Contents - Notes to the Financial Statements

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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 *APCD* 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 *Corporation* 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* 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 primary government total 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 are 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 and reports all financial resources of the County not accounted for and reported 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 and are restricted for funding 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, these 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. According to Board of Supervisors Policy E-14, tobacco settlement monies are to be used for healthcare-based programs.

The County reports the following additional funds and fund types:

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

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

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental Funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are susceptible to accrual when measurable and available. Sales taxes, investment earnings, 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 nonoperating 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 nonoperating 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 based on amortized cost. 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 ($10.597 million and $1.369 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 nonspendable fund balance 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.

(Amounts Expressed in Thousands Unless Otherwise Noted)

County Leased Property

The County and its blended component units lease real property to the private sector and other governmental agencies. Direct financing lease receivables are shown as restricted assets on the government-wide statement of net assets - governmental activities and governmental funds balance sheets. Revenue from direct financing and non-cancelable 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 nonspendable amount. 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, with expenditures recorded when consumed. Inventories and prepaid items recorded in the governmental funds do not reflect current appropriable resources and thus, an equivalent portion of fund balance is reported as nonspendable.

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

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.

Fund Balance

In the fund financial statements, governmental funds report fund balance in classifications that comprise a hierarchy based primarily on the extent to which the County is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. These classifications include: nonspendable;

restricted; and the unrestricted classifications of committed, assigned and unassigned. When both restricted and unrestricted resources are available for use, fund balance is generally depleted by restricted resources first, followed by unrestricted resources in the following order: committed, assigned and unassigned. The fund balance classifications are defined as follows:

Nonspendable fund balance - amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts.

Restricted fund balance - amounts with constraints placed on their use that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance - amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority (the Board of Supervisors). Those committed amounts cannot be used for any other purpose unless the County removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. The Board of Supervisors establishes, modifies or rescinds fund balance commitments by passage of an ordinance, resolution, or by taking actions via minute orders. This is accomplished through adoption of the County's operational plan and subsequent budget amendments that occur throughout the year as necessary.

Assigned fund balance - amounts that are constrained by the County's *intent* to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by the highest level of decision making authority (the Board of Supervisors), or by a body or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. In the County, the intent is generally expressed by the Board of Supervisors.

Unassigned fund balance - the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance

Net Assets

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

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

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

Indirect Costs

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

Use of Estimates

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

(Amounts Expressed in Thousands Unless Otherwise Noted)

NOTE 2
Reconciliation of Government-Wide and Fund Financial Statements
Balance Sheet/Net Assets

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

Table 3

Governmental Funds Balance Sheet / Government-Wide Statement of Net Assets Reconciliation At June 30, 2011

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 $(1,931,002) difference are as follows:			
Bonds, notes and loans payable			
Certificates of participation and lease revenue bonds		$	(392,100)
Taxable pension obligation bonds			(841,337)
Tobacco settlement asset-backed bonds			(575,482)
San Diego County Redevelopment Agency revenue refunding bonds			(14,280)
Loans - non-internal service funds			(2,541)
Subtotal			(1,825,740)
Unamortized issuance premiums			(14,793)
Unamortized issuance discounts (to be amortized as interest expense)			15,055
Unamortized deferred amounts on refundings:			
Beginning balance - Unamortized deferred amounts on refundings	16,502		
Remaining unamortized cost of issuance on refunded debt	371		
Remaining unamortized premium on refunded debt	(778)		
Deferred amount on refunding attributable to reacquisition price of new debt in excess of outstanding debt refunded	96		
Amortization of deferred amount on refunding (as shown on **Table 4**)	(5,364)		
Ending balance - Unamortized deferred amounts on refundings (to be amortized as interest expense)			10,827
Arbitrage			(220)
Compensated absences (excluding Internal Service Funds)			(95,706)
Landfill closure and postclosure - San Marcos landfill			(20,425)
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities		$	(1,931,002)
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 $102,329 difference are as follows:			
Net assets of the internal service funds		$	102,727
Less: Internal payable representing charges in excess of cost to business-type activities - prior years			(491)
Add: Internal payable representing charges in excess of cost to business-type activities - current year			93
Net adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities		$	102,329

(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 Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities Reconciliation For the Year Ended June 30, 2011

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 $83,607 difference are as follows:		
Capital outlay	$	186,342
Depreciation/amortization expense		(102,735)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	83,607
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets. The details of this $11,616 difference are as follows:		
The proceeds from the sale of capital assets provide current financial resources but have no effect on net assets	$	(2,673)
The gain on the disposal of capital assets does not affect current financial resources but increases net assets		2,699
Donations of assets to the County do not provide current financial resources but resources increase net assets		11,590
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	11,616
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 $69,678 difference are as follows:		
Debt issued or incurred:		
Refunding bonds issued	$	(19,260)
Plus: Premiums		(1,237)
Less: Issuance costs		349
Payment to refunded bond escrow agent		22,211
Principal repayments		64,016
Accreted interest paid		3,364
Arbitrage		235
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	69,678
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 $(11,507) difference are as follows:		
Compensated absences	$	2,060
Accrued interest		817
Accretion of capital appreciation bonds		(7,911)
Amortization of premiums		1,165
Amortization of discounts		(1,071)
Amortization of deferred amounts on refundings		(5,364)
Amortization of issuance costs		(1,203)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	(11,507)
Internal Service Funds. The net revenue of certain activities of internal service funds is reported with governmental activities. The details of this $(10,036) difference are as follows:		
Change in net assets of the internal service funds	$	(10,129)
Add: Gain from charges to business activities		93
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	(10,036)

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 $5,860,958 consisting of: $5,856,303 investments in the County pool; $3.007 million in demand deposits; $1.125 million of collections in transit; and, $523 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 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, 2011, 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 $3.007 million, and the bank balance at June 30, 2011 was $6.92 million, 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, $431 thousand was covered by federal deposit insurance and $6.489 million 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 $1.835 million and the bank balance per various financial institutions was $2.308 million. Of the total bank balance, $540 thousand was covered by federal deposit insurance and $1.768 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 obligations.

(Amounts Expressed in Thousands Unless Otherwise Noted)

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). Open-end institutional money market funds are not categorized as to custodial credit risk because the investment in these funds is not evidenced by specific securities. All purchases of investments are accounted for on a trade-date basis. Unrealized gains or losses of securities are determined by taking the difference between amortized cost and the fair value of investments. Realized gains and losses on investments that were held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year(s) and the current year.

In addition to the above, the Board annually adopts a Pooled Money Fund Investment Policy. This policy is based on the criteria in Government Code 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, and at least 50 percent of securities to mature within one year. In addition, the Investment Pool limits the maximum effective duration of the portfolio to 18 months. As of June 30, 2011, 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 Investment Pool's Investment Policy, which is more restrictive than the Government Code, places a minimum standard on the ratings of investments held in the Investment Pool. Investments in securities other than those guaranteed by the U.S. Treasury or Government Sponsored Enterprises must have a credit rating of no less than "A" for long -term or "A1" for short term investments. Non-rated securities include sweep accounts, collateralized certificates of deposit and repurchase agreements. Sweep accounts and collateralized certificates of deposit must be FDIC insured or collateralized with securities held by a named agent of the depository. Repurchase agreements are collateralized by securities, authorized by California Government Code section 53601, having a fair market value of at least 102% of the amount of the repurchase agreement. Credit quality based on Standard and Poor's Fund Credit Quality Rating is noted below:

Table 5

S & P Investment Rating

	Investment Pool	Investments with Fiscal Agents
Overall credit rating	AAAf/S1	
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 Investment Pool's Investment Policy is more restrictive, in most cases, than the California Government Code. As of June 30, 2011, all Pool investments were in compliance with State law and with the Investment Policy.

The 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 Agency. The U.S. government does not guarantee, directly or indirectly, the securities of the FHLMC, Federal Home Loan Bank (FHLB), FNMA, or Federal Farm Credit Bank (FFCB). The Investment Pool's investments in FHLMC, FHLB, FNMA and FFCB securities as of June 30, 2011 comprised 15%, 9%, 24%, and 8% of the total County Investment Pool's investments, respectively.

(Amounts Expressed in Thousands Unless Otherwise Noted)

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, 2011 are shown in **Table 6**.

Table 6

Concentration of Credit Risk - Investment With Fiscal Agents

Issuer	Tobacco Endowment Fund	Percent	Nonmajor Governmental Funds	Percent
BlackRock MuniFund	$ 25,970	7		
Abbey National North America LLC			$ 34,152	50
Federal national mortgage association			15,055	22
Federated treasury obligation			14,069	21

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, 2011

	Fair Value	Amortized Cost	Interest Rate Range	Maturity Range	Weighted Average Maturity (days)	S&P Rating	% of Portfolio
US government agencies:							
Federal home loan mortgage corporation notes	$ 874,677	872,216	0.12% - 5.50%	7/11 - 3/16	399	AAA	14.94%
Federal home loan bank notes	554,345	550,692	0.25% - 5.75%	8/11 - 3/16	936	AAA	9.47%
Federal national mortgage association notes	1,407,919	1,404,907	0.11% - 5.00%	9/11 - 5/16	763	AAA	24.04%
Federal farm credit bank notes	768,243	767,404	0.20% - 4.45%	8/11 - 11/15	385	AAA	13.12%
US treasury notes	284,271	275,417	1.00% - 4.88%	7/11 - 11/15	647	AAA	4.85%
Commercial paper	1,411,418	1,411,569	0.02% - 0.18%	7/11 - 8/11	17	A-1/A-1+	24.10%
Corporate medium-term notes	25,770	25,177	4.38% - 5.88%	2/12 - 3/12	237	AA+	0.44%
Repurchase agreements collateralized by:							
Government securities	774	774	0.05%	7/11	1	N/A	0.01%
Money market mutual funds	58,585	58,585	0.01%	7/11	17	AAA	1.00%
Certificates of deposit	435,161	435,161	0.11% - 1.00%	7/11 - 5/12	47	N/A	7.43%
Bond funds	35,140	35,000	0.53%	1/13	577	AA	0.60%
Total investments	$ 5,856,303	5,836,902			425		100.00%

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 8

Investments with Fiscal Agents
At June 30, 2011

	Fair Value	Interest Rate Range	Maturity Range	Weighted Average Maturity (days)	S&P Rating	% of Portfolio
County investments with fiscal agents						
Unrestricted:						
Fixed income tax exempt bonds	$ 5,019	0% - 5.13%	9/12 - 8/22	3394	A	1.11%
Fixed income tax exempt bonds	3,494	0.00%	9/11	63	A-	0.77%
Fixed income tax exempt bonds	22,528	0% - 5.25%	8/12 - 7/33	5645	A+	4.99%
Fixed income tax exempt bonds	55,531	4% - 6.50%	7/11 - 12/28	1697	AA	12.29%
Fixed income tax exempt bonds	22,749	4.50% - 5.75%	5/15 - 11/28	3489	AA-	5.03%
Fixed income tax exempt bonds	66,343	4% - 5.50%	7/11 - 1/34	3678	AA+	14.68%
Fixed income tax exempt bonds	128,166	0% - 8.95%	7/11 - 10/33	4196	AAA	28.36%
Fixed income tax exempt bonds	2,510	5.75%	11/11	6713	BBB+	0.56%
Fixed income tax exempt bonds	51,464	4% - 7.38%	11/11 - 06/41	2663	NR	11.39%
MuniFunds	25,970	0.00%	08/11	34	AAA	5.75%
Subtotal	383,774					
Restricted:						
Federal national mortgage association notes	15,055	2.75% - 4.63%	2/14 - 10/14	1031	AAA	3.33%
Federal national mortgage association strip	1,854	0.00%	7/11	15	NA	0.41%
Federal home loan mortgage corporation strip	269	0.00%	7/11	18	NR	0.06%
Commercial paper	34,152	0.00%	8/11	60	A-1+	7.56%
Money market funds	16,752	0% - 02%	8/11	36 - 54	AAA/A-1+	3.71%
Subtotal	68,082					
Total County investments with fiscal agents	451,856					100.00%
External specific investments:						
Federal home loan bank notes	353	4.88%	6/12	344	AAA	100.00%
Total external specific investments	353					100.00%
Total investments with fiscal agents	$ 452,209					

Table 9

Investment Pool Policy Restrictions versus California Government (Gov) Code Section 53601 Requirements

	Maximum Maturity		Maximum % of Portfolio		Maximum % with One Issuer		Minimum Rating	
Investment Type	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.

(Amounts Expressed in Thousands Unless Otherwise Noted)

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 2011 restricted assets were as follows:

Table 10

Restricted Assets

Fund	Legal or Contractual Requirements	Debt Covenants
General Fund	$ 156	$ 6,299
Nonmajor Governmental Funds		
Housing Authority Special Revenue Fund	580	
Tobacco Securitization Joint Special Revenue Fund		47,065
Pension Obligation Bonds Debt Service Fund		2
Redevelopment Agency Debt Service Fund		1,155
San Diego Regional Building Authority Debt Service Fund		22,837
SANCAL Debt Service Fund		4,784

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 - $61.496 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- $68.477 million

This amount includes: $40.374 million in housing rehabilitation loan programs for low-income or special need residents, loans for low income housing downpayments, and redevelopment agencies; and $28.103 million in community development block grant loans.

Loans- Business-type activities- $3.559 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, 2011

	Accounts	Investment Income	Due From Other Government Agencies	Loans	Other	Total Receivables	Allowance For Doubtful Accounts	Receivables Net
Governmental activities:								
General Fund	$ 4,981	1,937	403,715	56,458	144	467,235	(1,369)	465,866
Public Safety Special Revenue Fund			36,214			36,214		36,214
Tobacco Endowment Fund		4,873				4,873		4,873
Other Governmental Funds	18,254	959	36,870	12,019	170	68,272		68,272
Internal Service Funds	2,364	221	1,271		9	3,865		3,865
Total governmental activities	$ 25,599	7,990	478,070	68,477	323	580,459	(1,369)	579,090
Business-type activities:								
Enterprise Funds	$ 395	111	1,743	3,559		5,808		5,808
Component Unit:								
First 5 Commission	$	527	5,760		39	6,326		6,326

(Amounts Expressed in Thousands Unless Otherwise Noted)

NOTE 6
County Property on Lease to Others

The County's blended component unit - SDRBA has a direct financing 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 $5.76 million at June 30, 2011. The lease revenue received by the SDRBA and the County for the year ended June 30, 2011 was approximately $864 thousand and $891 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 $2.46 million in land at June 30, 2011.

Lease revenue from noncancelable operating leases for the year ended June 30, 2011 was approximately $16.7 million. Future minimum lease payments to be received under the direct financing and noncancelable operating leases are noted in **Table 12**.

Table 12

Lease Revenue
County Property Leased To Others

Fiscal Year	Direct Financing Leases	Operating Leases
2012	$ 1,621	$ 16,725
2013	1,640	16,132
2014	1,626	15,370
2015	1,637	11,055
2016	1,624	9,602
2017-2021	6,158	42,049
2022-2026		37,633
2027-2031		35,306
2032-2036		26,814
2037-2041		16,560
2042-2046		10,680
2047-2051		6,829
2052-2056		4,934
2057-2061		1,614
2062-2064		393
Total	$ 14,306	$ 251,696

NOTE 7
Capital Assets

Changes in Capital Assets

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

Table 13

Capital Assets - Governmental Activities

	Beginning Balance at July 1, 2010	Increases	Decreases	Ending Balance at June 30, 2011
Capital assets, not being depreciated/amortized:				
Land	$ 322,085	19,678	(71)	$ 341,692
Easements	4,581	1,059		5,640
Construction in progress	236,436	127,098	(225,009)	138,525
Total capital assets, not being depreciated/ amortized	563,102	147,835	(225,080)	485,857
Capital assets, being depreciated/amortized:				
Buildings and improvements	1,147,962	213,661	(4,107)	1,357,516
Software	74,833	8,757	(400)	83,190
Equipment	241,205	19,729	(9,584)	251,350
Road infrastructure	2,417,546	36,982		2,454,528
Bridge infrastructure	60,781	6,253	(6)	67,028
Total capital assets, being depreciated/amortized	3,942,327	285,382	(14,097)	4,213,612
Less accumulated depreciation/amortization for:				
Buildings and improvements	(328,367)	(23,845)	3,755	(348,457)
Software	(61,829)	(5,569)	233	(67,165)
Equipment	(130,561)	(21,552)	8,516	(143,597)
Road infrastructure	(999,123)	(66,494)		(1,065,617)
Bridge infrastructure	(16,596)	(1,174)		(17,770)
Total accumulated depreciation/amortization	(1,536,476)	(118,634)	12,504	(1,642,606)
Total capital assets, being depreciated/amortized, net	2,405,851	166,748	(1,593)	2,571,006
Governmental activities capital assets, net	$ 2,968,953	314,583	(226,673)	$ 3,056,863

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 14

Capital Assets - Business-type Activities

	Beginning Balance at July 1, 2010	Increases	Decreases	Ending Balance at June 30, 2011
Capital assets, not being depreciated:				
Land	$ 11,565			$ 11,565
Construction in progress	21,186	3,533	(12,132)	12,587
Total capital assets, not being depreciated	32,751	3,533	(12,132)	24,152
Capital assets, being depreciated:				
Buildings and improvements (1)	102,942	11,845		114,787
Equipment (1)	1,239	124	(194)	1,169
Road infrastructure	6,362	83		6,445
Sewer infrastructure	85,632	132		85,764
Total capital assets, being depreciated	196,175	12,184	(194)	208,165
Less accumulated depreciation for:				
Buildings and improvements (1)	(27,412)	(3,500)		(30,912)
Equipment (1)	(1,057)	(33)	166	(924)
Road infrastructure	(27)	(167)		(194)
Sewer infrastructure	(33,776)	(1,677)		(35,453)
Total accumulated depreciation	(62,272)	(5,377)	166	(67,483)
Total capital assets, being depreciated, net	133,903	6,807	(28)	140,682
Business-type activities capital assets, net	$ 166,654	10,340	(12,160)	$ 164,834

(1) Beginning balances recast to present $68 thousand of Buildings and Improvements formerly reported as Equipment.

Depreciation/Amortization

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

Table 15

Depreciation/Amortization Expense - Governmental Activities

General government	$	2,815
Public protection		22,154
Public ways and facilities		66,945
Health and sanitation		5,709
Public assistance		1,193
Education		795
Recreation and cultural		3,124
Internal Service Funds		15,899
Total	$	118,634

Table 16

Depreciation Expense - Business-type Activities

Airport Fund	$	3,595
Sanitation Districts Fund		1,765
Wastewater Management Fund		17
Total	$	5,377

Capital and Other Commitments

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting is used in the governmental funds. Encumbrances outstanding at year end do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year or years. Encumbered amounts for specific purposes for which amounts have not been previously restricted, committed, or assigned are included within committed or assigned fund balance, as appropriate. At June 30, 2011, the County General Fund's outstanding encumbrances totaled $399.793 million while the Public Safety Fund's outstanding encumbrances totaled $3.605 million. Non-major governmental funds' outstanding encumbrances totaled $31.240 million.

At June 30, 2011, major contracts entered into for structures and improvements and other commitments within governmental and business-type activities were as follows:

Table 17

Capital Commitments
At June 30, 2011

		Remaining Commitments
Governmental Activities		
Other Governmental Funds:		
Construction of County Operations Center	$	58,082
Construction of South Santa Fe Ave.		10,987
Upgrade of Oracle Enterprise Resources		10,664
Construction of Roadway Asset replacement		3,752
Construction of Jamacha Blvd.		3,647
Construction of San Pasqual Academy Housing		3,547
Construction of Women's Detention Facility		2,495
Acquisition of Automated Fingerprinting Identification System		2,420
Construction of Spring Valley Traffic Signal		2,261
Acquisition of Records MGT & Field Reprinting Software		1,605
Acquisition of Software AG License Agreement		1,091
Subtotal		100,551
Business-type Activities		
Enterprise Funds:		
Construction of Rancho Del Campo Wastewater Treatment		750
Subtotal		750
Total	$	101,301

(Amounts Expressed in Thousands Unless Otherwise Noted)

NOTE 8
Interfund Balances

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

Table 18

Interfund Balances
At June 30, 2011

DUE TO	DUE FROM: General Fund	Public Safety	Tobacco Endowment	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Total
General Fund	$	19,237	967	10,156	93	4,172	$ 34,625
Nonmajor Governmental	16,345			4,521	645	34	21,545
Nonmajor Enterprise	32			3,366	224		3,622
Internal Service	20,436			1,664	93	738	22,931
Total	$ 36,813	19,237	967	19,707	1,055	4,944	$ 82,723

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

a. $1.022 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. $929 thousand 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.

c. $98 thousand is due to the Special District Loans Internal Service Fund from the County Service District Special Revenue Funds as a result of a loan to improve and maintain County roads. Loan repayments are made from property tax collections. $60 thousand of the balance is not scheduled to be collected in the subsequent year.

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

NOTE 9
Interfund Transfers

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

Table 19

Transfers In/Transfers Out
At June 30, 2011

TRANSFERS IN	TRANSFERS OUT: General Fund	Public Safety	Tobacco Endowment	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Total
General Fund	$	185,919	24,200	63,612		717	$ 274,448
Nonmajor Governmental	143,299			5,629	331	2,904	152,163
Nonmajor Enterprise	1,059			50			1,109
Internal Service	6,703			56			6,759
Total	$ 151,061	185,919	24,200	69,347	331	3,621	$ 434,479

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.

Transfers made in fiscal year 2011 for purposes other than those described above included a one-time $49.878 million transfer to the General Fund to close out the remaining activities of the Housing and Community Development Fund. The Housing and Community Development Fund is no longer in operation.

(Amounts Expressed in Thousands Unless Otherwise Noted)

NOTE 10
Payables

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

Table 20

Payables At June 30, 2011

	Vendors	Due to Other Government Agencies	Other	Total Payables
Governmental Activities:				
General Fund	$ 56,804	39,586	4,767	$ 101,157
Other Governmental Funds	30,602	1,625	780	33,007
Internal Service Funds	27,592	1,144		28,736
Total governmental activities	$ 114,998	42,355	5,547	$ 162,900
Business-type activities:				
Enterprise Funds	$ 894	1	1	$ 896
Component Unit:				
First 5 Commission	$ 4,682	97,673	177	$ 102,532

NOTE 11
Short-Term Obligations

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

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

Table 21

Short-Term Obligations

	Beginning Balance at July 1, 2010	Issued	Redeemed	Ending Balance at June 30, 2011
Tax and revenue anticipation notes	$	140,000	140,000	$

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, 2011 was approximately $31.35 million, including $22.9 million for non-cancelable leases.

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

Table 22

Lease Commitments - Real Property

Fiscal Year	Minimum Lease Payments
2012	$ 21,616
2013	15,556
2014	12,486
2015	8,600
2016	5,876
2017-2021	17,455
2022	1,644
Total	$ 83,233

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, 2011, was approximately $2.3 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 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 the capital lease are as follows:

Table 23

Capital Leases - Future Minimum Lease Payments

Fiscal Year	Amount
2012	$ 37
2013	40
2014	40
2015	40
2016	40
2017-2018	54
Total minimum lease payments	251
Less: Amount representing interest	(39)
Net lease payments	$ 212

(Amounts Expressed in Thousands Unless Otherwise Noted)

Book Value

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

Table 24

Capital Leases - Book Value
At June 30, 2011

Capital Lease Property	Original Cost		Accumulated Amortization	Net Book Value
Equipment	$	310	111	199
Total	$	310	111	199

The accumulated amortization of this capital leased asset was $111 thousand as of June 30, 2011, and is included in the Internal Service Funds' depreciation/amortization of $15.899 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 terms, the County and the SMCPFD are required to make the necessary annual appropriations for lease payments, except to the extent those payments are eligible to be abated in accordance with the terms of the leases.

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

In May 2011, the San Diego Regional Building Authority (SDRBA) issued $19.260 million of fixed rate serial certificates of participation titled, 2011 MTS Tower Refunding (the “Certificates”). These certificates have maturity dates beginning on November 1, 2011 with a final maturity of November 1, 2019. Each maturity date carries a different fixed interest rate beginning in November 2011 at a fixed rate of 1 percent with fixed rates ranging to 5 percent.

These Certificates were issued with a premium of $1.237 million. The $20.497 million in proceeds of the Certificates along with $3.437 million of funds held by the 2001 MTS Refunding trustee (trustee) were distributed as follows: 1) $22.211 million (consisting of $18.774 million of new Certificate proceeds plus $3.437 million of funds held by the trustee) was transferred to an escrow agent to advance refund the entire $22.115 million 2001 Metropolitan Transit System Towers Refunding Certificates of Participation outstanding and to pay future interest payments; 2) $1.359 million to fund a Certificate reserve fund; 3) $364 thousand was set aside to pay certain costs of issuance.

The $22.211 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 2001 MTS COPs. As a result, the 2001 MTS 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 $2.754 million over the next 9 years to obtain an economic gain of $2.142 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.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Details of COPs and LRBs outstanding at June 30, 2011 are as follows:

Table 25

Certificates of Participation (COP) and Lease Revenue Bonds (LRB)

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2011
1993 Master Refunding COP	$ 203,400	2.50 - 5.625%	2013	$ 7,400
2003 San Miguel Consolidated Fire Protection District Refunding LRB	10,005	2.00 - 5.00%	2020	6,450
2005 Edgemoor Project COP	83,510	3.00 - 5.00%	2030	74,265
2005 Regional Communications System Refunding COP	28,885	3.00 - 5.00%	2019	13,455
2005 North & East Justice Facilities Refunding COP	28,210	3.25 - 5.00%	2020	19,915
2006 Edgemoor Completion Project COP	42,390	4.00 - 5.00%	2030	39,790
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	29,130
2009 Justice Facilities Refunding of 1997 Central Jail COP	48,300	2.00 - 5.00%	2026	45,550
2011 Metropolitan Transit System Towers Refunding COP	19,260	1.00 - 5.00%	2020	19,260
Total	$ 633,485			$ 392,100

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
2012	$ 23,795	17,820	$ 41,615
2013	24,720	16,875	41,595
2014	19,425	16,095	35,520
2015	18,675	15,324	33,999
2016	19,405	14,508	33,913
2017-2021	97,950	58,539	156,489
2022-2026	80,260	37,883	118,143
2027-2031	65,550	19,534	85,084
2032-2036	42,320	6,115	48,435
Subtotal	$ 392,100	202,693	$ 594,793
Add:			
Arbitrage	220		
Unamortized issuance premium	14,793		
Less:			
Unamortized deferred amounts on refundings	(4,717)		
Total	$ 402,396		

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.

Details of POBs outstanding at June 30, 2011 are as follows:

Table 27

Taxable Pension Obligation Bonds

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2011
2002 Series A	$ 132,215	3.88 - 4.95%	2016	$ 86,225
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	75,410
2004 Series C Unaccreted Interest CABs				(8,363)
2008 Series A	343,515	3.33 - 6.03%	2027	327,370
Total	$ 929,843			$ 841,337

(Amounts Expressed in Thousands Unless Otherwise Noted)

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
2012	$ 37,545	3,053	43,391	$ 83,989
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	32,755	147	38,380	71,282
2017-2021	249,735		151,853	401,588
2022-2026	334,975		64,541	399,516
2027-2028	65,150		491	65,641
Subtotal	$ 824,657	8,363	421,758	$1,254,778
Add:				
Accreted appreciation through June 30, 2011	26,879			
Less:				
Accreted appreciation paid through fiscal year 2011	(5,830)			
Less:				
Accreted appreciation to be paid in fiscal year 2012	(4,369)			
Subtotal	841,337			
Less:				
Unamortized deferred amounts on refundings	(1,685)			
Total	$ 839,652			

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, 2011 are as follows:

Table 29

Tobacco Settlement Asset-Backed Bonds

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2011
Series 2006A Senior Current Interest Bonds	$ 534,610	4.75 - 5.125%	2018-2031	$ 507,150
Series 2006B CABs	19,770	6.25%	2032	95,035
2006B unaccreted appreciation CABs				(67,997)
Series 2006C CABs	8,686	6.40%	2033	47,590
2006C unaccreted appreciation CABs				(35,624)
Series 2006D CABs	20,565	7.10%	2036	154,993
2006D unaccreted appreciation CABs				(125,665)
Total	$ 583,631			$ 575,482

(Amounts Expressed in Thousands Unless Otherwise Noted)

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
2012	$ 10,360	4,613	25,401	$ 40,374
2013	11,265	4,926	24,905	41,096
2014	12,195	5,260	24,366	41,821
2015	13,165	5,617	23,783	42,565
2016	14,245	5,998	23,154	43,397
2017-2021	100,660	36,674	103,370	240,704
2022-2026	149,410	50,938	73,228	273,576
2027-2031	205,686	70,540	29,352	305,578
2032-2036	39,185	44,721		83,906
Subtotal	$ 556,171	229,287	327,559	$ 1,113,017
Add:				
Accreted appreciation through June 30, 2011	19,311			
Subtotal	575,482			
Less:				
Unamortized issuance discount	(15,018)			
Unamortized deferred amounts on refundings	(4,425)			
Total	$ 556,039			

TSAB pledged revenue for the year ended June 30, 2011 was as follows:

Table 31
Tobacco Settlement Asset-Backed Bonds - Pledged Revenues

			Fiscal Year 2011	
Debt Pledged	Final Maturity Date	Pledged Revenue To Maturity	Debt Principal & Interest Paid	Pledged Revenue Received
Series 2006 Tobacco Settlement Asset-Backed Bonds	2036	$ 1,132,328	$ 28,579	$ 26,818

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 2033. 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, 2011 were the following:

Table 32
CRA Revenue Refunding Bonds

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2011
Revenue Refunding Bonds Series 2005A	$ 16,000	3.65 - 5.75%	2033	$ 14,280
Total	$ 16,000			$ 14,280

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
2012	$ 375	766	$ 1,141
2013	395	748	1,143
2014	415	728	1,143
2015	430	708	1,138
2016	455	686	1,141
2017-2021	2,635	3,046	5,681
2022-2026	3,405	2,247	5,652
2027-2031	4,475	1,138	5,613
2032-2033	1,695	91	1,786
Total	$ 14,280	10,158	$ 24,438
Less:			
Unamortized issuance discount	(37)		
Total	$ 14,243		

CRA pledged revenue for the year ended June 30, 2011 was as follows:

Table 34
CRA Revenue Refunding Bonds - Pledged Revenues

			Fiscal Year 2011	
Debt Pledged	Final Maturity Date	Pledged Revenue To Maturity	Debt Principal & Interest Paid	Pledged Revenue Received
Series 2005A Revenue Refunding Bonds	2033	$ 24,438	$ 1,143	$ 1,063

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, 2011, the County has received $2.565 million from the California Energy Commission (CEC Loan 3) from an existing authorized loan amount of $3 million. The loan amount of $2.565 million represents costs to fund multiple energy efficient projects in County facilities incurred as of the authorized date of completion of June 30, 2010. 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 having occurred on December 22, 2010 and every June 22 and December 22 thereafter.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Details of loans outstanding at June 30, 2011 for governmental activities are as follows:

Table 35

Loans - Governmental Activities

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2011
Loans - non internal service funds (ISF)				
Firebird Manor	$ 4,486	1.00%	2028	$ 2,541
Total loans - non-ISF	4,486			2,541
Loans - ISF				
California Energy Comm Loan 1 (Facilities ISF)	1,977	4.00%	2015	769
California Energy Comm Loan 2 (Facilities ISF)	3,001	3.95%	2016	1,511
California Energy Comm Loan 3 (Facilities ISF)	2,565	4.50%	2018	2,341
Total loans - ISF	7,543			4,621
Total	$ 12,029			$ 7,162

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

Table 36

Loans - Governmental Activities
Debt Service Requirements to Maturity

Fiscal Year	Principal	Interest	Total
2012	$ 994	212	$ 1,206
2013	1,034	174	1,208
2014	1,071	136	1,207
2015	993	95	1,088
2016	493	65	558
2017-2021	1,491	126	1,617
2022-2026	784	38	822
2027-2028	302	4	306
Total	$ 7,162	850	$ 8,012

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, 2011 for business-type activities are as follows:

Table 37

Loans - Business-type Activities

Loan	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2011
2001 Airport Development Loan - Ramona Sewer Line	$ 2,388	5.63%	2017	$ 1,043
2001 Airport Development Loan - Ramona Control Tower	1,196	5.63%	2017	523
Total	$ 3,584			$ 1,566

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

Table 38

Loans - Business-type Activities
Debt Service Requirements to Maturity

Fiscal Year	Principal	Interest	Total
2012	$ 254	88	$ 342
2013	267	74	341
2014	279	59	338
2015	292	43	335
2016	304	27	331
2017	170	10	180
Total	$ 1,566	301	$ 1,867

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, 2011, $412.535 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, 2011, $220 of arbitrage rebate liability has been included in the statement of net assets.

(Amounts Expressed in Thousands Unless Otherwise Noted)

NOTE 14
Changes in Long-Term Liabilities

Long-term liability activities for the year ended June 30, 2011 were as follows:

Table 39

Changes in Long-Term Liabilities

	Beginning Balance at July 1, 2010	Additions	Reductions	Accreted Interest	Ending Balance at June 30, 2011	Amounts Due Within One Year
Governmental Activities:						
COPs, bonds & loans						
Certificates of participation and lease revenue bonds	$ 422,260	19,260	(49,420)		392,100	$ 23,795
Taxable pension obligation bonds	874,336		(36,590)	3,591	841,337	37,545
Tobacco settlement asset-backed bonds	574,157		(2,995)	4,320	575,482	10,360
CRA revenue refunding bonds	14,640		(360)		14,280	375
Loans - non-internal service funds	2,671		(130)		2,541	139
Loans - internal service funds (ISF)	4,733	655	(767)		4,621	855
Arbitrage	455	220	(455)		220	220
Unamortized issuance premiums	15,499	1,237	(1,943)		14,793	1,139
Unamortized issuance discounts	(16,126)		1,071		(15,055)	(1,071)
Unamortized deferred amounts on refundings	(16,502)	(49)	5,724		(10,827)	(4,931)
Total COPs, bonds & loans	1,876,123	21,323	(85,865)	7,911	1,819,492	68,426
Other long-term liabilities:						
Capital Leases - ISF	$ 242		(30)		212	$ 27
Claims and judgments - ISF	118,099	47,657	(30,157)		135,599	36,352
Compensated absences -non-ISF	97,766	66,930	(68,990)		95,706	37,708
Compensated absences - ISF	2,200	1,704	(1,630)		2,274	938
Landfill closure and postclosure	20,917		(492)		20,425	639
Total Other long-term liabilities	239,224	116,291	(101,299)		254,216	75,664
Total Governmental Activities	$ 2,115,347	137,614	(187,164)	7,911	2,073,708	$ 144,090
Business-type activities:						
Loans	$ 1,809		(243)		1,566	$ 254
Compensated absences	460	321	(353)		428	176
Total Business-type Activities	$ 2,269	321	(596)		1,994	$ 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:

Table 40

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 $3.885 million at June 30, 2011.

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, 2011, the aggregate conduit debt principal amount outstanding was $323.176 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, 2011 for the San Marcos Landfill was $20.425 million. This estimated amount is based on what it would cost to perform all closure and postclosure care in calendar year 2011 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, 2011, $24.885 million has been spent on closure costs, including revegetation. As part of final closure requirements, the County was required to vegetate the cover surface of the landfill. As of June 30, 2011 the work was substantially complete, however, $835 thousand of net assets of the government-wide statement of net assets has been restricted for potential remaining closure costs of the San Marcos Landfill until the Notice of Completion is considered final by all interested entities.

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.

(Amounts Expressed in Thousands Unless Otherwise Noted)

NOTE 19
Fund Balance Policy - General Fund

In 2011 the Board of Supervisors adopted the updated Policy B-71 "Fund Balance and Reserves" to establish guidelines regarding the maintenance of General Fund fund balance levels that will help to protect the fiscal health and stability of the County. This policy includes:

Fund Balance Committed To Unforeseen Catastrophic Events: The amount of fund balance committed to unforeseen catastrophic events shall be targeted at the equivalent of 5% of the total amount of budgeted general purpose revenue. The establishment of this fund balance commitment is governed by Government Code §29085-29086, which allows the amount to be increased or decreased at the time the budget is adopted, but once the budget is adopted, it may only be used for legally declared emergencies as defined in Government Code §29127. The Board may waive the requirement to maintain the fund balance at the targeted level specified if it finds that it is in the best interest of the residents of the County to so do. This commitment is reported on the General Fund's Balance Sheet.

General Fund Minimum Fund Balance: In order to be prepared for broader levels of economic uncertainty, the minimum level of Unassigned fund balance in the General Fund shall be targeted at the equivalent of 10% of the total amount of budgeted general purpose revenue. The Board may waive the requirement to maintain the fund balance at the targeted level specified if it finds that it is in the best interest of the residents of the County to so do. To the extent that fund balance is available in excess of that amount, the Chief Administrative Officer (CAO) may recommend the appropriation or commitment of the available balance for one time purposes. The recommendations may appear in the CAO Proposed Operational Plan or as an agenda item for a regularly scheduled meeting of the Board. In fiscal year 2010 the County Board of Supervisors took action to set aside $100 million of the General Fund's fund balance for future economic uncertainty. This amount is included in the Unassigned fund balance classification on the General Fund's Balance Sheet.

Restoration of Fund Balances: In the event that the fund balance commitment for unforeseen catastrophic events or the General Fund Minimum Unassigned fund balance falls below targeted levels, the CAO will present a plan to the Board of Supervisors for restoration of those targeted levels.

NOTE 20
Fund Balances Restricted for Laws or Regulations of Other Governments: Fund Purpose

At June 30, 2011, the fund balances restricted for laws or regulations of other governments: fund purpose are presented in **Table 41** as follows:

Table 41

Fund Balances Restricted for Laws or Regulations of Other Governments: Fund Purpose
At June 30, 2011

Fund Type:	Purpose		Amount
Major Fund			
Public Safety Fund	Public safety activities	$	21,689
Nonmajor Funds			
Special Revenue Funds			
Air Pollution Fund	Air pollution activities	$	13,223
Asset Forfeiture Program Fund	Law enforcement		9,416
County Library Fund	Library services		7,584
County Service District Funds	Road, park lighting maintenance, fire protection and ambulance services		18,153
Edgemoor Development Fund	Edgemoor development		2,015
Housing Authority Fund	Housing authority activities		13,792
In Home Supportive Services Public Authority Fund	In home supportive services		86
Inmate Welfare Program Fund	Benefit, education, and welfare of jail inmates		9,260
Lighting Maintenance District Fund	Street and road lighting maintenance		1,210
Other Special Districts Funds	Retracement or remonument surveys, improvements for grazing lands, wildlife propagation and aviation purposes capital improvements and repairs		676
Park Land Dedication Fund	Developing new or rehabilitating existing neighborhood or community park or recreational facilities		10,470
Redevelopment Agency Fund	Redevelopment activities		1,242
Total Nonmajor Funds (Special Revenue Funds)		$	87,127
Total Fund Balances Restricted for Laws or Regulations of Other Governments: Fund Purpose		$	108,816

(Amounts Expressed in Thousands Unless Otherwise Noted)

NOTE 21
Fund Balances Restricted for Laws or Regulations of Other Governments: Other Purposes

At June 30, 2011, the fund balances restricted for laws or regulations of other governments: other purposes are presented in **Table 42** as follows:

Table 42

Fund Balances Restricted for Laws or Regulations of Other Governments: Other Purposes At June 30, 2011

Major Fund		
General Fund		
Teeter tax loss	$	22,264
Justice, health, social and other facilities		19,654
Defray administrative costs, other general restrictions		16,208
Improvement and maintenance of recorded document systems		14,300
Vector control		13,227
Mental health		16,793
Fingerprinting equipment purchase and operation		8,526
Sheriff automated warrant system		5,170
Public Defender defense of indigent cases		3,922
Emergency medical services, various construction costs		3,307
Domestic violence and child abuse prevention		2,905
Sheriff vehicle maintenance and replacement		1,501
Real estate fraud prosecution		1,464
Equipment replacement/system enhancement Caller ID Remote Access Network		1,163
Landfill closure costs		835
Administration, operation and conservation of trails, paths or other facilities for off-highway motor vehicles		504
Social Services child safety education		101
Total General Fund	$	131,844
Nonmajor Funds		
Special Revenue Funds		
Flood Control District Fund		
Flood control future drainage improvements	$	21,799
Housing Authority Fund		
Housing repairs and improvements		164
Total Special Revenue Funds	$	21,963
Total Fund Balances Restricted for Laws or Regulations of Other Governments: Other Purposes	$	153,807

NOTE 22
Fund Balances Committed to Other Purposes

At June 30, 2011, the fund balances committed to other purposes are presented in **Table 43** as follows:

Table 43

Fund Balances Committed To Other Purposes At June 30, 2011

Major Fund		
General Fund		
Regional communication system infrastructure enhancements	$	15,221
Health based programs reducing adult/youth smoking		8,084
Sheriff Department future capital expenditures		4,000
Sheriff Department helicopter replacement		2,674
Registrar of Voters services		1,260
Future lease payments		1,250
Department of Environmental Health services		1,170
Landfill closure, postclosure and landfill maintenance		857
Department of Planning and Land Use services		659
Management of conduit financing programs		531
Registrar of Voters equipment acquisition		445
Future replacement of HHSA public health clinic		275
Assessor/Recorder/County Clerk services		111
Parks and Recreation land acquisition		84
South County Shelter capital improvements		60
Housing Authority future lease payments		41
Senior Volunteer Patrols Program in the unincorporated communities		38
Capital Improvement		12
Clerk of the Board services		5
Total General Fund	$	36,777
Nonmajor Funds		
Special Revenue Funds		
Inactive Wastesites Fund		
Landfill closure, postclosure and landfill maintenance	$	68,366
Total Special Revenue Funds	$	68,366
Total Fund Balances Committed to Other Purposes	$	105,143

(Amounts Expressed in Thousands Unless Otherwise Noted)

NOTE 23
Fund Balances Assigned to Other Purposes

At June 30, 2011, the fund balances assigned to other purposes are presented in **Table 44** as follows:

Table 44

Fund Balances Assigned to Other Purposes
At June 30, 2011

Major Fund		
General Fund		
Health, mental health and social services	$	10,503
Law enforcement, detention, legal and other protection services		8,476
Legislative and administrative services		7,186
Park and Recreation services		3,532
Planning, land use, agriculture, watershed and other public services		3,170
Assessor/Recorder/County Clerk services		2,633
Fire protection		2,304
Maintenance		1,307
Treasurer-Tax Collector services		945
Registrar of Voters services		280
Animal Services		278
Total General Fund	$	40,614

NOTE 24
Net Assets Restricted for Laws or Regulations of Other Governments: Other Purposes

At June 30, 2011, the net assets restricted for laws or regulations of other governments: other purposes are presented in **Table 45** as follows:

Table 45

Net Assets Restricted for Laws or Regulations of Other Governments: Other Purposes
At June 30, 2011

Flood control future drainage improvements	$	21,799
Public safety activities		21,689
Justice, health, social and other facilities		19,654
Road, park lighting maintenance, fire protection and ambulance services		18,153
Housing Authority activities		13,792
Air pollution activities		13,223
Developing new or rehabilitating existing neighborhood or community park or recreational facilities		10,470
Law enforcement		9,416
Benefit, education, and welfare of jail inmates		9,260
Edgemoor development		8,382
Library services		7,584
Sheriff automated warrant system		5,170
Public Defender defense of indigent cases		3,922
Emergency medical services, various construction costs		3,307
Domestic violence and child abuse prevention		2,905
Sheriff vehicle maintenance and replacement		1,501
Real estate fraud prosecution		1,464
Redevelopment activities		1,242
Street and road lighting maintenance		1,210
Equipment replacement/system enhancement Caller ID Remote Access Network		1,163
Landfill closure costs		835
Retracement or remonument surveys, improvements for grazing lands, wildlife propagation and aviation purpose capital improvements and repairs		676
Administration, operation and conservation of trails, paths or other facilities for off-highway motor vehicles		504
Social services child safety education		101
In home supportive services		86
Total Net Assets Restricted for Laws or Regulations of Other Governments: Other Purposes	$	177,508

(Amounts Expressed in Thousands Unless Otherwise Noted)

NOTE 25
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.

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, 2011, these liabilities discounted for anticipated investment return (public liability of 1% and workers' compensation of 3%), totaled $135.6 million, including $29 million in public liability and $106.6 million in workers' compensation. Changes in the balances of claim liabilities for fiscal year 2011 and 2010 are shown below:

Table 46
Risk Management - Changes in Claim Liabilities

	2011	2010
Employee Benefits Fund		
Unpaid claims, July 1	$ 94,973	$ 88,563
Incurred claims	32,707	26,376
Claim payments	(21,117)	(19,966)
Unpaid claims, June 30	$ 106,563	$ 94,973
Public Liability Insurance Fund		
Unpaid claims, July 1	$ 23,126	$ 19,965
Incurred claims	14,950	4,175
Claim payments	(9,040)	(1,014)
Unpaid claims, June 30	$ 29,036	$ 23,126

NOTE 26
Contingencies

Litigation

The County has a potential liability of $15.7 million that could result if unfavorable final decisions are 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 $173.96 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 liabilities in the appropriate proprietary funds and the statement of net assets.

Federal and State Programs

Amounts received or receivable from grantor 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 27
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 Chief Operating Officer and the Chief Administrative Officer. SanGIS relies mostly on an annual budget of $1.3 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 $1 thousand and ending net assets of $149 thousand for the fiscal year ended June 30, 2010. The financial report may be obtained by writing to SanGIS at 5201 Ruffin Road, Suite E, San Diego CA 92123 or by calling (858) 874-7000 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

(Amounts Expressed in Thousands Unless Otherwise Noted)

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 a decrease in net assets of $72 thousand and ending net assets of $306 thousand for the fiscal year ended June 30, 2010. Separate financial statements may be obtained from the Operational Area Emergency Operations Center, 5555 Overland Avenue, 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 the 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, 2010, the Partnership reported an increase in net assets of $73 thousand and ending net assets of $182 thousand. Complete financial reports may be obtained by writing to the San Diego Workforce Partnership, 3910 University Avenue, Suite 400, San Diego CA 92105-1326 or by calling (619) 228-2900.

NOTE 28
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. California Government Code Section 31454 requires the Board of Supervisors to adjust the rates of the San Diego County employer and employee retirement contributions in accordance with the recommendations of the Board of Retirement of SDCERA.

The actuarially determined rates adopted by SDCERA established the average member contribution rate at 10.28% for all categories combined (General Tier I, General Tier A, General Tier B, Safety Tier A and Safety Tier B members) and set the employer contribution rate for all categories combined at 20.46%. However, the Board of Supervisors chose to adopt employer contribution rates at a level higher than the levels recommended by the actuary in order to accelerate the pay down of the unfunded actuarial accrued liability (UAAL) of the retirement fund and to help position the County and other member employers for an expected further increase in rates in Fiscal Year 2011-12. The average employer contribution rate for all categories combined adopted by the Board of Supervisors was 23.5%.

CoSD employer contributions to SDCERA-PP for the three years ended June 30, 2011, which equaled or exceeded the required contributions, were the following:

Table 47
CoSD Employer Contributions - SDCERA - PP

Fiscal Year Ended June 30	Annual Required Contribution (ARC)	Contributions Made	Percentage of ARC Contributed
2011	$ 186,979	$ 214,978	115.0%
2010	172,453	176,243	102.2%
2009	200,146	200,146	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).

(Amounts Expressed in Thousands Unless Otherwise Noted)

CoSD's employer contributions to SDCERA-RHP for the three years ended June 30, 2011, which equaled or exceeded the required contributions, were the following:

Table 48

COSD Employer Contributions - SDCERA-RHP

Fiscal Year Ended June 30	Annual Required Contribution (ARC)	Contributions Made	Percentage of ARC Contributed
2011	$ 16,239	$ 16,239	100.0%
2010	16,886	16,886	100.0%
2009	20,838	20,838	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 29
Fund Deficit

Table 49

Fund Deficit
At June 30, 2011

Internal Service Fund:		
Employee Benefits Fund	$	(6,821)

The Employee Benefits Fund deficit of $6.8 million resulted from the accrual of the estimated liability and costs associated with the reported and unreported workers' compensation claims as prepared by an actuary for the reporting period ending June 30, 2011. The liability increased to $106.5 million from the prior year's estimate of $95.0 million. The County intends to reduce the deficit through increased premium rate charges to County departments by $1.7 million per year in excess of projected operating expenses beginning in fiscal year 2012.

NOTE 30
Subsequent Events

Tax and Revenue Anticipation Notes

In July 2011, the County issued tax and revenue anticipation notes (TRANS) totaling $50 million due June 29, 2012 at a coupon rate of 2.00% and a yield of 0.26%. Proceeds from the notes will be used to meet fiscal year 2012 cash flow requirements. Fiscal year 2012 unrestricted revenues collateralize the notes.

San Diego County Capital Asset Leasing Corporation - "County of San Diego Certificates of Participation (County Administration Center Waterfront Park)"

In August 2011, the San Diego County Capital Asset Leasing Corporation issued $32.665 million of fixed rate Certificate of Participation titled "County of San Diego Certificates of Participation (County Administration Center Waterfront Park (the Series 2011 Certificates)". The Series 2011 Certificates were issued at fixed interest rates ranging from 3.00% to 5.125% with maturity dates ranging from February 1, 2013 to February 1, 2042.

These Certificates were issued with a discount of $182 thousand. Certificate proceeds of $32.483 million along with the County's contribution of $14.2 million were distributed as follows: 1) $30.004 million was transferred to the construction fund used to pay construction costs on the County Administration Center Waterfront Park project; 2) $14.2 million was transferred to the County's capital project fund; 3) $2.094 million of proceeds were used to fund the Certificates' debt service reserve fund; 4) $151 thousand was used to pay the underwriter's discount; and 5) $234 thousand was set aside to pay certain costs of issuance.

NOTE 31
New Governmental Accounting Standards

Implementation Status

In December 2009, the GASB issued Statement No. 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 No. 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 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.

Please refer to Note 1, "Summary of Significant Accounting Policies - Assets, Liabilities, and Net Assets or Fund Balance - Fund Balance"; and Notes 19 through 23.

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 No. 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 No. 31, is clarified to indicate that a 2a7-like pool, as described in Statement No. 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 No. 53 is amended to clarify that the net settlement characteristic of Statement No. 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 County's fiscal year ending June 30, 2011.

The application of the revised guidance for financial reporting and disclosures of investments did not have a material impact on the County's basic financial statements.

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 November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements.* The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties.

This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. A transferor reports the facility subject to an SCA as its capital asset, generally following existing measurement, recognition, and disclosure guidance for capital assets. New facilities constructed or acquired by the operator or improvements to existing facilities made by the operator are reported at fair value by the transferor. A liability is recognized, for the present value of significant contractual obligations to sacrifice financial resources imposed on the transferor, along with a corresponding deferred inflow of resources. Revenue is recognized by the transferor in a systematic and rational manner over the term of the arrangement.

This Statement also provides guidance for governments that are operators in an SCA. The governmental operator reports an intangible asset at cost for its right to access the facility and collect third-party fees; it amortizes the intangible asset over the term of the arrangement in a systematic and rational manner. For existing facilities, a governmental operator's cost may be the amount of an up-front payment or the present value of installment payments. For new or improved facilities, a governmental operator's cost may be its cost of improving an existing facility or constructing or acquiring a new facility.

For revenue sharing arrangements, this Statement requires governmental operators to report all revenues and expenses. A transferor reports its portion of the shared revenues.

This Statement requires disclosures about an SCA including a general description of the arrangement and information about the associated assets, liabilities, and deferred inflows, the rights granted and retained, and guarantees and commitments.

This Statement is effective for periods beginning after December 15, 2011.

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34. T*he objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the “substantively the same governing body” criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

Financial Accounting Standards Board (FASB) Statements and Interpretations

Accounting Principles Board Opinions

Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the “FASB and AICPA pronouncements.”

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

In June 2011, GASB issued Statement No. 63: *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011.

In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*

Some governments have entered into interest rate swap agreements and commodity swap agreements in which a swap counterparty, or the swap counterparty's credit support provider, commits or experiences either an act of default or a termination event as both are described in the swap agreement. Many of those governments have replaced their swap counterparty, or swap counterparty's credit support providers, either by amending existing swap agreements or by entering into new swap agreements. When these swap agreements have been reported as hedging instruments, questions have arisen regarding the application of the termination of hedge accounting provisions in Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Those provisions require a government to cease hedge accounting upon the termination of the hedging derivative instrument, resulting in the immediate recognition of the deferred outflows of resources or deferred inflows of resources as a component of investment income.

The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011.