget.

Other revenue: Actual revenues of \$26.3 million were less than the final amended budget of \$75.7 million by \$49.4 million, or 65.3%. This was primarily due to intergovernmental activities, which was offset by a reduction in contributions to other funds such as CORAL.

Charges for current services: Actual revenues of \$374.8 million were less than the final amended budget of \$414.5 million by \$39.8 million, or 9.6%. A majority of the variance is due to Fire Protection contract services. These services are budgeted at their full cost without factoring in any salary savings. Actuals were less than the final budget by \$22.6 million due to those savings. Public Health actuals were less than budget by \$15.1 million which was attributed to Low Income Health Program (LIHP) patients being seen in clinics rather than the Ambulatory Care Centers and the reduction in Medi-Cal rebates due to the LIHP program. EDA programs were less than budgeted by \$8.7 million, as a result of electricity reduction due to solar projects and loss of Successor Agency (former Redevelopment) funded projects. The Probation Department experience \$2.9 million less in revenue than what was budgeted, as the result of pretrial services that were transferred to the Superior Court of California as of July 1, 2012. These items were all offset by Intergovernmental activities.

Federal aid: Actual revenues of \$478.8 million were less than the final amended budget of \$508.2 million by \$29.4 million, or 5.8%. The following departments received revenue less than budgeted amounts: DPSS, Mental Health, Probation, Public Health and the Fire Department. Actual reimbursements for Public Assistance Claims were less than budgeted by \$16.4 million. Mental Health revised claims after year-end thus actuals were lower than budgeted amounts while Probation and Fire experienced a lower than expected reimbursable claim amount. Lastly, Public Health actuals were lower by \$3.0 million due to the late start of the California Visiting Nurse program.

State aid: Actual revenues of \$1.0 billion were less than the final amended budget of \$1.03 billion by \$24.8 million, or 2.4%. The following describes the significant factors for the variances: Due to a decrease in the amount of state funding received, contributions to Health and Mental Health Agencies also decreased by \$16.5 million. Expenditures related to the Mental Health Services Act were less than budget by \$9.0 million. The implementation of AB109 was slower than anticipated, which resulted in less actual expenditures than budgeted for Mental Health, Probation and the Sheriff Department. Public Health and DPSS received state funding greater than budgeted amounts. This was due to unanticipated realignment revenue received and increased caseload growth for DPSS.

Rents and concessions: Actual revenues of \$3.7 million were less than the final amended budget of \$25.3 million by \$21.7 million, or 85.5% as a result of amounts budgeted to the Capital Finance Administration but no activity throughout the fiscal year.

Taxes: Actual revenues of \$246.1 million were greater than the final amended budget of \$222.7 million by \$23.4 million, or 10.5% and this was the result of ABX126, the sale of redevelopment assets for dissolved agencies.

Management's Discussion & Analysis (Unaudited)

Expenditure Variances

General fund actual expenditures of \$2.3 billion were 9.4%, or \$236.7 million, less than the final amended appropriation budget of \$2.6 billion. General government, public assistance, public protection, health and sanitation, and debt service were the five most significant factors attributing to the unexpended appropriations as follows:

General government: Actual expenditures of \$103.9 million were less than the final amended budget of \$187.3 million by \$83.4 million, or 44.5%. The following describes the significant factors for the variances:

- Salaries and employee benefits were \$4.9 million, or 5.8%, below budget. Savings were achieved from delaying the layoff of EDA staff while other departments exercised conservative hiring practices.
- Services and supplies were \$5.7 million, or 8.5%, less than budgeted due to decrease in Executive Office subfund activity, lower utility costs and EDA's anticipated time of use rate that did not materialize as expected during fiscal year 2012-13.
- Other charges were \$66.6 million, or 87.8%, less than budgeted primarily due to intergovernmental activities. Other savings were the result of decreases in contributions to other funds, and differences in the variable rate for CORAL lease payments.

Public protection: Actual expenditures of \$1.0 billion were less than the final amended budget of \$1.1 billion by \$43.4 million, or 4.0%. The following describes the significant factors for the variances:

- Salaries and employee benefits were \$14.6 million, or 2.0%, less than budgeted primarily due to Probation, Sheriff, and the Department of Child Support Services (DCSS). Probation's savings of \$10.7 million is a result of over 230 unfilled positions. Sheriff had savings of \$4.5 from unfilled positions which were offset by changes in contract Memorandum of Understanding (MOU) rates and overtime law enforcement services at the Presidential Summit in Rancho Mirage when President Barack Obama met with Chinese President Xi Jinping. DCSS also experienced savings of \$2.1 million from the department's salary savings through staff attrition, recruitment issues and unfilled positions. Offset by intergovernmental activities.
- Services and supplies were \$13.7 million, or 4.3%, less than budgeted mainly due to Sheriff, Fire, District Attorney, Probation, Animal Services, Code Enforcement, and Executive Office. Sheriff had savings of \$4.6 million primarily due internal service cost variances as well as contract deferrals. Fire had savings of \$1.3 million due to an increase in contracted rates with the State of California offset by non-asset grant purchases. District Attorney had savings of \$2.4 million due to less than expected cost for software maintenance, office supplies, and other miscellaneous expenditures. Probation had savings of \$3.0 million primarily due to the implementation of AB109 criminal justice realignment. Probation planned for new leases to accommodate the anticipated growth and additional Post Release Community Supervision Accountability Teams (PRCSAT) related expenditures however many of these items were encumbered at year-end and re-allocated to fiscal year 2013-14. Code Enforcement had savings of \$0.8 million mainly due to fewer than expected abatements. Executive Office had savings of \$0.8 million primarily from less than expected projects costs for AB233 in trial court funding.
- Other charges were \$9.6 million, or 21.7%, less than budgeted primarily due to the Sheriff, Probation and Fire. The Sheriff's savings of \$7.0 million was mainly the result of capital project deferrals. Probation's Juvenile Hall Division had savings of \$2.1 million unexpended costs that were encumbered for fiscal year 2013-14. Executive Office had savings of \$0.9 million due to less expenditure for AB233 in trial court funding.
- Capital assets were \$4.3 million, or 45.0%, less than budgeted due to the County Clerk-Recorder delay in replacing the Recorder System (CARDS) for \$2.3 million along with the cancellation of the Sheriff's video visitation project which was cancelled, as the radio were not received by year end.

Health and sanitation: Actual expenditures of \$388.3 million were less than the final amended budget of \$450.8 million by \$62.5 million, or 13.9%.

Management's Discussion & Analysis (Unaudited)

The following describes the significant factors for the variances:

- Salaries and employee benefits were \$22.1 million, or 10.3%, less than budgeted amounts. Mental Health Treatment experienced an \$8.8 million savings as a result of vacancies in preparation for increased service demands due to the Affordable Care Act. \$4.1 million in additional budgeted Mental Health positions were not filled until late fiscal year 2012-13 resulting in additional savings. Public Health and Ambulatory care generated savings of \$9.0 million due to vacant positions.
- Services and supplies were \$10.0 million, or 10.3%, less than budgeted primarily due to a \$5.5 million savings in the Public Health Agency and a \$4.5 million savings in Mental Health. In fiscal year 2012-13, the Community Health Agency Administration was dissolved and separated into smaller departments such as Public Health, Environmental Health, and Animal Control. The savings was a result of the shifting of budgets between the departments and the allocation of expenditures among them. There were also savings for the Maddy Emergency Medical Services (EMS) program to County physicians and hospitals for their share of uncompensated emergency medical costs. Mental Health experienced lower actual expenditures due to lower than anticipated number of licenses required for outside vendors to access their new Electronic Management of Records System.
- Other charges were \$25.5 million, or 12.3%, less than budgeted primarily due to Executive Office, Mental Health, and the Medical Indigent Services Program (MISP). Executive Office received \$16.5 million less than expected allocation from the State which was based on actual vehicle license revenue. Therefore, less was available to distribute for the Executive Office's contribution to health and mental health. Mental Health had savings of \$7.8 million mainly due the ending of SB 90 placement services in fiscal year 2012-13, placement of clients in other facilities and reduced contractor costs due to programmatic service delivery costs. There was a saving of \$3.8 million for the transition of medically indigent patients to LIHP payments. These savings were offset by intergovernmental activities.

Public assistance: Actual expenditures of \$735.1 million were less than the final amended budget of \$762.4 million by \$27.3 million, or 3.6%. The following describes the significant factors for the variances:

- Salaries and employee benefits were \$8.0 million, or 3.2%, less than budgeted mainly due DPSS decreasing the level of temporary staff and vacancies.
- Services and supplies were \$10.2 million, or 13.1%, less than budgeted primarily due to DPSS lower than expected facility charges with the cancellation or delay of large projects, including Norco and Perris Self Sufficiency, unpurchased software and savings from the C-IV Service Center Technology Deployment project.
- Other charges were \$9.0 million, or 2.1%, less than budgeted primarily due to a decrease in caseloads for Stage 1 childcare services, CalWorks, ad Foster Care Programs. DPSS also had a \$3.3 million from the delay in the implementation of the Child Welfare Service (CWS) Counseling Assessment Referral Treatment (CART) Memorandum of Understanding (MOU) and the In-Home Supportive Services MOE which was not effective until December 2012.

Debt service: Actual expenditures of \$19.6 million were less than the final amended budget of \$41.1 million by \$21.5 million, or 52.4%, primarily due to a decrease in principal and interest payments for capital asset leases for buildings and other purchases.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2013, the County's capital assets for both its governmental and business-type activities amounted to \$4.2 billion (net of accumulated depreciation). The capital assets include land and easements, land improvements, construction in progress, equipment, and infrastructure. The County's infrastructure is comprised of channels, storm drains, levees, basins, roads, traffic signals, bridges, runways, parks, park trails, and landfill liners. The County's capital assets increased by 5.4%, or \$214.2 million, from \$4.0 billion in fiscal year 2011-12 to \$4.2 billion in fiscal year 2012-13.

Management's Discussion & Analysis (Unaudited)

Construction in progress experienced a decrease from a 24.1% in fiscal year 2011-12 to a 9.8% increase in fiscal year 2012-13, as the last major projects funded with capital improvement plan funds are underway or nearing completion and no new redevelopment projects were initiated. There are more worthy projects than there is debt capacity, which is currently reserved for jail construction and existing projects. This fiscal year an increase in equipment of 23.4% took place and 9.8% in structures and improvements, as major general fund projects that were underway were completed and equipment was distributed to respective departments for the Public Safety Enterprise Communication (PSEC) project, such as the Sheriff Department.

In fiscal year 2012-13, new major projects budgeted for construction and design included the following: The new Alternate Emergency Operations Center, Communications Hub and Tower Relocation project in Indio, with a budget amount of \$11.1 million. The Indio prime communication site will relocate to the County Sheriff's Station at Doctor Carreon Boulevard. It will meet required communication coverage objectives to immediate areas in and around the City of Indio, and will also provide the required network linkages to other sites within the PSEC system, consisting of approximately 14,000 square feet of improvements and a new tower that will measure 150 feet in height. The County was awarded grant funding for the expansion of the East County Detention Center, resulting in the demolition of four courtrooms and the creation of two projects which entail four new courtrooms strategically located to better serve the needs of the court. Two new courtrooms for \$7.8 million will be adjacent to Southwest Juvenile Hall and will provide courtrooms solely for juvenile cases and \$2.6 million for two 6,415 square feet new courtrooms at the Larson Justice Center, to alleviate the need to utilize existing criminal courtrooms for family law and community court cases. The County's Transportation Improvement Program budgeted for three major projects. The ramp improvement for \$4.0 million on Interstate 10 at Hobson Way, west of the inspection station will improve traffic flow and enhance safety, as well as \$2.5 million for the bike lane and multi-purpose trail improvements along the Santa Ana River from the Prado Basin near Highway 71 to the Green River Golf Course. The resurfacing of Stanford Street from Thornton Avenue to Florida Avenue and a traffic signal in the intersection of Stanford Street and Mayberry Avenue in the East Hemet community for \$1.5 million.

Construction in Progress

Additions to Construction in Progress for fiscal year 2012-13:

In fiscal year 2012-13, additions in the amount of \$270.1 million consisted of costs related to existing projects and new projects.

Existing project costs include the following:

- Roads and signal infrastructure additions were \$90.1 million.
- The EDA incurred \$50.3 million for projects such as the East County Detention Center consisting of 1,250 new beds up from 353 beds, as Riverside County has the fastest growing population and the detention center bed growth has not kept pace with the population growth. Approximately 10,000 square feet for the Jurupa Valley Sheriff's Evidence Warehouse and 14,335 square feet for the Rubidoux Child Development Center.
- Public Safety Enterprise Communication (PSEC) experienced \$16.7 million.
- Library projects for \$11.7 million include the renovation to the Palm Desert Library, which will include a new audio-visual section, computer area, and additional visitor space.
- CREST project incurred an additional \$5.5 million towards the new integrated property tax management system.

New project costs include the following:

- Transportation and Land Management Agency experienced the addition of \$30.9 million in infrastructure.
- PSEC sustained \$25.6 million towards the cell towers.
- Flood Control incurred \$19.8 million in new cost for storm drains and channels.
- The EDA cost was \$4.8 million for projects such as the addition of 12 new offices on 14th Street and improvement for the Department of Mental Health and the new classroom and special training facility space dedicated to the Sheriff and Fire Department at the Ben Clark Training Center.

Management's Discussion & Analysis (Unaudited)

Construction in Progress Transfers

Completed construction in progress projects of approximately \$169.5 million were transferred from construction in progress to other designated capital asset accounts during fiscal year 2012-13. The major projects were as follows:

- \$148.2 million was transferred to structures and improvements. Examples include, the 77,000 square foot Thermal Sheriff Station for \$41.2 million, which is comprised of a forensic laboratory, a 12,000 gallon fueling station, and a 12,000 square foot hanger. Perris Valley's Big League of Dreams Sports Park for \$26.8 million, consists of six baseball fields, four of which are designed to look like scaled down versions of the Dodger, Angel, and Yankee stadiums, as well as Fenway Park. The completion of the state of the art Northwest Riverside County/City Animal Shelter, which accommodates for 400 dogs, 200 cats, 12 horses, and a variety of other animals for \$26.7 million. Cabazon's Civic Center for \$16.0 million, provides the benefit of a 13,026 square feet child development center, a 5,470 square feet library, an administration building for Cabazon Water District and many other amenities. \$11.4 million for the Mead Valley Library Project, consisting of a 22,000 square foot library, reading rooms, a photovoltaic system, amphitheater, and street improvements.
- \$12.2 million was transferred to infrastructure. The Day Creek Channel, Stage 6, Phase 2 located in Jurupa Valley and the Calimesa Avenue L Storm Drain were completed by the Flood Control and Water Conservation District at a cost of \$10.9 million. Regional Park and Open Space District incurred \$1.0 million, primarily design and development for ventures such as the Santa Ana River Trail (SART) and the Prado Dam linkage. Land acquisition for the expansion of the Highgrove Trails to serve the increased demand for recreational trails resulting from large population increases in western Riverside County and the Highgrove area in particular, as well as for future infrastructure intended to connect city water and sewer to Mayflower Park, situated alongside the Colorado River in Blythe.

Land and Easements

Additions of \$19.6 million in land were processed this fiscal year. Approximately 37.4 acres of land located on the southwest corner of Highway 111 and Oasis Street in Indio was acquired for \$13.0 million. Currently the National Date Festival Fair Grounds buildings occupy 33 acres of the land and 4.21 acres is used by the existing County Jail buildings in Indio, which are subject to demolition as part of the New East County Detention Center Project. The Flood Control District had land additions of \$4.4 million, for which \$1.1 million was for the construction of flood control improvements with appurtenances for the Homeland/Romoland Master Drainage Plan Line A Stage 3. The project traverses the cities of Perris and Menifee and consists of new road crossings, mostly an interim unlined open channel with the intent to provide immediate flooding relief for the area east of the I-215 freeway, in particular for the area adjacent to Encanto Road.

Service Concession Arrangements

Pursuant to GASB Statement Number 60, Waste Management reports \$8.8 million for the Edom Hill Transfer Station Building and Improvements Service Concession Arrangement. The 30,000 square foot facility provides transfer capabilities for the County of Riverside solid waste processing and follows the closure of the adjacent Edom Hill Landfill. It includes a Household Hazardous Waste operation and a 460,000 gallon water tank for fire protection.

Depreciable Capital Assets

The following is a breakdown of the additions, retirements, and transfers which make up the balance of depreciable capital assets:

Additions to Depreciable Assets:

Total fiscal year 2012-13 depreciable capital asset current year additions of \$81.3 million were comprised of the following:

- Infrastructure in the amount of \$37.1 million consisting of donated roads in the amount of \$28.4 million and \$8.4 million in flood storm drains and channels.

Management's Discussion & Analysis (Unaudited)

- Equipment in the amount of \$42.9 million distributed as follows:

Equipment leased	\$ 25.9 million
Equipment field	7.4 million
Computer and office equipment	3.3 million
Miscellaneous equipment	3.6 million
Equipment vehicles	2.7 million

Retirements of Depreciable Assets:

Retirement of depreciable assets totaled \$25.1 million. Equipment was retired ranging from the categories of computer and office equipment to vehicle and leased equipment in the amount of \$18.3 million. This figure includes \$11.0 million in vehicles sent to surplus for auction sales and approximately \$2.2 million in phone system equipment, making way for the converged network project to reduce communication cost. Structures and improvements experienced \$6.6 million, such as the demolition of the 11th Street jail. The structure was approximately 30,000 square feet, which posed a health and safety hazard and is intended to be replaced by a pedestrian plaza immediately adjacent to the to the historic Riverside County Courthouse.

Depreciable Transfers:

Completed construction in progress transferred for approximately \$169.5 million as noted above.

Depreciation Note:

In the government-wide financial statements, depreciable capital assets are depreciated from the acquisition date to the end of the fiscal year. However, in the fund financial statements of the governmental funds, depreciable capital assets are accounted for as expenditures when payments are made. This fiscal year, depreciable capital assets for governmental and business-type activities combined incurred \$137.5 million in depreciation.

Analysis of Capital Assets:

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

Capital Assets (net of depreciation, in thousands)

	Governmental Activities		Business-type Activities		Total		Increase/ (Decrease)
	2013	2012	2013	2012	2013	2012	%
Infrastructure	\$ 1,415,087	\$ 1,436,036	\$ 43,844	\$ 47,366	\$ 1,458,931	\$ 1,483,402	-1.6%
Land and easements	469,522	449,978	21,358	21,351	490,880	471,329	4.1%
Land improvements	87	88	3,080	3,662	3,167	3,750	-15.5%
Structures and improvements	1,103,314	988,262	121,056	126,899	1,224,370	1,115,161	9.8%
Equipment	110,155	84,889	12,118	14,206	122,273	99,095	23.4%
Construction in progress	815,227	745,536	65,006	56,189	880,233	801,725	9.8%
Concession Arrangements	-	-	8,830	-	8,830	-	0.0%
Total Outstanding	\$ 3,913,392	\$ 3,704,789	\$ 275,292	\$ 269,673	\$ 4,188,684	\$ 3,974,462	5.4%

Additional information on the County's capital assets can be found in Note 8 of this report.

Management's Discussion & Analysis (Unaudited)

Debt Administration

Per Board of Supervisors policy, the County's Debt Advisory Committee reviews all debt issuances of the County and its financing component unit organizations and advises the Board of Supervisors accordingly. Net bonded debt per capita equaled \$359.0 million as of June 30, 2013. The calculated legal debt limit for the County is \$2.5 billion.

The following are credit ratings maintained by the County:

	<u>Moody's Investors Services, Inc.</u>	<u>Standard & Poor's Corp.</u>	<u>Fitch</u>
Long-term lease debt	Aa3	AA	AA-
Issuer credit	Aa3	AA	AA-

The County issued tax-exempt Tax and Revenue Anticipation Notes (TRANs) 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. In fiscal year 2012-13, the County issued \$250.0 million in TRANs to satisfy short-term cash flow needs. In December 1993, the Board of Supervisors formally passed a resolution necessary for the County to adopt the Teeter Plan (the alternate method of property tax distribution). The plan required the "buy-out" of delinquent taxes and the annual advance of unpaid taxes to participating agencies. For fiscal year 2012-13, funding for the County's ongoing obligation under Teeter was accomplished through the sale of Tax-Exempt Commercial Paper Notes. During fiscal year 2012-13, the County retired \$79.0 million of the \$171.3 million principal amount outstanding at June 30, 2012. The County then issued \$50.5 million of Series D notes, leaving an outstanding balance of \$142.8 million at June 30, 2013. This amount includes funding to advance \$52.9 million fiscal year 2011-12 delinquencies and refunding of \$89.90 million of prior years' property taxes that remain delinquent. The County's General Fund is pledged to the repayment of the Series B delinquent taxes.

The table below provides summarized information (including comparative amounts from the preceding year) for the County's outstanding long-term liabilities as of June 30, 2013.

County's Outstanding Debt Obligations (In Thousands)

	Governmental Activities		Business-type Activities		Total		Increase/ (Decrease)
	2013	2012	2013	2012	2013	2012	%
Loan payable	\$ 4,420	\$ 4,925	\$ -	\$ -	\$ 4,420	\$ 4,925	-10.3%
Bonds payable	744,460	750,492	143,710	121,061	888,170	871,553	1.9%
Certificate of participation	282,095	309,511	-	-	282,095	309,511	-8.9%
Capital leases	67,748	100,995	7,224	12,055	74,972	113,050	-33.7%
Total outstanding	\$ 1,098,723	\$ 1,165,923	\$ 150,934	\$ 133,116	\$ 1,249,657	\$ 1,299,039	-3.8%

Outstanding Debt: The County of Riverside's total debt decreased by 3.8% or \$49.4 million during the current fiscal year primarily due to scheduled retirements of outstanding debt. Additional information on the County's long-term debt can be found in Note 14 of this report.

Management's Discussion & Analysis (Unaudited)

ECONOMIC FACTORS AND THE FISCAL YEAR 2013-14 BUDGET OUTLOOK

Economists' forecasts remain relatively unchanged for the upcoming fiscal year. There will be slow growth, if any, over the near future. Riverside County's budget plans for fiscal year 2013-14 eliminate the use of one-time reserves to fund ongoing operating costs. Reports of improving job and housing markets produce confirmation that economic recovery is under way and that the worst is in the past.

Fiscal year 2013-14 discretionary revenue is expected to increase by approximately 3.0% (\$16.4 million) when compared to fiscal year 2012-13. The following table reflects anticipated discretionary revenue totals and sources for fiscal year 2013-14.

Source	Final Budget Estimate (In Thousands)
Taxes	\$ 216,203
Other Taxes	42,658
Licenses, Permits, Franchise Taxes	5,000
Fines, Forfeitures, Penalties	24,006
Use of Money and Property	2,603
State	195,666
Federal	2,050
Charges for services	629
Miscellaneous	97,844
Total	<u>\$ 586,659</u>

The County's employee retirement benefit contribution rate for fiscal year 2013-14 for miscellaneous members is 15.0% and the Safety contribution rate is 23.4%. The employer rate for both plans is subject to changes in future years, as it continues to reflect changes in investment return and the County's growth rate, among other factors. Fiscal year 2014-15 rates are projected at 14.5% (Miscellaneous) and 21.9% (Safety). Additional information regarding the County's retirement plans are included in Notes 20, 21, and 22 of the financial statements and schedules of retirement funding progress are included in the required supplementary information section.

The fiscal year 2013-14 assessment roll value increased by 4.0%, yielding a total property tax roll of \$213.0 billion, compared to \$204.9 billion in fiscal year 2012-13. The \$8.1 billion increase included a reduction in foreclosure related activity, increase in both residential sales prices and volume, a full 2.0% increase in inflation factor, and a slight increase in some commercial properties.

REQUESTS FOR INFORMATION

This financial report is designed to provide 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: (951) 955-3800; Fax: (951) 955-3802; website: www.auditorcontroller.org.