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's (the County) Comprehensive Annual Financial Report presents a narrative overview and analysis of the County's financial activities for the fiscal year ended June 30, 2016. 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 27.

FINANCIAL HIGHLIGHTS

- At the close of fiscal year 2015-16, the County's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $2.7 billion (*net position*). The net position included $3.4 billion of net investment in capital assets, $716.9 million of restricted resources for the County's ongoing obligations related to programs with external restrictions, and $1.4 billion deficit of unrestricted resources.

- As of June 30, 2016, the County's governmental funds reported combined fund balances of $1.2 billion, a decrease of $124.8 million in comparison with the prior year. Approximately 17.6% of this amount ($217.3 million) is available for spending at the County's discretion *(unassigned fund balance).*

- At the end of the fiscal year, unrestricted fund balance (the total of the *committed, assigned,* and *unassigned* components of *fund balance*) for the general fund was $269.5 million, or approximately 9.7% of total general fund expenditures.

- The significant change in capital assets net of accumulated depreciation resulted from acquisition of building and land, building improvement, equipment and leased vehicle purchases and completion of various projects related to roads, storm water drains, and other infrastructures.

- The decrease in outstanding long-term debt resulted mainly from three outstanding certificates of participation that were refunded by the Lease Revenue Refunding Bond and scheduled retirement payments.

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 which are comprised of the following three components: (1) Government-wide Financial Statements, (2) Fund Financial Statements, and (3) Notes to the Basic Financial Statements.

In addition to the basic financial statements, *Required Supplementary Information* is included to provide additional detail to support the basic financial statements.

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

The *statement of net position* presents financial information on all of the County's assets, liabilities, and deferred inflows/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 7, and in more detail on page 27.

The *statement of activities,* presented on page 9 in summary and on pages 28-29 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 are recorded when accrued but not yet collected, and when expenditures for compensated absences are accrued, but not yet 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 six major funds, nineteen nonmajor funds, and a representative allocation of the County's internal service funds. The six major governmental funds are the general fund, flood control special revenue fund, transportation special revenue fund, teeter debt service fund, public facilities improvements capital projects fund, and public financing authority 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 Riverside University Health Systems-Medical Center (RUHS-MC), Waste Resources, and the Housing Authority.

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 Infrastructure Financing Authority (IFA)
- 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 32-49, 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 Government Accounting Standard 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. 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 unlike government-wide financial statements. 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 reconciliations to the 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 financial 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, public facilities improvements capital projects fund, and public financing authority capital projects fund) in separate columns.

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 Perris Valley Cemetery Endowment Fund. 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 44-47, 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 RUHS-MC, Waste Resources, Housing Authority, County Service Areas, and Flood Control. RUHS-MC, Waste Resources, 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 48-49, 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 51-125 of this report.

Required Supplementary Information provides changes in net pension liability and related ratios, employer contributions to the pension plan, and funding progress in post employment benefits other than pensions. Required supplementary information can be found on pages 127-133 of this report.

Combining and individual fund statements and budgetary 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 budgetary schedules can be found on pages 135-184 of this report.

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, 2016, in comparison to the prior fiscal year 2014-15. At the end of current fiscal year, the County reported positive net position in two of the three categories: net investment in capital assets and restricted net position. Total assets and deferred outflows of resources, as indicated below, exceeded liabilities and deferred inflows of resources by $2.7 billion, representing an increase of $158.9 million ($205.2 million changes in net position and a restatement of $46.3 million, see Note 3), or 6.2%. A more detailed statement can be found on page 27 in the government-wide financial statements.

STATEMENT OF NET POSITION
June 30, 2016 and 2015
(In thousands)

	Governmental Activities		Business-type Activities		Total		Increase/ (Decrease)
	2016	2015	2016	2015	2016	2015	%
Assets:							
Current and other assets	$ 2,307,959	$ 2,366,793	$ 541,301	$ 458,916	$ 2,849,260	$ 2,825,709	0.8%
Capital assets	4,568,518	4,355,657	302,735	293,375	4,871,253	4,649,032	4.8%
Total assets	6,876,477	6,722,450	844,036	752,291	7,720,513	7,474,741	3.3%
Deferred outflows of resources:	545,416	209,599	68,035	25,452	613,451	235,051	161.0%
Total deferred outflows of resources	545,416	209,599	68,035	25,452	613,451	235,051	161.0%
Liabilities:							
Current liabilities	713,844	689,679	234,400	156,747	948,244	846,426	12.0%
Long-term liabilities	3,594,751	3,292,882	559,148	524,317	4,153,899	3,817,199	8.8%
Total liabilities	4,308,595	3,982,561	793,548	681,064	5,102,143	4,663,625	9.4%
Deferred inflows of resources:	447,619	423,050	69,500	67,291	517,119	490,341	5.5%
Total deferred inflows of resources	447,619	423,050	69,500	67,291	517,119	490,341	5.5%
Net position:							
Net investment in capital assets	3,240,888	3,009,048	112,906	95,160	3,353,794	3,104,208	8.0%
Restricted	667,696	489,359	49,241	56,569	716,937	545,928	31.3%
Unrestricted	(1,242,905)	(971,969)	(113,124)	(122,341)	(1,356,029)	(1,094,310)	23.9%
Total net position	$ 2,665,679	$ 2,526,438	$ 49,023	$ 29,388	$ 2,714,702	$ 2,555,826	6.2%

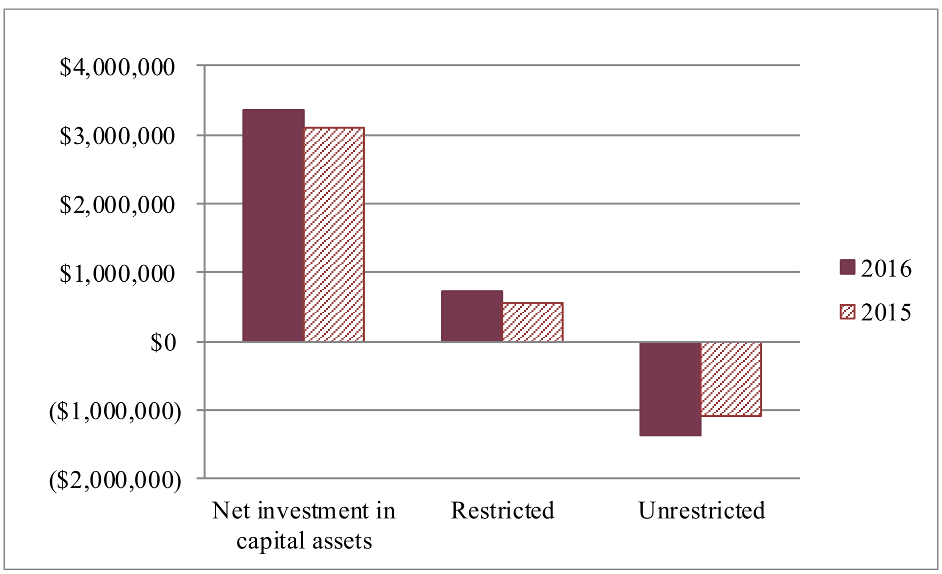
Below are the three components of net position and their respective balances as of June 30, 2016:

- Net investment in capital assets was $3.4 billion, or 123.6%, of the County's total net position compared to $3.1 billion, or 121.5%, for fiscal year 2014-15. 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.

- $716.9 million, or 26.4%, of the County's total restricted net position compared to $545.9 million, or 21.4%, for fiscal year 2014-15. 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.

- $1.4 billion deficit, or 50.0%, of the County's total net position is unrestricted and may be used to meet the County's ongoing obligations to citizens and creditors. Of this amount, $1.2 billion deficit is from governmental activities and $113.1 million deficit is from business-type activities, compared to prior year when $972.0 million deficit was from governmental activities and a $122.3 million deficit was from business-type activities.

Statement of Net Position
June 30, 2016 and 2015
(In thousands)



Management’s Discussion & Analysis *(Unaudited)*

The following table provides information from the Statement of Activities of the County as of June 30, 2016 as compared to the prior year:

STATEMENT OF ACTIVITIES
For the fiscal years ended June 30, 2016 and 2015
(In thousands)

	Governmental Activities		Business-type Activities		Total		Increase/ (Decrease)
	2016	2015	2016	2015	2016	2015	%
Revenues:							
Program revenues:							
Charges for services	$ 734,769	$ 645,840	$ 676,526	$ 665,819	$ 1,411,295	$ 1,311,659	7.6%
Operating grants and contributions	1,907,919	1,800,158	-	-	1,907,919	1,800,158	6.0%
Capital grants and contributions	54,134	31,579	2,234	536	56,368	32,115	75.5%
General revenues:							
Property taxes	346,851	327,504	-	-	346,851	327,504	5.9%
Sales and use taxes	29,573	32,851	-	-	29,573	32,851	-10.0%
Unrestricted intergovernmental revenue	232,453	244,003	-	-	232,453	244,003	-4.7%
Investment earnings	12,948	8,700	2,720	895	15,668	9,595	63.3%
Other	182,526	182,809	-	-	182,526	182,809	-0.2%
Total revenues	3,501,173	3,273,444	681,480	667,250	4,182,653	3,940,694	6.1%
Expenses:							
General government	283,081	179,575	-	-	283,081	179,575	57.6%
Public protection	1,328,608	1,217,731	-	-	1,328,608	1,217,731	9.1%
Public ways and facilities	149,768	177,870	-	-	149,768	177,870	-15.8%
Health and sanitation	468,382	499,669	-	-	468,382	499,669	-6.3%
Public assistance	980,550	970,415	-	-	980,550	970,415	1.0%
Education	23,283	23,409	-	-	23,283	23,409	-0.5%
Recreation and cultural services	20,758	18,335	-	-	20,758	18,335	13.2%
Interest on long-term debt	46,306	45,904	-	-	46,306	45,904	0.9%
Riverside University Health Systems - Medical Center	-	-	506,338	468,562	506,338	468,562	8.1%
Waste Resources	-	-	75,358	56,299	75,358	56,299	33.9%
Housing Authority	-	-	88,166	90,903	88,166	90,903	-3.0%
Flood Control	-	-	3,591	3,056	3,591	3,056	17.5%
County Service Areas	-	-	413	390	413	390	5.9%
Total expenses	3,300,736	3,132,908	673,866	619,210	3,974,602	3,752,118	5.9%
Excess (deficiency) before transfers	200,437	140,536	7,614	48,040	208,051	188,576	10.3%
Transfer in (out)	(22,478)	(11,250)	22,478	11,250	-	-	0.0%
Change in net position, before special items	177,959	129,286	30,092	59,290	208,051	188,576	10.3%
Special items	-	-	(2,803)	(905)	(2,803)	(905)	209.7%
Change in net position	177,959	129,286	27,289	58,385	205,248	187,671	9.4%
Net position, beginning of year, as restated	2,487,720	2,397,152	21,734	(28,997)	2,509,454	2,368,155	6.0%
Net position, end of year	$ 2,665,679	$ 2,526,438	$ 49,023	$ 29,388	$ 2,714,702	$ 2,555,826	6.2%

Management's Discussion & Analysis *(Unaudited)*

The following are specific major factors that resulted in the net position changes in governmental activities between fiscal years 2014-15 and 2015-16 as shown in the table on page 9.

Revenues for governmental activities

Revenues from *Charges for services* increased by $88.9 million, or 13.8%. 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. Contractual Law Enforcement revenue increased due to additional patrolling services in the unincorporated areas of Riverside County. In addition, health service fees increased due to the growth of Capitated Medi-Cal and Medi-Cal patients as a result of the new health care reform act.

Revenues from *Operating grants and contributions* increased by $107.8 million, or 6.0%, due to significant changes in the following state and federal sources:

- There was an increase of $86.7 million in federal and state funds for major public assistance programs including Medi-Cal, adult protective services, in-home support services, child welfare services, CalFresh, CalWorks, adoptions, and foster care programs due to ongoing program growth. $40.3 million contribution from federal and state funds for several large highway inter-change improvement and grade separation projects. $32.6 million was recognized as revenue from Behavioral Health Funds distributed by Local Revenue Fund 2011 for supporting the Early and Periodic Screening, Diagnosis, and Treatment (EPDST) program. $11.8 million was recognized as revenue from Local Revenue Funds Sales and Use Tax Growth Fund for supporting mental health treatment, detention health, and juvenile justice programs. $5.7 million received from community corrections performance incentive fund for implementing an enhanced aftercare program for juveniles with intensive supervision following release from treatment. The overall increase was offset by $69.5 million in State reimbursements and Mental Health Service Act funds received in the prior year for previously implemented Senate Bill (SB) 90 Mandated Programs and building purchase.

Revenues from *Capital grants and contributions* increased by $22.6 million, or 71.4%. $24.7 million was awarded from SB81 State Financing Program for the new East County Detention Center and Van Horn Youth Treatment and Education Center.

Revenues from *Property taxes* increased by $19.3 million, or 5.9%. The fiscal year 2015-16 assessment roll value increased by 5.8%. The contributing factors to the assessment roll value increase were year-over-year growth in sales price, increased new construction, and additional properties climbing out of reduced or "decline-in-value" assessment, also called Proposition 8.

Revenues from *Sales and use taxes* decreased by $3.3 million, or 10.0%. The decrease was due to the decline of solar power plant construction and falling gasoline prices.

Revenues from *Unrestricted intergovernmental revenue* decreased by $11.6 million, or 4.7%, in the vehicle license fee realignment fund due to a portion of the fund being redirect to family support service programs.

The increase in *Investment earnings* was due to higher interests earned in the County Treasurer's pooled investment fund from economic growth. The earnings fluctuate according to several factors including cash balances in the Treasurer's pooled investment fund, current interest rates, and the continuation of accommodative U.S. Federal Reserve monetary policy.

Expenses for governmental activities

Total expenses for governmental activities were $3.3 billion for the current fiscal year, an increase of $167.8 million, or 5.4%, as compared to prior fiscal year. The following are the key components accounting for the variances:

- *General government* represents $283.1 million, or 8.6%, of the total governmental activities expenses and increased by $103.5 million, or 57.6%, from prior year due to contributions made to support several building construction projects.

- *Public protection* represents $1.3 billion, or 40.3%, of the total governmental activities expenses and increased by $110.9 million, or 9.1%. The majority of the increase is caused by negotiated labor increases, raising liability coverage, correction health increases, and the ongoing impact of Assembly Bill (AB) 109 public safety realignment and Proposition 47 re-sentencing cases. The new Emergency Management department was established to consolidate the Office of Emergency Services (OES) division, Public Health Emergency Preparedness and Response (PHEPR) and Riverside County Emergency Medical Services Agency (REMSA) into a single entity.

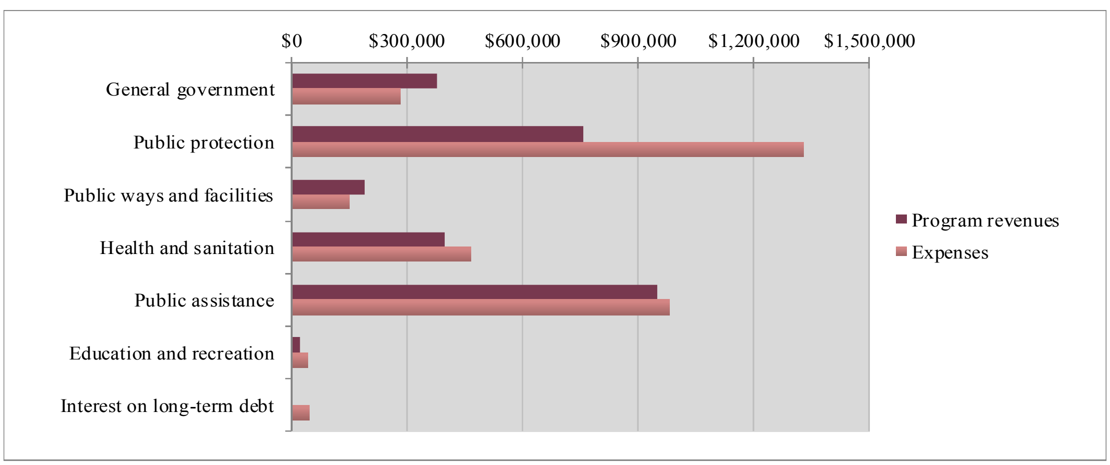
- *Public ways and facilities* represents $149.8 million, or 4.5%, of the total governmental activities expenses and decreased by $28.1 million, or 15.8%, due to several large inter-change improvement and grade separation projects costs incurred in prior year for eliminating conflicts between railroad operations and vehicular traffic.

- *Health and sanitation* represents $468.4 million, or 14.2%, of the total expenses and decreased by $31.3 million, or 6.3%, from prior year due to the Riverside University Health Systems – Behavioral Health expansion of its clinics and services throughout the County with funding received from the Mental Health Services Act (MHSA). As a result, health care and treatment services are offered at the joint location.

- *Public assistance* represents $980.6 million, or 29.7%, of the total expenses and increased by $10.1 million, or 1.0%, from prior year. In fiscal year 2015-16, In-Home Supportive Services (IHSS) individual provider (IP) service hours were increased by approximately 13.0% from prior year due to ongoing program growth with a small percentage increase associated with the transition of IHSS contract cases to IHSS IP cases.

- The remaining 2.7% represents *education* for $23.3 million, or 0.7%; *recreation and culture* for $20.8 million, or 0.6%, *and interest on long-term debt* for $46.3 million, or 1.4%.

Program Revenues and Expenses - Governmental Activities
For the fiscal year ended June 30, 2016
(In thousands)



Business-type Activities

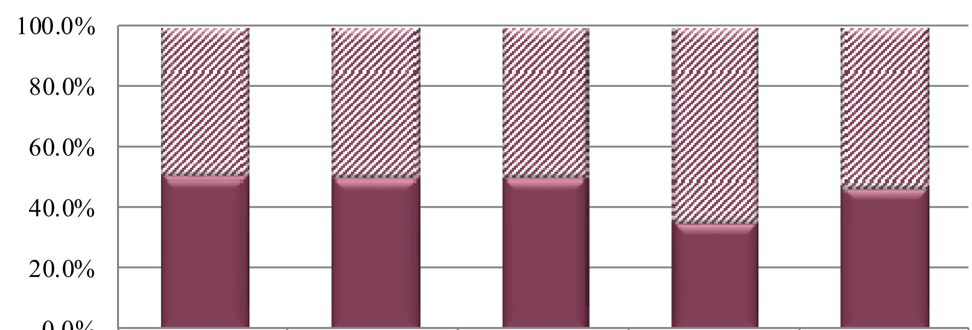
The following are specific major factors that resulted in the net position changes in business-type activities between fiscal years 2014-15 and 2015-16 as shown in the previous table of page 9.

Revenues: The County has three major business-type activity funds: RUHS-MC, Waste Resources, 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, $676.5 million, or 99.3%, 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, $511.7 million, was received by RUHS-MC as compared to $504.8 million for the prior fiscal year. The increase was mainly attributed to improvements in patient care service delivery through new technologies and premium revenue earned from Medi-Cal Managed Care Plans according to number of participants who are entitled to health care services.

Expenses: Total expenses for business-type activities were $673.9 million for the fiscal year compared to $619.2 million for the prior fiscal year. This represents an increase of $54.7 million, or 8.8%. Expenses of $506.3 million, or 75.1%, were incurred by RUHS-MC in the current fiscal year, as compared to $468.6 million, or 75.7%, for the prior fiscal year. In addition, expenses for Waste Resources were $75.4 million, or 11.2%, compared to $56.3 million, or 9.1%, from prior fiscal year; Housing Authority expenses were $88.2 million, or 13.1%, of total expenses for business-type activities, compared to prior fiscal year's expenses of $90.9 million, or 14.7%; Flood Control and County Service Areas account for the remaining 0.6% of expenses consistent with the prior fiscal year.

Revenues and Expenses - Business Type Activities
For the fiscal year ended June 30, 2016
(In thousands)



	RUHS - Medical Center	Waste Resources	Housing Authority	Flood Control	County Service Areas
Expenses	$506,338	$75,358	$88,166	$3,591	$413
Revenues	$513,533	$75,436	$87,486	$1,945	$360

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 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 projects funds, debt service funds, and the permanent fund.

As of June 30, 2016, the County's governmental funds reported combined fund balances of $1.2 billion, a decrease of $124.8 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 – $7.6 million, 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 – $893.3 million, amounts that are constrained to being used for a specific purpose by external parties such as creditors, grantors, laws, or regulations.
- Committed fund balance – $50.9 million, 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 – $63.0 million, 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 – $217.3 million, funds that are not reported in any other category and are available for any purpose within the general fund.

Total governmental fund revenue increased by $145.0 million, or 4.5%, from the prior fiscal year with $3.4 billion being recognized for the fiscal year ended June 30, 2016. Expenditures increased by $122.5 million, or 3.6%, from the prior fiscal year with $3.5 billion being expended for governmental functions during fiscal year 2015-16. Overall, governmental fund balance decreased by $124.8 million, or 9.2%. In comparison, fiscal year 2014-15 had an increase in governmental fund balance of $294.4 million, or 27.6%, over fiscal year 2013-14.

The general fund is the primary operating fund of the County. At the end of fiscal year 2015-16, the general fund's total fund balance was $371.5 million, as compared to $395.4 million in fiscal year 2014-15. 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 $2.4 million, and the spendable portion was $369.1 million. The current year unassigned fund balance is 7.8% of the total general fund expenditures of $2.8 billion, as compared to 8.3% of the prior year expenditures total of $2.7 billion. The total fund balance of the general fund for the current year is 13.3% of the total general fund expenditures as compared to 14.6% for the prior year.

Transportation fund balance increased by $16.1 million, or 22.7%, due to an increase in federal and state aid for financing several large highway inter-change improvement and grade separation projects.

Flood control fund balance decreased by $34.3 million, or 14.3%, due to the planning, design and maintenance costs of flood control and drainage infrastructure projects incurred in current year for the Riverside County Flood Control and Water Conservation District's Zone 4 financed by property tax, developer fees, and the promissory note proceeds issued in prior year.

Public facilities improvements capital projects fund balance decreased from $138.6 million to $133.6 million, 3.6% or $5.0 million. The decrease was caused by several major capital projects in progress during fiscal year 2015-16. The projects were financed by bond proceeds and state aid.

Public financing authority fund balance decreased by $71.3 million, or 23.6%. The decrease was primarily due to the construction costs incurred in several major capital projects including the new detention center, parking structures, and courtrooms.

Other Governmental Funds

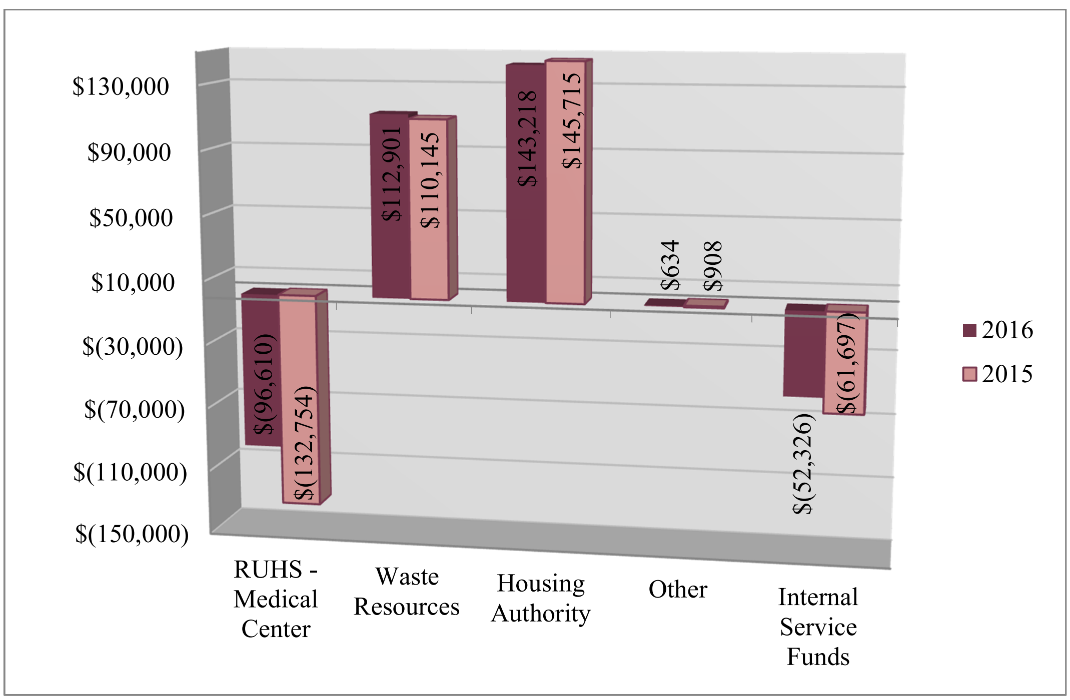
The $7.0 million, or 3.1%, decrease in nonmajor governmental funds fund balance was essentially from the scheduled annual principal payments of outstanding debts in debt service funds and the new integrated property tax management system that required additional testing prior to the implementation.

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 RUHS-MC, Waste Resources, and Housing Authority are shown in separate columns of the fund statements due to materiality criteria as defined by GASB Statement No. 34. 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 was $107.8 million, compared to $62.3 million for prior fiscal year; this represents an increase of $45.5 million, or 73.0%. The significant change was RUHS-MC's improved efficiencies and better revenue cycle management with the assistance of a consulting company Huron Consulting Group Inc.

Proprietary Funds Net Position
For the fiscal year ended June 30, 2016
(In thousands)



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 the fiscal years ended June 30, 2016 and 2015
(In thousands)

	2016		2015		Increase / (Decrease)	
Revenues by Sources	Amount	Percent of Total	Amount	Percent of Total	Amount	Percentage of Change
Taxes	$ 279,945	9.6%	$ 267,708	9.4%	$ 12,237	4.6%
Intergovernmental revenues	1,908,447	65.6%	1,861,246	65.4%	47,201	2.5%
Charges for services	465,333	16.0%	431,323	15.2%	34,010	7.9%
Other revenue	129,586	4.5%	142,580	5.0%	(12,994)	-9.1%
Other financing sources	126,014	4.3%	142,453	5.0%	(16,439)	-11.5%
Total	$ 2,909,325	100.0%	$ 2,845,310	100%	$ 64,015	2.2%

General fund revenues had an overall increase of $64.0 million, or 2.2%, from the prior year. The increase was due primarily to the changes in the following:

- The changes in *Taxes* during the current fiscal year were due to the 5.8% increase in assessment roll value, yielding a total property tax roll of $242.7 billion, compared to $229.4 billion in fiscal year 2014-15. The main factors of the roll increase were the year-over-year growth in sales prices in all sectors of the real estate market and increased new construction.

- The increase in *Intergovernmental revenues* was primarily attributed to allocation and realignment revenue from the state and federal aid. See explanation previously discussed on page 10.

- *Charges for services* increased by $34.0 million, or 7.9%, primarily due to additional patrolling services, increased rates approved for contract city law enforcement services, and increased Capitated Medi-Cal and Medi-Cal patients in health clinics run by Riverside University Health Systems – Public Health resulting from the new health reform act.

- The significant change in *Other revenue* was due to a decrease in court fines and penalties revenue. Senate Bill 85 established an 18-month amnesty program effective on October 1, 2015 to allow individuals with past-due court-ordered debt to receive a reduction in the amount owed if they meet certain eligibility criteria and insurance proceeds received in fiscal year 2014-15 for the loss of a helicopter.

- The decrease in *Other financing sources* was due to capital leases that were issued in fiscal year 2014-15 for office building and equipment purchases.

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

General Fund - Expenditures by Function
For the fiscal years ended June 30, 2016 and 2015
(In thousands)

	2016		2015		Increase / (Decrease)	
Expenditures by Function	Amount	Percent of Total	Amount	Percent of Total	Amount	Percentage of Change
General government	$ 113,779	3.9%	$ 109,900	3.9%	$ 3,879	3.5%
Public protection	1,256,765	42.8%	1,189,466	42.3%	67,299	5.7%
Public ways and facilities	-	0.0%	8	0.0%	(8)	-100.0%
Health and sanitation	468,272	16.0%	478,047	17.0%	(9,775)	-2.0%
Public assistance	918,963	31.3%	865,309	30.7%	53,654	6.2%
Other expenditures	33,578	1.1%	68,313	2.4%	(34,735)	-50.8%
Other financing uses	141,847	4.8%	103,554	3.7%	38,293	37.0%
Total	$ 2,933,204	100.0%	$ 2,814,597	100.0%	$ 118,607	4.2%

Total expenditures for the general fund were $2.9 billion, an increase of $118.6 million, or 4.2%, from the prior year. Significant changes are as follows:

- In *General government*, the main factors to the increase in fiscal year 2015-16 were a comprehensive review of practices within the criminal justice departments that was conducted for a cost saving plan and printing costs related to local government official members and presidential elections.

- The increase in *Public protection* was mainly caused by returning public safety staffing to previous levels for patrolling services according to the Board of Supervisor's direction, and additional costs in addressing caseloads resulting from Proposition 47 that voters approved in November 2014 for reducing most non-serious and non-violent property and drug crimes from felonies to misdemeanors.

- The decrease in *Health and sanitation* was mainly due to the reduction in contribution to health and mental health service programs funded by the State Health Realignment Fund. The funding was modified significantly by Assembly Bill (AB) 85 which redirected a portion of the funding to social service programs as a result of the implementation of federal health care reform.

- The increase in *Public assistance* was due to a growth in Adult Service Division caseloads as the County's elderly population increased significantly, continued caseload growth in CalFresh and Medi-Cal programs as expanded under the Affordable Care Act, and foster care cases increased as Assembly Bill (AB) 12 California Fostering Connections to Success Act was signed into law for the extension of federal funding for foster care services for eligible non-minors from ages 18 to 21.

- The significant decrease in *Other expenditures* was mainly due to office building and equipment purchases that were made in fiscal year 2014-15 and financed by capital lease obligations.

- The main factors to the increase in *Other financing uses* were contributions to other County funds for financing debt service payments according to the debt service schedule, construction costs of capital projects, and County program activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

This section provides a summary of the primary factors contributing 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 financial statements section.

Variance between General Fund Original Adopted and Final Amended Budget

Estimated Revenue Variances

The original adopted General Fund estimated revenue budget decreased by $76.6 million, or 2.5%, from $3.1 billion to the final amended revenue budget of $3.0 billion. The major changes in appropriations are as follows:

Interest: Decreased by $6.8 million, or 62.7%, from $10.8 million to $4.0 million. Variance of $6.8 million was the net of a $7.7 million decrease in the Auditor-Controller's budget and an increase of $0.9 million in the Treasurer's Office budget. The Auditor's Office budgeted $7.7 million for interest due on outstanding SB90 payments in two different accounts during its regular budget process. During first quarter, the error was identified and the correction was processed resulting in a decrease of appropriations. In the Treasurer's budget, revenue was increased by $0.9 million to reflect the increased of 25 basis points in the federal funds rate by the Federal Open Market Committee (FOMC).

Rents and concessions: Increased by $6.7 million, or 22.4%, from $29.8 million to $36.5 million. The general fund received $6.7 million of additional prior year revenue allocated from the landfill lease agreement with the Waste Resources department.

Charges for services: Decreased by $54.9 million, or 10.2%, from $540.1 million to $485.2 million. The majority of the variance was due to a $73.4 million decrease in appropriations due to intergovernmental activities, related to operating transfers in and out and the elimination of transfers in and out within same fund group. Decrease was offset by various increases which included a $10.2 million increase that was due to the Sheriff's department increasing its contractual revenue as the level of law enforcement services was modified for several cities and school districts. $6.2 million increase was due to changes in the Economic Development Agency - Energy Division budget to meet operational demands as annual electricity and water charges have risen significantly, additional services are being provided with new buildings: Riverside County Information Technology (RCIT) data center, Riverside County Innovation Center and the Mental Health Complex on Rustin Ave, and to administer the Opterra solar project. $1.0 million increase in the Behavioral Health Department was a result of a memorandum of understanding between the Riverside University Health Systems – Behavioral Health and Inland Empire Health Plan to provide behavioral health and primary care services. $0.8 million increase in the Planning Department budget resulted from an increase in contract amounts to provide project activities required for efficient and timely environment analysis. During this fiscal year, the Emergency Management Department was created to support the Office of Emergency Systems, Public Health Emergency Preparedness and Response, and Regional Emergency Medical Services Authority. Balances were transferred from the Fire Department, Riverside University Health Systems and Public Health but the overall budget needed additional revenues of $0.5 million in charges for current services.

Other revenue: Decreased by $36.0 million, or 36.7%, from $98.2 million to $62.1 million. $40.8 million of this variance is a result of intergovernmental activities, related to operating transfers in and out and elimination of transfers in and out within the same fund group. Treasurer's budget increased by $2.4 million due to a recent change in Revenue and Taxation Code Section 4674 allowing unclaimed excess proceeds from sales of tax defaulted properties to be transferred into the general fund. $0.8 million increase was due the Board of Supervisors approving the transfer of property tax overpayments to the County general fund. $0.7 million increase in Tax Revenue Anticipation Notes budget was increased for additional premium on bonds issued received.

Expenditure Appropriation Variances

The original adopted General Fund appropriation budget decreased by $92.8 million, or 2.9%, from $3.2 billion to the final amended appropriation budget of $3.1 billion. The major appropriation variances are described below.

General Government: The appropriation budget decreased by $49.7 million, or 19.8%.

- Services and supplies increased by $9.8 million, or 13.1%. Variances in services and supplies were due to changes in appropriations for the Executive Office, Legislative-Administrative Support Department, Assessor, Registrar of Voters and Economic Development Agency. Economic Development Agency-Energy division appropriations increased by $6.2 million to ensure sufficient funding was available to pay electricity, sewer and water bills as charges are significantly increasing with new buildings being operated by the County and also due to the operation and monitoring of the Opterra solar project. Executive Office appropriations increased by $2.9 million due to the consulting agreement signed with KPMG to perform an organizational and operational financial review of the County's public safety departments to provide cost saving strategies. Legislative-Administrative Support Department appropriations increased by $1.3 million to allow payment of attorney fees to the Prison Law Office for the settlement of a lawsuit case with the County. Registrar of Voters appropriations increased by $0.8 million in its printing and binding costs related to the statewide initiative of signature verification and the June Presidential Primary Election. Increases were offset with a decrease of appropriations of $3.4 million in the Assessors Department. The department had to decrease its computer equipment and professional services appropriations to reallocate funds to operating transfers to facilitate a journal to demonstrate County match to state grant received for the State-County Assessors' Partnership Agreement Program (SCAPAP) and to salaries and benefits to cover structural deficit.

- Other charges decreased by $36.7 million, or 38.1%. $48.6 million decrease was mainly due to intergovernmental activities, related to operating transfers in and out and elimination of transfers in and out within same fund group. Decrease is offset by a $10.7 million increase in appropriations in departments such as Board of Supervisors, Contribution to Other Funds, Court Facilities and Assessor. Contributions to Other Funds budget was increased by a total of $6.2 million. Of this amount, $3.3 million was allocated from the passage of SB107 to reimburse non-general fund departments for their upfront costs incurred during the transition year of three cities, Jurupa Valley, Menifee and Wildomar. $2.0 million was allocated to transfer to the capital projects fund to pay worker's compensation fund loan obtained to contribute towards sewer improvements for the growth and sustainability of the Temecula Valley Wine County. $0.6 million was allocated to Economic Development Agency (EDA) to purchase equity interests in real property located in the City of Banning from the Judicial Council of California. $0.5 million was allocated to Parks to continue operating the community centers at their current levels of service to the public. Assessors' appropriations increased by $1.9 million which was a result of a transfer from professional services to facilitate a journal to demonstrate County match to state grant received for the State-County Assessor's Partnership Agreement Program (SCAPAP). Board of Supervisors Department increased its contributions to other non-County agencies by $1.6 million to assist organizations within the County with carrying out programs that benefit County residents. Court Facilities Department increase its appropriations by $1.0 million to cover invoices related to the County's court facilities.

- Appropriation for contingencies decreased by $22.1 million, or 62.1%. During the third quarter, the Executive Office worked with many departments to address expected budget shortfalls by year-end. At that time, it was decided to use monies from appropriation for contingency to assist those departments with major shortfalls. The Sheriff's department was the main department that received $25.0 million to close an ongoing structural deficit.

Debt Service: The appropriation budget decreased by $52.8 million, or 56.9%.

- Principal in long-term debt decreased by $53.4 million, or 60.8%. The variance is a result of intergovernmental activities, related to operating transfers in and out and elimination of transfers in and out within same fund group.

Management's Discussion & Analysis *(Unaudited)*

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 $53.2 million resulting from unexpended appropriations of $304.7 million, or 9.8%, and overestimated revenue of $251.5 million, or 8.3%. The following contributed to the variance:

Revenue Variances

General Fund actual revenues of $2.8 billion were 8.3%, or $251.5 million, less than the final amended revenue budget of $3.0 billion.

Interest: Actual revenues were more than the final amended budget by $2.7 million, or 67.2%. The primary variance was due to the Treasurer-Tax Collector department optimizing the investment selections and strategies which resulted in additional interest earnings.

Rents and concessions: Actual revenues were less than the final amended budget by $26.0 million, or 71.3%. The primary variance is due to $18.7 million being transferred from the general fund to the CORAL debt service fund. $2.1 million of the variance was for landfill lease revenue from prior fiscal years budgeted by the general fund this fiscal year but recognized and accrued during fiscal year 2015.

Federal aid: Actual revenues were less than the final amended budget by $50.4 million, or 8.1%. Department of Social Services revenue from public assistance programs was $54.5 million lower than budgeted. Revenue received is driven by expenditures in the programs which were decreased for the year. Probation's federal reimbursement claims of Title IV-E Funding was $2.7 million lower than anticipated. Fire Department operating grants revenue was $2.1 million lower than budgeted as this revenue is full reimbursement for grant expenditures, lower expenditures, lower revenue received. Public Health's federal SB910 County Based Medi-Cal Administrative Activities (CMAA) revenue of $1.0 million was not received during the fiscal year as funds were being held due to state audit of the program. Mental Health actual revenue was higher than budgeted due to servicing more Medi-Cal clients.

State aid: Actual revenues were less than the final amended budget by $126.3 million, or 9.26%. Revenue received for Proposition 172 and realignment for Vehicle License Fees was $53.0 million lower than budgeted. Per information received from our HdL advisors, the Board of Equalization (BOE) has suspended all true up payments until procedures are reviewed. BOE believes counties have been getting overpaid for the last 18 months. Mental Health Department-Mental Health Service Act program revenue was $4.6 million lower than budgeted. The department gets reimbursed from the state for services provided through its Mental Health Service Act program. Revenue fluctuates with expenditures and other revenue levels. During this fiscal year, the program provided less services than projected, decreasing actual revenue by $46.4 million. Department of Public Social Services revenues from Public Assistance programs have decreased by $15.0 million. Revenue from AB118 Local Revenue was $12.0 million lower than budgeted.

Charges for services: Actual revenues were less than the final amended budget by $19.9 million, or 4.1%. Revenue budgeted for charges for current services is based on projected services that will be provided to taxpayers, clients, departments, school districts and cities. Therefore, if services are not provided at the level projected, budgeted amount will not be met. Fire Department fire protection revenue with contracted cities was $6.9 million lower than budgeted. Riverside University Health Systems-Federal Qualified Health Centers actual revenue received was $6.4 million lower than budgeted due to less Medi-Cal patients being served. Economic Development Agency-Energy division utilities reimbursements from proprietary fund departments were $5.8 million less than anticipated due to lower utility costs. Utility costs include electric, water, fuel, trash, and sewer. Fire Department weed abatement revenue was $1.1 million lower than budgeted.

Other revenue: Actual revenues were less than the final amended budget by $42.1 million, or 67.7%. $40.8 million of the variance is the result of intergovernmental activities, related to operating transfers in and out and elimination of transfers in and out within the same fund group.

Expenditure Variances

General Fund actual expenditures of $2.8 billion were 9.8%, or $304.7 million, less than the final amended appropriation budget of $3.1 billion. The major appropriation variances are described below.

General government: Actual expenditures were less than the final amended budget by $88.1 million, or 43.6%.

- Salaries and benefits were $4.9 million, or 5.0%, less than budgeted. $1.8 million of the variance was the result of intergovernmental activities, related to operating transfers in and out and elimination of transfers in and out within the same fund group. The remaining of the variance is noted in the Assessor Department by $1.0 million, Treasurer-Tax Collector by $0.8 million and Economic Development Agency-Energy division by $0.8 million.

- Services and supplies were $13.3 million, or 15.7%, less than budgeted. $5.6 million of the variance is primarily related to EDA Divisions. The EDA-Energy division electricity and water expenditures were $4.2 million lower than budgeted. Electricity costs were $3.2 million lower than budgeted due to solar savings from unforeseen delays in the installation of Opterra photovoltaic project and water costs were $1.1 million lower due to state mandated water restriction. The EDA-Project Management division expenditures were $1.4 million lower than budgeted as a result of overall projects being evaluated and reclassified resulting in a decreased in expenditures. Executive Office budgeted $3.4 million for Sales Tax Sharing Agreement Escrow to be paid out for the Vail Ranch settlement but payment was delayed until next fiscal year.

- Other charges were $51.5 million, or 86.6%, less than budgeted. $48.6 million of the variance was the result of intergovernmental activities, related to operating transfers in and out and elimination of transfers in and out within the same fund group.

- Capital assets were $3.0 million, or 82.9%, less than budgeted. $2.8 million was budgeted for Public Safety Enterprise Communication (PSEC) radio replacement expenditures but not expended by the Executive Office.

- Intrafund transfers were $1.9 million, or 3.2%, more than budgeted. Economic Development Agency-Energy division spent $0.9 million more than budgeted in intra-utilities and Human Resources spent $0.8 million more than budgeted in intra-personnel.

- Appropriations for contingencies were $13.4 million, or 100%, less than budgeted. This budget is established to assist general fund departments with unforeseen shortfalls but the transactions are recorded under the actual general fund department.

Public protection: Actual expenditures were less than the final amended budget by $48.9 million, or 3.7%.

- Salaries and employee benefits were $15.6 million, or 1.8%, less than budgeted. $12.3 million of the variance was the result of intergovernmental activities, related to operating transfers in and out and elimination of transfers in and out within the same fund group. The remaining of the variance is noted primarily in the Sheriff's Department by $7.8 million, Probation's Department by $6.9 million, District Attorney's Department by $1.9 million, and Fire Department $1.5 million.

- Services and supplies were $26.2 million, or 6.9%, less than budgeted. The variance was mainly due to $5.8 million in the Sheriff Department and $3.8 million in Fire Protection. $4.7 million of the Sheriff Department's variance is due to budgeted purchases of vehicles and helicopter engine overhaul not being completed by year-end. The remaining $1.1 million is due to Sheriff-Corrections professional services decreasing as anticipated costs for contracted bids did not materialize to the contracted level due to qualification challenge. $1.6 million of the Fire Protection variance is due to special program expenses being $1.6 million less than budgeted as, when the Office of Emergency System split off to the Emergency Management Department, the Fire Department utilized less grant expenses for the year. Fire Protection weed abatement costs were $1.1 million less than budgeted as there were no abated non-compliant properties within the unincorporated County area. Fire Protection professional services were $1.1 million less than budgeted as its fire protection agreement with CalFire is based on top step with full benefits with no salary savings component and there was a 1% salary savings due to staff not at top step.

- Other Charges were $3.6 million, or 6.6%, less than budgeted. $6.6 million of the variance was the result of intergovernmental activities, related to operating transfers in and out and elimination of transfers in and out within the same fund group. The remaining of the variance is noted primarily in the Sheriff's Department by $4.7 million and District Attorney's Department by $1.9 million.

- Capital assets were $3.3 million, or 50.6%, less than budgeted. County Clerk-Recorder $1.5 million expenditures were less than budgeted because milestone for capitalized software was not reached. Fire Protection expenditures were $0.7 million less than budgeted.

Health and sanitation: Actual expenditures were less than the final amended budget by $83.2 million, or 15.1%.

- Salaries and employee benefits were $31.3 million, or 10.6%, less than budgeted amounts. $18.6 million of the variance was in Mental Health, as with new programs and jail expansion, the department is struggling to retain qualified candidates. $8.6 million was in Riverside University Health Systems-Federally Qualified Health Centers. In order to comply with the health resources and services administration, the department was anticipating to add providers. However, it was only able to fill some of the positions but not the expected number of full time employees which were budgeted. $5.1 million of the variance is the result of intergovernmental activities, related to operating transfers in and out and elimination of transfers in and out within the same fund group. Public Health Department noted savings of $1.8 million as the department had a variety of vacancies that could not be filled during the fiscal year.

- Services and supplies were $14.1 million, or 10.8%, less than budgeted. Mental Health noted savings of $6.2 million as the program expansion is ongoing and it acquires owned properties resulting in a decrease in rent lease expenditure. $1.9 million of expenditures were less than budgeted for Public Health as administrative support expenditures were allocated to California Children Services department. Correctional Health Systems health/hospital services expenditures were $1.6 million less than budget.

- Other charges were $52.7 million, or 25.2%, less than budgeted. $23.4 million of the variance was due to expenditures for County match realignment being less as lower revenue was received from the state. $20.5 million expenditures were less than budgeted in Medical Indigent Services Program due to AB 85; the County had a portion of its 1991 health realignment funds re-directed to the state due to Affordable Care Act expansion of coverage and a corresponding reduction in uninsured individuals for which the County is responsible. $5.6 million savings in Mental Health was a result of contracted services for placement, psychological, private care and client housing being lower than expected. $3.6 million of the variance is the result of intergovernmental activities, related to operating transfers in and out and elimination of transfers in and out within the same fund group.

- Capital assets were $12.9 million, or 97.1%, less than budgeted primary due to Mental Health not performing the planned building improvements budgeted at $12.0 million as the department is focusing on program expansion.

- Intrafund Transfers were $27.8 million, or 29.2%, less than budgeted. Medical Indigent Services Program expenditures resulted in a decrease of $18.7 million due to AB 85 as the County had a portion of its 1991 health realignment funds re-directed to the state due to Affordable Care Act expansion of coverage and a corresponding reduction in uninsured individuals for which the County is responsible. $2.8 million in savings was also noted in Mental Health as contracted services with internal departments decreased resulting in lower expenditures and lower administrative costs.

Public assistance: Actual expenditures were less than the final amended budget by $77.1 million, or 7.7%.

- Salaries and employee benefits were $15.7 million, or 4.6%, less than budgeted primarily due to Department of Public Social Services not hiring to the funded full-time employee levels.

- Services and supplies were $34.1 million, or 23.1%, less than budgeted primarily due to Department of Public Social Services postponement of several new projects that had been budgeted and the cancellation of several information technology contracts.

- Other charges were $26.7 million, or 5.3%, less than budgeted mainly due to the decrease in CalWorks Federal caseload by approximately 10%, or $20 million.

Debt service: Actual expenditures were less than budgeted by $19.2 million, or 48.0%.

- Principal on long-term debt was $19.1 million, or 55.4%, less than budgeted. Primary variance is due to $18.7 million being transferred from the general fund to the CORAL debt service fund.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2016, the County's capital assets for both its governmental and business-type activities amounted to $4.9 billion (net of accumulated depreciation). The capital assets include land easements, land improvements, structures and improvements, equipment, construction in progress, concession arrangements 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 4.8%, or $222.2 million, from $4.6 billion in fiscal year 2014-15 to $4.9 billion in fiscal year 2015-16.

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

- Infrastructure increased approximately $179.1 million which consisted of donated roads valued at $13.1 million, $40.4 million in flood storm drains and channels, and $125.6 million in roads, traffic signals, bridges and other infrastructures transferred out of construction in progress.

- Additions of $7.9 million in land were processed this fiscal year due to the following acquisitions: the Flood Control District had land additions of $5.7 million related to the Wildomar Master Drainage Plan for $3.3 million for the preservation of the floodplain, flood and storm waters and the purchase of approximately 6.65 acres of vacant unimproved land for $1.5 million located between Glen Ivy Road and Squaw Mountain Road to protect the floodplain from development encroachment. The Economic Development Agency purchased various land parcels for approximately $2.0 million for the Perris Fire Department, Lake Riverside Fire Station #77, and the land acquired equity interests from the Judicial Council of California for the Banning County Administrative Center/Courthouse property. The major retirement of land was due to Housing Authority selling Coachella land for $3.0 million. Overall land & easement increased by $4.7 million.

- Land improvements increased approximately $7.0 million as a result of the completion of the parking lot expansion at the RUHS-MC.

- Structures and improvements increased approximately $66.8 million as a result of the completion of major projects and acquisition of properties/structures. Major projects completed were as follows: Perris Aquatic Center for $25.0 million and Jurupa Valley Aquatic Center Buildings A to D for $21.3 million. The newly acquired properties were as follows: Coachella Valley Volunteer in Medicine Clinic for $2.8 million; several housing assistance units related to the Housing Assistance Program for approximately $1.5 million;

the Banning County Administrative Center/Courthouse for $1.2 million and the Perris Fire Administrative Building for approximately $1.0 million.

- Equipment increased approximately $21.3 million. The primary increase of $11.1 million was due to the Fire and Fleet departments' acquisition of leased vehicles. The remaining balance of $10.2 million was due to increases in communication and office equipment, software, equipment vehicles and other miscellaneous equipment throughout the County.

- During the current fiscal year, construction in progress experienced additions in the amount of $319.7 million related to existing and new projects. The major increases were noted as follows: the Transportation and Land Management Agency incurred an additional $176.6 million for projects related to streets, bridges, sidewalks and signal lights; the Flood Control District incurred $49.1 million for storm drains and channels; the Economic Development Agency incurred $57.4 million in costs for projects such as the East County Detention Center, the new secured Youth Rehabilitative Facility, and the remodeling of Public Defender Building; the RUHS-MC incurred $21.9 million in cost for projects such as the new EPIC Software and the remodel of Spine Clinic Lower Level, the Nurse Education Building and the Emergency Room Expansion; the Crest project incurred an additional $6.7 million towards the new integrated property management system. During the current year approximately $376.4 million of completed projects were transferred out of construction in progress to other capital asset classifications which resulted in an overall decrease in construction in progress of approximately $56.7 million.

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

CAPITAL ASSETS (Net of Accumulated Depreciation)
(In thousands)

	Governmental Activities		Business-type Activities		Total		Increase/ (Decrease)
	2016	2015	2016	2015	2016	2015	%
Infrastructure	$ 1,869,290	$ 1,686,877	$ 45,887	$ 49,162	$ 1,915,177	$ 1,736,039	10.3%
Land and easements	537,586	529,885	21,359	24,359	558,945	554,244	0.8%
Land improvements	84	85	8,905	1,916	8,989	2,001	349.2%
Structures and improvements	1,218,915	1,168,032	128,610	112,646	1,347,525	1,280,678	5.2%
Equipment	233,044	213,558	32,764	30,998	265,808	244,556	8.7%
Construction in porgress	709,599	757,220	56,380	65,464	765,979	822,684	-6.9%
Concession arrangements	-	-	8,830	8,830	8,830	8,830	0.0%
Total outstanding	$ 4,568,518	$ 4,355,657	$ 302,735	$ 293,375	$ 4,871,253	$ 4,649,032	4.8%

Additional information on the County's capital assets can be found in Note 8 on pages 76-78 of this report.

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 $525.0 million as of June 30, 2016. The calculated legal debt limit for the County is $3.0 billion.

The following are credit ratings maintained by the County:

	Moody's Investors Services, Inc.	Standard & Poor's Corp.	Fitch
Short-term notes	MIG1	SP-1+	F1+
Long-term general obligations	Aa3	AA	AA-

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, 2016.

COUNTY'S OUTSTANDING DEBT OBLIGATIONS
(In thousands)

	Governmental Activities		Business-type Activities		Total		Increase/ (Decrease)
	2016	2015	2016	2015	2016	2015	%
Loan payable	$ 2,790	$ 3,350	$ -	$ -	$ 2,790	$ 3,350	-16.7%
Bonds payable	1,195,027	1,141,497	106,428	119,917	1,301,455	1,261,414	3.2%
Certificates of participation	108,937	211,688	-	-	108,937	211,688	-48.5%
Capital leases	160,110	147,278	7,438	5,878	167,548	153,156	9.4%
Total outstanding	$ 1,466,864	$ 1,503,813	$ 113,866	$ 125,795	$ 1,580,730	$ 1,629,608	-3.0%

The County's total long-term debt decreased by 3.0%, or $48.9 million, during the current fiscal year primarily due to three outstanding certificates of participation that were refunded by Lease Revenue Refunding Bond 2015 Series A. Additional information on the County's long-term debt can be found in Note 14 on pages 85-95 of this report.

ECONOMIC FACTORS AND THE FISCAL YEAR 2016-17 BUDGET OUTLOOK

Beacon Economists' forecasts for long-term growth in Riverside County remain optimistic. The residential and nonresidential property markets continue to improve while unemployment rates continue to decline.

Decisions by the state in recent years to realign criminal justice funding and responsibilities shape essential public safety services. The adopted budget continues Board-approved initiatives related to the direct impacts of these decisions, as well as the costs of labor and pension increases. These initiatives are funded by a combination of general fund discretionary revenue and Proposition 172 public safety sales tax allocations. The County continues working closely with KPMG accounting and consulting firm and California Forward (a bipartisan governance reform organization) to analyze and implement cost-saving efficiencies in the County's criminal justice system, as well as internal services and other areas.

Fiscal year 2016-17 discretionary revenue is expected to increase by approximately 3.8% ($28.0 million) when compared to the fiscal year 2015-16 adopted budget. The increase is primarily due to growth in assessed valuation for property values, which increase the amount of fiscal year 2016-17 estimated property tax revenue projection including redevelopment tax increment pass-through funds by $25.1 million over fiscal year 2015-16.

Management's Discussion & Analysis *(Unaudited)*

The following table reflects anticipated discretionary revenue totals and sources for fiscal year 2016-17.

Source		Final Budget Estimate (In millions)
Taxes	$	343,700
Other taxes		70,264
Licenses, permits, franchise taxes		4,408
Fines, forfeitures, penalties		20,909
Use of money and property		4,089
State		271,715
Federal		3,033
Miscellaneous		45,059
Total	$	763,177

The County's employee retirement benefit contribution rate for fiscal year 2016-17 for miscellaneous members is 16.5% and the safety contribution rate is 26.6%. 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 2017-18 rates are projected at 17.7% (Miscellaneous) and 28.8% (Safety). Additional information regarding the County's retirement plans is included in Notes 20, 21, and 22 of the financial statements and schedules of changes in net pension liability and related ratios, contributions, and funding progress which are included in the required supplementary information section.

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/ReportsPublications.

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