

changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and the flood control special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 22 to the basic financial statements, in accordance with the State Assembly Bill 1X 26, the successor agency to the redevelopment agency has transferred the available assets that are not contractually committed to the designated public body. The County has reported an extraordinary net gain of \$502.6 million in the governmental-wide financial statements of the County due to this transfer. Management has deemed obligations of the former redevelopment agency due to the County as valid enforceable obligations payable by the successor agency trust under the requirements of Assembly Bill 1X 26. The County's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2012, on our consideration of the County of Riverside's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress, listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Riverside's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements and schedules, the budgetary comparison schedules for major debt service and capital project funds, and statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules and the budgetary comparison schedules for major debt service and capital project funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 20, 2012

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 Comprehensive Annual Financial Report presents a narrative overview and analysis of the County's financial activities for the fiscal year ended June 30, 2012. 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 25.

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:

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

In addition to the Financial Statements, the following supplemental information has been included in this report:

- Other Required Supplementary Information – Retirement plan schedules of funding progress and employer contributions
- Combining Statements for Nonmajor Governmental, Nonmajor Enterprise, and Fiduciary funds
- Combining Statements and Schedules for Special Revenue, Debt Service, Capital Projects, Permanent, Internal Service, and Fiduciary funds
- Statistical Section

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

The *Statement of Net Assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or declining. The Statement of Net Assets in summary can be found on page 7, and in more detail on page 25.

The *Statement of Activities*, presented on page 9 in summary and on pages 26 - 27 in detail, provides information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of 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 culture services. Governmental activities include four major funds, twenty-one nonmajor funds, and a representative allocation of the County's internal service funds. The four major Governmental funds are the General Fund, Flood Control Special Revenue Fund, Teeter Debt Service Fund, and Public Facilities Improvements Capital Projects Fund. The business-type activities of the County include two major enterprise funds, and three nonmajor funds. The major enterprise funds are the Regional Medical Center and Waste Management.

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.

Management's Discussion & Analysis (Unaudited)

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 (no activity for fiscal year 2011-12)
- Riverside County Service Areas
- Inland Empire Tobacco Securitization Authority
- Perris Valley Cemetery District

Fund Financial Statements, illustrated on pages 30 - 47, 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.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. 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, Flood Control Special Revenue Fund, Teeter Debt Service Fund, Public Facilities Improvements 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 Project, Bankruptcy Court, Inland Empire Tobacco Securitization Authority and the 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 42-45, 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

Management’s Discussion & Analysis (Unaudited)

Medical Center (RMC), Waste Management, County Service Areas, Housing Authority, and Flood Control. RMC and Waste Management 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, Housing Authority, 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, OASIS (accounting and human resources information technology system), risk management, temporary assistance pool, and flood control equipment. Because these services predominantly benefit governmental rather than business-type functions, they have been included within 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 46 - 47, 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. See pages 49 -113.

Required Supplementary Information, in addition to this MD&A, presents schedules of retirement plan funding progress and employer contributions. This additional information can be found beginning on page 115.

FINANCIAL HIGHLIGHTS

- At the close of the current fiscal year, the County’s assets of \$7.2 billion exceeded its liabilities of \$2.8 billion resulting in \$4.4 billion of net assets.
- Net assets includes \$845.8 million of unrestricted net assets, which may be used to meet the County’s ongoing obligations to citizens and creditors; \$724.9 million of restricted net assets, which is required by external sources or through enabling legislation to be used for specific purposes; and \$2.9 billion is invested in capital assets, net of related debt.
- During fiscal year 2011-12, the County’s net assets increased by \$591.0 million, or 15.2% including a restated amount of \$4.5 million from prior fiscal year. Of this amount, an increase of \$641.0 million was from governmental activities and an offset of a \$50.0 million decrease from business-type activities. The increase in net assets was primarily due to an overall decrease in total liabilities. This decrease was largely due to \$803.1 million in government activities from Redevelopment Agency Tax Allocation Bonds being transferred to its Successor Agency on February 1, 2012. Countywide expenses of \$3.2 billion were offset by program revenues of \$2.6 billion and general revenues of \$764.3 million. Of the \$2.6 billion, \$1.4 billion, or 56.5%, was recognized through operating grants and contributions.
- On January 10, 2011, as part of a statewide budget process, Governor Brown proposed the elimination of Redevelopment Agencies (RDA’s) throughout California starting fiscal year 2011-12. On December 29, 2011, after a period of litigation, the State of California Assembly Bill AB X1 26 was upheld by the California Supreme Court, and RDA’s were officially dissolved as of February 1, 2012. The transfer of responsibility is described in Note 16 to the financial statements.
- As of June 30, 2012, the total fund balances of the governmental funds were \$1.3 billion. This represents a decrease of \$432.1 million, or 24.5%, in comparison with the prior year. This decrease was primarily the result of transferring assets and liabilities to the Riverside County Redevelopment Successor Agency, from the existing Redevelopment Agency, brought about by the legislation referred to above.

Management’s Discussion & Analysis (Unaudited)

- As of June 30, 2012, fund balance for the General Fund was \$336.6 million, or 15.0% of the total General Fund expenditures. This amount is comprised of the following fund balance categories: \$1.8 million nonspendable, \$101.7 million restricted, \$52.4 million committed, \$8.8 million assigned, and \$171.9 million unassigned. The detail of these fund balances can be found in Note 13 to the financial statements.
- The County’s long-term debt of \$1.9 billion showed a net decrease of \$834.0 million, or 31.0%, compared to the prior year. The decrease was mainly a result of the transfer of RDA’s long term debt to RDA Successor Agency pursuant to the provisions of the Redevelopment Restructuring Act AB X1 26. These obligations are bonds payable, capital leases, certificates of participation, loans payable, and other long-term debt.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve as a useful indicator of a government’s financial position. The Table below focuses on the net assets and changes in net assets in the County’s governmental and business-type activities. It presents an analysis of the County’s net assets as of June 30, 2012, in comparison to the prior fiscal year 2010-11. At the end of the current fiscal year, the County reported positive net assets in all three net assets categories, for both governmental and business-type activities. Total net assets, as indicated below, exceeded liabilities by \$4.4 billion representing an increase of \$591.0 million (\$586.5 million as previously reported and restatement of \$4.5 million, See Note 3), or 15.3% in comparison to the prior year’s increase of \$24.8 million or .07%. A more detailed statement can be found on Page 25 in the Government-Wide Financial Statements.

	Governmental Activities		Business-type Activities		Total		Increase/ (Decrease) %
	2012	2011	2012	2011	2012	2011	
Assets:							
Current and other assets	\$ 2,903,152	\$ 3,289,402	\$ 308,604	\$ 324,984	\$ 3,211,756	\$ 3,614,386	-11.1%
Capital assets	3,704,789	3,494,794	269,673	270,293	3,974,462	3,765,087	5.6%
Total assets	6,607,941	6,784,196	578,277	595,277	7,186,218	7,379,473	-2.6%
Liabilities:							
Current liabilities	788,496	760,630	100,275	73,802	888,771	834,432	6.5%
Long-term liabilities	1,543,912	2,384,434	311,845	305,350	1,855,757	2,689,784	-31.0%
Total liabilities	2,332,408	3,145,064	412,120	379,152	2,744,528	3,524,216	-22.1%
Net assets:							
Invested in capital assets, net of related debt	2,740,429	1,687,128	130,510	113,489	2,870,939	1,800,617	59.4%
Restricted	683,835	656,347	41,103	43,086	724,938	699,433	3.6%
Unrestricted	851,269	1,295,657	(5,456)	59,550	845,813	1,355,207	-37.6%
Total net assets	\$ 4,275,533	\$ 3,639,132	\$ 166,157	\$ 216,125	\$ 4,441,690	\$ 3,855,257	15.2%

Management’s Discussion & Analysis (Unaudited)

Below are the three components of net assets and their respective fiscal year-end balances:

- Invested in capital assets, net of related debt** represents \$2.9 billion, or 64.5%, of the County’s total net assets for fiscal year 2011-12 compared to \$1.8 billion, or 46.7%, for fiscal year 2010-11. The increase is attributable to the completion of multiple construction projects including the Roy Wilson Fire Station, Lake Mathews Fire Station and Community Room Project, Highgrove Library, the installation of a 110 kilowatt solar shade system, the renovation of the Indio County Administrative Center, the resurfacing and widening of the Ramona Expressway, the construction of an underground storm drain and channel reconstruction, and a levee restoration project. 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.
- Restricted net assets** account for \$724.9 million, or 16.3%, of the County’s total net assets for fiscal year 2011-12 compared to \$699.4 million, or 18.1%, for fiscal year 2010-11. This component of net assets 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.
- Unrestricted net assets** account for \$845.8 million, or 19.4%, of the County’s total net assets for fiscal year 2011-12 compared to \$1.4 billion, or 35.2%, for fiscal year 2010-11. This component of the County’s total net assets may be used to meet the County’s ongoing obligations to citizens and creditors. Of the unrestricted net assets for fiscal year 2011-12, \$851.3 million is from governmental activities and \$5.5 million deficit for business-type activities, compared to prior year whereas, \$1.3 billion was from governmental activities and \$59.6 million from business-type activities.

Management’s Discussion & Analysis (Unaudited)

The following table provides information from the Statement of Activities of the County for the fiscal year 2011-12, as compared to the prior year:

STATEMENT OF ACTIVITIES							
For the Fiscal Year Ended June 30							
(In thousands)							
	Governmental Activities		Business-type Activities		Total		Increase/ (Decrease)
	2012	2011	2012	2011	2012	2011	%
Revenues:							
Program revenues:							
Charges for services	\$ 580,797	\$ 591,738	\$ 505,665	\$ 526,860	\$ 1,086,462	\$ 1,118,598	-2.9%
Operating grants and contributions	1,447,694	1,393,016	-	-	1,447,694	1,393,016	3.9%
Capital grants and contributions	27,909	32,114	335	-	28,244	32,114	-12.1%
General revenues:							
Property taxes	322,337	367,867	-	-	322,337	367,867	-12.4%
Sales and use taxes	26,744	45,489	-	-	26,744	45,489	-41.2%
Motor vehicle in-lieu taxes	226,384	235,153	-	-	226,384	235,153	-3.7%
Investment earnings	11,801	19,494	907	538	12,708	20,032	-36.6%
Other	176,113	151,970	-	6,617	176,113	158,587	11.1%
Total revenues	2,819,779	2,836,841	506,907	534,015	3,326,686	3,370,856	-1.3%
Expenses:							
General government	270,474	298,032	-	-	270,474	298,032	-9.2%
Public protection	1,047,202	1,021,288	-	-	1,047,202	1,021,288	2.5%
Public ways and facilities	84,797	87,424	-	-	84,797	87,424	-3.0%
Health and sanitation	374,950	369,984	-	-	374,950	369,984	1.3%
Public assistance	827,092	907,202	-	-	827,092	907,202	-8.8%
Education	10,376	15,816	-	-	10,376	15,816	-34.4%
Recreation and culture	15,806	9,364	-	-	15,806	9,364	68.8%
Interest on long-term debt	39,098	88,998	-	-	39,098	88,998	-56.1%
Regional Medical Center	-	-	417,074	401,120	417,074	401,120	4.0%
Waste Management	-	-	57,272	56,688	57,272	56,688	1.0%
Housing Authority	-	-	91,469	86,027	91,469	86,027	6.3%
Flood Control	-	-	2,306	3,711	2,306	3,711	-37.9%
County Service Areas	-	-	456	383	456	383	19.1%
Total expenses	2,669,795	2,798,108	568,577	547,929	3,238,372	3,346,037	-3.2%
Excess (deficiency) before Transfers	149,984	38,733	(61,670)	(13,914)	88,314	24,819	255.8%
Transfers in (out)	(11,702)	(10,355)	11,702	10,355	-	-	0.0%
Change in net assets, before extraordinary items	138,282	28,378	(49,968)	(3,559)	88,314	24,819	255.8%
Extraordinary Items	502,639	-	-	-	502,639	-	0.0%
Change in net assets	640,921	28,378	(49,968)	(3,559)	590,953	24,819	2281.0%
Net Assets, Beginning of Year, as Restated	3,634,612	3,610,754	216,125	219,684	3,850,737	3,830,438	0.5%
Net Assets, End of Year	\$ 4,275,533	\$ 3,639,132	\$ 166,157	\$ 216,125	\$ 4,441,690	\$ 3,855,257	15.2%

Management's Discussion & Analysis (Unaudited)

The following are specific major factors that resulted in the net asset changes between fiscal years 2011-12 and 2010-11 as shown in the above table.

Governmental Activities

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

- Operating Grants and Contributions are revenues received from parties outside of the County, such as state and federal agencies, and are generally restricted to one or more specific programs. These revenues were the largest governmental activities revenue source for fiscal year 2011-12 with a total of \$1.4 billion being recognized. The increase of \$54.7 million in current fiscal year is attributable to higher reimbursements from State and Federal funding for public assistance services, such as categorical aid, mental health services, and women, infants and children programs.
- A total of \$580.8 million was earned as governmental activity charges for services compared to \$591.7 million for fiscal year 2010-11. 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 decrease of \$10.9 million was largely attributable to the establishment of AB109, California's Prison Realignment Plan, effective October 1, 2011. The implementation of this legislation caused a realignment of funding sources. One primary change effected the reimbursement of Trial Court Fees. In fiscal year 2011-12, trial court funding was received directly from the State rather than reimbursed through Superior Court. This change caused a decrease in revenue recognized in charges for services.
- Capital Grants and Contributions resulted in the least amount of program revenue from governmental activities with \$27.9 million earned for fiscal year 2011-12 compared to \$32.1 million earned for fiscal year 2010-11. This revenue category accounts for grants and contributions received for the restricted use of capital acquisition. In fiscal year 2011-12, \$27.1 million, or 96.9% of the revenue, was received for public ways and facilities programs, as compared to \$29.5 million, or 91.8%, for fiscal year 2010-11. This revenue is primarily related to the construction and acquisition of infrastructure capital assets.
- General revenue related to governmental activities primarily consists of taxes, other revenues, and investment earnings. Property tax revenue is the largest governmental activities general revenue with \$322.3 million recognized during the year, as compared to \$367.9 million for fiscal year 2010-11. Investment earnings decreased from \$19.5 million to \$11.8 million, or 39.5%, as a result of continual declines in interest earnings reflecting rate cuts by the Federal Reserve. Motor vehicle in-lieu of taxes revenue decreased 3.7% from \$235.2 million in fiscal year 2010-11 to \$226.4 million in fiscal year 2011-12.

Expenses: Total program expenses for governmental activities were \$2.7 billion for the current fiscal year, a decrease of \$128.3 million or 4.6%, as compared to prior fiscal year. Public Protection represents \$1.0 billion or 39.2%, of the total governmental activities expenses; \$827.1 million or 31.0%, for Public Assistance; \$375.0 million or 14.0%, for Health and Sanitation; and \$270.5 million or 10.1%, for General Government. An extraordinary loss of \$300.5 million was a result of the transfer of the former RDA assets and liabilities to the Private Purpose Trust Fund.

Business-type Activities

Revenues: The County has two major business-type activities: The Riverside County Regional Medical Center (RMC) and Waste Management. In addition, Flood Control, County Service Areas, and Housing Authority 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, \$505.7 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, \$371.8 million, was received by RMC as compared to \$386.5 million for the prior fiscal year.

Expenses: Total expenses for business-type activities were \$568.6 million for the fiscal year compared to \$547.9 million for the prior fiscal year. This represents an increase of \$20.6 million or 3.8%. Expenses of \$417.1 million or 73.4% were incurred by RMC in current fiscal year, as compared to \$401.1 million or 73.2%, for the prior fiscal year.

Management's Discussion & Analysis (Unaudited)

In addition, expenses for the Housing Authority were \$91.5 million or 16.1% of total expenses for business-type activities, compared to prior fiscal year's expenses of \$86.0 million or 15.7%; Waste Management Department expenses were \$57.3 million or 10.1%, compared to \$56.7 million or 10.4% the prior fiscal year. Flood Control and County Service Areas account for the remaining 0.5% of expenses consistent with the prior fiscal year.

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 Project Funds, Debt Service Funds, and Permanent Funds.

As of June 30, 2012, the County's governmental funds reported combined fund balances of \$1.3 billion, a decrease of \$432.1 million, in comparison with the prior year. The components of total fund balance are as follows (See Note 13 - Fund Balances for additional information):

- Nonspendable fund balance – \$4.1 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 – \$682.9 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 – \$319.9 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 – \$154.7 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 – \$171.9 million, are funds that are not reported in any other category and are available for any purpose within the General Fund.

Total governmental fund revenue decreased by \$32.8 million or 1.2%, from the prior fiscal year with \$2.8 billion being recognized for the fiscal year ended June 30, 2012. Expenditures decreased by \$105.3 million or 3.5%, from the prior fiscal year with \$2.9 billion being expended for governmental functions during fiscal year 2011-12. Overall, governmental fund balance decreased by \$432.1 million or 24.5%. In comparison, fiscal year 2010-11 had a decrease in governmental fund balance of \$27.5 million or 1.5%, over fiscal year 2009-10.

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, the General Fund's total fund balance was \$336.6 million, as compared to \$343.6 million for the prior fiscal year. The decrease of \$7.0 million, or 2.0% was a result of a decline in tax revenues due to a decrease in assessed property values, a reduction in interest earnings attributable to a lower interest rate, a reduction on the State allocation for vehicle license fees and less cost reimbursement from civil cases within the District Attorney's Office. 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 \$1.8 million, and the spendable portion was \$334.8 million. The current year unassigned fund balance is 7.6% of the total General Fund expenditures of \$2.3 billion, as compared to 8.4% of the prior year expenditures total of \$2.2 billion. The total fund balance of the General Fund for the current year is 14.9% of the total General Fund expenditures as compared to 15.3% for the prior year.

Flood Control fund balance increased by \$5.3 million or 2.1%, from \$251.0 million in fiscal year 2010-11 to \$256.3 million in fiscal year 2011-12. This increase was a result of an excess of revenues over expenses in current year operating activities.

Public Facilities Improvements Capital Projects fund balance decreased from \$293.1 million to \$242.5 million, 17.3% or \$50.6 million. The decrease is due to the completion of various construction projects and the utilization of the reserve for construction account to reimburse costs of multiple capital projects, such as the Roy Wilson Fire

Management’s Discussion & Analysis (Unaudited)

Station, Lake Mathews Fire Station and Community Room Project, the installation of a 110 kilowatt solar shade system at the Riverside County Administrative Center parking structure, the renovation project converting the Indio County Administrative Center into a Criminal Justice Law building, and the resurfacing and widening of the Ramona Expressway. In addition, there was a slight decrease in other revenue and interest earnings due to low interest rates caused by slow recovery in the economy.

Proprietary Funds

The County’s proprietary funds financial statements provide the same type of information as the government-wide financial statements, but in more detail. The Regional Medical Center and 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.

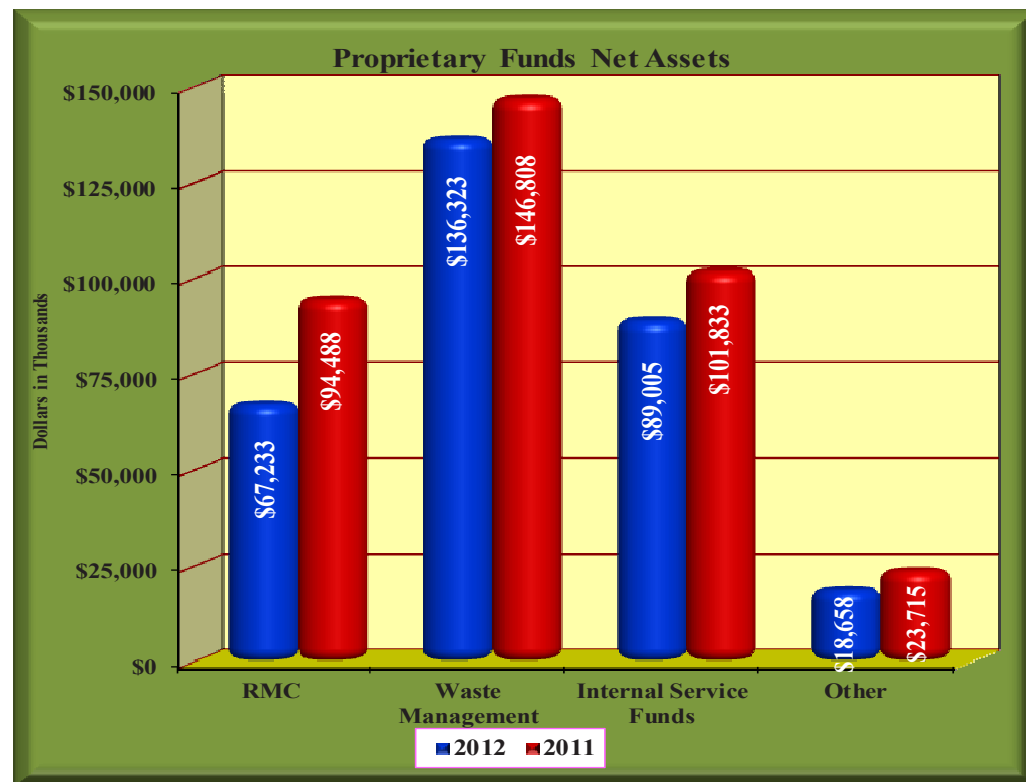
At the end of the fiscal year, total proprietary fund net assets were \$311.2 million, compared to \$366.8 million for prior fiscal year. Total proprietary fund net assets decreased by \$55.6 million or 15.2%, compared to \$17.1 million or 4.4%, decrease for the prior fiscal year.

Of the year-end balances, unrestricted net assets were as follows:

- Riverside County Regional Medical Center: -\$11.9 million
- Waste Management: \$54.8 million
- Other enterprise fund activities: \$7.6 million
- Internal service fund activities: \$68.4 million

RMC’s net assets decreased \$27.3 million or 28.9%, from \$94.5 million to \$67.2 million. The decrease is attributable to lower net patient revenue and an increase in operating expenses, as well as increased interest expense in fiscal year 2011-12.

Waste Management’s net assets decreased from \$146.8 million to \$136.3 million. The decrease resulted primarily from the reclassification of closure, post-closure, and remediation funds into liability accounts.



Management’s Discussion & Analysis (Unaudited)

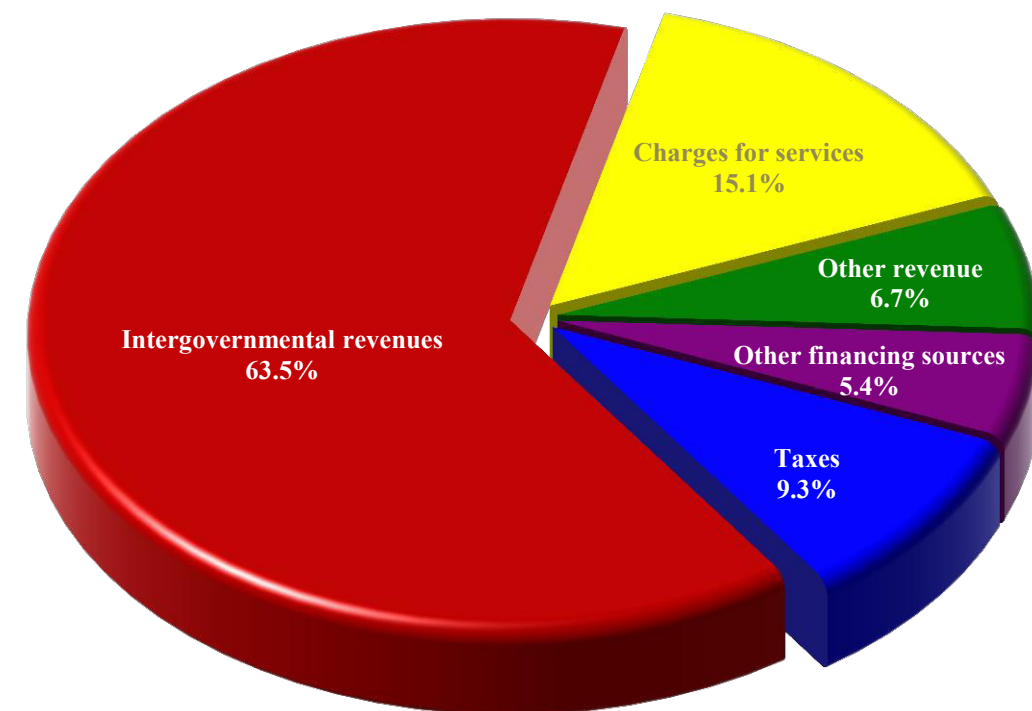
GENERAL FUND FINANCIAL ANALYSIS

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

Revenues and Other Financing Sources	Fiscal Year 2011-12	Percent of Total	Fiscal Year 2010-11	Percent of Total	Variance
Taxes	\$ 216,746	9.3%	\$ 221,807	9.7%	-2.3%
Intergovernmental revenues	1,487,205	63.5%	1,428,562	62.2%	4.1%
Charges for services	354,451	15.1%	369,780	16.1%	-4.1%
Other revenue	156,017	6.7%	161,234	7.1%	-3.2%
Other financing sources	126,258	5.4%	114,368	4.9%	10.4%
Total	\$ 2,340,677	100.0%	\$ 2,295,751	100.0%	2.0%

The loss of tax revenue was attributable to a decline in sales tax revenue due to new cities of Eastvale & Jurupa Valley and a sharp decline in secured property taxes due to a decrease in assessed values. The increase in intergovernmental revenue was primarily attributable to realignment revenue from the State and an increase in expenditures towards the Mental Health Services Act (MHSA) leading to greater reimbursements. The realignment revenue includes an increase in revenue for Early Periodic Screening & Diagnosis Treatment (EPSDT); Mental Health managed care, and Proposition 10. With the establishment of the Local Revenue Fund, Sheriff, Probation, District Attorney, Public Defender, and Mental Health received more State revenue due to the criminal justice alignment from AB109. Also with AB109, trial court funding is received directly from the State rather than the Superior Court which decreased revenue from charges for services.

COUNTY OF RIVERSIDE
General Fund Revenues and Other Financing Sources
For The Year Ended June 30, 2012



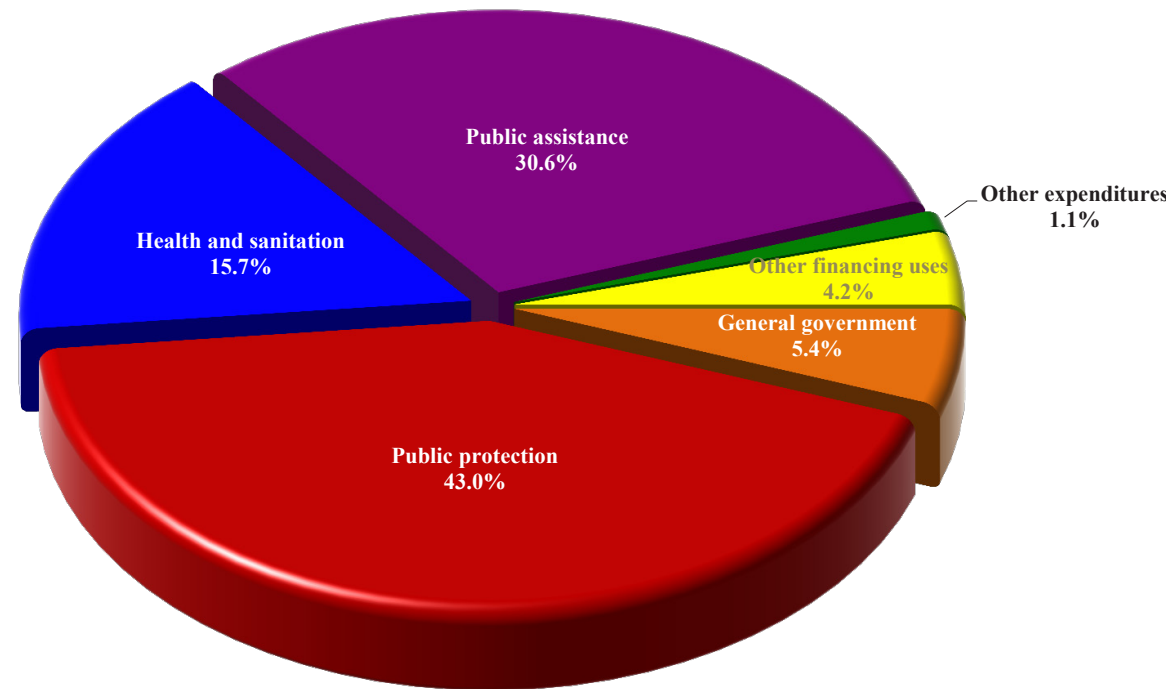
Management’s Discussion & Analysis (Unaudited)

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

Expenditures and Other Financing Uses	Fiscal Year 2011-12	Percent of Total	Fiscal Year 2010-11	Percent of Total	Variance
General government	\$ 127,195	5.4%	\$ 109,146	4.7%	16.5%
Public protection	1,010,999	43.0%	1,025,584	43.9%	-1.4%
Health and sanitation	369,165	15.7%	345,649	14.8%	6.8%
Public assistance	719,670	30.6%	731,017	31.3%	-1.6%
Other expenditures	25,000	1.1%	34,062	1.5%	-26.6%
Other financing uses	98,045	4.2%	93,217	3.9%	5.2%
Total	\$2,350,074	100.0%	\$2,338,675	100.0%	0.5%

The increase of expenditures in general government was attributable to contributions made to the Public Safety Enterprise Communication (PSEC) project and the County of Riverside Enterprise Solutions for Property Tax (CREST) project. Energy Management also consolidated utility accounts from other departments and increased expenditures for energy conservation projects under the Energy Efficiency and Conservation Block Grant (EECBG). The decrease of expenditures in public protection was mainly attributable to District Attorney, Sheriff, and Code Enforcement. District Attorney had a decrease in salaries and benefits due to attrition and a large payout of annual leave in prior year. Sheriff had a reduction in funding with direction to lower staffing levels. Code Enforcement had significant reductions in grant related abatements. The increase of expenditures in health and sanitation was attributable to Mental Health and the Community Health Agency. Mental Health had an increase due to additional administrative staffing resources supporting the new Behavioral Health Information System (BHIS), the implementation of prevention programs with consultant contracts, and high usage of the Institute of Mental Disease (IMD). The Community Health Agency had an increase of expenditures due to increased costs in California Children’s Services (CCS) administration, CCS therapy programs, and the Healthy Families program with more assigned children. The decrease in public assistance was attributable to a reduction of CalWORKS benefits in categorical aid.

COUNTY OF RIVERSIDE
General Fund Expenditures and Other Financing Uses
For The Year Ended June 30, 2012



Management’s Discussion & Analysis (Unaudited)

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.

Variance between General Fund Original Adopted and Final Amended Budget

Estimated Revenue Variances

The original adopted General Fund estimated revenue budget decreased by \$43.8 million, or 1.8%, from \$2.5 billion to the final amended revenue budget of \$2.4 billion. The \$43.8 million represents a decrease of \$86.5 million in charges for current services offset by an increase of \$47.8 million in state aid and \$4.0 million in other revenue.

State Aid: The increase in state aid of \$47.8 million, or 5.1%, was partially the result of increases of \$23.5 million in total by Sheriff, Mental Health, Probation, Public Defender, and District Attorney for implementation of AB109 criminal justice alignment. Sheriff, District Attorney, Probation, and Fire received \$8.5 million in additional allocations from Proposition 172 public safety sales tax. Mental Health had an increase of \$6.7 million to acquire additional Myers building facilities with MHSA funds. The Executive Office had an increase of \$4.0 million for the implementation of the Low Income Health Program. Probation had an increase of \$2.9 million for the SB678 Community Corrections Performance Incentive Act for evidence-based practice incentive funds.

Charges for Current Services: The net decrease of \$86.5 million, or 17.8%, for charges for current services was mainly the result of intergovernmental activities.

Other Revenue: The decrease in other revenue of \$4.0 million, or 4.1%, was primarily the result of intergovernmental activities and a reclassification of operating transfers to other financing sources.

Expenditure Appropriation Variances

The original adopted General Fund appropriation budget of \$2.6 billion decreased by \$10.8 million, or 0.4%, during the fiscal year. The significant appropriation changes were an increase of \$16.2 million in public protection, an increase of \$12.7 million in health and sanitation, and an increase of \$9.5 million in general government offset by a decrease of \$40.1 million in debt service and a decrease of \$9.2 million in public assistance. The major appropriation variances are described below.

General Government: The appropriation budget increased by \$9.5 million, or 4.8%, from the original adopted budget of \$198.2 million to \$207.7 million. The following information describes the significant factors for the variances:

- Salaries and employee benefits increased by \$1.6 million, or 1.9%, mainly due to intergovernmental activities and salary savings from furloughs and vacant positions.
- Services and supplies increased by \$1.2 million, or 1.9%, mainly due to increases by the Economic Development Agency (EDA) Energy division and Human Resources. The EDA Energy division increased budget by \$0.6 million to cover a rise in electricity costs. Human Resources increased budget by \$0.6 million due to a rise in arbitration and communication services.
- Other charges increased by \$3.7 million, or 4.8%, mainly due to Executive Office and the Board of Supervisors. Executive office had increases in legislative administration support by \$9.0 million for the acquisition of property benefiting the Western Riverside County Multiple Species Habitat Conservation Plan (MSHCP) and increases in contributions to other funds by \$4.7 million for legal expenses. The Board of Supervisors increased by \$1.8 million for community improvement designations. These increases were offset by intergovernmental activities.
- Appropriation for contingencies increased by \$3.3 million, or 16.5%. The contingency budget covers current and potential General Fund liabilities and shortfalls in discretionary revenue. The increase is due to a \$10.8 million capital fund reappropriation. During the year, the contingency covered a shortfall of \$6.2 million in discretionary revenue including property taxes, interest earnings, and contractual revenue. The major liability covered was the obligation to pay \$1.0 million to CAL FIRE.

Management's Discussion & Analysis (Unaudited)

Public Protection: The appropriation budget increased by \$16.2 million, or 1.5%, 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 \$4.0 million, or 0.6%, primarily due to Sheriff, Probation, Public Defender, and District Attorney for positions to implement AB109 criminal justice alignment.
- Services and supplies increased by \$9.1 million, or 3.0%, mainly due to Sheriff, Probation, Public Defender, and District Attorney for implementation of AB109 criminal justice alignment. Fire had an increase of over \$0.7 million for carryover funds from Homeland Security grants.
- Other Charges decreased by \$1.6 million, or 3.3%, mainly due to a decrease of \$5.8 million for intergovernmental activities primarily offset by a \$1.7 million increase in Sheriff for the following facilities management projects: a Blythe Jail and Colorado River Station generator, Smith Correction Facility warehouse construction, safety cell construction, and a window replacement. Sheriff also had an increase of \$0.7 million for the fiscal year 2010 Homeland Security Grant Program and intergovernmental activity. Probation had an increase of \$1.4 million primarily for a security camera system at Southwest Juvenile Hall, the Post Release Community Supervision Accountability Teams under AB109 criminal justice alignment, and the new secured Youthful Offender Program (YOP) facility.
- Capital assets increased by \$5.5 million, or 236.8%, mainly due to Sheriff and Fire. Sheriff had an increase of \$3.8 million primarily due to funding from the fiscal year 2011 Homeland Security Grant Program for mobile mapping and interoperable radio equipment for aircraft, mobile data computers (MDC) and digital imaging management system for patrol and due to funding from the fiscal year 2009-10 COPS grant for an Agency Data Management System, and night vision equipment. Fire had an increase of \$1.3 million primarily for multiple mass shelters, a trailer, three pickup trucks, three sport utility vehicles, and a hazmat vehicle.

Health and Sanitation: The appropriation budget increased by \$12.7 million, or 3.1%, from the original adopted budget of \$411.9 million to \$424.7 million. The following information describes the significant factors for the variances:

- Salaries and employee benefits decreased by \$1.1 million, or 0.5%, primarily due to labor savings from unfilled vacancies and intergovernmental activities.
- Services and supplies increased by \$6.9 million, or 6.2%, mainly due to the Community Health Agency Department of Public Health, the Low Income Health Program, and Detention Health Systems. Public Health had increases of over \$2.2 million throughout the year to reflect grant funding additions for industrial hygiene, disease control, and the Public Health Emergency Preparedness and Response. The Low Income Health Program, with an increase of \$2.0 million, was implemented midyear and began serving patients in January. Detention Health Systems increased by over \$1.1 million for pharmaceuticals and prisoner hospital charges under the 340B program.
- Capital assets increased by \$6.9 million, or 968.3%, primarily due to Mental Health's \$6.7 million purchase of Myers building facilities to provide client care for children under MHSA funding.

Public Assistance: The appropriation budget decreased by \$9.2 million, or 1.1%, from the original adopted budget of \$802.9 million to \$793.7 million. The decrease was due to intergovernmental activities and State changes in Stage 1 childcare services which decreased caseloads for the Department of Public Social Services (DPSS).

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 \$85.8 million resulting from unexpended appropriations of \$295.8 million, or 11.6%, and overestimated revenue of \$210.1 million, or 8.7%. The following contributed to the variance:

Expenditure Variances

General Fund actual expenditures of \$2.3 billion were 11.6%, or \$295.8 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:

Management's Discussion & Analysis (Unaudited)

General Government: Actual expenditures of \$127.2 million were less than the final amended budget of \$207.7 million by \$80.5 million, or 38.8%. The following describes the significant factors for the variances:

- Salaries and employee benefits were \$5.7 million, or 6.5%, below budget primarily due to vacant positions and attrition for savings at EDA with \$2.5 million, at Auditor-Controller with \$0.9 million, and at Assessor with \$0.6 million. Other general government departments had similar savings of a lesser proportion.
- Services and supplies were \$4.7 million, or 7.1%, less than budgeted mainly due to EDA, Executive Office, and Assessor. EDA accounts for approximately \$2.9 million of the variance mainly due to a \$2.1 million savings in electricity costs. Executive Office accounts for \$1.3 million mainly due to savings in professional services. Assessor had savings of \$0.6 million due to intergovernmental activity.
- Other charges were \$48.4 million, or 59.8%, less than budgeted primarily due to intergovernmental activities. Executive Office had savings of \$8.2 million mainly due to less than projected costs for contributions to other funds and legal administration and support. EDA had savings of \$0.5 million mainly due to lower costs for salary reimbursements and general office expenditures.
- Appropriation for contingencies resulted in a budget of \$23.3 million. This is budgeted for potential liabilities from unexpected General Fund expenditures or shortfall of discretionary revenue.

Public Protection: Actual expenditures of \$1.0 billion were less than the final amended budget of \$1.1 billion by \$65.3 million, or 6.1%. The following describes the significant factors for the variances:

- Salaries and employee benefits were \$33.7 million, or 4.7%, less than budgeted primarily due to Sheriff, Probation, Public Defender, Department of Child Support Services (DCSS), Fire, and \$7.2 million in savings from intergovernmental activities. Sheriff had savings of \$11.0 million mainly due to new AB109 funded positions, attrition, and newly negotiated contracts with the Riverside Sheriffs' Association (RSA) and the Law Enforcement Management Unit (LEMU). Probation had savings of \$8.9 million and Public Defender had savings of \$2.1 million mainly due to unfilled positions including those received with new funding for AB109 criminal justice alignment. Due to vacant positions, DCSS had savings of \$1.6 million and Fire had savings of \$0.8 million.
- Services and supplies were \$18.8 million, or 5.9%, less than budgeted mainly due to Sheriff, Fire, District Attorney, Probation, Animal Services, Code Enforcement, and Executive Office. Sheriff had savings of \$6.1 million primarily due to less than anticipated costs for a cellular vehicle project, liability insurance, carpool expense, conference and registration fees, professional services, and cleaning services. Fire had savings of \$5.1 million due to less than expected costs to CAL FIRE for contract city partners, weed abatement, and equipment usage. 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 \$1.5 million primarily due to the implementation of AB109 criminal justice alignment. For AB109, Probation planned for new leases to accommodate the anticipated growth and additional Post Release Community Supervision Accountability Teams (PRCSAT) related expenditures. Animal Services had savings of \$0.9 million in utilities, pharmaceuticals, and administrative support. Code Enforcement had savings of \$0.9 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 \$8.3 million, or 17.5%, less than budgeted primarily due to County Clerk-Recorder, Executive Office, and Probation. County Clerk-Recorder had savings of \$4.4 million mainly due to the delay in replacement of the main records system, related computer infrastructure, and hardware. Executive Office had savings of \$2.3 million due to less expenditure for AB233 in trial court funding. Probation's Juvenile Hall Division had savings of \$1.7 million mainly due to less than anticipated costs for medical services and a delay in projects including a security camera system for Southwest Juvenile Hall, a boiler replacement at Indio Juvenile Hall, and Air Quality Management District (AQMD) compliance preparation at Riverside Juvenile Hall.
- Capital assets were \$3.4 million, or 43.6%, less than budgeted due to Fire and Sheriff. Fire had savings of \$1.4 million mainly due to the purchase deferral of a fire engine and other equipment. Sheriff had savings of \$1.6 million mainly due to less than expected purchases in communications and computer equipment. Also, Sheriff Corrections delayed purchase of a steam kettle, a visitation area security system, and a fork lift at the Smith Correctional Facility and a security system and combination oven at the Southwest Detention Center.

Management's Discussion & Analysis (Unaudited)

- **Health and Sanitation:** Actual expenditures of \$369.2 million were less than the final amended budget of \$424.7 million by \$55.5 million, or 13.1%. The following describes the significant factors for the variances:
- Salaries and employee benefits were \$22.1 million, or 10.7%, less than budgeted primarily due to vacant positions in Mental Health with savings of \$11.0 million, the Community Health Agency with savings of \$6.6 million, and Detention Health Systems with savings of \$1.4 million. Savings of \$3.0 million was also achieved through intergovernmental activities.
- Services and supplies were \$20.4 million, or 17.3%, less than budgeted primarily due to a \$14.8 million savings in the Community Health Agency and a \$4.4 million savings in Mental Health. The Community Health Agency (the Agency) had not fully expensed professional services as anticipated for industrial hygiene, disease control, and the Public Health Emergency Preparedness and Response. The Agency's administration had savings in payments for the Maddy Emergency Medical Services (EMS) program to County physicians and hospitals for their share of uncompensated emergency medical costs. The Agency also had savings in janitorial services and administrative support. Mental Health administration had savings due to budgeted lease payments for AB109 criminal justice alignment and a program in Perris that did not materialize within the year. Mental Health Treatment had savings in professional services and medical supplies.
- Other charges were \$30.0 million, or 15.6%, less than budgeted primarily due to Executive Office, Mental Health, and the Medical Indigent Services Program (MISP). Executive Office received \$15.0 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 \$14.9 million mainly due to gradual implementation of private care provider contracts for the prevention program. Also, Mental Health clinics had less dependence on client assistance than anticipated.
- Intrafund transfers were \$17.4 million, or 17.6%, less than budgeted primarily due to Mental Health and the Community Health Agency. Mental Health had a shortfall of \$10.4 million with Vehicle License Fee (VLF) revenue no longer being received. The Community Health Agency administration had a variance of \$4.8 million attributed to lower reimbursements due to cost reductions within the department. Also, the Agency's Public Health department had savings of \$1.2 million mainly due to a delay in utilizing grant funding for DPSS and Mental Health programs.

Public Assistance: Actual expenditures of \$719.7 million were less than the final amended budget of \$793.7 million by \$74.1 million, or 9.3%. The following describes the significant factors for the variances:

- Salaries and employee benefits were \$5.9 million, or 2.5%, less than budgeted mainly due to lower staffing levels in DPSS and intergovernmental activities.
- Services and supplies were \$10.7 million, or 13.7%, less than budgeted primarily due to DPSS with less funding coming in from the Supplemental Nutrition Assistance Program Education (SNAP Ed) Grant, the cancellation of funds needed for the Case Management Information Payrolling System (CMIPS) II, and lower than expected facility charges with the cancellation or delay of large projects including Norco and Perris Self Sufficiency.
- Other charges were \$56.7 million, or 11.9%, less than budgeted primarily due to a \$42.6 million categorical aid reduction of CalWORKS benefits from 60 months to 48 months, a 25% decrease. Also, DPSS had savings of \$9.2 million due to a decrease in caseloads for Stage 1 childcare services. DPSS also had a \$4.7 million savings with decreases in contracted expenditures, C-IV costs, and wraparound placements.

Debt Service: Actual expenditures of \$21.4 million were less than the final amended budget of \$44.5 million by \$23.1 million, or 51.9%, 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, 2012, the County's capital assets for both its governmental and business-type activities amounted to \$4.0 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

Management's Discussion & Analysis (Unaudited)

drains, levees, basins, roads, traffic signals, bridges, runways, parks, park trails, and landfill liners. The County's capital assets increased by 5.6%, or \$209.4 million, from \$3.8 billion in fiscal year 2010-11 to \$4.0 billion in fiscal year 2011-12.

Construction in progress experienced an upturn from a negative 7.2% in fiscal year 2010-11 to a positive 24.1% increase in fiscal year 2011-12, as the last major projects funded with capital improvement plan funds are underway or nearing completion and no new redevelopment projects were initiated. During current economic conditions, shrinking department budgets must maintain a fine balance between providing services and assuming new costs, as we see in a 13.5% decrease in land and improvements and a decrease of 5.3% in equipment.

In fiscal year 2011-12, new major projects budgeted for construction and design included the following: East County Detention Center with a budgeted amount of \$237 million, which entails the expansion of the Indio Jail capacity of the correctional system by approximately 1,200 beds and is expected to be completed within six years. The County Transportation Improvement Program provides for improvement to State Route 79N (Winchester Road) by widening it from two to four lanes between Thompson Road and Scott Road at \$18.3 million. This expansion represents phase two and is intended to relieve congestion and improve safety. The second project funded under this program consists of \$2.1 million, earmarked for phase four of road improvements to ten existing roads in Mead Valley. Additional projects include \$1.4 million for the Palomar Street sewer improvements and \$1.1 million for the pedestrian sidewalk construction and associated improvements to Krameria Avenue in the Woodcrest area. A budget of \$1.6 million has been established by the Economic Development Agency (EDA), for the tenant improvement project to the second floor of the Riverside Centre Building. This facility will be occupied by the U.S. Attorney and is to be reimbursed by the Federal Government. To increase the effectiveness of perimeter security, the Sheriff Department budgeted \$1.0 million for the 911 Dispatch Center Security Upgrade Project, as this center provides emergency services to a population of more than two million people.

Construction in Progress

Additions to Construction in Progress for Fiscal Year 2011-12:

In fiscal year 2011-12, additions in the amount of \$224.2 million consisted of costs related to existing projects and new projects.

Existing project costs include the following:

- Roads and signal infrastructure additions were \$73.5 million.
- The EDA incurred \$59.2 million in costs for projects such as the Cabazon Civic Center, which will include a library, a child care center, an administration building for Cabazon Water District, basketball courts, and many other amenities. An additional venture includes the Leadership in Energy and Environmental Design (LEED) certified Mead Valley Community Center. This project is envisioned to enhance numerous programs to foster social, health, and recreational services for approximately 3,500 residents every month. Further, the Big League Dreams Perris Valley Sports Park is in progress and provides much needed recreational facilities and encourages economic growth by bringing thousands of athletes to the City of Perris.
- Riverside County Regional Medical Center experienced \$10.3 million in projects, such as the 1,092 additional parking spaces surrounding the existing facility for \$6.6 million and \$2.6 million for its Siemens Hospital Information System.
- Library projects include the 20,000 square foot Mead Valley Library for \$6.8 million and the conversion of two existing business suites into the Idyllwild Library for \$2.1 million.

New project costs include the following:

- Transportation and Land Management Agency experienced the addition of \$23.5 million in infrastructure.
- The EDA implemented several new projects in the amount of \$11.2 million, such as the Rubidoux Child Development Center. This facility will provide 168 licensed child care slots for children ages zero through five. Perris-Menifee Valley Aquatic Center, one of the last redevelopment projects, will consist of an Olympic sized swimming pool, a children's water playground, a lazy river, water slides and volleyball courts.

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- Flood Control incurred new costs for the year in the amount of \$8.1 million for storm drains and channel projects.
- Public Safety Enterprise Communication (PSEC) sustained approximately \$2.7 million in costs. The PSEC team is finalizing plans for system implementation tasks such as Sheriff mobile vehicle radio installation, coverage testing, dispatch console implementation, and subscriber radio operational design. This system will be the first system in the nation that utilizes multiple frequencies and the latest in Motorola land mobile radio technology.

Construction in Progress Transfers:

Completed construction in progress projects of approximately \$68.7 million were transferred from construction in progress to other designated capital asset accounts during fiscal year 2011-12. The major projects were as follows:

- \$39.5 million was transferred to structures and improvements. Examples include, the Roy Wilson Fire Station in Thousand Palms, consisting of a three bay, heavy urban 7,800 square foot station with a four story training tower for \$11.0 million. The completion of a 9,400 square foot state of the art Lake Mathews Fire Station and Community Room project, in the amount of \$5.2 million, containing a two apparatus bay, and an eight person station that is fully expandable to accommodate three fire apparatus and up to 12 firefighters. Parks and Recreation incurred \$5.1 million for improvements to Lake Skinner Park. The construction of the Highgrove Library cost \$4.0 million. The installation of a 110 kilowatt solar shade system on the upper level of the Riverside County Administrative Center parking structure, incurred expenditures in the amount of \$1.3 million. This system has the potential of reducing energy cost by \$84,013 annually, reduce energy used, and lessen the amount of greenhouse gas emissions. The renovation project cost of \$1.3 million for the conversion of the Indio County Administrative Center into a criminal justice law building housing offices for the District Attorney and Public Defender.
- \$27.6 million was transferred to infrastructure. Transportation and Land Management Agency incurred a \$13.1 million expense on the resurfacing and widening of road projects, which included the Ramona Expressway for \$4.1 million. This project entailed rehabilitation and safety improvement of a 3.5 mile segment from 5th Street to Warren Road in the Lakeview and San Jacinto area. The Flood Control District transferred \$6.5 million for storm drains, such as the Corona Drains East Ontario Avenue Storm Drain that involved the construction of about one mile of underground storm drain and channel reconstruction, as well as the East Cathedral Canyon Channel Levee Restoration project. A transfer from Aviation in the amount of \$3.7 million, for runway and taxiway rehabilitation projects such as the pavement project at the Jacqueline Cochran Regional Airport.

Land and Easements

Additions of \$26.7 million in land were processed this fiscal year. Flood Control had \$13.6 million in land additions, in which \$8.6 million was obtained through cooperative agreements between Flood Control, the Cities of Menifee and Perris, where the Riverside Flood Control & Water Conservation District will assume operation and maintenance at the completion of the Paloma Wash Channel and the Perris Valley Channel Stage 4 projects. Land was acquired for the Palm Springs Master Drainage Plan line 41 project in the amount of \$1.4 million. Approximately \$9.0 million was acquired by the EDA for projects such as the Myers Mental Health land purchase and \$3.4 million by the Transportation Department for the relocation of the main Washington Yard. The County experienced \$17.5 million in land retirements, which included an agreement with the City of Hemet for \$10.4 million, for which the County assisted in the acquisition and conveyance of land to the Western Riverside County Regional Conservation Authority for the vernal pool habitat and \$6.6 million for the incorporation of Jurupa Valley.

Depreciable Capital Assets

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

Management’s Discussion & Analysis (Unaudited)

Additions to Depreciable Assets:

Total fiscal year 2011-12 depreciable capital asset current year additions of \$124.6 million were comprised of the following:

- Infrastructure in the amount of \$76.8 million consisting of donated roads in the amount of \$45.0 million and \$31.5 million in flood storm drains and channels.
- Equipment in the amount of \$24.6 million distributed as follows:

Equipment leased	\$ 13.1 million
Equipment field	3.9 million
Computer and office equipment	2.9 million
Miscellaneous equipment	2.7 million
Equipment vehicles	2.0 million
- Structures and improvements amounted to \$23.2 million in assets, such as the purchase of two buildings and a parking lot on behalf of Mental Health located at 3075 and 3125 Myers Street to accommodate the increasing new client cases and additional staff implemented by the Mental Health Services Act.

Retirements of Depreciable Assets:

Retirement of depreciable assets totaled \$125.6 million. Infrastructure in the amount of \$97.0 million was retired from the Transportation and Land Management Agency for the transfer of roads and traffic signals to the newly incorporated City of Jurupa Valley. Equipment was retired ranging from the categories of computer and office equipment to vehicle and leased equipment in the amount of \$28.2 million, which includes \$11.0 million in vehicles sent to surplus for auction sales and \$8.7 million in equipment from the Riverside County Regional Medical Center.

Depreciable Transfers:

Completed construction in progress transferred for approximately \$61.5 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 \$137.4 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)
	2012	2011	2012	2011	2012	2011	%
Infrastructure	\$1,436,036	\$1,411,930	\$ 47,366	\$ 50,421	\$1,483,402	\$1,462,351	1.4%
Land and easements	449,978	433,594	21,351	21,325	471,329	454,919	3.6%
Land improvements	88	89	3,662	4,244	3,750	4,333	-13.5%
Structures and improvements	988,262	960,444	126,899	132,228	1,115,161	1,092,672	2.1%
Equipment	84,889	86,912	14,206	17,707	99,095	104,619	-5.3%
Construction in progress	745,536	601,825	56,189	44,368	801,725	646,193	24.1%
Total	\$3,704,789	\$3,494,794	\$269,673	\$270,293	\$3,974,462	\$3,765,087	5.6%

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. As of fiscal year-end June 30, 2012, the County had numerous debt issues outstanding. (See Note 12)

Net bonded debt per capita equaled \$356.0 million as of June 30, 2012. 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 Service, 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 2011-12, 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 2011-12, funding for the County’s ongoing obligations under Teeter was accomplished through the sale of Tax-Exempt Commercial Paper Notes. During fiscal year 2011-12, the County retired \$100.2 million of the \$206.8 million principal amount outstanding at June 30, 2011. The County then issued \$64.7 million of Series B notes, leaving an outstanding balance of \$171.3 million at June 30, 2012. This amount includes funding to advance \$64.5 million fiscal year 2010-11 delinquencies and refunding of \$106.5 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 at June 30, 2012.

**County’s Outstanding Debt Obligations
(In Thousands)**

	Governmental Activities		Business-Type Activities		Total		Increase/ (Decrease %)
	2012	2011	2012	2011	2012	2011	
Loans payable	\$ 4,925	\$ 5,355	\$ -	\$ -	\$ 4,925	\$ 5,355	-8.0%
Bonds payable	750,492	1,551,323	121,061	134,983	871,553	1,686,306	-48.3%
Certificates of participation	309,511	367,272	-	-	309,511	367,272	-15.7%
Capital leases	100,995	111,128	12,055	15,830	113,050	126,958	-11.0%
Total Outstanding	\$ 1,165,923	\$ 2,035,078	\$ 133,116	\$ 150,813	\$ 1,299,039	\$ 2,185,891	-40.6%

Outstanding Debt: The County of Riverside’s total debt decreased by 40.6%, or \$886.9 million (\$869.2 million in governmental funds and a decrease of \$17.7 million in business-type), during the current fiscal year. The decrease in governmental activities was a result of RDA Tax Allocation Bonds, Loans Payable, and Bond Anticipation Notes being transferred to Successor Agency as of February 1, 2012. The decrease in business-type activities was a result of the annual principal payments.

Additional information on the County’s long-term debt can be found in Note 12 of this report.

Management’s Discussion & Analysis (Unaudited)

ECONOMIC FACTORS AND THE FISCAL YEAR 2012-13 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 2012-13 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 2012-13 discretionary revenue is expected to decline by approximately 2.6% (\$15.0 million) when compared to fiscal year 2011-12. The following table reflects anticipated discretionary revenue totals and sources for fiscal year 2012-13.

Source	Final Budget Estimate (In Thousands)
Taxes	\$ 212,114
Other Taxes	32,498
Licenses, Permits, Franchise Taxes	5,000
Fines, Forfeitures, Penalties	27,796
Use of Money and Property	3,098
State	190,355
Federal	2,050
Charges for Services	1,066
Miscellaneous	96,258
Total	\$ 570,235

The County’s employee retirement benefit contribution rate for fiscal year 2012-13 for miscellaneous members is 13.5% and the Safety contribution rate is 22.5%. 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 2013-14 rates are projected at 15.0% (Miscellaneous) and 23.4% (Safety). Additional information regarding the County’s retirement plans are included in Notes 17, 18, and 19 of the financial statements and schedules of retirement funding progress are included in the required supplementary information section.

On June 2012, the County presented to the board the intention to adopt an amendment to the CalPERS contract set forth in the Resolution of Intention to Approve an Amendment to Contract to provide 2% @60 for Local Miscellaneous members, and 2% @50 for Local Safety members, each with Three-Year Final Compensation, for employees’ first entering CalPERS membership with the County after the contract amendment effective date

The fiscal year 2012-13 assessment roll value declined by 0.15%, yielding a total property tax roll of \$204.9 billion, compared to \$205.2 billion in fiscal year 2011-12. The \$300.0 million decrease in assessment roll value reflected the continuing decline of the commercial market, as well as a minor recovery in residential housing prices affecting the reassessment of property per Proposition 8; and the continuing lack of construction of the new residential, commercial, and industrial development.

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.