NOTE 1

Summary of Significant Accounting Policies

The Reporting Entity

The County of San Diego (the "County" or "CoSD"), is a political subdivision of the State of California (the "State") and as such can exercise the powers specified by the Constitution and laws of the State of California. The County operates under a charter and is governed by an elected five-member Board of Supervisors (the "Board").

The County provides a full range of general government services including police protection, detention and correction, public assistance, health and sanitation, recreation, library, flood control, public ways and facilities, inactive waste management, airport management and general financial and administrative support.

The County reporting entity includes all significant organizations, departments, and agencies over which the County is considered to be financially accountable. The component units discussed below are included in the County's reporting entity because of the significance of their operational and financial relationships with the County. As required by generally accepted accounting principles in the United States of America (GAAP), the financial statements present the financial position of the County and its component units (entities for which the County is considered to be financially responsible).

Blended component units, although legally separate entities are, in substance, part of the County's operations and data from these component units are combined with the data from the primary government.

A discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the County.

Blended Component Units

The blended component units listed below are agencies and special districts whose governing board is the County Board of Supervisors. These component units are fiscally dependent on the County and as such financial actions including the setting of rates, issuance of debt and the adoption of the annual budget remain with the County.

Air Pollution Control District (APCD) - The *APCD* was established to protect the people and the environment from the harmful effects of air pollution. Air quality is continuously monitored throughout the San Diego Air Basin, and programs are developed to bring about the emission reductions necessary to achieve clean air. The District issues permits to limit air pollution, ensures that air pollution control laws are followed, and administers funding that is used to reduce regional mobile source emissions. *APCD* is reported as a *special revenue fund*.

County of San Diego In-Home Supportive Services Public Authority (IHSSPA) - The *IHSSPA* was established to assist eligible low-income elderly and persons with disabilities in San Diego County to live high quality lives in their own homes. The *IHSSPA* program is mandated by the State. *As* the employer of record, *IHSSPA* recruits, screens, and trains home care workers who are available to assist eligible consumers in their own homes. *IHSSPA* is reported as a *special revenue fund.*

County Service Area Districts (CSAD)- The CSADs were established to provide authorized services such as road, park, fire protection and ambulance to specific areas in the County. They are financed by ad valorem property taxes in the area benefited or by special assessments levied on specific properties. The CSADs are reported as *special revenue funds*.

Flood Control District (FCD)- The *FCD* was established to provide flood control in the County's unincorporated area. It is financed primarily by ad valorem property taxes and charges to property owners. The *FCD* is reported as a *special revenue fund*.

Lighting Maintenance District (LMD) - The *LMD* was established to provide street and road lighting services to specified areas of the County. Revenue sources include ad valorem taxes, benefit fees, state funding and charges to property owners. The *LMD* is reported as a *special revenue fund*.

San Diego County Housing Authority (SDCHA) - The *SDCHA* was established to provide decent housing in a suitable environment for individuals who cannot afford standard private housing. Contracts with the U.S. Department of Housing and Urban Development provide the major funding sources. *SDCHA* is reported as a *special revenue fund*.

San Diego County Redevelopment Agency (SDCRA) - *SDCRA* was established to provide a method of eliminating slums and blighted areas, improving housing, expanding employment opportunities, and providing an environment for the social, economic and psychological growth, and well-being of all citizens of the County. *SDCRA* financial activities are reported in a *special revenue fund* and a *debt service fund*.

Sanitation Districts (SD) - The *SDs* were established to construct, operate and maintain reliable and sustainable sanitary sewer systems. Revenue sources include charges to property owners and grants. The *SDs* are reported as *enterprise funds*.

Blended component units governed by boards other than the CoSD Board of Supervisors are listed below. These component units are, in substance, part of the County's operations due to their relationship with the County and the nature of their operations. Specifically, the CoSD Board appoints either all or a majority of their board members and the services they provide solely benefit the County.

San Diego County Capital Asset Leasing Corporation (SANCAL) - *SANCAL* was established to finance the acquisition of County buildings and equipment. It is a nonprofit corporation governed by a five-member Board of Directors, which is appointed by the CoSD Board. *SANCAL* financial activities are reported in a *debt service fund* and a *capital project fund*.

San Diego County Tobacco Asset Securitization Corporation (SDCTASC)) - The *SDCTASC* was created under the California Nonprofit Public Benefit Corporation Law and was established to purchase tobacco settlement payments allocated to the County from the State of California, pursuant to a Tobacco Master Settlement Agreement.

SDCTASC is governed by a Board of Directors consisting of three members, two of which are employees of the County and one independent director who is not an employee of the County. The *SDCTASC* is reported as a *special revenue fund*.

San Diego Regional Building Authority (*SDRBA*) - The *SDRBA* was established under the Mark-Roos Local Bond Pooling Act of 1985 and authorized to issue bonds for the purpose of acquiring and constructing public capital Improvements and to lease them to its members, the County and the San Diego Metropolitan Transit Development board (MTDB). The services provided by the SDRBA to the MTDB are insignificant.

The *SDRBA* is governed by a Commission consisting of three members, two of which are County Supervisors appointed by the County Board of Supervisors and concurrently serve on the Board of Directors of the San Diego Trolley, Inc and the Board of Directors of MTDB. The third Commissioner is a member of MTDB and is appointed by the MTDB Board. The SDRBA's financial activities are reported in a *debt service fund* and a *capital projects fund*.

The Tobacco Securitization Joint Powers Authority of Southern California (TSJPA) - The *TSJPA* was created by a joint exercise of powers agreement between the County and the County of Sacramento pursuant to Government Code Sections 6500 et seq. The *TSJPA*'s purpose is to finance a loan to the San Diego County Tobacco Asset Securitization Corporation (the Corporation) via the sale of tobacco asset backed bonds. The *TSJPA* in turn uses the loan proceeds to purchase the County's future tobacco settlement revenues under a purchase and sale agreement. The *TSJPA* is administered by a Board of Directors consisting of three members, two members who are appointed by the CoSD Board and the third member is appointed by the Sacramento County Board of Supervisors. The *TSJPA*'s is reported as a *special revenue fund*.

Separately issued financial reports of the County's blended component units can be obtained from the County Auditor and Controller's Office located at 1600 Pacific Highway, Room 166, San Diego, California 92101.

Discrete Component Unit

The *First 5 Commission of San Diego (Commission)* was established by the Board as a separate legal entity under the authority of the California Children and Families First Act and Sections 130100 et seq. of the Health and Safety Code. It administers the County's share of tobacco taxes levied by the State for the purpose of implementing early childhood development programs. The County appoints all of the Commission's board and can remove appointed members at will.

The Commission is discretely presented because its Board is not substantively the same as the County's and it does not provide services entirely or almost entirely to the County. A separately issued financial report can be obtained by writing to The First 5 Commission, 1495 Pacific Highway, Suite 202, (MS-A211), San Diego, CA, 92101-6466.

Financial Reporting Structure

Basic Financial Statements

The basic financial statements include both government-wide financial statements and fund financial statements. The reporting model, based on GASB Statement No. 34, *"Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,"* focuses on the County as a whole in the government-wide financial statements and major individual funds in the fund financial statements.

Government-Wide Financial Statements

The government-wide financial statements (statement of net assets and statement of activities) display information about the County as a whole and the change in aggregate financial position resulting from the activities of the fiscal period, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the County (including its blended component units) as well as its discretely presented component unit. In the statement of net assets, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reflected on a full accrual, economic resource basis, which incorporates capital assets as well as long-term debt and obligations.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. However, interfund services provided and used are not eliminated in the process of consolidation. All internal balances in the statement of net assets have been eliminated, with the exception of those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total government column. The statement of activities presents function revenue and expenses of governmental activities and business-type activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. In the statement of activities, internal service funds' revenue and expenses related to interfund services have been eliminated. Revenue and expenses related to services provided to external customers have not been eliminated and are presented within governmental activities.

The 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, public assistance, health and sanitation, recreation and cultural, and education activities. The business type activities of the County include sanitation, wastewater and airport.

The statement of activities demonstrates the degree to which the direct expenses of a given function is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

The fund financial statements are presented after the government-wide financial statements. They display information about major funds individually and in the aggregate for governmental and proprietary funds. In governmental and fiduciary funds, assets and liabilities are presented in order of relative liquidity. In proprietary funds, assets and liabilities are presented in a classified format that distinguishes between all current and noncurrent assets and liabilities. Current assets in the classified format are those considered available for appropriation and expenditure. Examples of expendable financial resources include cash, various receivables and short-term investments. All other assets are considered noncurrent. Current liabilities are obligations to be paid within the next fiscal year. Examples include payables and the current portion of long-term liabilities.

Major individual governmental funds are reported as separate columns in the fund financial statements and are presented on a current financial resources and modified accrual basis of accounting. Separate fund financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

The County reports the following major governmental funds:

The *General Fund* is the County's primary operating fund. It accounts for all financial resources of the County except those required to be accounted for in another fund. Revenues are primarily derived from taxes; licenses, permits and franchises; fines, forfeitures and penalties; use of money and property; intergovernmental revenues; charges for services; and other revenues. Expenditures are expended for functions of general government, public protection, public ways and facilities, health and sanitation, public assistance, education, and recreation and cultural. Expenditures also include capital outlay and debt service.

The *Public Safety Special Revenue Fund* accounts for Proposition 172 half-cent sales taxes collected and apportioned to the County by the State Board of Equalization to fund public safety activities. Per Government Code 30052, a "maintenance of effort" (pre-Proposition 172 public safety funding level) must be maintained by the County to comply with the statute's spending requirements. In accordance with the Code, funds are allocated to the Sheriff, District Attorney and Probation departments. Transfers out of this fund subsidize the following types of public safety activities: juvenile detention services; facilities maintenance and support; capital projects, equipment and other one-time expenditures; on-going technology initiatives; and various region-wide services.

The *Tobacco Endowment Special Revenue Fund* accounts for tobacco settlement payments allocated to the County from the State of California, pursuant to the Master Settlement Agreement concluded on November 23, 1998 between the major tobacco companies and 46 states (including California), the District of Columbia and four U.S. Territories.

The County reports the following additional funds and fund types:

Enterprise Funds account for airport, sanitation district and wastewater management activities, including operations and maintenance, sewage collection and treatment services.

Internal Service Funds account for the financing of public works and communications equipment; the financing of materials and supplies (purchasing); start up services for new and existing county service districts; the County's public liability and employee benefits activities; the financing of fleet services; facilities management activities; the financing of information technology services; and the financing of clothing and personal sundry items for persons institutionalized at various county facilities. Goods or services provided by servicing County departments are paid for on a cost reimbursement basis by receiving departments.

The following fiduciary funds account for resources that are held by the County as a trustee or agent for outside parties and cannot be used to support the County's programs.

Agency Funds are custodial in nature, do not involve measurement of results of operations and account for assets held by the County as an agent for various local governments, organizations and individuals. Included are funds for child support payments; payroll taxes; public administrator and public guardian accounts; and apportioned taxes for other local governments.

Investment Trust Funds account for two types of investment activities on behalf of external entities and include: the portion of the County Treasurer's investment pool applicable to external entities (Pool Investments- Investment Trust Fund); and the total amount of individual investment accounts held on behalf of external entities by the Treasurer (Specific Investments - Investment Trust Fund). In general, external entities include school districts, independent special districts and various other governments. The Specific Investments - Investment Trust Fund accounts for individual external entities investments which are offered as an alternative to a pooled position.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are susceptible to accrual when measurable and available. Sales taxes, investment income, state and federal grants, and charges for services are accrued when their receipt occurs within 180 days following the end of the fiscal year. Property taxes are accrued if they are collectible within 60 days after the end of the accounting period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims, and judgments, are recorded only when payment is due. General capital assets acquisitions and general principal payments are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's enterprise funds and internal service funds are charges to customers for services. Operating expenses for enterprise funds and internal service funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

For government-wide (governmental and business-type activities) and proprietary fund activities, the County applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The County has elected not to apply the FASB standards issued subsequent to November 30, 1989 for business-type activities and proprietary funds. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental users.

When both *restricted and unrestricted resources* are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities, and Net Assets or Fund Balance

Cash and Investments

The County's cash and cash equivalents for cash flow reporting purposes are considered to be cash on hand, demand deposits, restricted cash, and investments held in the County's Pool.

The Pool is available for use by all funds. Each fund type's portion of the Pool is displayed on the statements of net assets/ balance sheets as "pooled cash and investments." The share of each fund's pooled cash and investments account is separately accounted for and interest earned, net of related expenses, is apportioned quarterly based on the fund's average daily balance in proportion to the total pooled cash and investments. In accordance with Government Code 53647, apportionments applicable to certain agency funds accrue to the benefit of the General Fund.

Investments are stated at fair value. The fair value of investments is determined monthly and is based on quoted market prices.

Receivables and Payables

The major receivables for governmental and business-type activities are taxes, due from other governmental agencies and loans. All property taxes and accounts receivable are shown net of an allowance for uncollectibles. Activities between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are interfund loans. All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

(Amounts Expressed in Thousands Unless Otherwise Noted)

Noncurrent interfund receivables between funds are reported as a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable financial resources.

Secured property taxes are levied based upon the assessed valuation as of the previous January 1st, (lien date) and the tax levy is recorded on July 1st (levy date). They are payable in two equal installments due on November 1st and February 1st and are considered delinquent with ten percent penalties after December 10th and April 10th, respectively. An additional penalty of one and one-half percent per month begins to accrue on July 1st and November 1st on delinquent secured property taxes. Unsecured property taxes are due as of the January 1st lien date and become delinquent, with 10 percent penalties, after August 31st. An additional penalty of one and one-half percent per month begins to accrue on October 31st on delinquent unsecured property taxes.

Governmental funds' property tax revenues are recognized in the fiscal year for which they are levied, provided they are due within the fiscal year and collected within 60 days after the fiscal year end. Property tax revenues are also recognized for unsecured and supplemental property taxes that are due at year end, and are collected within 60 days after the fiscal year end, but will not be apportioned until the next fiscal year due to the timing of the tax apportionment schedule.

County Leased Property

The County and its blended component units lease real property to the private sector and other governmental agencies. Capitalized lease receivables are shown as restricted assets on the government-wide statement of net assets - governmental activities and governmental funds balance sheets. Revenue from non-cancelable and cancelable capital and operating leases is reported in the applicable government-wide statement of activities - governmental activities, governmental funds statements of revenues, expenditures, and changes in fund balances and proprietary funds, statements of revenues, expenses, and changes in net assets, as applicable.

Inventories and Prepaid Items

Inventories include both inventories on hand for sale and consumable inventories. Inventories are valued at average cost. They are accounted for as expenditures at the time of purchase and reported in governmental funds as an asset with an offsetting reserve. Proprietary fund types are carried at average cost and are expended when consumed. Prepaid items reflect payments for costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. Inventories and prepaid items recorded in the governmental funds do not reflect current appropriable resources and thus, an equivalent portion of fund balance is reserved.

Deferred Charges

Bond issuance costs are deferred and amortized over the life of the bonds using the straight-line method. In the government-wide financial statements, deferred charges are reported as assets in the governmental activities.

Capital Assets

Capital assets are of a long-term character and include: land, buildings and improvements, construction in progress, equipment and infrastructure.

Infrastructure assets include roads, bridges and sewers.

Capital assets are recorded at *historical cost* if purchased or constructed. Donated capital assets are recorded at *estimated fair value* at the date of donation. Capital assets with original unit costs equal to or greater than the *capitalization thresholds* shown in the following table are reported in the applicable *governmental* or *business-type activities* columns in the government-wide financial statements.

Table 1

Capitalization Thresholds		
Land	$	0
Buildings and improvements		50
Infrastructure		25-50
Equipment		5

Depreciation is charged over the capital assets' estimated useful lives using the straight-line method for proprietary and governmental fund types. Governmental fund type depreciation is only shown in the statement of activities. Proprietary fund type depreciation is shown both in the fund statements and the statement of activities. Estimated useful lives are shown in **Table 2.**

Table 2

Estimated Useful Lives	
Buildings and improvements	50 years
Infrastructure	10-15 years
Equipment	5-20 years

Deferred and Unearned Revenue

Under both the accrual and the modified accrual basis of accounting, revenue may be recognized only when it is earned. If assets are recognized in connection with a transaction before the earnings process is complete, those assets must be offset by a corresponding liability for unearned revenue. Unearned revenue can be found in government-wide financial reporting as well as in governmental fund, proprietary fund, and fiduciary fund financial statements.

Under the modified accrual basis of accounting, it is not enough that revenue has been earned if it is to be recognized as revenue of the current period. Revenue must also be susceptible to accrual, it must be both measurable and available to finance expenditures of the current fiscal period. If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding liability for deferred revenue. This type of deferred revenue is unique to governmental funds, since it is tied to the modified accrual basis of accounting, which is used only in connection with governmental funds.

Long-Term Obligations

Long-term liabilities reported in the statement of net assets include the amount due in one year (current) and the amount due in more than one year (noncurrent).

General long-term liabilities consist of the noncurrent portion of claims and judgments, compensated absences, landfill closure and post closure and other noncurrent liabilities. General long-term liabilities are not reported as liabilities in governmental funds but are reported in the governmental activities column in the government-wide statement of net assets. General long-term debt is not limited to liabilities arising from debt issuances but may also include noncurrent liabilities on other commitments that are not current liabilities properly recorded in governmental funds.

Debt may be issued at par (face) value, with a premium (applicable to debt issued in excess of face value) or at a discount (applicable to debt issued at amounts less than the face value). Occasionally, the County also refunds some of its existing debt. When this occurs, the difference between the funds required to retire (reacquisition price of) the refunded debt and the net carrying amount of refunded debt results in a deferred amount on refunding.

In the government-wide financial statements and proprietary fund financial statements, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Deferred issuance costs are reported as deferred charges and amortized over the term of the debt.

In the governmental fund financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of the debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Capital Appreciation Bonds (CABs) issued by the County represent bonds that are issued at a deep discount, pay no current interest but accrete or compound in value from the date of issuance to the date of maturity. CABs are presented at their maturity value less the unaccreted appreciation. Unaccreted appreciation represents the difference between the maturity value of the debt and their par (face) value. The unaccreted appreciation is accreted as interest over the life of the CABs.

Employees' Compensated Absences

The County's policy is to permit employees to accumulate *earned* but *unused* vacation, compensatory time, holiday and sick leave benefits. Each of these benefits is subject to certain limits based on employee class, except for sick leave and compensatory time that is subject to Fair Labor Standards Act (FLSA) rules or the California Labor Code. All vacation pay and a certain portion of compensatory and sick pay for specified employee classes is accrued in the government-wide and proprietary funds financial statements. Except for specified employee classes, there is no liability for *unpaid accumulated* sick leave since the County does not cash out unused sick leave when employees separate from service with the County. However, employees eligible for retirement benefits that meet minimum balance requirements may apply unused sick leave toward determining their length of service for the purpose of calculating retirement benefits.

Accumulated leave benefits including vacation, sick leave, and compensatory time worked are recorded in the government-wide statement of net assets. Amounts recorded as accumulated leave benefits include the employer's share of Social Security and Medicare taxes. These amounts would not be expected to be liquidated from expendable available financial resources, but would be expected to be liquidated in future years as employees elect to use these benefits as prescribed by Civil Service rules and regulations.

County employees in the unclassified service and certain employees hired prior to 1979 may receive up to 50% and 25%, respectively, of the cash value of all or a portion of their sick leave balances upon termination or retirement. The cash value of these benefits is included in the accumulated leave benefits noted above. This liability has been recorded in the current and long-term portion of compensated absences in the appropriate proprietary funds and government-wide statement of net assets.

California Labor Code 4850 entitles safety officers who meet certain criteria to receive full salary in lieu of temporary disability payments for the period of disability, not exceeding 365 days, or until such earlier date as he or she is retired on permanent disability pension. This Labor Code 4850 liability is accrued in the current and long-term portion of compensated absences.

All County employees who have completed at least five years of continuous service in the County retirement system, and have a sick leave balance of at least one hundred hours, may convert, at retirement, all or a portion of their sick leave balance to retirement service credits on a hour-for-hour basis. The conversion of these balances to retirement service credits is included in the County's actuarial accrued liability, as part of the annual actuarial valuation which includes assumptions regarding employee terminations, retirement, death, etc.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting is used in the governmental funds. Encumbrances outstanding at year end are reported as designations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year or years.

Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. As the *lapse period* for encumbrance liquidation is not employed, encumbered amounts that are reappropriated as part of the following year's budget are presented as unreserved fund balance designated for encumbrances.

Fund balance reserve and designated fund balances for governmental funds are classified to reserved, unreserved/designated or unreserved/undesignated. Reserved fund balances are (a) funds legally segregated for a specific use or (b) assets that, by their nature, are not available for expenditure. Unreserved fund balances reflect the balances available for appropriation for general purposes. Designations reflect self-imposed limitations on the use of available current financial resources.

Net Assets

Invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation reduced by the outstanding principal of capital related debt (adjusted by any unamortized premiums, discounts, deferred amounts on refundings, and unspent proceeds related to debt), incurred by the County to buy or construct capital assets shown in the statement of net assets. Capital assets cannot readily be sold and converted to cash.

The County reports net assets as restricted when constraints placed on net assets are externally imposed by creditors, grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

Unrestricted net assets consist of net assets that do not meet the definition of invested in capital assets, net of related debt or restricted net assets.

Indirect Costs

County indirect costs are allocated to benefiting departments and are included in the program expense reported for individual functions and activities. Cost allocations are based on the annual *County-wide Cost Allocation Plan* which is prepared in accordance with Federal Office of Management and Budget Circular A-87.

Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates. Significant estimates made in preparing the financial statements are described in the applicable notes.

(Amounts Expressed in Thousands Unless Otherwise Noted)

NOTE 2

Reconciliation of Government-Wide and Fund Financial Statements

Balance Sheet/Net Assets

Explanations of certain differences between the governmental funds balance sheet and the government-wide statement of net assets are detailed below:

Table 3

Governmental Fund Balance Sheet / Government-Wide Statement of Net Assets Reconciliation At June 30, 2009

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of this ($2,143,199) difference are as follows:		
Bonds, notes and loans payable	$	(2,307,555)
Less: Unaccreted appreciation - capital appreciation bonds		239,219
Add: Unamortized issuance premiums		(8,697)
Less: Unamortized issuance discounts (to be amortized as interest expense)		18,975
Less: Unamortized deferred amounts on refundings (to be amortized as interest expense)		18,037
Less: Unamortized issuance costs (to be amortized over the life of the debt)		17,469
Arbitrage		(517)
Compensated absences (excluding Internal Service Funds)		(98,837)
Landfill closure and postclosure - San Marcos landfill		(21,293)
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	$	(2,143,199)
Internal Service Funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets. The details of this $101,817 difference are as follows:		
Net assets of the internal service funds	$	102,435
Less: Internal payable representing charges in excess of cost to business-type activities - prior years		(674)
Add: Internal payable representing charges in excess of cost to business-type activities - current year		56
Net adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities	$	101,817

(Amounts Expressed in Thousands Unless Otherwise Noted)

Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities

Explanations of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities are detailed below:

Table 4

Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities Reconciliation

For the Year Ended June 30, 2009

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this $86,620 difference are as follows:		
Capital outlay	$	179,662
Depreciation expense		(93,042)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	86,620
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets. The details of this $31,027 difference are as follows:		
The proceeds from the sale of capital assets provide current financial resources but have no effect on net assets	$	(31)
The loss on the disposal of capital assets does not affect current financial resources but decreases net assets		(10,530)
Donations of assets to the County do not provide current financial resources but resources increase net assets		41,588
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	31,027
The issuance of long-term debt (e.g. bonds, notes, and loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of this $(24,322) difference are as follows:		
Debt issued or incurred:		
Face value of bonds issued	$	(136,885)
Refunding bonds issued		(443,515)
Plus: Premiums		(1,175)
Less: Issuance costs		3,959
Payment to escrow agent/refunded bond		441,038
Principal repayments		112,275
Arbitrage		(19)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	(24,322)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. The details of this $(18,422) difference are as follows:		
Compensated absences	$	(2,810)
Accrued interest		(1,583)
Accretion of capital appreciation bonds		(8,055)
Amortization of premiums		(643)
Amortization of discounts		(1,193)
Amortization of deferred amounts on refundings		(3,457)
Amortization of issuance costs		(681)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	(18,422)
Internal Service Funds. The net revenue of certain activities of internal service funds is reported with governmental activities. The details of this $(1,469) difference are as follows:		
Change in net assets of the internal service funds	$	(1,525)
Less: Loss from charges to business activities		56
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	(1,469)

NOTE 3

Deposits and Investments

The Treasurer is responsible for authorizing all County bank accounts and pursuant to Government Code Sections 27000.1 - 27000.5, 27130 - 27137, and 53600 - 53686 is responsible for conducting County investment activities of the County's investment pool (the Pool) as well as various individual investment accounts outside of the Pool. Additionally, the Treasurer has oversight responsibilities for investments with fiscal agents.

The Pool is a County sponsored "external investment pool" wherein moneys of the County and other legally separate external entities, which are not part of the County Reporting Entity, are commingled (pooled) and invested on the participants' behalf.

Pursuant to Sections 27130-27137 of the California Government Code, the Board of Supervisors has established the Treasurer's Oversight Committee ("TOC") that monitors and reviews the Investment Policy. The TOC consists of members appointed from the districts or offices that they represent, and up to five members of the public, having expertise in, or an academic background in public finance. This Committee requires a financial audit to be conducted annually on a fiscal year basis, which includes limited tests of compliance with laws and regulations. The Investment Pool is not registered with the Securities and Exchange Commission ("SEC") as an investment company. The Investment Pool does not have any legally binding guarantees of share values.

A separately issued annual financial report for the Pool can be obtained from the Treasurer-Tax Collector at 1600 Pacific Highway, Room 162, San Diego, California, 92101 and can also be accessed at http:// www.sdtreastax.com.

Total pooled cash and investments totaled $5,665,697 consisting of: $5,354,008 investments in the County pool; $308.984 million in demand deposits; $2.174 million of collections in transit; and, $531 thousand in imprest cash.

Deposits

Government Code 53652 et. seq. and the Treasurer's Pool Investment Policy (Pool Policy) prescribe the amount of collateral that is required to secure the deposit of public funds.

Federal Depository Insurance (FDIC) is available for funds deposited at any one financial institution up to a maximum of $250,000 for demand deposits, time and savings deposits. The aforementioned Government Code and Pool Policy require that depositories collateralize public funds with securities having a market value of at least 10% in excess of the total amount of the deposits, reduced by the amount of FDIC insurance available. These securities shall be placed in the institution's pooled collateral account and monitored by a third party custodian bank.

Custodial Credit Risk - Deposits

The custodial credit risk for deposits is the risk that the County will not be able to recover deposits that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not insured or collateralized.

The Investment Pool does not have a formal policy regarding sweep (deposit) accounts, but the practice is to utilize national or state chartered banks where the excess over FDIC insurance is invested in repurchase agreements that are collateralized by U.S. Treasury and Federal Agency securities equal to or greater than the deposit amount in accordance with California Government Code.

California Government Code 53652 et. seq. requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law. At June 30, 2009, the County's deposits were not exposed to custodial credit risk as these deposits were either covered by FDIC insurance or collateralized with securities held by a named agent depository as noted below:

a. Cash in banks is defined as short-term, highly liquid deposits with an original maturity of three months or less. At year-end, the carrying amount of the Investment Pool's deposits was $308,984, and the bank balance at June 30, 2009 was $305,324, consisting of demand deposits with various financial institutions. The difference between the carrying amount and the bank balance includes temporary reconciling items such as cash on hand, outstanding checks, and deposits in transit. Of this balance, $275,350 was covered by federal deposit insurance and $29,974 was collateralized with securities held by a named agent depository on behalf of the Investment Pool as required by California Government Code Section 53656. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

b. The carrying amount of demand deposits with Fiscal Agents (outside of the Pool) was $5.5 million and the bank balance per various financial institutions was $7.693 million. Of the total bank balance, $702 thousand was covered by federal deposit insurance and $6.991 million was collateralized by a named agent depository.

Investments

Government Code 53601 governs the types of investments that may be purchased and makes certain restrictions on investment maturity, maximum portfolio percentages, term, value, credit quality and timing to minimize the risk of loss.

Permitted types of investments and financial instruments include: U.S. treasuries, Federal agencies, and local agency obligations; banker's acceptances; commercial paper; negotiable certificates of deposit; repurchase agreements; reverse repurchase agreements; medium-term notes;

(Amounts Expressed in Thousands Unless Otherwise Noted)

collateralized certificates of deposit; money market mutual funds; mortgage pass-through securities; mortgage backed securities; and mortgage collateralized securities.

Investments in the Investment Pool are stated at fair value. Securities, which are traded on a national exchange, are valued at the last reported sales price at current exchange rates. The fair value of investments is determined monthly and at year end and is provided by the custodian bank. Repurchase agreements and Institutional money market funds are carried at portfolio book value (carrying cost). Open-end institutional money market funds are not categorized by custodial credit risk because the investment in these funds is not evidenced by specific securities. All purchases of investments are accounted for on a trade-date basis. Unrealized gains or losses of securities are determined by taking the difference between amortized cost and the fair value of investments. Realized gains and losses on investments that were held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year(s) and the current year.

In addition to the above, the Board annually adopts a Pooled Money Fund Investment Policy. This policy is based on the criteria in Government Code 53601 but adds further specificity and restrictions to permitted investments.

No policies have been established for investments with fiscal agents, however, moneys held by trustees on behalf of the County may generally only be invested in permitted investments specified in trustee or indenture agreements.

In conjunction with the discussion below concerning investment risks, please refer to **Tables 7 and 8 respectively,** which provide details on pooled investments and those held with fiscal agents at fiscal year-end. Additionally, **Table 9** provides a comparison of Investment Pool policy restrictions with Government Code 53601 requirements**.**

Interest Rate Risk - Investments

This is the risk that changes in interest rates will adversely affect the fair value of an investment.

Declines in the fair value of investments are managed by limiting the length of the maturity of securities. In general, the maximum maturity allowed is five years unless the Board has granted express authority either specifically or as part of an investment program. The policy related to the maturity structure of Pool requires that 50% of the portfolio include short-term instruments up to one year (25% maturing within 90 days and 25% maturing within 91 to 365 days) and no more than 50% to mature in 1 to 5 years. In addition, the Investment Pool limits the maximum effective duration of the portfolio to 18 months. In compliance with the policy, a weighted average of 51% of the Pool's investments had a maturity of 90 days or less at June 30, 2009.

Generally, investments with fiscal agents are structured in such a way that securities mature at the times and in the amounts that are necessary to meet scheduled expenditures and withdrawals.

Credit Risk - Investments

This is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations.

The Pooled Money Fund Investment Policy and the Government Code set minimum credit ratings for each type of security. Asset allocations with respect to the credit quality are based on Standard and Poor's Fund Credit Quality Rating Matrix as noted below:

Table 5

S & P Investment Rating

Investment Pool		
Rating	**Min. Fund%**	**Max. Fund%**
AAA	67	100
AA	0	33
A	0	13
Investments with Fiscal Agents		
Short Term	A-1	
Long Term	A	

Concentration of Credit Risk - Investments

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

The Investment Policy limits the amount of exposure to any one single issuer to the percentages listed in Table 9. As noted in Table 9, the Pooled Money Fund Investment Policy is more restrictive, in most cases, than the California Government Code.

As of June 30 2009, all Pool investments were in compliance with State law and with the Investment Policy. There were no instruments in any one issuer that represent 5% or more of the County Investment Pool or individual fund holdings of the External Specific Investments as of June 30, 2009.

No general policies have been established to limit the amount of exposure to any one single issuer, however, moneys held by trustees on behalf of the County may generally only be invested in permitted investments specified in trustee or indenture agreements. Instruments in any one issuer that represent 5% or more of the County investments with fiscal agents by individual major fund or nonmajor funds in the aggregate at June 30, 2009 are shown below.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 6

Concentration of Credit Risk

Issuer	Tobacco Endowment Fund	Percent	Nonmajor Governmental Funds	Percent
BlackRock MuniFund	$ 23,970	6	$	
Federal national mortgage association			45,377	36
Federated treasury obligation			23,841	19
Federal home loan bank			22,778	18
Federal home loan mortgage corporation			10,506	8

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

The County of San Diego utilizes third party delivery versus payment custodian which mitigates any custodial credit risk. No level three investments were held during the fiscal year ended June 30, 2009, and there was no securities lending.

Foreign Currency Risk - Investments

This is the risk that investments are exposed to foreign currency risk.

The County's investments do not have any foreign currency risk as all investments are in U.S. dollar-denominated assets.

Table 7

Pooled Investments
At June 30, 2009

	Fair Value	Interest Rate Range	Maturity Range	Weighted Average Maturity (days)	S&P Rating	% of Portfolio
US treasury notes	$ 377,797	0.88% - 4.88%	08/09 - 03/14	803	N/A	6.71%
US treasury bills	99,920	0.21% - 0.25%	10/09 - 11/09	128	N/A	1.78%
Federal home loan mortgage corporation notes	992,050	0.22% - 6.63%	07/09 - 06/13	444	AAA	17.62%
Federal home loan bank notes	1,139,205	0.12% - 7.38%	07/09 - 02/14	239	AAA	20.24%
Federal national mortgage association notes	948,069	0.31% - 7.25%	07/09 - 05/13	431	AAA	16.84%
Federal farm credit bank notes	364,199	1.70% - 5.05%	10/09 - 12/12	884	AAA	6.47%
Commercial paper	474,925	0.07% - 0.41%	07/09 - 08/09	16	A-1/A-1+	8.44%
Corporate medium term notes	78,853	3.75% - 5.88%	12/09 - 03/12	539	AA/AA+	1.40%
Repurchase agreements	258,370	0.10% - 0.29%	07/09	1	N/A	4.59%
Money market mutual funds	225,110	0.05% - 0.19%	07/09	1	AAA	4.00%
Negotiable certificates of deposit	360,580	0.20% - 4.15%	07/09 - 12/09	44	N/A	6.40%
Bond funds	34,930	0.90%	07/09	1	AA	0.62%
Total investments	5,354,008					95.11%
Public fund demand deposit	275,000	0.47%	07/09	1	N/A	4.89%
Total investments and demand deposits	$ 5,629,008			323		100.00%

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 8

Investments with Fiscal Agents
At June 30, 2009

	Fair Value	Interest Rate Range	Maturity Range	Weighted Average Maturity (days)	S&P Rating	% of Portfolio
County investments with fiscal agents						
Unrestricted:						
Federal home loan bank notes	$ 27,328	3.00% - 5.00%	09/09 - 01/12	385	AAA	5.06%
Federal home loan mortgage corp notes	10,507	4.50%	12/10	534	AAA	1.94%
Federal national mortgage assn. notes	5,188	7.25%	01/10	199	AAA	0.96%
Fixed income tax exempt bonds	4,968	3.45%	04/35	9406	A-1	0.92%
Fixed income tax exempt bonds	24,613	0% - 5.75%	9/10 - 8/15	1364	A	4.56%
Fixed income tax exempt bonds	10,082	5.75%	09/09	63	A-1+	1.87%
Fixed income tax exempt bonds	20,435	0% - 5.50%	12/09 - 09/12	1009	A+	3.78%
Fixed income tax exempt bonds	59,806	5.00% - 6.50%	1/10 - 10/13	761	AA	11.07%
Fixed income tax exempt bonds	43,358	5.00% - 5.63%	7/09 - 9/13	489	AA-	8.03%
Fixed income tax exempt bonds	68,600	3.50% - 6.00%	7/09 - 1/15	805	AA+	12.70%
Fixed income tax exempt bonds	150,745	0% - 8.95%	7/09 - 1/14	891	AAA	27.90%
Fixed income tax exempt bonds	5,119	5.40%	10/09	107	BBB	0.95%
Fixed income tax exempt bonds	1,351	5.90%	03/10	244	NA	0.25%
MuniFunds	23,970	0.47%	07/09 - 08/09	40	AAAm	4.44%
Subtotal	456,070					
Restricted:						
Federal home loan bank notes	2,624	1.63% - 5.00%	7/10 - 1/11	398	AAA	0.49%
Federal home loan bank disc. notes	2,705	0.00%	07/09	31	NA	0.50%
Federal national mortgage assn. notes	10,692	2.75% - 7.25%	1/10 - 2/14	1563	AAA	1.98%
Federal nat'l mortgage assn. disc. notes	35,572	0% - 5.23%	11/09 - 02/10	151	NA	6.58%
Federal nat'l mortgage assn. strip	2,768	0.00%	1/11 - 7/11	680	NA	0.51%
Federal home loan mortgage corp. notes	1,147	3.25% - 5.00%	01/10	213	AAA	0.21%
Federal home loan mortgage disc. notes	1,941	0.00%	01/11	553	AAA	0.36%
Federal home loan mortgage strip	863	0.00%	4/10 - 7/11	457	NA	0.16%
Guaranteed investment contracts	471	5.03%	08/09	32	AAA	0.09%
Money market mutual funds	24,955	0.00 - 0.08%	07/09 - 08/09	44	AAAm	4.62%
Negotiable certificates of deposit	405	.25% - .35%	7/09 - 10/09	32	NA	0.07%
Subtotal	84,143					
Total County investments with fiscal agents	$ 540,213					100.00%
External specific investments:						
Federal home loan bank notes	$ 369	4.87%	06/12	1074	AAA	0.17%
Federal home loan mortgage corp. notes	523	4.75%	09/10	449	AAA	0.23%
Guaranteed investment contracts	221,446	5.07%	09/10	457	N/A	98.92%
Medium term notes	1,520	4.62% - 4.87%	09/09 - 10/10	213	AA+	0.68%
Total external specific investments	$ 223,858					100.00%
Total investments with fiscal agents	$ 764,071					

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 9

Investment Pool Policy Restrictions versus Government Code 53601 Requirements

Investment Type	Maximum Maturity		Maximum % of Portfolio		Maximum % with One Issuer		Minimum Rating	
	Gov. Code	Pool Policy	Gov. Code	Pool Policy	Gov. Code	Pool Policy	Gov. Code	Pool Policy
US Treasury obligations	5 years	5 years	None	None	None	None	None	None
Agency obligation	5 years	5 years	None	None	None	25%	None	None
Local agency obligations	5 years	5 years	None	15%	None	10%	None	A
Bankers' acceptances	180 days	180 days	40%	40%	30%	5%	None	A-1
Commercial paper (1)	270 days	270 days	40%	40%	10%	5%	A	A
Certificates of Deposit	5 years	5 years	30%	30%	30%	5%	None	A
Repurchase agreements	1 year	1 year	None	40%	None	(2)	None	None
Reverse repurchase agreements	92 days	92 days	20%	20%	None	10%	None	None
Local agency investment fund of California	N/A	N/A	None	10%	None	10%	None	None
Corporate Medium-term notes	5 years	5 years	30%	30%	30%	5%	A	A
Money market mutual funds	N/A	N/A	20%	15%	10%	10%	AAAf	AAAf
Bond funds	N/A	N/A	None	2.5%	None	2.5%	None	None
Pass -through securities (3)	5 years	5 years	20%	20%	None	5%	A/AA	A/AA

(1) Government code Section 53635 (a) (1-2) specifies percentage limitations for this security type for county investment pools.
(2) Maximum exposure per issue - The maximum exposure to a single Repurchase Agreement (RP) issue shall be 10% of the portfolio value for RP's with maturities greater than 5 days, and 15% of the portfolio for RP's maturing in 5 days or less.
(3) Rating of "A" required for issuer, if rated; and rating of "AA" required for issue.

NOTE 4

Restricted Assets

Restricted assets include monies or other resources required to be set aside to repay principal and interest under Debt covenants; and to comply with other legal or contractual requirements. For fiscal year 2009 restricted assets were as follows:

Table 10

Restricted Assets

Fund	Legal or Contractual Requirements	Debt Covenants
General Fund	$ 179	$ 9,297
Nonmajor Governmental Funds		
Housing Authority Special Revenue Fund	706	
Tobacco Securitization Special Revenue Fund		47,271
Pension Obligations Bond Debt Service Fund		4,988
Redevelopment Agency Debt Service Fund		1,155
San Diego Regional Building Authority Debt Service Fund		38,643
SANCAL Debt Service Fund		1,474

NOTE 5

Receivables

Details of receivables reported in the government-wide Statement of Net Assets are presented on **Table 11**. Amounts that are not expected to be collected within the next fiscal year are identified below:

Due from Other Governmental Agencies - Governmental activities - $51.467 million

This amount represents Senate Bill (SB) 90 cost reimbursements due the County for the provision of State mandated programs and services mostly for fiscal years prior to 2004. The State Constitution requires reimbursement for these costs and interest will accrue on the reimbursement claims until they are paid according to Government Code 17617 over a period not more than 15 years beginning in FY 2007. The State began to reimburse the County for these programs and services in FY 2007, but has not budgeted appropriations in the current year.

Loans - Governmental activities- $57.400 million

This amount includes: $28.986 million in housing rehabilitation loan programs for low-income or special need residents, loans for low income housing downpayments, and redevelopment agency notes of which $50 thousand is short term; and, $28.414 million in community development block grant loans.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Loans- Business-type activities- $4.617 million

This amount represents Airport Enterprise Fund (AEF) loans to Airport lessees for the purchase of AEF reversionary interests in leasehold improvements existing at the expiration of previous leases.

Table 11

Receivables
Primary Government and Discretely Presented Component Unit
At June 30, 2009

		Accounts	Investment Income	Due From Other Government Agencies	Loans	Other	Total Receivables	Allowance For Doubtful Accounts	Receivables Net
Governmental activities:									
General Fund	$	2,998	4,018	365,091	5,676		377,783	(3,798)	373,985
Public Safety Special Revenue Fund				31,668			31,668		31,668
Tobacco Securitization Special Revenue Fund			5,573				5,573		5,573
Other Governmental Funds		25,958	2,509	39,719	51,724	85	119,995		119,995
Internal Service Funds		541	496	4,345		40	5,422		5,422
Total governmental activities	$	29,497	12,596	440,823	57,400	125	540,441	(3,798)	536,643
Business-type activities:									
Enterprise Fund	$	208	284	1,680	4,617		6,789		6,789
Component Unit:									
First 5 Commission	$		1,379	6,192			7,571		7,571

NOTE 6

County Property on Lease to Others

The County's blended component unit - SDRBA has a direct financing capital lease with the San Miguel Consolidated Fire Protection District (District) for two District fire stations. Additionally, the County has a sublease of a share of the Metropolitan Transit System (MTS) Towers. The share of the County's property under the MTS Towers' sub lease is an estimated $12.74 million in structures and improvements with accumulated depreciation of $5.23 million at June 30, 2009. The lease revenue received by the SDRBA and the County for the year ended June 30, 2009 was approximately $894 thousand and $793 thousand, respectively.

The County also has noncancelable operating leases for certain properties which are not material to the County's governmental operations. Additionally, the Airport Enterprise Fund derives a substantial portion of its revenues from noncancelable operating leases with air carriers and concessionaires. The Airport Enterprise Fund's property under operating leases includes an estimated $2.44 million in land at June 30, 2009.

Lease revenue from noncancelable operating leases for the year ended June 30, 2009 was approximately $15.6 million. Future minimum lease payments to be received under the capital leases and noncancelable operating leases are noted below in Table 12.

Table 12

Lease Revenue
County Property Leased To Others

Fiscal Year		Capital Leases	Operating Leases
2010	$	1,731	15,228
2011		1,755	14,510
2012		1,723	13,557
2013		1,742	13,348
2014		1,728	12,838
2015-2019		8,667	41,398
2020-2024		1,737	36,603
2025-2029			35,859
2030-2034			33,290
2035-2039			24,278
2040-2044			15,942
2045-2049			9,784
2050-2054			7,875
2055-2059			3,632
2060-2064			1,572
2065-2069			21
2070-2074			21
2075-2077			12
Total	$	19,083	279,768

(Amounts Expressed in Thousands Unless Otherwise Noted)

NOTE 7

Capital Assets

Changes in Capital Assets

Increases and decreases in the County's capital assets for governmental and business-type activities during the fiscal year were as follows:

Table 13

Capital Assets - Governmental Activities

	Beginning Balance at July 1, 2008	Increases	Decreases	Ending Balance at June 30, 2009
Capital assets, not being depreciated:				
Land	$ 285,641	23,267	(1,491)	$ 307,417
Construction in progress	267,493	122,324	(156,197)	233,620
Total capital assets, not being depreciated	553,134	145,591	(157,688)	541,037
Capital assets, being depreciated:				
Buildings and improvements	1,024,281	163,601	(1,826)	1,186,056
Equipment	291,575	35,517	(25,095)	301,997
Road infrastructure	2,304,808	52,907	(875)	2,356,840
Bridge infrastructure	44,522	6,858		51,380
Total capital assets, being depreciated	3,665,186	258,883	(27,796)	3,896,273
Less accumulated depreciation for:				
Buildings and improvements	(349,278)	(20,243)		(369,521)
Equipment	(162,387)	(38,994)	16,903	(184,478)
Road infrastructure	(870,341)	(63,555)		(933,896)
Bridge infrastructure	(14,761)	(849)		(15,610)
Total accumulated depreciation	(1,396,767)	(123,641)	16,903	(1,503,505)
Total capital assets, being depreciated, net	2,268,419	135,242	(10,893)	2,392,768
Governmental activities capital assets, net	$ 2,821,553	280,833	(168,581)	$ 2,933,805

Table 14

Capital Assets - Business-type Activities

	Beginning Balance at July 1, 2008	Increases	Decreases	Ending Balance at June 30, 2009
Capital assets, not being depreciated:				
Land	$ 11,338			$ 11,338
Construction in progress	49,854	24,572	(10,846)	63,580
Total capital assets, not being depreciated	61,192	24,572	(10,846)	74,918
Capital assets, being depreciated:				
Buildings and improvements	52,555	6,992		59,547
Equipment	1,341		(10)	1,331
Road infrastructure	335			335
Sewer infrastructure	68,994	3,854		72,848
Total capital assets, being depreciated	123,225	10,846	(10)	134,061
Less accumulated depreciation for:				
Buildings and improvements	(23,882)	(1,441)		(25,323)
Equipment	(1,062)	(51)	9	(1,104)
Road infrastructure	(11)	(8)		(19)
Sewer infrastructure	(30,970)	(1,379)		(32,349)
Total accumulated depreciation	(55,925)	(2,879)	9	(58,795)
Total capital assets, being depreciated, net	67,300	7,967	(1)	75,266
Business-type activities capital assets, net	$ 128,492	32,539	(10,847)	$ 150,184

Depreciation

Depreciation expense was charged to governmental activities and business-type activities as shown below.

Table 15

Depreciation Expense - Governmental Activities

General government	$ 1,930
Public protection	19,712
Public ways and facilities	63,765
Health and sanitation	4,329
Public assistance	1,151
Education	342
Recreation and cultural	1,813
Internal Service Funds	30,599
Total	$ 123,641

Table 16

Depreciation Expense - Business-type Activities

Airport Fund	$ 1,433
Sanitation Districts Fund	1,429
Wastewater Management Fund	17
Total	$ 2,879

(Amounts Expressed in Thousands Unless Otherwise Noted)

Capital Commitments

At June 30, 2009, major contracts entered into for structures and improvements and other commitments within governmental and business-type activities were as follows:

Table 17

Capital Commitments
At June 30, 2009

		Remaining Commitments
Governmental Activities		
Other Governmental Funds:		
Construction of County Operations Center	$	13,774
Construction of Ramona Branch Library		8,619
Construction of Fallbrook Branch Library		8,267
Construction of Medical Examiner/Forensics Center		7,910
Construction of Valley Center Road Bridge Over San Luis Rey River		7,580
Construction of Black Canyon Road Bridge Over Santa Ysabel Creek		1,827
Construction of Route 54/94 Improvements		1,425
Construction of Viejas Blvd Bridge Crossing Sweetwater River		1,388
Construction of Valley Center Road, Phase II		1,058
Subtotal		51,848
Business-type Activities		
Enterprise Funds:		
Gillespie Field Airport Taxiway Reconstruction		1,723
Sanitation District Sewer and Flow Monitoring System Improvements		1,731
Subtotal		3,454
Total	$	55,302

NOTE 8

Interfund Balances

Interfund balances at fiscal year-end consisted of the following amounts:

Table 18

Interfund Balances
At June 30, 2009

	Due From							
Due To	General Fund	Public Safety	Tobacco Endowment	Nonmajor Governmental	Nonmajor Enterprise	Internal Service		Total
General Fund	$	45,404	5,128	20,024	60	3,512	$	74,128
Nonmajor Governmental	15,821			3,850	559	530		20,760
Nonmajor Enterprise	61			3,387	410			3,858
Internal Service	24,598			1,180	97	840		26,715
Total	$ 40,480	45,404	5,128	28,441	1,126	4,882	$	125,461

Descriptions of amounts not due to be repaid in the subsequent year are discussed below:

a. $1.234 million is due to the General Fund from the Redevelopment Agency Fund (Upper San Diego River Project) as a result of a loan to provide funding for Project improvements. $1.134 million of this balance is not scheduled to be collected in the subsequent year.

b. $3.363 million is due from the Redevelopment Agency Fund to the Airport Enterprise Fund as a result of a loan to fund airport projects. Loans repayments are based on the condition that the collection of property tax revenue per H.S. Code 33670 is sufficient to allow the payment of the loan. $3.363 million of the balance is not scheduled to be collected in the subsequent year.

(Amounts Expressed in Thousands Unless Otherwise Noted)

c. $195 thousand is due to the Special District Loans Fund from the County Service District Fund as a result of a loan to improve and maintain County roads. Loan repayments are made from property tax collections. $147 thousand of the balance is not scheduled to be collected in the subsequent year.

All remaining balances resulted from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur; 2) transactions are recorded in the accounting system; and 3) payments between funds are made.

NOTE 9

Interfund Transfers

Interfund transfers at fiscal year-end consisted of the following amounts:

Table 19

Transfers In/Transfers Out
At June 30, 2009

		TRANSFERS OUT						
		General Fund	Public Safety	Tobacco Endowment	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Total
TRANSFERS IN	General Fund	$	195,585	24,200	9,843		668	$ 230,296
	Nonmajor Governmental	280,017	380		10,449	468	3,814	295,128
	Nonmajor Enterprise	317						317
	Internal Service	4,898						4,898
	Total	$ 285,232	195,965	24,200	20,292	468	4,482	$ 530,639

In general, transfers are used to: (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the General Fund to finance programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 10

Payables

The County's payables at fiscal year-end are shown below for the General Fund, other governmental funds, internal service funds, business-type activities funds, and the discrete component unit:

Table 20

Payables
At June 30, 2009

	Vendors	Due to Other Government Agencies	Other	Total Payables
Governmental Activities:				
General Fund	$ 56,248	10,916	4,597	$ 71,761
Other Governmental Funds	27,602	1,254	600	29,456
Internal Service Funds	33,706	981	1	34,688
Total governmental activities	$ 117,556	13,151	5,198	$135,905
Business-type activities:				
Enterprise Funds	$ 1,861	1		$ 1,862
Component Unit:				
First 5 Commission	$ 5,542	8,286	519	$ 14,347

NOTE 11

Short-Term Obligations

The County issues tax anticipation notes in advance of property tax collections, depositing the proceeds in the General Fund. These notes are necessary to fund the County's annual cash flow needs. The majority of property tax collections are received in December and April.

Short-term debt activity for the fiscal year was as follows:

Table 21

Short-Term Obligations

	Beginning Balance at July 1, 2008	Issued	Redeemed	Ending Balance at June 30, 2009
Tax and revenue anticipation notes	$	75,000	75,000	$

(Amounts Expressed in Thousands Unless Otherwise Noted)

NOTE 12

Lease Obligations

Operating Leases

Real Property

The County has obligations under long-term operating lease agreements through fiscal year 2020 (**Table 22**). The County is the lessee under the terms of several non-cancelable operating leases for real property used to house certain County operations. The total rental expense for all real property leases for the year ended June 30, 2009 was approximately $31.2 million, including $10.5 million for non-cancelable leases.

The future minimum lease payments for these non-cancelable leases are as follows:

Table 22

Lease Commitments - Real Property

Fiscal Year	Minimum Lease Payments
2010	$ 13,465
2011	13,992
2012	11,957
2013	5,195
2014	3,372
2015-2019	5,072
2020	283
Total	$ 53,336

Personal Property

The County has also entered into operating leases for personal property, a large portion of which represents duplicating and heavy duty construction equipment. Many of these leases are subject to annual adjustment based upon negotiations. Management expects that in the normal course of business, leases that expire will be renewed or replaced by other leases. Total rental expense for these operating leases for the year ended June 30, 2009, was approximately $2.9 million.

NOTE 13

Long-Term Debt

Certificates of Participation (COPs) and Lease Revenue Bonds (LRBs)

Certificates of Participation (COPs) and Lease Revenue Bonds (LRBs) provide funds for the acquisition and construction of major capital facilities and equipment. The repayment of these COPs and LRBs is secured by a lease structure where the borrowing entity, such as the County or the San Miguel Consolidated Fire Protection District (SMCFPD) (not a component unit of the County), leases certain properties to another entity, a lessor, which in turn leases the properties back to the County or the SMCFPD. These lessors are the San Diego Capital Asset Leasing Corporation (SANCAL), and the San Diego Regional Building Authority (SDRBA); both blended component units of the County. (See discussion of Blended Component Units under Note 1 "Summary of Significant Accounting Policies".)

COPs and LRBs are secured by: a) (lease) base rental payments, for the use of certain facilities or equipment and b) encumbrances on the facilities. The leased premises are typically facilities or equipment purchased with proceeds of the COPs or LRBs. In the case of the County, the base rental payments are made primarily from the County General Fund to the SANCAL or SDRBA; in the case of the SDRBA's financing for the SMCFPD, base rental payments are made from SMCFPD to the SDRBA. Under lease terms, the County and the SMCPFD are required to make the necessary annual appropriations for lease payments, except to the extent those payments are eligible to be abated in accordance with the terms of the leases.

COPs and LRBs evidence a pro rata share in a specific pledged revenue stream of lease payments, and investors in the certificates or bonds are entitled to receive a share in these lease payments from a particular project. Lease payments are passed through the lessor to the investors. The lessor assigns the lease and lease payments to a trustee, which distributes the lease payments to the investors.

In February 2009, the San Diego Regional Building Authority (SDRBA) issued $136.885 million of fixed rate serial and term lease revenue bonds titled, "San Diego Regional Building Authority Lease Revenue Bonds - County Operations Center and Annex Redevelopment Project Series 2009 A" (the "Bonds"). These Bonds consist of $87.35 million Serial Series 2009 A Bonds issued at fixed interest rates ranging from 3.00% to 5.50% with maturity dates ranging from February 1, 2012 through February 1, 2030; and, $49.535 million Term Bonds issued at a fixed rate of 5.375% with a maturity date of February 1, 2036.

These Bonds were issued with a premium of $1.175 million. Bond proceeds of $138.060 million along with County contributions of $66.243 million were distributed as follows: 1) $178.401 to finance the acquisition, construction and improvement of certain County facilities, including facilities to be used as an operation center located in the Kearny Mesa community of San Diego; 2) $14.492 million to pay interest during the construction period; 3) $9.879 million to fund a bond reserve fund; 4) $1.507 million to pay certain costs of issuance incurred in connection with these bonds; and 5) $24 thousand was set aside to be used for various ongoing debt related costs. The interest on these Bonds is excludable from gross income for federal income tax purposes and is exempt from State of California income taxes.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Details of COPs and Lease Revenue Bonds outstanding at June 30, 2009 are as follows:

Table 23

Certificates of Participation and Lease Revenue Bonds

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2009
1993 Master Refunding	$ 203,400	2.50 - 5.625%	2013	$ 21,800
1997 Central Jail Refunding	80,675	4.00 - 5.42%	2026	58,135
1998 Downtown Courthouse Refunding	73,115	4.00 - 5.25%	2023	42,270
1999 East Mesa Refunding	15,010	3.60 - 4.75%	2010	1,815
2000 Information Technology Service Financing	51,620	4.50 - 5.125%	2010	6,370
2001 Metropolitan Transit System Towers Refunding	36,960	2.15 - 5.25%	2020	25,865
2002 Motorola	26,060	2.00 - 5.00%	2011	6,495
2003 San Miguel Consolidated Fire Protection District Refunding	10,005	2.00 - 5.00%	2020	7,565
2005 Edgemoor Project	83,510	3.00 - 5.00%	2030	79,025
2005 Regional Communications System Refunding	28,885	3.00 - 5.00%	2019	17,950
2005 North & East Justice Facilities Refunding	28,210	3.25 - 5.00%	2020	23,405
2006 Edgemoor Completion Project	42,390	4.00 - 5.00%	2030	42,390
2009 Series A COC and Annex Project	136,885	3.00 - 5.50%	2036	136,885
Total	$ 816,725			$ 469,970

Annual debt service requirements to maturity for COPs and Lease Revenue Bonds are as follows:

Table 24

Certificates of Participation and Lease Revenue Bonds - Debt Service Requirements to Maturity

Fiscal Year	Principal	Interest	Total
2010	$ 34,400	21,836	$ 56,236
2011	27,480	20,359	47,839
2012	24,070	19,253	43,323
2013	25,170	18,132	43,302
2014	20,090	17,137	37,227
2015-2019	106,090	71,268	177,358
2020-2024	90,005	47,119	137,124
2025-2029	77,445	26,887	104,332
2030-2034	46,950	10,669	57,619
2035-2036	18,270	1,077	19,347
Subtotal	$ 469,970	253,737	$ 723,707
Add:			
Arbitrage	517		
Unamortized issuance premium	8,697		
Less:			
Unamortized issuance discount	(1,777)		
Unamortized deferred amounts on refundings	(1,494)		
Total	$ 475,913		

Taxable Pension Obligation Bonds (POBs)

POBs are issued by the County to reduce its pension unfunded actuarial liability and to achieve interest rate savings by issuing bonds at interest rates which are less than the assumed rate of return earned on proceeds placed in the San Diego County Employees Retirement Association's (SDCERA) pension plan. POBs also have been issued to refund previously issued POB debt. Because current federal tax law restricts the investment of the proceeds of tax-exempt bonds in higher-yielding taxable securities, POBs are issued on a taxable basis.

In August 2008, the County of San Diego issued $443.515 million Series 2008 Taxable Pension Obligation Bonds as follows: 1) $240.1 million Series 2008A Term bonds issued at a fixed interest rate of 6.029% with a maturity date of August 2026; 2) $103.415 million Serial Series 2008A Serial Bonds (the "Serial Bonds"). A portion of the Serial Bonds matures every August with a final maturity date of August 2018. Each maturity date carries a different fixed interest rate beginning in August 2009 at 3.331% escalating each year to the August 2018 maturity date at 5.748%; 3) $100 million of Series 2008B Variable Rate Demand Obligations (the "Series 2008B Obligations") issued in two subseries consisting of $50 million Series 2008B-1 Variable Rate Demand Obligations and $50 million Series 2008B-2 Variable Rate Demand Obligations. The Series 2008B Obligations bore interest at the Weekly Interest Rate with the one month LIBOR (London Interbank Offered

(Amounts Expressed in Thousands Unless Otherwise Noted)

Rate) as a reference rate; payable on the first Wednesday of each calendar month commencing September 3, 2008 and had a final maturity date of August 2027. The interest on the County of San Diego Pension Obligation Bonds Series 2008A, 2008B-1 and 2008B-2 is not excludable from gross income for federal income tax purposes but is exempt from State of California personal income taxes.

The Series 2008B demand bonds include a liquidity facility in the form of a Standby Bond Purchase Agreement (Agreement) among the County, the Liquidity Provider and the Paying Agent Bank (Bank). Under the terms of the Agreement, the Bank agrees from time to time during the commitment period to extend credit to the County through the purchase of eligible bonds at the purchase price set forth in the Agreement, with immediately available funds, which are tendered pursuant to an optional tender or a mandatory purchase and which, in either case, the remarketing agent has been unable to remarket. During fiscal year 2009, the County paid $585 thousand in commitment fees related to the liquidity provision of the agreement and there were no amounts drawn still outstanding under the Agreement as of June 30, 2009. According to the take-out provision, if exercised, the County would be required to retire any Bank Bonds (that is, the bonds that are being held by the SBPA) in three years and 91 days. During those three years, repayment would be made via equal principal payments each January and July. The takeout agreement is due to expire in August 2013 and is not cancelable by the County. The Series 2008B demand bonds were subsequently redeemed on July 1, 2009. (See Note 26, "Subsequent Events, Redemption of Series 2008B Variable Rate Demand Obligations").

Bond proceeds of $443.515 million along with a $17.195 million contribution from the General Fund, a $37.345 million interfund loan from the General Fund to the Pension Obligation Bonds Debt Service Fund and $22.814 million of funds held in the Pension Obligation Bonds Debt Service Fund were distributed as follows: 1) $44 million for the partial prepayment of the County of San Diego Taxable Pension Obligation Bonds 2002 Series B (the "2002B bonds"), Subseries B-1 Auction Rate Securities; 2) $441.038 was transferred to an escrow agent to advance refund the remaining $441.125 million in outstanding 2002B bonds, Subseries B-1 and B2-4 Auction Rate Securities and to pay future interest payments; 3) $10.234 million was used to pay interest on the outstanding 2002B bonds, Subseries B-1 and B2-4 Auction Rate Securities; 4) $21.991 million was paid to two counterparties as follows: $17.195 million to terminate the two interest rate swap agreements relating to the hedged 2002B bonds, Subseries B2-4 Auction Rate Securities; and $4.796 million for the accrued interest on the swap; 5) $2.477 million was deposited to a cost of issuance account, of which $2.452 million of costs of issuance expenditures were incurred in fiscal year 2009, the remaining $25 thousand was set aside for various ongoing debt costs; 6) $630 thousand was used to pay the final auction agent and broker dealer fees due in connection with the 2002B bonds, Subseries B-1 and B2-4 Auction Rate Securities; and, 7) $499 thousand was set aside to make future bondholder payments.

The $441.038 million transfer referred to above was placed in an irrevocable trust with an escrow agent to provide for the payment of the remaining principal and interest due on the outstanding 2002B bonds, Subseries B-1 and B2-4 Auction Rate Securities on August 15, 2008 along with a 0.07 percent premium. As a result, the 2002B bonds, Subseries B-1 and B2-4 Auction Rate Securities are considered legally defeased and the liability for those bonds has been removed from the government-wide statement of net assets governmental activities current and non-current. This advance refunding will result in reducing the County's principal and interest payments by $215.460 million over the next 23 years to obtain an economic gain of $44.6 million (i.e. difference between the present values of the debt service payments on the refunded debt and the refunding debt).

Details of POBs outstanding at June 30, 2009 are as follows:

Table 25

Taxable Pension Obligation Bonds

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2009
2002 Series A	$ 132,215	3.88 - 4.95%	2016	$ 117,540
2002 Series B1	100,000	variable	2031	
2002 Series B2-4	405,125	variable	2031	
2004 Series A	241,360	3.28 - 5.86%	2023	212,870
2004 Series B1-2	147,825	5.91%	2025	147,825
2004 Series C CABs	64,928	4.66 - 5.76%	2016	100,170
2004 Series C Unaccreted Appreciation CABs				(15,965)
2008 Series A	343,515	3.33 - 6.03%	2027	343,515
2008 Series B	100,000	variable	2028	100,000
Total	$ 1,534,968			$ 1,005,955

(Amounts Expressed in Thousands Unless Otherwise Noted)

Annual debt service requirements to maturity for POBs are shown below in **Table 26**. The variable rate used to calculate the interest due on the Series 2008 Taxable Pension Obligation Bonds was 2.63% which represents the average Weekly Interest Rate for the weekly period ended June 30, 2009.

Table 26

Taxable Pension Obligation Bonds - Debt Service Requirements to Maturity

Fiscal Year	Principal	Unaccreted Appreciation	Interest	Total
2010	$ 35,630	4,011	48,076	$ 87,717
2011	33,226	3,591	47,071	83,888
2012	33,176	3,053	46,016	82,245
2013	33,215	2,386	44,938	80,539
2014	33,043	1,575	43,858	78,476
2015-2019	212,090	1,349	191,124	404,563
2020-2024	297,540		115,973	413,513
2025-2028	311,225		22,553	333,778
Subtotal	$ 989,145	15,965	559,609	$ 1,564,719
Add:				
Accreted appreciation through June 30, 2009	19,277			
Less:				
Accreted appreciation to be paid in fiscal year 2010	(2,467)			
Subtotal	1,005,955			
Less:				
Unamortized deferred amounts on refundings	(2,465)			
Total	$ 1,003,490			

Tobacco Settlement Asset-Backed Bonds (TSAB)

TSAB are issued by the Tobacco Securitization Joint Powers Authority of Southern California (Authority) to securitize future revenue streams available to the County pursuant to the agreements described below.

A 1998 Master Settlement Agreement (MSA) was originally entered into by the four major cigarette manufacturers, 46 states and six other U.S. jurisdictions (the "Settling States") to provide state governments (including California) with compensation for smoking related medical costs and to help reduce smoking in the United States. There is no limit to the yearly settlement payments, they are perpetual. Also, a Memorandum of Understanding (the "MOU") and a supplemental agreement (the "ARIMOU") was agreed to by the State of California and all California counties and four California cities, granting those California municipalities the right to receive tobacco settlement allocation payments (also known as Tobacco Settlement Revenues - TSRs).

In fiscal year 2002, the Authority issued $446.86 million 2001 Tobacco Settlement Asset-Backed Bonds (Bonds), to fund the Authority's loan to the San Diego Tobacco Asset Securitization Corporation (Corporation), pursuant to a loan agreement between the Authority and the Corporation. (Both entities are blended component units of the County). According to the loan agreement, the Corporation has pledged, assigned and granted to the Authority, a first priority perfected security interest in all rights, title and interest of the Corporation, to the TSRs the Corporation purchased from the County, and future TSRs. The Corporation used the net proceeds of the loan, $411.913 million, to pay the County, in exchange for the County's transfer to the Corporation of all the County's rights, title and interest in the TSRs. Net proceeds have been placed in an endowment fund to fund healthcare-based programs pursuant to Board Policy E-14 and IRS regulations.

In May 2006, the Authority issued Series 2006 TSAB in the amount of $583.631 million to refund the outstanding principal of the original 2001 bonds, noted above and to loan an additional $123.515 million to the Corporation. The Series 2006 Bonds are limited obligations of the Authority, maturing in fiscal year 2035-36. The proceeds were placed into the endowment fund for the aforementioned purposes.

Under the terms of bond indentures, TSRs are pledged to the repayment of the bonds. Accordingly, the bonds are payable solely from certain funds held under the indenture, including payments of TSRs, and earnings on such funds (co1lections).

Details of TSAB outstanding at June 30, 2009 are as follows:

Table 27

Tobacco Settlement Asset-Backed Bonds

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2009
Series 2006A Senior Current Interest Bonds	$ 534,610	4.75 - 5.125%	2016-2030	$ 514,645
Series 2006B CABs	19,770	6.25%	2032	90,735
2006B unaccreted appreciation CABs				(66,828)
Series 2006C CABs	8,686	6.40%	2033	45,305
2006C unaccreted appreciation CABs				(34,755)
Series 2006D CABs	20,565	7.10%	2036	147,179
2006D unaccreted appreciation CABs				(121,671)
Total	$ 583,631			$ 574,610

(Amounts Expressed in Thousands Unless Otherwise Noted)

Annual debt service requirements to maturity for TSAB are as follows:

Table 28

Tobacco Settlement Asset-Backed Bonds - Debt Service Requirements to Maturity

Fiscal Year	Principal	Unaccreted Appreciation	Interest	Total
2010	$ 10,630	4,046	25,756	$ 40,432
2011	11,565	4,321	25,247	41,133
2012	11,085	4,613	24,700	40,398
2013	12,010	4,926	24,169	41,105
2014	12,970	5,260	23,595	41,825
2015-2019	86,805	32,161	107,393	226,359
2020-2024	134,575	44,663	80,855	260,093
2025-2029	189,545	62,050	41,260	292,855
2030-2034	86,540	56,710	2,136	145,386
2035-2036	7,941	4,504		12,445
Subtotal	$ 563,666	223,254	355,111	$ 1,142,031
Add:				
Accreted appreciation through June 30,2009	10,944			
Subtotal	574,610			
Less:				
Unamortized issuance discount	(17,158)			
Unamortized deferred amounts on refundings	(14,078)			
Total	$ 543,374			

TSAB pledged revenue for the year ended June 30, 2009 was as follows:

Table 29

Tobacco Settlement Asset-Backed Bonds - Pledged Revenues

Debt Pledged	Final Maturity Date	Pledged Revenue To Maturity	Debt Principal & Interest Paid	Pledged Revenue Received
Series 2006 Tobacco Settlement Asset-Backed Bonds	2036	$ 1,152,975	$ 36,273	$ 34,025

San Diego County Redevelopment Agency (CRA) Revenue Refunding Bonds

In December 2005, the San Diego County Redevelopment Agency (CRA) issued $16 million Revenue Refunding Bonds Series 2005A that mature in fiscal year 2032-33. The CRA has pledged property tax increment revenues generated within the Gillespie Field Project Area to pay for the bonds. Gillespie Field Airport revenues may also be used to fund debt service payments if there are insufficient property tax increment revenues to cover a particular fiscal year's debt service requirement. Bonds are also payable from funds held under the indenture, including earnings on such funds.

CRA revenue refunding bonds outstanding at June 30, 2009 were the following:

Table 30

CRA Revenue Refunding Bonds

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2009
Revenue Refunding Bonds Series 2005A	$ 16,000	3.65 - 5.75%	2033	$ 14,985
Total	$ 16,000			$ 14,985

Annual debt service requirements to maturity for CRA bonds are as follows:

Table 31

CRA Revenue Refunding Bonds - Debt Service Requirements to Maturity

Fiscal Year	Principal	Interest	Total
2010	$ 345	797	$ 1,142
2011	360	782	1,142
2012	375	766	1,141
2013	395	748	1,143
2014	415	728	1,143
2015-2019	2,385	3,304	5,689
2020-2024	3,070	2,596	5,666
2025-2029	4,000	1,626	5,626
2030-2033	3,640	390	4,030
Total	$ 14,985	11,737	$ 26,722
Less:			
Unamortized issuance discount	(40)		
Total	$ 14,945		

CRA pledged revenue for the year ended June 30, 2009 was as follows:

Table 32

CRA Revenue Refunding Bonds - Pledged Revenues

Debt Pledged	Final Maturity Date	Pledged Revenue To Maturity	Debt Principal & Interest Paid	Pledged Revenue Received
Series 2005A Revenue Refunding Bonds	2033	$ 26,722	$ 1,147	$ 1,176

Loans - Governmental Activities

Loans for various governmental activities included a United States Department of Agriculture Farmers Home Administration loan for the construction of low income housing; and California Energy Commission loans to fund various projects in County facilities to increase energy efficiency.

(Amounts Expressed in Thousands Unless Otherwise Noted)

In July 2008 and June 2009, the County borrowed $428 thousand and $454 thousand, respectively, from the California Energy Commission (CEC Loan 3) from an existing authorized loan amount of $3 million. The loan proceeds $882 thousand are to be used to fund multiple energy efficient projects in County facilities. Upon completion of the projects, semi-annual interest and principal payments will be made in twenty equal installments at a fixed interest rate of 4.50% with the first loan repayment commencing on December 22nd of the fiscal year following the year in which the project is completed and every June 22nd and December 22nd thereafter.

Details of loans outstanding at June 30, 2009 for governmental activities are as follows:

Table 33

Loans - Governmental Activities

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2009
Loans - non internal service funds (ISF)				
Pauma Heights PRD #21	$ 160	7.75%	2009	$
Landavo Zone PRD #1015	344	8.25%	2016	
El Sereno Way Zone PRD #1016	118	8.25%	2012	
Firebird Manor	4,486	1.00%	2028	2,816
Total loans - non-ISF	5,108			2,816
Loans - ISF				
California Energy Comm Loan 1 (Facilities ISF)	1,977	4.00%	2015	1,163
California Energy Comm Loan 2 (Facilities ISF)	3,001	3.95%	2016	2,182
California Energy Comm Loan 3 (Facilities ISF)	882	4.50%	2020	882
Total loans - ISF	5,860			4,227
Total	$ 10,968			$ 7,043

Annual debt service requirements to maturity for loans - governmental activities are as follows:

Table 34

Loans - Governmental Activities
Debt Service Requirements to Maturity

Fiscal Year	Principal	Interest	Total
2010	$ 658	156	$ 814
2011	752	174	926
2012	779	146	925
2013	806	118	924
2014	835	89	924
2015-2019	1,716	189	1,905
2020-2024	875	58	933
2025-2028	622	15	637
Total	$ 7,043	945	$ 7,988

Loans - Business-Type Activities

Loans for business-type activities included California Department of Transportation loans for the construction of a sewer line and the installation of a control tower at the Ramona Airport.

Details of loans outstanding at June 30, 2009 for business-type activities are as follows:

Table 35

Loans - Business-type Activities

Loan	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2009
2001 Airport Development Loan - Ramona Sewer Line	$ 2,388	5.63%	2017	$ 1,358
2001 Airport Development Loan - Ramona Control Tower	1,196	5.63%	2017	680
Total	$ 3,584			$ 2,038

Annual debt service requirements to maturity for loans - business-type activities are as follows:

Table 36

Loans - Business-type Activities
Debt Service Requirements to Maturity

Fiscal Year	Principal	Interest	Total
2010	$ 229	114	$ 343
2011	242	102	344
2012	254	88	342
2013	267	74	341
2014	279	59	338
2015 - 2017	767	80	847
Total	$ 2,038	517	$ 2,555

(Amounts Expressed in Thousands Unless Otherwise Noted)

Prior Year Defeasance of Long-Term Debt

In prior years, the County defeased TSAB by placing the proceeds of the original issue plus additional County contributions in an irrevocable trust to provide for all future debt service payments on the old obligation. Accordingly, the trust account assets and the liability for the defeased obligation are not included in the County's financial statements. At June 30, 2009, $418.015 million of bonds were legally defeased and remain outstanding.

Arbitrage

In compliance with the Tax Reform Act of 1986 and subsequent U.S. Treasury Regulations, the County performed arbitrage rebate calculations via a third party to determine probable amounts due to the Federal government. At June 30, 2009, a $517 estimate of probable arbitrage rebate liability has been included in the statement of net assets.

NOTE 14

Changes in Long-Term Liabilities

Long-term liability activities for the year ended June 30, 2009 were as follows:

Table 37

Changes in Long-Term Liabilities

	Beginning Balance at July 1, 2008	Additions	Reductions	Accreted Interest	Ending Balance at June 30, 2009	Amounts Due Within One Year
Governmental Activities:						
COPs, bonds & loans						
Certificates of participation and Lease Revenue Bonds (1) (2)	$ 365,745	136,885	(32,660)		469,970	$ 34,400
Taxable pension obligation bonds	1,068,200	443,515	(510,025)	4,265	1,005,955	35,630
Tobacco settlement asset-backed bonds	580,820		(10,000)	3,790	574,610	10,630
CRA revenue refunding bonds	15,320		(335)		14,985	345
Loans - non-internal service funds	3,196		(380)		2,816	136
Loans - internal service funds (ISF)	3,847	882	(502)		4,227	522
Arbitrage	498	19			517	
Unamortized issuance premiums	6,879	1,175	643		8,697	626
Unamortized issuance discounts	(20,168)		1,193		(18,975)	(1,194)
Unamortized deferred amounts on refundings	(18,906)	(2,588)	3,457		(18,037)	(5,112)
Total COPs, bonds & loans (1) (2)	2,005,431	579,888	(548,609)	8,055	2,044,765	75,983
Other long-term liabilities:						
Claims and judgments - ISF	106,244	23,383	(21,099)		108,528	30,213
Compensated absences -non-ISF	96,027	66,797	(63,987)		98,837	38,521
Compensated absences - ISF	2,393	1,627	(1,532)		2,488	1,012
Landfill closure and postclosure	22,199		(906)		21,293	775
Total Other long-term liabilities (2)	226,863	91,807	(87,524)		231,146	70,521
Total Governmental Activities (1)	$ 2,232,294	671,695	(636,133)	8,055	2,275,911	$ 146,504
Business-type activities:						
Loans	$ 2,255		(217)		2,038	$ 229
Compensated absences	390	330	(272)		448	182
Total Business-type Activities	$ 2,645	330	(489)		2,486	$ 411

(1) Beginning balance restated to include $8.1 million of SDRBA San Miguel Consolidated Fire Protection District refunding debt outstanding at June 30, 2008 (see also Note 26 of the Financial Statements).

(2) Beginning balance restated. The 2001 Metropolitan Transit System Towers Refunding project of the San Diego Regional Building Authority (SDRBA) was restated to reclassify the County's capital lease to a SDRBA Certificate of Participation as the SDRBA is now a blended component unit of the County.

(Amounts Expressed in Thousands Unless Otherwise Noted)

NOTE 15

Funds Used to Liquidate Liabilities

The following funds presented in **Table 38** below have typically been used to liquidate other long-term obligations in prior years:

Table 38

Liquidated Liabilities

Liability	Fund(s) Used to Liquidate in Prior Years
Claims & Judgments	Internal Service Funds - Employee Benefits Fund and Public Liability Insurance Fund
Compensated Absences	General Fund; Special Revenue Funds - County Library, Road, Cable TV and Air Pollution; Internal Service Funds - Facilities Management, Fleet Services and Purchasing
Landfill Closure and Postclosure	General Fund

NOTE 16

Reassessment District Improvement Bonds

In July of 1991, the County issued $28.804 million of 4-S Ranch bonds to finance the acquisition and construction of various public improvements required for the development of land located in north San Diego County west of Interstate 15 and the community of Rancho Bernardo. In July of 1997 the 4-S Ranch bonds were refunded. The County Treasurer-Tax Collector acts as an agent for property owners and bondholders in collecting and forwarding special assessment monies. The County is not obligated to pay for any special assessment bonds. Special assessment debt is solely the obligation of various separate governmental agencies. The County has covenanted to initiate judicial foreclosure in the event of a delinquency in the payment of reassessments. The amount of the 4-S Ranch special assessment debt outstanding for which the County is a fiduciary is $7.325 million at June 30, 2009.

NOTE 17

Conduit Debt Obligations

From time to time, the County has issued tax-exempt conduit debt under the authority of Chapter 7 of Part 5 of Division 3 of the Health and Safety Code of the State of California on behalf of qualified borrowers to provide financial assistance for projects deemed to be of public interest.

Conduit debt consisted of the following: a) fourteen certificates of participation (COPs) for the acquisition, construction, capital improvement and equipping of various facilities and b) Four mortgage revenue bonds for the construction and permanent financing of multi-family residential rental projects located in the County to be partially occupied by persons of low or moderate incomes. Conduit debt is secured by the property that is financed and is payable from the respective COPs base rentals; and underlying payments on mortgage loans. Upon repayment of the debt, ownership of the acquired facilities transfers to the private-sector entity served by the debt issuance.

The County is not obligated in any manner for repayment of this debt. Accordingly, the debt is not reported as liabilities in the accompanying financial statements.

As of June 30, 2009, the aggregate conduit debt principal amount outstanding was $326.451 million.

NOTE 18

Landfill Site Closure and Postclosure Care Costs

State laws and regulations require the placement of final covers on all landfill sites that stopped accepting solid waste after October 9, 1991 and the performance of certain maintenance and monitoring functions at these sites for a minimum of 30 years after closure. Closure and postclosure care costs are paid near or after the date a landfill stops accepting waste. The San Marcos Landfill is the sole waste disposal site owned by the County that is subject to these regulations. It was operational and accepted solid waste from 1979 until March 11, 1997. Formal closure of this landfill spanned from July 2004 through March 2007. Post closure maintenance began in April 2007.

The projected landfill closure and postclosure care liability at June 30, 2009 for the San Marcos Landfill was $21.293 million. This estimated amount is based on what it would cost to perform all closure and postclosure care in calendar year 2009 dollars and is subject to change as a result of such factors including but not limited to: inflation; deflation; advancements in technology; and amendments to laws and regulations.

In addition to the above, state regulations require that landfill closure and postclosure maintenance costs be fully funded at the time of closure, unless a landfill owner/operator can demonstrate financial responsibility towards these activities by using other approved financial assurance alternatives. A pledge of revenue is one of various alternatives allowed to fund estimated postclosure costs. Under this alternative, the Board of Supervisors, on February 3, 1998, approved Minute Order No. 5 "Postclosure Maintenance Funding for the San Marcos Landfill", wherein the County entered into a pledge of revenue agreement with the California Integrated Waste Management Board (CIWMB). Pursuant to Resolution No. 98-24, adopted under Minute Order No. 5, the Board directed that the amount of pledged revenue shall be equal to $790 per year for the 30 year period of postclosure maintenance commencing upon completion of the final closure of the San Marcos Landfill. The pledged amount is a promise of existing funds rather than future revenues and may increase or decrease to match any adjustment to identified cost estimates that are mutually agreed to by the County and the CIWMB.

(Amounts Expressed in Thousands Unless Otherwise Noted)

As of June 30, 2009, $24.650 million has been spent on closure costs, including revegetation costs. Prior to final closure in 2007, the County agreed to vegetate the surrounding areas of the landfill. These costs are projected to continue through 2011. Also, $1.069 of the net assets of the government-wide statement of net assets has been restricted for remaining closure costs of the San Marcos Landfill.

Regulations governing solid waste management are promulgated by government agencies on the federal and state levels. These regulations address the design, construction, operation, maintenance, closure and postclosure maintenance of various types of facilities; acceptable and prohibited waste types; and inspection, permitting, environmental monitoring and solid waste recycling requirements. Regulations at both the state and federal levels could impose retroactive liability, particularly with respect to cleanup activities relating to any landfill site ever operated by the County, whether or not owned by the County. Thus, the County has potential liability with respect to every landfill ever owned, operated, contracted to be operated, or into which the County disposed waste. Compliance with these regulations may be costly, and, as more stringent standards are developed to protect the environment, these costs could increase.

NOTE 19

Fund Balances Reserved For Other Purposes

At June 30, 2009, the fund balances reserved for other purposes are presented in **Table 39** as follows:

Table 39

Fund Balances Reserved For Other Purposes At June 30, 2009

General Fund		
Defray administrative costs, other general reserves	$	23,750
Improvement and maintenance of recorded document systems		11,389
Teeter tax loss		32,034
Emergency medical services, various construction costs		21,759
Mental health		42,942
Social programs		9,590
Vector control		11,907
Real estate fraud prosecution		599
Domestic violence and child abuse prevention		3,295
Sheriff vehicle maintenance and replacement		803
Fingerprinting equipment purchase and operation		7,549
Sheriff automated warrant system		5,043
Delinquency and juvenile crime prevention		311
Reserve for donations		4,078
Total General Fund		175,049
Special Revenue Funds		
Road-future road improvements		37,280
County Service Districts projects		1,242
Flood Control-future drainage improvements		13,007
Total Special Revenue Funds		51,529
Total Fund Balances Reserved for Other Purposes	$	226,578

(Amounts Expressed in Thousands Unless Otherwise Noted)

NOTE 20

Fund Balances Designated for Subsequent Years' Expenditures

At June 30, 2009, the fund balances designated for subsequent years' expenditures are presented in **Table 40** as follows:

Table 40

Fund Balances Designated for Subsequent Years' Expenditures
At June 30, 2009

General Fund		
Sheriff Department's future capital expenditures	$	4,000
Assessor's Department future expenditures		111
Clerk of the Board future expenditures		5
Department of Environmental Health future expenditures		6,512
Registrar of Voters		3,573
Housing Authority future lease payments		396
Management of conduit financing program		443
Equipment replacement for the Registrar of Voters		445
Preventative health care for children		477
South County Shelter capital improvements		64
Senior Volunteer Patrols Program in the unincorporated communities		65
Regional communication system infrastructure enhancements		12,280
Replacement of Sheriff department helicopter		2,011
Edgemoor geriatric hospital reconstruction		2,865
Health based programs aimed at reducing adult and youth smoking		8,323
Equipment replacement/system enhancement-Caller ID Remote Access Network		1,160
Future lease payments		2,010
Contingency set-aside - cost reimbursement for 2003/2007 County fires		30,728
Total General Fund	$	75,468
Special Revenue Funds		
Equipment acquisition	$	176
Building Maintenance		450
Housing and Community Development		4,499
Total Special Revenue Funds	$	5,125

NOTE 21

Risk Management

The County operates a Risk Management Program, whereby it is self-insured for general liability (per Gov. Code 990), medical malpractice (per Gov. Code 990.9), automobile liability (per CA. DMV Code 16020(b)(4)) and workers' compensation (per Title 8 CCR 15203.4). The County purchases insurance coverage for all risk property losses, government crime insurance, including employee dishonesty and faithful performance, airport comprehensive liability, and aircraft hull and liability insurance. Settlements in the areas covered have not exceeded insurance coverage for each of the past three fiscal years.

The County's Employee Benefits and Public Liability Insurance Internal Service Funds (ISF) are used to report all of its uninsured risk management activities. Risk management liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Actuarial evaluations were obtained which determine estimates of known and projected public liability and workers compensation claim liabilities. These evaluations include estimates for claims incurred but not reported; allocated and unallocated loss adjustment expenses; and amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims.

At June 30, 2009, these liabilities discounted for anticipated investment return of 4%, totaled $108.5 million, including $19.9 million in public liability and $88.6 million in workers' compensation. Changes in the balances of claim liabilities for fiscal year 2009 and 2008 are shown below:

Table 41

Risk Management - Changes in Claim Liabilities

		2009		2008
Employee Benefits Fund				
Unpaid claims, July 1	$	86,802	$	94,686
Incurred claims		18,903		10,128
Claim payments		(17,142)		(18,012)
Unpaid claims, June 30	$	88,563	$	86,802
Public Liability Insurance Fund				
Unpaid claims, July 1	$	19,442	$	16,496
Incurred claims		4,480		5,039
Claim payments		(3,957)		(2,093)
Unpaid claims, June 30	$	19,965	$	19,442

NOTE 22

Contingencies

Litigation

The County has a potential liability of $18.3 million that could result if unfavorable final decisions were rendered in numerous lawsuits to which the County is a named defendant. Appropriations are budgeted annually for those portions of obligations coming due that fiscal year.

Unrecorded Leave Benefits

County employees have unrecorded accumulated benefits of approximately $183.0 million in sick leave, holiday and compensatory time. With the exception of sick leave for eligible employees, these benefits are not payable to employees upon termination and are normally liquidated at year end or as employees elect to use their benefits per Civil Service rules and regulations. Accumulated vacation, sick leave, and compensatory time-off for which employees are eligible for payment upon separation have been recorded as current or liabilities in the appropriate proprietary funds and the statement of net assets.

Federal and State Programs

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

NOTE 23

Joint Ventures

The San Diego Geographic Information Source (SanGIS) was created in July 1997 as a joint powers agreement between the City of San Diego and the County of San Diego. SanGIS objectives are to create and maintain a geographic information system; marketing and licensing compiled digital geographic data and software; providing technical services; and publishing geographic and land related information for the City and the County, other public agencies, and the private sector. It is governed by a Board of Directors consisting of the City Manager and the Chief Administrative Officer. SanGIS relies mostly on an annual budget of $1.5 million shared equally by the City and the County to supplement its operating revenues. In its latest report, SanGIS reported an increase in net assets of $.141 million and ending net assets of $.216 million for the fiscal year ended June 30, 2008. The financial report may be obtained by writing to SanGIS at 5469 Kearny Villa Rd. Suite 102, San Diego CA 92123 or by calling (858) 574-7000 or by E-mail at webmaster@sangis.org.

The County is a participant with eighteen incorporated cities to operate the Unified San Diego County Emergency Services Organization for the purpose of providing regional planning and mutual assistance in the event of an emergency in the region including accidents involving hazardous waste. The organization is governed by the Unified Disaster Council (UDC) with one voting member from San Diego County Board of Supervisors who serves as Chair of the Council, and a representative from each of the 18 incorporated cities. The County of San Diego Office of Emergency Services (OES) serves as staff to the UDC. OES is a liaison between the incorporated cities, the State Office of Emergency Services, the Federal Emergency Management Agency, and the American Red Cross. A contractual agreement requires that the cities and the County provide the total required funding each year; one half from the cities and the other half from the County. In its latest report, the organization reported an decrease in net assets of $2.9 million and ending net assets of $.270 million for the fiscal year ended June 30, 2008. Separate financial statements may be obtained from the Operational Area Emergency Operations Center, 5555 Overland Ave., Suite 1911, San Diego CA 92123 or by calling (858) 565-3490.

The City of San Diego and the County of San Diego jointly formed a Consortium under the Workforce Investment Act of 1998 to provide regional employment and training services. The Consortium is governed by a five member board consisting of two members designated from the County Board of Supervisors, two members designated from the San Diego City Council and one member from the Board of Directors of United Way, a charitable organization. The board assigned the San Diego Workforce Partnership, Inc. as grant recipient and the administrative entity to operate the San Diego Consortium. The City and the County agreed to share equally any debt or liability incurred with respect to State and Federal grants. For the year ended June 30, 2008, the Partnership reported a decrease in net assets of $1.4 million. Complete financial reports may be obtained by writing to the San Diego Workforce Partnership, 3910 University Ave., Suite 400, San Diego CA 92105-1326 or by calling (619) 228-2900.

NOTE 24

Pension and Retiree Health Plans

Pension Plan

Plan Description

The County contributes to the San Diego County Employees Retirement Association pension plan, (SDCERA-PP), a cost-sharing multiple-employer defined benefit pension plan that is administered by SDCERA. The SDCERA-PP has three Tiers and provides retirement, disability, death and survivor benefits to its General and Safety members. Tier A is the current open system. Tier I is closed to new entrants but has active members and Tier II was eliminated for active members. The Retirement Act, (also referred to as the Retirement Law of 1937 and Government Code Section 31450 et.seq.) assigns the County Board of Supervisors, the authority to establish and amend benefit provisions and assigns the SDCERA Board of Retirement the authority to approve retiree members and beneficiaries cost-of-living increases. (See note below regarding SDCERA Financial Report information.)

Funding Policy

The Retirement Act requires that County and member contributions be actuarially determined to provide a specific level of benefit. Contribution rates are expressed as a percentage of covered payroll and member rates vary according to age at entry, benefit tier level and certain negotiated contracts that provide for the County to pay a portion of members' contributions.

(Amounts Expressed in Thousands Unless Otherwise Noted)

The average member contribution rate was 10.38% for all categories combined (General Tier I, General Tier A and Safety members). The employer contribution rate for all categories combined was 23.58%.

CoSD employer contributions to SDCERA-PP for the three years ended June 30, 2009, which equaled the required contributions, were the following:

Table 42

CoSD Employer Contributions - SDCERA - PP

Fiscal Year Ended June 30	Contractually Required Contribution	Contributions Made	Percentage of CRC Contributed
2009	$ 200,146	$ 200,146	100.0%
2008	214,665	214,665	100.0%
2007	213,119	233,314	109.5%

Retiree Health Plan

Plan Description

Effective July 1, 2007, the County commenced contributing to the SDCERA retiree health plan, (SDCERA-RHP) a cost-sharing multiple-employer defined benefit health plan administered by SDCERA. The Retirement Act assigns the authority to establish and amend health allowance benefits to the SDCERA Board of Retirement. The retiree health plan provides a non-taxable health insurance allowance to Tier I and Tier II retirees. Health insurance allowances range from $200 per month to $400 per month based on members' service credits. (See note below regarding SDCERA Financial Report information.)

Funding Policy

The SDCERA-RHP was established and is administered as an Internal Revenue Code Section 401(h) account within the defined benefit pension plan under the authority granted by the Retirement Act to the SDCERA Board of Retirement. The SDCERA-RHP is funded by employer contributions that are based on an actuarially determined 20 year level dollar amortization schedule. The health insurance allowance is not a vested benefit and may be reduced or discontinued at any time by the SDCERA Board of Retirement. Additionally, the total amount of employer contributions are limited by the provisions of 401(h).

CoSD's employer contributions to SDCERA-RHP for the two years ended June 30, 2009, which equaled the required contributions, were the following:

Table 43

COSD Employer Contributions - SDCERA-RHP

Fiscal Year Ended June 30	Contractually Required Contributions (CRC)	Contributions Made	Percentage of CRC Contributed
2009	$ 20,838	$ 20,838	100%
2008	21,304	21,304	100%
2007	Not Applicable	Not Applicable	Not Applicable

SDCERA Financial Report

SDCERA issues a publicly available financial report that includes financial statements and required supplementary information for the SDCERA-PP and the SDCERA-RHP. The financial report may be obtained by writing to San Diego County Employees Retirement Association, 2275 Rio Bonito Way Suite 200, San Diego, California 92108 or by calling (619) 515-0130.

NOTE 25

Fund Deficit

Table 44

Fund Deficit
At June 30, 2009

Internal Service Fund:		
Facilities Management	$	(345)

The deficit within the Facilities Management Internal Service fund decreased from $1 million at June 30, 2008 to $0.345 million at June 30. 2009. The deficit is due to the use of California Energy Commission loans for expenses incurred for maintenance cost and energy conservation. The deficit will decrease annually as it is included in the utility rates calculation charged to the departments. The loans will be repaid by fiscal year 2016.

NOTE 26

Restatements

First 5 Commission

The beginning net asset balance of the First 5 Commission is restated as shown below in the amount of $2,028 resulting from 1) an adjustment to pooled cash and investments reflecting a year-end fair value unrealized gain of $2,120 and 2) a vacation accrual of $92.

Table 45

Restatement - First 5 Commission

Net asset balance as of June 30, 2008	$	196,568
Adjustment for restatement		(2,028)
Net asset balance, restated June 30, 2008	$	194,540

(Amounts Expressed in Thousands Unless Otherwise Noted)

San Diego Regional Building Authority Blended Component Unit

In fiscal year 2009, the County determined that the San Diego Regional Building Authority (SDRBA) qualified as a blended component unit of the County as it met the criteria for blending under Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity." In 2008, the SDRBA's 2001 Metropolitan Transit System Towers Refunding Project and 2003 San Miguel Consolidated Fire Protection District refunding (SM) Project were reported in the Specific Investments Investment Trust fund and the Pool Investments Investment Trust fund, as the SDRBA was considered an external entity. In 2009, these projects are now reported in the SDRBA's Debt Service fund resulting in an overall change of $4.850 million. The County also determined that the related sublease agreement between the County and the Metropolitan Transit Development Board, and the SDRBA long-term interest portion of its lease receivable from the San Miguel Consolidated Fire Protection District, were required to be reported. This resulted in additional $10.06 million and $2.58 million increases, respectively, to the beginning net assets of the County's government-wide Statement of Activities, for a total combined increase of $17.49 million.

Table 46

San Diego Regional Building Authority Blended Component Unit Restatement

Restatement	Pool Investments - Investment Trust	Specific Investments - Investment Trust	Total	Investment Trust	San Diego Regional Building Authority Debt Service	Government-wide Statement of Activities/ Governmental Activities	Government-wide Statement of Activities - Total
Net asset balance as of June 30, 2008	$ 3,153,987	468,721	$ 3,622,708	3,622,708		3,000,666	$ 3,219,589
Adjustment for restatement	(226)	(4,624)	(4,850)	(4,850)	4,850	17,490	17,490
Net asset balance, restated June 30, 2008	$ 3,153,761	464,097	$ 3,617,858	3,617,858	4,850	3,018,156	$ 3,237,079

Change in Governmental Fund Types

In fiscal year 2009 the County reviewed the governmental fund type classifications used to report the activities for the County's Edgemoor Development fund; and the various Redevelopment Agency and SANCAL blended component unit funds. It was determined that Edgemoor and Redevelopment Agency funds formerly classified as Capital Projects funds no longer met the requirements to be treated as such and in 2009 were more appropriately reported as Special Revenue funds. It was also determined that it was more appropriate to treat one of the underlying Redevelopment Agency's debt service funds as a Special Revenue fund as its primary source of revenue is tax increment revenue to be used in part to cover pass-through payments to taxing entities located within the Gillespie Field project area and for housing set asides. An analysis of the SANCAL's Capital Projects funds resulted in the movement of an underlying fund to the debt service fund as its underlying capital projects are completed and the remaining monies will be used to make future debt service payments on SANCAL debt. SANCAL's special revenue fund activities were also determined to be more appropriately classified as debt service activity. The results of these changes in the reporting of various funds had no effect on the overall balance of total governmental funds except for the aforementioned $4.850 adjustment to the San Diego Regional Building Authority's Debt Service Fund for restatement. The effects within the various governmental fund types are shown in the table below:

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 47

Restatement - Governmental Funds

Restatement - Special Revenue Funds	Edgemoor Development	Redevelopment Agency	SANCAL	Total Special Revenue
Net asset balance as of June 30, 2008	$		1,107	$ 393,142
Adjustment for restatement	19,440	5,199	(1,107)	23,532
Net asset balance, restated June 30, 2008	$ 19,440	5,199		$ 416,674

Restatement - Debt Service Funds	Redevelopment Agency	SANCAL	San Diego Regional Building Authority (1)	Total Debt Service
Net asset balance as of June 30, 2008	$ 2,918	26,517		$ 44,683
Adjustment for restatement	(1,760)	1,196	4,850	4,286
Net asset balance, restated June 30, 2008	$ 1,158	27,713	4,850	$ 48,969

Restatement - Capital Project Funds	Edgemoor Development	Redevelopment Agency	SANCAL	Total Capital Projects
Net asset balance as of June 30, 2008	$ 19,440	3,439	4,695	$ 32,032
Adjustment for restatement	(19,440)	(3,439)	(89)	(22,968)
Net asset balance, restated June 30, 2008	$		4,606	$ 9,064

(1) The effect of the SDRBA Debt Service Fund restatement is also shown in the SDRBA Restatement footnote.

NOTE 27

Subsequent Events

Tax and Revenue Anticipation Notes

In July 2009, the County issued tax and revenue anticipation notes (TRANS) totaling $220 million due June 30, 2010 at a coupon rate of 2.00% and a yield of 0.37%. Proceeds from the notes will be used to meet fiscal year 2010 cash flow requirements. Fiscal year 2010 unrestricted revenues collateralize the notes.

San Diego County Capital Asset Leasing Corporation - "County of San Diego Certificates of Participation (Justice Facilities Refunding)"

In October 2009, the San Diego County Capital Asset Leasing Corporation (SANCAL) issued $80.940 million of fixed rate Certificates of Participation titled "County of San Diego Certificates of Participation (Justice Facilities Refunding)" (the "Certificates") issued at fixed interest rates ranging from 2.00% to 5.00% with maturity dates ranging from October 1, 2010 through October 1, 2025.

These Certificates were issued with a premium of $7.803 million. Certificate proceeds of $88.743 million along with $18.014 million of funds held by the 1997 Central Jail Refunding and 1998 Downtown Courthouse Refunding trustee (trustee) were distributed as follows: 1) $99.561 was transferred to an escrow agent to advance refund the outstanding $55.475 million 1997 Central Jail Refunding and $42.270 million 1998 Downtown Courthouse Refunding Certificates of Participation and to provide $1.816 for future interest payments thereon; 2) $4.818 million of proceeds were used to fund the Certificates' debt service reserve fund; 3) $752 thousand were set aside to pay certain costs of issuance; 4) $1.595 million was transferred to the refunding trustee base rental account to fund the April 2010 debt service interest payment on the Certificates; and 5) $31 thousand of existing funds were set aside to be used for various ongoing debt related costs.

Redemption of Series 2008B Variable Rate Demand Obligations

On July 1st 2009, the County redeemed in full $100 million Series 2008B Variable Rate Demand Obligations (the "Series 2008B Obligations") issued in two subseries consisting of $50 million Series 2008B-1 Variable Rate Demand Obligations and $50 million Series 2008B-2 Variable Rate Demand Obligations.

The source of funds used to redeem the Series 2008B Obligations were as follows: 1) $63.9 million internal loan granted from the General Fund to the Pension Obligation fund which will be repaid to the General Fund via charges to County departments made possible by a reduction in the required retirement system contribution rates for fiscal year 2010); 2) $24.1 million contribution from the General Fund to the Pension Obligation Bond Debt Service Fund; and, 3) $12 million from Pension Obligation Debt Service Fund monies on hand.

The redemption of the $100 million Series 2008B Obligations is anticipated to result in approximately $4.5 million of annual debt service savings.

NOTE 28

New Governmental Accounting Standards

Implementation Status

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.* This statement identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation. Liabilities and expenses would be estimated using an "expected cash flows" measurement technique, which is used by environmental professionals but will be employed for the first time by governments. Statement 49 also will require governments to disclose information about their pollution obligations associated with clean up efforts in the notes to the financial statements. This statement is effective for the County's fiscal year ending June 30, 2009.

Because pollution remediation activities are immaterial recommended disclosures are not necessary.

In June 2008, the GASB issued Statement 53, *Accounting and Financial Reporting for Derivative Instruments.* This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, also can expose governments to significant risks and liabilities.

The disclosures required by Technical Bulletin No. 2003-1, Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets, have been incorporated into this Statement. The objectives, terms, and risks of hedging derivative instruments are required disclosures. Disclosures also include a summary of derivative instrument activity that provides an indication of the location of fair value amounts reported on the financial statements. The disclosures for investment derivative instruments are similar to the disclosures of other investments. This statement is effective for the County's fiscal year ending June 30, 2010.

The County does not currently invest in derivatives, consequently this Statement is not currently applicable.

In March 2009, GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. The GASB is responsible for establishing GAAP for state and local governments. However, the current GAAP hierarchy was set forth in the American Institute of Certified Public Accountants' (AICPA) Statement on Auditing Standards No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*, rather than in the authoritative literature of the GASB. This Statement is effective immediately upon issuance.

In March 2009, GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards.* The objective of this Statement is to incorporate into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting principles—related party transactions, going concern considerations, and subsequent events. The presentation of principles used in the preparation of financial statements is more appropriately included in accounting and financial reporting standards rather than in the auditing literature. This Statement does not establish new accounting standards but rather incorporates the existing guidance (to the extent appropriate in a governmental environment) into the GASB standards. This Statement is effective immediately upon issuance.

Under Analysis

The County is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In June 2007, GASB issued Statement 51, *Accounting and Financial Reporting for Intangible Assets.* The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. Additionally, this Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated. This Statement also provides guidance on recognizing internally generated computer software as an intangible asset. This guidance serves as an application of the specified-conditions approach described above to the development cycle of computer software.

This Statement also establishes guidance specific to intangible assets related to amortization. This Statement provides guidance on determining the useful life of intangible assets when the length of their life is limited by contractual or legal provisions. If there are no factors that limit the useful life of an intangible asset, the Statement provides that the intangible asset be considered to have an indefinite useful life.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively. Retroactive reporting is not required but is permitted for intangible assets considered to have indefinite useful lives as of the effective date of this Statement and those considered to be internally generated. This statement is effective for the County's fiscal year ending June 30, 2010.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This statement is effective for the County's fiscal year ending June 30, 2011.