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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*.

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 201, (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,

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

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 to generate or use cash within twelve months of the end of the fiscal period. Examples 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 activities. 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 Section 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

Notes to the Financial Statements

(Amounts Expressed in Thousands Unless Otherwise Noted)

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 and capital leases 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 Section 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 (\$8.379 million and \$3.477 million, respectively). 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."

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 fund 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, infrastructure, software and easements.

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 **Table 1** 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
Software	50-100
Easements	50

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	10-50 years
Infrastructure	10-50 years
Equipment	5-20 years
Software	3-10 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.

Lease Obligations

The County leases various assets under both operating and capital lease agreements. In the government-wide and proprietary funds financial statements, capital lease obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary funds statement of net assets.

Notes to the Financial Statements

(Amounts Expressed in Thousands Unless Otherwise Noted)

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 and premiums are 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 Section 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 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.

General Budget Policies

An operating budget is adopted each fiscal year by the Board of Supervisors for the governmental funds. The annual resolution adopts the budget at the object level of expenditures within departments. Annual budgets are not required to be adopted for the Tobacco Securitization Joint Special Revenue Fund; and the Debt Service and Capital Projects Funds (other governmental funds). Please refer to the notes to required supplementary information for more details regarding the County's general budget policies.

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 County does not employ the use of a specified time at the beginning of a given budget period during which encumbrances outstanding at the end of the prior budget period may be liquidated using the prior year's budgetary authority (lapse period) for encumbrance liquidation, encumbered amounts that are reappropriated as part of the following year's budget, including contract contingencies encumbered on a project basis, 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.

Notes to the Financial Statements

(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, 2010

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 (\$1,990,073) difference are as follows:	
Bonds, notes and loans payable	
Certificates of participation and lease revenue bonds	\$ (422,260)
Taxable pension obligation bonds	(874,336)
Tobacco settlement asset-backed bonds	(574,157)
San Diego County Redevelopment Agency revenue refunding bonds	(14,640)
Loans - non-internal service funds	(2,671)
Subtotal	(1,888,064)
Add: Unamortized issuance premiums	(15,499)
Less: Unamortized issuance discounts (to be amortized as interest expense)	16,126
Less:	
Beginning balance - Unamortized deferred amounts on refundings	18,037
Add: Remaining unamortized cost of issuance on refunded debt	1,773
Add: Remaining unamortized discount on refunded debt	1,729
Add: Deferred amount on refunding attributable to reacquisition price of new debt in excess of outstanding debt refunded	805
Less: Amortization of deferred amount on refunding (as shown on Table 4)	(5,842)
Ending balance - Unamortized deferred amounts on refundings (to be amortized as interest expense)	16,502
Arbitrage	(455)
Compensated absences (excluding Internal Service Funds)	(97,766)
Landfill closure and postclosure - San Marcos landfill	(20,917)
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ (1,990,073)</u>
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 \$112,365 difference are as follows:	
Net assets of the internal service funds	\$ 112,856
Less: Internal payable representing charges in excess of cost to business-type activities - prior years	(618)
Add: Internal payable representing charges in excess of cost to business-type activities - current year	127
Net adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ 112,365</u>

Notes to the Financial Statements

(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, 2010

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 \$103,872 difference are as follows:

Capital outlay	\$	205,512
Depreciation expense		(101,640)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	\$	103,872

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets. The details of this \$(68,690) difference are as follows:

The proceeds from the sale of capital assets provide current financial resources but have no effect on net assets	\$	(365)
The loss on the disposal of capital assets does not affect current financial resources but decreases net assets		(89,945)
Donations of assets to the County do not provide current financial resources but resources increase net assets		21,620
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	\$	(68,690)

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 \$182,133 difference are as follows:

Debt issued or incurred:		
Refunding bonds issued	\$	(80,940)
Plus: Premiums		(7,803)
Less: Issuance costs		739
Payment to escrow agent/refunded bond		83,173
Payment to refunded bond escrow agent		15,377
Principal repayments		169,059
Accreted interest paid		2,466
Arbitrage		62
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	\$	182,133

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 \$(14,032) difference are as follows:

Compensated absences	\$	1,071
Accrued interest		731
Accretion of capital appreciation bonds		(8,058)
Amortization of premiums		1,001
Amortization of discounts		(1,120)
Amortization of deferred amounts on refundings		(5,842)
Amortization of issuance costs		(1,815)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	\$	(14,032)

Internal Service Funds. The net revenue of certain activities of internal service funds is reported with governmental activities. The details of this \$10,548 difference are as follows:

Change in net assets of the internal service funds	\$	10,421
Add: Gain from charges to business activities		127
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	\$	10,548

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 \$5,194,763 consisting of: \$5,175,446 investments in the County pool; \$16.741 million in demand deposits; \$2.044 million of collections in transit; and, \$532 thousand in imprest cash.

Deposits

Government Code Section 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. These securities shall be placed in the institution's pooled collateral account and monitored by the State Treasurer of California or a mutually agreed upon 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 102% of the deposit amount in accordance with California Government Code.

California Government Code Section 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, 2010, 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 \$16,741, and the bank balance at June 30, 2010 was \$14,290, 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 the bank balance, \$350 thousand was covered by federal deposit insurance and \$13,940 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 \$1.999 million and the bank balance per various financial institutions was \$2.272 million. Of the total bank balance, \$410 thousand was covered by federal deposit insurance and \$1.862 million was collateralized by a named agent depository.

Investments

Government Code Section 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; 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 is provided by the custodian bank. Repurchase agreements and Institutional money market funds are carried at portfolio book value (carrying cost). 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 Section 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 Section 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 the Investment Pool requires at least 25 percent of securities to mature within 90 days, at least 50 percent of securities to mature within one year, and no more than 50 percent of securities to mature within one to five years. In addition, the Investment Pool limits the maximum effective duration of the portfolio to 18 months. As of June 30, 2010, the Investment Pool was in full compliance with its own more restrictive Investment Policy, and therefore was also in compliance with California Government Code. Actual weighted average days to maturity by investment type is presented in **Table 7**.

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 an investment may not fulfill its obligations.

The Pooled Money Fund Investment Policy and the California 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, 2010, all Pool investments were in compliance with State law and with the Investment Policy.

The County Investment Pool's investment in the securities of the Federal Home Loan Mortgage Corporation (FHLMC) and Federal National Mortgage Association (FNMA) are issued by agencies that remain under conservatorship by the Director of the Federal Housing Finance Agency. The U.S. government does not guarantee, directly or indirectly, the securities of the FHLMC, Federal Home Loan Bank (FHLB), or FNMA. The County Investment Pool's investments in FHLMC, FHLB, and FNMA securities as of June 30, 2010 comprised 17.82%, 19.27%, and 17.40% of the total County Investment Pool's investments, respectively.

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, 2010 are shown in **Table 6**.

Notes to the Financial Statements

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 6

Concentration of Credit Risk - Investment With Fiscal Agents

Issuer	Tobacco Endowment Fund	Percent	Nonmajor Governmental Funds	Percent
BlackRock MuniFund	\$ 50,970	12	\$	
Allied Irish Bank			34,140	30
Federal farm credit bank			20,282	18
Federal national mortgage association			14,970	13
Federated treasury obligation			14,063	12
Federal home loan bank			10,117	9
Federal home loan mortgage corporation			10,194	9

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 outside party.

The investment policy does not permit investments in uninsured and unregistered securities not held by the County. The County of San Diego utilizes third party delivery versus payment custodian which mitigates any custodial credit risk. Securities purchased by the County Investment Pool are held by a third-party custodian, the Bank of New York Mellon Corporation, in their trust department to mitigate custodial credit risk.

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, 2010

	Fair Value	Interest Rate Range	Maturity Range	Weighted Average Maturity (days)	S&P Rating	% of Portfolio
US government agencies:						
Federal home loan mortgage corporation notes	\$ 922,160	0.20% - 6.00%	07/10 - 04/15	630	AAA	17.82%
Federal home loan bank notes	997,386	0.11% - 6.63%	07/10 - 05/14	509	AAA	19.27%
Federal national mortgage association notes	900,417	0.13% - 5.00%	07/10 - 11/14	823	AAA	17.40%
Federal farm credit bank notes	125,676	1.99% - 5.05%	07/10 - 05/14	738	AAA	2.43%
US treasury notes	287,990	0.88% - 4.88%	09/10 - 08/14	785	AAA	5.56%
US treasury bills	104,974	0.11% - 0.31%	07/10 - 09/10	54	AAA	2.03%
Commercial paper	905,922	0.10% - 0.37%	07/10 - 10/10	23	A-1/A-1+	17.50%
Corporate medium-term notes	51,599	4.25% - 5.88%	09/10 - 03/12	372	AA+	1.00%
Repurchase agreements collateralized by:						
Money market securities	175,000	0.16%	07/10	1	N/A	3.38%
Government securities	2,251	0.10%	07/10	1	N/A	0.04%
Money market mutual funds	137,210	0.02% - 0.06%	08/10	32	AAA	2.65%
Certificates of deposit	529,791	0.15% - 1.20%	07/10 - 12/10	25	N/A	10.24%
Bond funds	35,070	0.64%	07/11	391	AA	0.68%
Total investments	\$ 5,175,446			429		100.00%

Notes to the Financial Statements

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 8

**Investments with Fiscal Agents
At June 30, 2010**

	Fair Value	Interest Rate Range	Maturity Range	Weighted Average Maturity (days)	S&P Rating	% of Portfolio
County investments with fiscal agents						
Unrestricted:						
Federal farm credit bank notes	\$ 20,282	2.45%	5/14	1413	AAA	3.88%
Federal home loan bank notes	10,117	2.00%	4/13	1020	AAA	1.94%
Federal home loan mortgage corp notes	10,194	4.50%	12/10	169	AAA	1.95%
Fixed income tax exempt bonds	21,852	0% - 5.75%	9/10 - 7/14	762	A	4.18%
Fixed income tax exempt bonds	12,986	0% - 5.25%	7/11 - 4/35	3820	A+	2.49%
Fixed income tax exempt bonds	79,577	5% - 6.50%	11/10 - 8/15	764	AA	15.23%
Fixed income tax exempt bonds	25,001	5.50% - 5.63%	10/10 - 5/12	312	AA-	4.78%
Fixed income tax exempt bonds	61,641	3.5% - 5.5%	7/10 - 1/15	648	AA+	11.80%
Fixed income tax exempt bonds	136,703	0% - 8.95%	7/10 - 1/14	770	AAA	26.16%
Fixed income tax exempt bonds	8,280	5.25% - 5.75%	6/12 - 7/14	1287	BBB	1.58%
Fixed income tax exempt bonds	11,018	5.50% - 8.25%	7/11 - 6/28	2548	NA	2.11%
MuniFunds	50,970	0.15%	7/10 - 8/10	33	AAA	9.76%
Subtotal	448,621					
Restricted:						
Federal home loan bank notes	1,719	1.63% - 3.5%	7/10 - 1/11	41	AAA	0.33%
Federal home loan bank step-up	832	5.00%	7/10	17	AAA	0.16%
Federal home loan mortgage corp. disc. notes	1,987	0.00%	1/11	188	AAA	0.38%
Federal home loan mortgage corp. strip	564	0.00%	7/10 - 7/11	189	NR/NA	0.11%
Federal national mortgage assn. notes	14,970	2.75% - 4.63%	2/14 - 10/14	1397	AAA	2.87%
Federal national mortgage assn. step-up	268	5.00%	7/10	28	AAA	0.05%
Federal nat'l mortgage assn. strip	2,851	0.00%	1/11 - 7/11	316	NA	0.55%
Money market funds	50,163	0.00% - 0.02%	7/10 - 8/10	25-58	AAA/A-1+	9.60%
Certificates of deposit	490	0.15% - 0.25%	8/10 - 9/10	77	AAA	0.09%
Subtotal	73,844					
Total County investments with fiscal agents	522,465					100.00%
External specific investments:						
Federal farm credit bank notes	3,322	1.85% - 2.45%	9/12 - 5/14	1002	AAA	2.13%
Federal home loan bank notes	367	4.88%	6/12	709	AAA	0.24%
Federal home loan mortgage corp. notes	505	4.75%	9/10	84	AAA	0.32%
Guaranteed investment contracts	151,327	5.07%	9/10	92	NA	96.99%
Medium term notes	506	4.87	10/10	113	AA+	0.32%
Money market funds	7	0.17%	7/10 - 8/10	35	AAA	0.00%
Total external specific investments	156,034					100.00%
Total investments with fiscal agents	\$ 678,499					

Table 9

Investment Pool Policy Restrictions versus California Government Code Section 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 obligations	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
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 2010 restricted assets were as follows:

Fund	Legal or Contractual Requirements	Debt Covenants
General Fund	\$ 146	\$ 8,454
Nonmajor Governmental Funds		
Housing Authority Special Revenue Fund	732	
Tobacco Securitization Joint Special Revenue Fund		47,038
Pension Obligations Bonds Debt Service Fund		22
Redevelopment Agency Debt Service Fund		1,155
San Diego Regional Building Authority Debt Service Fund		28,811
SANCAL Debt Service Fund		5,121

NOTE 5

Receivables

Details of receivables reported in the government-wide Statement of Net Assets are presented in **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 - \$50.686 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 Section 17617 over a period not more than 15 years beginning in fiscal year 2007. The State began to reimburse the County for these programs and services in fiscal year 2007, but has not budgeted appropriations in the current year.

Loans - Governmental activities- \$63.5 million

This amount includes: \$35.153 million in housing rehabilitation loan programs for low-income or special need residents, loans for low income housing downpayments, and redevelopment agencies; and \$28.347 million in community development block grant loans.

Loans- Business-type activities- \$3.886 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, 2010

	Accounts	Investment Income	Due From Other Government Agencies	Loans	Other	Total Receivables	Allowance For Doubtful Accounts	Receivables Net
Governmental activities:								
General Fund	\$ 5,266	2,819	328,693	5,592	76	342,446	(3,477)	338,969
Public Safety Special Revenue Fund			33,423			33,423		33,423
Tobacco Endowment Fund		5,032				5,032		5,032
Other Governmental Funds	28,484	1,309	37,462	57,908	478	125,641		125,641
Internal Service Funds	426	313	1,291		25	2,055		2,055
Total governmental activities	\$ 34,176	9,473	400,869	63,500	579	508,597	(3,477)	505,120
Business-type activities:								
Enterprise Funds	\$ 274	158	9,044	3,886		13,362		13,362
Component Unit:								
First 5 Commission	\$	963	5,667			6,630		6,630

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 \$5.47 million at June 30, 2010. The lease revenue received by the SDRBA and the County for the year ended June 30, 2010 was approximately \$888 thousand and \$843 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 \$2.47 million in land at June 30, 2010.

Lease revenue from noncancelable operating leases for the year ended June 30, 2010 was approximately \$15.8 million. Future minimum lease payments to be received under the capital leases and noncancelable operating leases are noted in **Table 12**.

Table 12

Lease Revenue

County Property Leased To Others

Fiscal Year	Capital Leases	Operating Leases
2011	\$ 1,755	\$ 15,466
2012	1,723	14,932
2013	1,742	14,639
2014	1,729	14,164
2015	1,738	10,952
2016-2020	8,665	46,060
2021-2025		39,059
2026-2030		37,200
2031-2035		30,344
2036-2040		18,437
2041-2045		11,030
2046-2050		8,165
2051-2055		6,605
2056-2060		2,471
2061-2065		2,311
Total	\$ 17,352	\$ 271,835

Notes to the Financial Statements

(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:

	Beginning Balance at July 1, 2009	Increases	Decreases	Ending Balance at June 30, 2010
Capital assets, not being depreciated:				
Land	\$ 307,417	30,208	(15,540)	\$ 322,085
Easements		4,581		4,581
Construction in progress	233,620	129,779	(126,963)	236,436
Total capital assets, not being depreciated	541,037	164,568	(142,503)	563,102
Capital assets, being depreciated:				
Buildings and improvements	1,186,056	100,434	(138,528)	1,147,962
Software (1)	55,480	19,353		74,833
Equipment	246,517	18,679	(23,991)	241,205
Road infrastructure	2,356,840	60,706		2,417,546
Bridge infrastructure	51,380	9,401		60,781
Total capital assets, being depreciated	3,896,273	208,573	(162,519)	3,942,327
Less accumulated depreciation for:				
Buildings and improvements	(369,521)	(23,706)	64,860	(328,367)
Software (1)	(55,480)	(6,349)		(61,829)
Equipment	(128,998)	(22,355)	20,792	(130,561)
Road infrastructure	(933,896)	(65,227)		(999,123)
Bridge infrastructure	(15,610)	(986)		(16,596)
Total accumulated depreciation	(1,503,505)	(118,623)	85,652	(1,536,476)
Total capital assets, being depreciated, net	2,392,768	89,950	(76,867)	2,405,851
Governmental activities capital assets, net	\$ 2,933,805	254,518	(219,370)	\$ 2,968,953

(1) In 2009, this amount was reported as Equipment.

	Beginning Balance at July 1, 2009	Increases	Decreases	Ending Balance at June 30, 2010
Capital assets, not being depreciated:				
Land	\$ 11,338	227		\$ 11,565
Construction in progress	63,580	19,971	(62,365)	21,186
Total capital assets, not being depreciated	74,918	20,198	(62,365)	32,751
Capital assets, being depreciated:				
Buildings and improvements	59,547	43,327		102,874
Equipment	1,331		(24)	1,307
Road infrastructure	335	6,027		6,362
Sewer infrastructure	72,848	12,784		85,632
Total capital assets, being depreciated	134,061	62,138	(24)	196,175
Less accumulated depreciation for:				
Buildings and improvements	(25,323)	(2,021)		(27,344)
Equipment	(1,104)	(37)	16	(1,125)
Road infrastructure	(19)	(8)		(27)
Sewer infrastructure	(32,349)	(1,427)		(33,776)
Total accumulated depreciation	(58,795)	(3,493)	16	(62,272)
Total capital assets, being depreciated, net	75,266	58,645	(8)	133,903
Business-type activities capital assets, net	\$ 150,184	78,843	(62,373)	\$ 166,654

Depreciation

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

General government	\$	3,055
Public protection		22,931
Public ways and facilities		65,503
Health and sanitation		5,403
Public assistance		1,228
Education		761
Recreation and cultural		2,759
Internal Service Funds		16,983
Total	\$	118,623

Airport Fund	\$	2,008
Sanitation Districts Fund		1,468
Wastewater Management Fund		17
Total	\$	3,493

Capital Commitments

At June 30, 2010, major contracts entered into for structures and improvements and other commitments within governmental and business-type activities were as follows:

Capital Commitments		Remaining
At June 30, 2010		Commitments
Governmental Activities		
Other Governmental Funds:		
Upgrade of Oracle Enterprise Resources	\$	27,050
Construction of County Operations Center		20,833
Construction of South Santa Fe Ave.		15,284
Construction of Ramona Branch Library		5,058
Construction of Jamacha Blvd.		4,506
Construction of Valley Center Road Bridge Over San Luis Rey River		4,065
Construction of Fallbrook Branch Library		2,890
Construction of Sweetwater Summit Campground Expansion		2,464
Construction of Olive Vista Dr.		2,002
Acquisition of Del Dios Highland Preserve		1,150
Acquisition of Software AG License Agreement		1,091
Subtotal		86,393
Business-type Activities		
Enterprise Funds:		
Construction of McClellan Palomar Airport Runway		1,011
Subtotal		1,011
Total	\$	87,404

NOTE 8

Interfund Balances

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

Interfund Balances		Due From						
At June 30, 2010		General Fund	Public Safety	Tobacco Endowment	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Total
Due To	General Fund	\$	46,939	3,314	14,171	48	2,910	\$ 67,382
	Nonmajor Governmental		9,374		1,431	348	818	11,971
	Nonmajor Enterprise		30		3,370	229		3,629
	Internal Service		27,484		2,661	78	1,212	31,435
	Total	\$	36,888	46,939	3,314	21,633	703	4,940

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

a. \$1.111 million is due to the General Fund from the Redevelopment Agency Special Revenue Fund (Upper San Diego River Project) as a result of a loan to provide funding for Project improvements. \$1.018 million of this balance is not scheduled to be collected in the subsequent year.

b. \$3.363 million is due from the Redevelopment Agency Special Revenue 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 Health and Safety Code Section 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.

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(Amounts Expressed in Thousands Unless Otherwise Noted)

c. \$147 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. \$98 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:

		TRANSFERS OUT						
		General Fund	Public Safety	Tobacco Endowment	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Total
TRANSFERS IN	General Fund	\$	188,226	24,200	12,979		634	\$ 226,039
	Nonmajor Governmental		212,221		9,011	654	4,093	225,979
	Nonmajor Enterprise		309					309
	Internal Service		10,512		225			10,737
	Total	\$	223,042	188,226	24,200	22,215	654	4,727

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:

	Vendors	Due to Other Government Agencies	Other	Total Payables
Governmental Activities:				
General Fund	\$ 74,857	16,139	5,018	\$ 96,014
Other Governmental Funds	35,613	2,893	1,010	39,516
Internal Service Funds	36,345	1,086		37,431
Total governmental activities	\$ 146,815	20,118	6,028	\$ 172,961
Business-type activities:				
Enterprise Funds	\$ 7,126			\$ 7,126
Component Unit:				
First 5 Commission	\$ 9,005	8,299	102	\$ 17,406

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:

	Beginning Balance at July 1, 2009	Issued	Redeemed	Ending Balance at June 30, 2010
Tax and revenue anticipation notes	\$	220,000	220,000	\$

NOTE 12

Lease Obligations

Operating Leases

Real Property

The County has obligations under long-term operating lease agreements through fiscal year 2022 (**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, 2010 was approximately \$30.98 million, including \$18.8 million for non-cancelable leases.

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

Lease Commitments - Real Property		
Fiscal Year	Minimum Lease Payments	
2011	\$	20,595
2012		18,066
2013		12,061
2014		8,918
2015		5,007
2016-20		8,676
2021-22		3,014
Total	\$	76,337

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, 2010, was approximately \$2.7 million.

Capital Lease

Minimum Lease Payments

Equipment has been leased from the Bowe Bell and Howell Company. The present value of the minimum lease obligation has been capitalized in the Facilities Management internal service fund statement of net assets and in the government-wide statement of net assets; and is reflected as a liability in those statements. The County assumes responsibility for all maintenance and repair of the equipment under the terms of the lease agreement. Future minimum lease payments under this capital lease are as follows:

Capital Leases - Future Minimum Lease Payments		
Fiscal Year	Amount	
2011	\$	40
2012		40
2013		40
2014		40
2015		40
2016-2018		95
Total minimum lease payments		295
Less: Amount representing interest		(53)
Net lease payments		\$ 242

Book Value

The book value of capital lease property consists of the following:

Capital Leases - Book Value				
At June 30, 2010				
Capital Lease Property	Original Cost	Accumulated Amortization	Net Book Value	
Equipment	\$ 310	80	230	
Total	\$ 310	80	230	

The amortization of this capital leased asset was \$80 thousand in fiscal year 2010 and is included in the Internal Service Funds depreciation of \$16.983 million in **Table 15**.

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

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(Amounts Expressed in Thousands Unless Otherwise Noted)

terms, the County and the SMCPSD 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 October 2009, the San Diego County Capital Asset Leasing Corporation issued \$80.940 million of fixed rate serial certificates of participation titled, Justice Facilities Refunding (Certificates). These certificates have maturity dates beginning October 1, 2010 with a final maturity of October 1, 2025. Each maturity date carries a different fixed interest rate beginning in April 2010 at a fixed rate of 2 percent with fixed rates ranging to 5 percent.

These Certificates were issued with a premium of \$7.803 million. The \$88.743 million in proceeds of the Certificates along with \$18.077 million of funds held by the 1997 Central Jail Refunding and 1998 Downtown Courthouse Refunding trustee (trustee) were distributed as follows: 1) \$98.550 million (consisting of \$83.173 million of new Certificate proceeds plus \$15.377 million of funds held by the trustee) was transferred to an escrow agent to advance refund the entire \$55.475 million 1997 Central Jail Refunding Certificates of Participation (Jail COPs) and \$42.270 million 1998 Downtown Courthouse Refunding Certificates of Participation (Courthouse COPs) outstanding, respectively, and to pay future interest payments; 2) \$1.010 million was used to pay interest on the refunded Jail COPs and Courthouse COPs due on the closing date at the time of the refunding; 3) \$4.818 million to fund a Certificate reserve fund; 4) \$752 thousand was set aside to pay certain costs of issuance; 5) \$1.595 million was transferred to the Base Rental Payment Fund and was used to fund the April 2010 Certificate interest payment; and, 6) \$95 thousand of existing funds were set aside to be used for various ongoing debt related costs.

The \$98.550 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 Jail COPs and Courthouse COPs along with a 0.01 percent premium attributable to the Courthouse COPs. As a result, the Jail COPs and Courthouse COPs are considered legally defeased and the liability for those certificates has been removed from the government-wide statement of net assets governmental activities' liabilities due within one year and due in more than one year. This advance refunding will result in reducing the County's principal and interest payments by \$11.232 million over the next 17 years to obtain an economic gain of \$8.742 million (i.e. difference between the present values of the debt service payments on the refunded debt and the refunding debt). The interest on the Certificates is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes.

Details of COPs and LRBs outstanding at June 30, 2010 are as follows:

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2010
1993 Master Refunding COP	\$ 203,400	2.50 - 5.625%	2013	\$ 14,800
2001 Metropolitan Transit System Towers Refunding COP	36,960	2.15 - 5.25%	2020	24,075
2002 Motorola COP	26,060	2.00 - 5.00%	2011	3,320
2003 San Miguel Consolidated Fire Protection District Refunding LRB	10,005	2.00 - 5.00%	2020	7,020
2005 Edgemoor Project COP	83,510	3.00 - 5.00%	2030	76,680
2005 Regional Communications System Refunding COP	28,885	3.00 - 5.00%	2019	15,730
2005 North & East Justice Facilities Refunding COP	28,210	3.25 - 5.00%	2020	21,695
2006 Edgemoor Completion Project COP	42,390	4.00 - 5.00%	2030	41,115
2009 Series A COC and Annex Project LRB	136,885	3.00 - 5.50%	2036	136,885
2009 Justice Facilities Refunding of 1998 Courthouse COP	32,640	2.00 - 5.00%	2023	32,640
2009 Justice Facilities Refunding of 1997 Central Jail COP	48,300	2.00 - 5.00%	2026	48,300
Total	\$ 677,245			\$ 422,260

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(Amounts Expressed in Thousands Unless Otherwise Noted)

Annual debt service requirements to maturity for COPs and LRBs are as follows:

Table 26				
Certificates of Participation and Lease Revenue Bonds - Debt Service Requirements to Maturity				
Fiscal Year	Principal	Interest	Total	
2011	\$ 27,305	19,209	\$ 46,514	
2012	23,745	18,226	41,971	
2013	24,745	17,207	41,952	
2014	19,525	16,355	35,880	
2015	18,825	15,535	34,360	
2016-2020	104,520	63,683	168,203	
2021-2025	79,995	41,749	121,744	
2026-2030	74,065	23,065	97,130	
2031-2035	40,160	8,322	48,482	
2036	9,375	294	9,669	
Subtotal	\$ 422,260	223,645	\$ 645,905	
Add:				
Arbitrage	455			
Unamortized issuance premium	15,499			
Less:				
Unamortized deferred amounts on refundings	(5,454)			
Total	\$ 432,760			

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 July 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 sources 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 years 2010 and 2011; 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.

Details of POBs outstanding at June 30, 2010 are as follows:

Table 27					
Taxable Pension Obligation Bonds					
Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2010	
2002 Series A	\$ 132,215	3.88 - 4.95%	2016	\$ 102,215	
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	88,445	
2004 Series C Unaccreted Interest CABs				(11,954)	
2008 Series A	343,515	3.33 - 6.03%	2027	334,935	
Total	\$ 929,843			\$ 874,336	

Annual debt service requirements to maturity for POBs are shown below in **Table 28**.

Table 28					
Taxable Pension Obligation Bonds - Debt Service Requirements to Maturity					
Fiscal Year	Principal	Unaccreted Appreciation	Interest	Total	
2011	\$ 36,590	3,591	44,446	\$ 84,627	
2012	33,176	3,053	43,391	79,620	
2013	33,215	2,386	42,313	77,914	
2014	33,042	1,575	41,233	75,850	
2015	38,240	1,202	39,556	78,998	
2016-2020	226,575	147	165,967	392,689	
2021-2025	315,670		84,312	399,982	
2026-2028	140,370		4,986	145,356	
Subtotal	\$ 856,878	11,954	466,204	\$ 1,335,036	
Add:					
Accreted appreciation through June 30, 2010	\$ 23,288				
Less:					
Accreted appreciation paid through fiscal year 2010	(2,467)				
Less:					
Accreted appreciation to be paid in fiscal year 2011	(3,363)				
Subtotal	874,336				
Less:					
Unamortized deferred amounts on refundings	(1,796)				
Total	\$ 872,540				

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(Amounts Expressed in Thousands Unless Otherwise Noted)

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 (collections).

Details of TSAB outstanding at June 30, 2010 are as follows:

Table 29

Tobacco Settlement Asset-Backed Bonds

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2010
Series 2006A Senior Current Interest Bonds	\$ 534,610	4.75 - 5.125%	2016-2030	\$ 510,145
Series 2006B CABs	19,770	6.25%	2032	93,711
2006B unaccreted appreciation CABs				(68,287)
Series 2006C CABs	8,686	6.40%	2033	46,268
2006C unaccreted appreciation CABs				(35,032)
Series 2006D CABs	20,565	7.10%	2036	150,768
2006D unaccreted appreciation CABs				(123,416)
Total	\$ 583,631			\$ 574,157

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

Table 30

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

Fiscal Year	Principal	Unaccreted Appreciation	Interest	Total
2011	\$ 11,275	4,321	25,540	\$ 41,136
2012	10,770	4,613	25,006	40,389
2013	11,690	4,926	24,491	41,107
2014	12,645	5,260	23,932	41,837
2015	13,635	5,617	23,327	42,579
2016-2020	94,070	34,343	105,169	233,582
2021-2025	142,650	47,697	76,656	267,003
2026-2030	200,210	66,270	34,649	301,129
2031-2035	58,460	51,802	620	110,882
2036	3,761	1,886		5,647
Subtotal	\$ 559,166	226,735	339,390	\$ 1,125,291
Add:				
Accreted appreciation through June 30, 2010	14,991			
Subtotal	574,157			
Less:				
Unamortized issuance discount	(16,088)			
Unamortized deferred amounts on refundings	(9,252)			
Total	\$ 548,817			

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(Amounts Expressed in Thousands Unless Otherwise Noted)

TSAB pledged revenue for the year ended June 30, 2010 was as follows:

Table 31				
Tobacco Settlement Asset-Backed Bonds - Pledged Revenues				
Debt Pledged	Final Maturity Date	Pledged Revenue To Maturity	Fiscal Year 2010	
			Debt Principal & Interest Paid	Pledged Revenue Received
Series 2006 Tobacco Settlement Asset-Backed Bonds	2036	\$ 1,140,284	\$ 30,298	\$ 28,352

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, 2010 were the following:

Table 32				
CRA Revenue Refunding Bonds				
Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2010
Revenue Refunding Bonds Series 2005A	\$ 16,000	3.65 - 5.75%	2033	\$ 14,640
Total	\$ 16,000			\$ 14,640

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

Table 33				
CRA Revenue Refunding Bonds - Debt Service Requirements to Maturity				
Fiscal Year	Principal	Interest	Total	
2011	\$ 360	782	\$	1,142
2012	375	766		1,141
2013	395	748		1,143
2014	415	728		1,143
2015	430	708		1,138
2016-2020	2,510	3,179		5,689
2021-2025	3,230	2,427		5,657
2026-2030	4,230	1,390		5,620
2031-2033	2,695	212		2,907
Total	\$ 14,640	10,940	\$	25,580
Less:				
		Unamortized issuance discount	(38)	
Total	\$ 14,602			

CRA pledged revenue for the year ended June 30, 2010 was as follows:

Table 34				
CRA Revenue Refunding Bonds - Pledged Revenues				
Debt Pledged	Final Maturity Date	Pledged Revenue To Maturity	Fiscal Year 2010	
			Debt Principal & Interest Paid	Pledged Revenue Received
Series 2005A Revenue Refunding Bonds	2033	\$ 25,579	\$ 1,143	\$ 793

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.

As of June 30, 2010, the County has borrowed \$1.91 million from the California Energy Commission (CEC Loan 3) from an existing authorized loan amount of \$3 million. The loan amount of \$1.91 million, in addition to future loan proceeds representing costs incurred before the completion of the project on June 30, 2010, have been used to fund multiple energy efficient projects in County facilities. 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 22, 2010 and every June 22 and December 22 thereafter.

Notes to the Financial Statements

(Amounts Expressed in Thousands Unless Otherwise Noted)

Details of loans outstanding at June 30, 2010 for governmental activities are as follows:

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2010
Loans - non internal service funds (ISF)				
Firebird Manor	\$ 4,486	1.00%	2028	\$ 2,671
Total loans - non-ISF	4,486			2,671
Loans - ISF				
California Energy Comm Loan 1 (Facilities ISF)	1,977	4.00%	2015	970
California Energy Comm Loan 2 (Facilities ISF)	3,001	3.95%	2016	1,853
California Energy Comm Loan 3 (Facilities ISF)	1,910	4.50%	2020	1,910
Total loans - ISF	6,888			4,733
Total	\$ 11,374			\$ 7,404

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

Fiscal Year	Principal	Interest	Total
2011	\$ 836	217	\$ 1,053
2012	866	187	1,053
2013	898	155	1,053
2014	930	123	1,053
2015	845	89	934
2016-2020	1,800	218	2,018
2021-2025	776	46	822
2026-2028	453	9	462
Total	\$ 7,404	1,044	\$ 8,448

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, 2010 for business-type activities are as follows:

Loan	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2010
2001 Airport Development Loan - Ramona Sewer Line	\$ 2,388	5.63%	2017	\$ 1,205
2001 Airport Development Loan - Ramona Control Tower	1,196	5.63%	2017	604
Total	\$ 3,584			\$ 1,809

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

Fiscal Year	Principal	Interest	Total
2011	\$ 242	102	\$ 344
2012	254	88	342
2013	267	74	341
2014	279	59	338
2015	292	43	335
2016-2017	475	36	511
Total	\$ 1,809	402	\$ 2,211

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, 2010, \$415.5 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, 2010, a \$455 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, 2010 were as follows:

Changes in Long-Term Liabilities						
	Beginning Balance at July 1, 2009	Additions	Reductions	Accreted Interest	Ending Balance at June 30, 2010	Amounts Due Within One Year
Governmental Activities:						
COPs, bonds & loans						
Certificates of participation and Lease Revenue Bonds	\$ 469,970	80,940	(128,650)		422,260	\$ 27,305
Taxable pension obligation bonds	1,005,955		(135,630)	4,011	874,336	36,590
Tobacco settlement asset-backed bonds	574,610		(4,500)	4,047	574,157	11,275
CRA revenue refunding bonds	14,985		(345)		14,640	360
Loans - non-internal service funds	2,816		(145)		2,671	138
Loans - internal service funds (ISF)	4,227	1,028	(522)		4,733	698
Arbitrage	517		(62)		455	
Unamortized issuance premiums	8,697	7,803	(1,001)		15,499	1,156
Unamortized issuance discounts	(18,975)		2,849		(16,126)	(1,071)
Unamortized deferred amounts on refundings	(18,037)	(4,307)	5,842		(16,502)	(5,370)
Total COPs, bonds & loans	2,044,765	85,464	(262,164)	8,058	1,876,123	71,081
Other long-term liabilities:						
Capital Leases - ISF	\$	268	(26)		242	\$ 28
Claims and judgments - ISF	108,528	30,551	(20,980)		118,099	32,066
Compensated absences -non-ISF	98,837	66,411	(67,482)		97,766	38,483
Compensated absences - ISF	2,488	1,608	(1,896)		2,200	900
Landfill closure and postclosure	21,293	442	(818)		20,917	778
Total Other long-term liabilities	231,146	99,280	(91,202)		239,224	72,255
Total Governmental Activities	\$ 2,275,911	184,744	(353,366)	8,058	2,115,347	\$ 143,336
Business-type activities:						
Loans	\$ 2,038		(229)		1,809	\$ 242
Compensated absences	448	354	(342)		460	188
Total Business-type Activities	\$ 2,486	354	(571)		2,269	\$ 430

NOTE 15

Funds Used to Liquidate Liabilities

The following funds presented in **Table 40** below have typically been used to liquidate other long-term obligations in prior years:

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, and Air Pollution; Internal Service Funds - Facilities Management, Fleet Services and Purchasing; and, Enterprise Funds - Airport and Wastewater Management.
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 \$5.655 million at June 30, 2010.

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, 2010, the aggregate conduit debt principal amount outstanding was \$341,037 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, 2010 for the San Marcos Landfill was \$20.917 million. This estimated amount is based on what it would cost to perform all closure and postclosure care in calendar year 2010 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 thousand 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.

As of June 30, 2010, \$24.793 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, \$927 thousand 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, 2010, the fund balances reserved for other purposes are presented in **Table 41** as follows:

Table 41	
Fund Balances Reserved For Other Purposes At June 30, 2010	
General Fund	
Defray administrative costs, other general reserves	\$ 26,223
Improvement and maintenance of recorded document systems	11,941
Teeter tax loss	29,960
Emergency medical services, various construction costs	24,899
Mental health	12,949
Social programs	3,328
Vector control	12,602
Real estate fraud prosecution	817
Domestic violence and child abuse prevention	3,130
Sheriff vehicle maintenance and replacement	1,138
Fingerprinting equipment purchase and operation	8,227
Sheriff automated warrant system	5,396
Donations	4,537
Total General Fund	\$ 145,147
Special Revenue Funds	
Road-future road improvements	\$ 24,953
Flood Control-future drainage improvements	11,802
Total Special Revenue Funds	\$ 36,755
Total Fund Balances Reserved for Other Purposes	\$ 181,902

NOTE 20

Fund Balances Designated for Subsequent Years' Expenditures

At June 30, 2010, the fund balances designated for subsequent years' expenditures are presented in **Table 42** as follows:

Table 42	
Fund Balances Designated for Subsequent Years' Expenditures At June 30, 2010	
General Fund	
Sheriff Department future capital expenditures	\$ 4,000
Assessor/Recorder/County Clerk future expenditures	111
Clerk of the Board future expenditures	5
Department of Planning and Land Use future expenditures	659
Housing Authority future lease payments	218
Management of conduit financing program	511
Registrar of Voters Equipment replacement	445
Preventative health care for children	384
South County Shelter capital improvements	85
Senior Volunteer Patrols Program in the unincorporated communities	51
Regional communication system infrastructure enhancements	13,959
Sheriff Department helicopter replacement	2,666
Health based programs aimed at reducing adult and youth smoking	8,007
Equipment replacement/system enhancement-Caller ID Remote Access Network	1,160
Future lease payments	1,633
Contingency set-aside - cost reimbursement for 2003/2007 County fires	32,921
Total General Fund	\$ 66,815
Special Revenue Funds	
Road - planning, review, design and construction of road projects	\$ 26,000
Housing and Community Development	4,469
Building maintenance	450
Equipment acquisition	176
Total Special Revenue Funds	\$ 31,095

NOTE 21

Risk Management

The County operates a Risk Management Program, whereby it is self-insured for general liability (California Government Code Section 990), medical malpractice (California Government Code Section 990.9), automobile liability (California Vehicle Code Section 16020(b)(4)) and workers' compensation (California Code of Regulations, Title 8, Section 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.

Notes to the Financial Statements

(Amounts Expressed in Thousands Unless Otherwise Noted)

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, 2010, these liabilities discounted for anticipated investment return (public liability of 1% and workers' compensation of 4%), totaled \$118.1 million, including \$23.1 million in public liability and \$95 million in workers' compensation. Changes in the balances of claim liabilities for fiscal year 2010 and 2009 are shown below:

	2010	2009
Employee Benefits Fund		
Unpaid claims, July 1	\$ 88,563	\$ 86,802
Incurred claims	26,376	18,903
Claim payments	(19,966)	(17,142)
Unpaid claims, June 30	\$ 94,973	\$ 88,563
Public Liability Insurance Fund		
Unpaid claims, July 1	\$ 19,965	\$ 19,442
Incurred claims	4,175	4,480
Claim payments	(1,014)	(3,957)
Unpaid claims, June 30	\$ 23,126	\$ 19,965

NOTE 22

Contingencies

Litigation

The County has a potential liability of \$18.2 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 \$169.8 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 a decrease in net assets of \$.66 million and ending net assets of \$.150 million for the fiscal year ended June 30, 2009. 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 \$.270 million and ending net assets of \$.377 million for the fiscal year ended June 30, 2009. 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, 2009, the Partnership reported an increase in net assets of \$.086 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 four Tiers and provides retirement, disability, death and survivor benefits to its General and Safety members. Tier B is the current open system. Tier I and Tier A are closed to new entrants but have 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.

The average member contribution rate was 10.38% for all categories combined (General Tier I, General Tier A, General Tier B and Safety members). The employer contribution rate for all categories combined was 18.23%.

CoSD employer contributions to SDCERA-PP for the three years ended June 30, 2010, which equaled or exceeded the required contributions, were the following:

CoSD Employer Contributions - SDCERA - PP				
Fiscal Year Ended June 30	Annual Required Contribution (ARC)	Contributions Made	Percentage of ARC Contributed	
2010	\$ 172,453	\$ 176,243	102.2%	
2009	200,146	200,146	100.0%	
2008	214,665	214,665	100.0%	

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 three years ended June 30, 2010, which equaled or exceeded the required contributions, were the following:

CoSD Employer Contributions - SDCERA-RHP				
Fiscal Year Ended June 30	Annual Required Contribution (ARC)	Contributions Made	Percentage of ARC Contributed	
2010	\$ 16,886	\$ 17,920	106.1%	
2009	20,838	20,838	100.0%	
2008	21,304	21,304	100.0%	

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 92108-1685 or by calling (619) 515-6800.

NOTE 25

Fund Deficit

Table 46

Fund Deficit At June 30, 2010	
Internal Service Fund:	
Facilities Management	\$ (155)

The deficit within the Facilities Management Internal Service fund decreased from \$345 thousand at June 30, 2009 to \$155 thousand at June 30, 2010. 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 2020.

NOTE 26

Subsequent Events

Tax and Revenue Anticipation Notes

In July 2010, the County issued tax and revenue anticipation notes (TRANS) totaling \$140 million due June 30, 2011 at a coupon rate of 2.00% and a yield of 0.38%. Proceeds from the notes will be used to meet fiscal year 2011 cash flow requirements. Fiscal year 2011 unrestricted revenues collateralize the notes.

NOTE 27

New Governmental Accounting Standards

Implementation Status

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. The County chose not to retroactively report such assets. No restatement of beginning net assets was necessary as the assets either met this criteria or were already reported as capital assets under another category. This statement is effective for the County's fiscal year ending June 30, 2010.

Please refer to Note 7 "Capital Assets."

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 December 2009, the GASB issued Statement 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers).

This Statement amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to permit an agent employer that has an

individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. Consistent with this change to the employer-reporting requirements, this Statement also amends a Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, requirement that a defined benefit OPEB plan obtain an actuarial valuation. The amendment permits the requirement to be satisfied for an agent multiple-employer OPEB plan by reporting an aggregation of results of actuarial valuations of the individual-employer OPEB plans or measurements resulting from use of the alternative measurement method for individual-employer OPEB plans that are eligible.

In addition, this Statement clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers, those measures should be determined as of a common date and at a minimum frequency to satisfy the agent multiple-employer OPEB plan's financial reporting requirements.

The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011.

The County of San Diego is not an agent employer. It contributes to SDCERA's cost-sharing multiple-employer defined benefit health plan administered by SDCERA which is not an agent multiple employer plan; consequently this Statement is not applicable.

In December 2009, the GASB issued Statement 58, *Accounting and Reporting for Chapter 9 Bankruptcies*. The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (that is, approves) a new payment plan.

For governments that are not expected to emerge from bankruptcy as going concerns, this Statement requires remeasurement of assets to a value that represents the amount expected to be received. This Statement classifies gains or losses resulting from remeasurement of liabilities and assets as an extraordinary item.

Governments that have filed for bankruptcy are required to disclose information regarding, among other things, the pertinent conditions and events giving rise to the petition for bankruptcy, the expected gain, and the effects upon services.

This Statement is effective for the County's fiscal year ending June 30, 2010.

The County does not have a going concern issue; consequently this Statement is not applicable.

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 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.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice.

This Statement provides for the following amendments:

National Council on Governmental Accounting Statement 4, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*, is updated to be consistent with the amendments to GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, regarding certain financial guarantees.

Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, are amended to remove the fair value exemption for unallocated insurance contracts. The effect of this amendment is that investments in unallocated insurance contracts should be reported as interest-earning investment contracts according to the provisions of paragraph 8 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Statement 31, is clarified to indicate that a 2a7-like pool, as described in Statement 31, is an external investment pool that operates in conformity with the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended.

Statement No. 40, *Deposit and Investment Risk Disclosures*, is amended to indicate that interest rate risk information should be disclosed only for debt investment pools-such as bond mutual funds and external bond investment pools-that do not meet the requirements to be reported as a 2a7-like pool.

Statement 53 is amended to clarify that the net settlement characteristic of Statement 53 that defines a derivative instrument is not met by a contract provision for a penalty payment for nonperformance.

This statement is effective for the fiscal year ended June 30, 2011.