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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. Effective February 1, 2012, the SDCRA was dissolved pursuant to California Assembly Bill ABx1 26. *SDCRA* financial activities through January 31, 2012 are reported in a *special revenue fund* and a *debt service fund*.

Sanitation District (SD) - The *SD* was established to construct, operate and maintain reliable and sustainable sanitary sewer systems. Revenue sources include charges to property owners and grants. The *SD* is reported as an *enterprise fund*.

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

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

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.

County of San Diego Successor Agency Private Purpose Trust Fund is a fiduciary fund type used by the County to report trust arrangements under which principal and income benefit other governments. This fund reports the assets, liabilities, and activities of the County of San Diego Successor Agency; formed pursuant to California Assembly Bill ABx1 26.

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.

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 principal payments on general long-term debt 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 Investment Pool (the "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 ($11.184 million and $1.046 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.

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

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

County Leased Property

The County and its blended component units lease real property to the private sector and other governmental agencies. 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.

(Amounts expressed in thousands unless otherwise noted)

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
Easements		50
Buildings and improvements		50
Software		50-100
Equipment		5
Infrastructure		25-50

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
Software	3-10 years
Equipment	5-20 years
Infrastructure	10-50 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 Standands 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 Board of Supervisors. The Board of Supervisors may establish fund balance commitments by adoption of an ordinance, resolution, or formal board action memorialized by minute orders as may be required by law. 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.

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.

(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, 2012

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 $(1,903,840) difference are as follows:		
Bonds, notes and loans payable		
Certificates of participation and lease revenue bonds	$	(400,970)
Taxable pension obligation bonds		(806,845)
Tobacco settlement asset-backed bonds		(576,340)
Loans - non-internal service funds		(2,401)
Unamortized issuance premiums (to be amortized as interest expense)		(13,655)
Unamortized issuance discounts (to be amortized as interest expense)		14,125
Unamortized deferred amounts on refundings (to be amortized as interest expense)		5,896
Compensated absences (excluding Internal Service Funds)		(96,281)
Landfill postclosure - San Marcos landfill		(19,465)
Pollution remediation		(7,904)
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	$	(1,903,840)
Internal Service Funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The details of this $97,693 difference are as follows:		
Net assets of the internal service funds	$	98,044
Less: Internal payable representing charges in excess of cost to business-type activities - prior years		(398)
Add: Internal payable representing charges in excess of cost to business-type activities - current year		47
Net adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities	$	97,693

(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, 2012

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/amortization expense. The details of this $100,614 difference are as follows:		
Capital outlay	$	212,304
Depreciation/amortization expense		(111,690)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	100,614
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets. The details of this $(21,930) difference are as follows:		
The proceeds from the sale of capital assets provide current financial resources but have no effect on net assets	$	(740)
The loss on the disposal of capital assets does not affect current financial resources but decreases net assets		(30,323)
The gain on the disposal of capital assets does not affect current financial resources but increases net assets		428
Donations of assets to the County do not provide current financial resources but resources increase net assets		8,705
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	(21,930)
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 $33,721 difference are as follows:		
Debt issued or incurred:		
Refunding bonds issued	$	(32,665)
Less: Discount		182
Less: Issuance costs		374
Principal repayments		61,241
Accreted interest paid		4,369
Arbitrage		220
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	33,721
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. The details of this $(14,122) difference are as follows:		
Compensated absences	$	(575)
Accrued interest		127
Accretion of capital appreciation bonds		(7,666)
Amortization of premiums		1,138
Amortization of discounts		(1,076)
Amortization of deferred amounts on refundings		(4,931)
Amortization of issuance costs		(1,139)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	(14,122)
Internal Service Funds. The net revenue (or expense) of certain activities of internal service funds is reported with governmental activities. The details of this $(4,636) difference are as follows:		
Change in net assets of the internal service funds	$	(4,683)
Add: Gain from charges to business activities		47
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	(4,636)

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 $6,163,441 consisting of: $6,087,933 investments in the County pool; $67.369 million in demand deposits; $7.614 million of collections in transit; and, $525 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, 2012, 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 $67.369 million, and the bank balance at June 30, 2012 was $67.402 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, $11.12 million was covered by federal deposit insurance and $56.282 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 $1.853 million and the bank balance per various financial institutions was $2.213 million. Of the total bank balance, $403 thousand was covered by federal deposit insurance and $1.810 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; registered treasury notes or bonds of all 50 states; 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; mortgage collateralized obligations; and shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7.

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 mutual 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, 2012, 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**.

California Government Code Section 53601 indicates where the Code does not specify a limitation on the term or remaining maturity at the time of the investment, no investment shall be made in any security, other than a security underlying a repurchase or reverse repurchase agreement or securities lending agreement authorized by this section, that at the time of the investment has a term remaining to maturity in excess of five years, unless the legislative body has granted express authority to make that investment either specifically or as a part of an investment program approved by the legislative body no less than three months prior to the investment.

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. Non-rated securities include sweep accounts, collateralized certificates of deposit and repurchase agreements. Sweep accounts and collateralized certificates of deposit must be FDIC insured and 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:

(Amounts expressed in thousands unless otherwise noted)

Table 5

S & P Investment Rating

	Investment Pool	Investments with Fiscal Agents
Overall credit rating	AAAf/S1	
Short-term	A-1	A-1
Long-term	A	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, 2012, all Pool investments were in compliance with State law and with the Investment Policy.

The Investment Pool's holdings of the securities of the Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) 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 Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), FNMA, or FHLMC. The Investment Pool's investments in FHLB, FFCB, FNMA and FHLMC securities as of June 30, 2012 comprised 15.1%, 6.61%, 15.81%, and 19.19% of the total County Investment Pool's investments, respectively.

No general policies have been established to limit the amount of exposure to any one single issuer, however, moneys held by trustees on behalf of the County may generally only be invested in permitted investments specified in trustee or indenture agreements. Instruments in any one issuer that represent 5% or more of the County investments with fiscal agents by individual major fund or nonmajor funds in the aggregate at June 30, 2012 are shown in **Table 6**.

Table 6

Concentration of Credit Risk - Investments With Fiscal Agents

Issuer	Tobacco Endowment Fund	Percent	Nonmajor Governmental Funds	Percent
BlackRock MuniFund	$ 36,670	10		
Federal national mortgage association			$ 49,025	77
Federated treasury obligation			12,908	20

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.

(Amounts expressed in thousands unless otherwise noted)

Table 7

Pooled Investments
At June 30, 2012

	Fair Value	Book Value	Interest Rate Range	Maturity Range	Weighted Average Maturity (days)	S&P Rating	% of Portfolio
US government agencies:							
Federal home loan mortgage corporation notes	$ 1,167,981	1,164,122	0.07% - 5.13%	7/12 - 3/17	500	A-1+/AA+	19.19%
Federal home loan bank notes	919,328	914,186	0.12% - 3.88%	7/12 - 6/16	347	A-1+/AA+	15.10%
Federal national mortgage association notes	962,676	958,350	0.06% - 5.00%	7/12 - 4/17	929	A-1+/AA+	15.81%
Federal farm credit bank notes	402,509	402,554	0.17% - 0.61%	8/12 - 6/15	447	A-1+/AA+	6.61%
US treasury notes	286,075	281,266	0.88% - 4.50%	8/12 - 5/17	734	AA+	4.70%
Commercial paper	1,049,982	1,050,128	0.11% - 0.20%	7/12 - 8/12	27	A-1/A-1+	17.25%
Money market mutual funds	79,275	79,275	0.01% - 0.05%	7/12	41	AAA	1.30%
Negotiable certificates of deposit	1,185,002	1,185,003	0.11% - 1.00%	7/12 - 5/13	35	N/A	19.46%
Bond funds	35,105	35,000	0.44%	8/13	412	AA	0.58%
Total investments	$ 6,087,933	6,069,884			373		100.00%

Table 8

Investments with Fiscal Agents
At June 30, 2012

	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	$ 4,870	0% - 5.13%	9/12 - 8/22	2997	A	1.12%
Fixed income tax exempt bonds	27,065	0% - 5.25%	8/12 - 6/28	3038	A+	6.25%
Fixed income tax exempt bonds	50,169	4% - 7%	11/12 - 12/28	3009	AA	11.59%
Fixed income tax exempt bonds	27,059	4.50% - 5.75%	4/20 - 1/34	4873	AA-	6.25%
Fixed income tax exempt bonds	137,816	0% - 6.25%	12/12 - 6/33	3923	AA+	31.83%
Fixed income tax exempt bonds	44,194	5% - 8.95%	7/13 - 10/33	3666	AAA	10.21%
Fixed income tax exempt bonds	4,650	5.00%	9/22	7094	BBB	1.07%
Fixed income tax exempt bonds	2,436	5.25%	11/29	6347	BBB+	0.56%
Fixed income tax exempt bonds	34,760	5% - 6.38%	1/13 - 2/33	4282	NR	8.03%
MuniFunds	36,670	0.00%	8/12	33	AAA	8.47%
Subtotal	369,689					
Restricted:						
Federal national mortgage association notes	14,864	2.75% - 4.63%	2/14 - 10/14	665	AA+	3.43%
Federal national mortgage association discount notes	34,162	0.00%	7/12	9	N/A	7.89%
Money market mutual funds	14,326	0% - .01%	8/12	48-54	AAA/A-1+	3.30%
Subtotal	63,352					
Total County investments with fiscal agents	433,041					100.00%
Private Purpose investments:						
Money market mutual funds	1,155	0.00%	8/12	48	AAA	100.00%
Total Private Purpose investments	1,155					100.00%
Total investments with fiscal agents	$ 434,196					

(Amounts expressed in thousands unless otherwise noted)

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	35%	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-1	A
Negotiable certificates of deposit	5 years	5 years	30%	30%	None	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%	AAAm	AAAm
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. The maximum exposure to a single broker/dealer of Repurchase Agreements shall be 10% of the portfolio value for maturities greater than 6 days, and 15% of the portfolio value for maturities of 6 days or less.
(3) Rating of "A" required for issuer, if rated; and rating of "AA" required for issue.

NOTE 4
Restricted Assets

Restricted assets include monies or other resources required to be set aside to repay principal and interest under debt covenants; and to comply with other legal or contractual requirements. For fiscal year 2012 restricted assets were as follows:

Table 10

Restricted Assets

Fund	Legal or Contractual Requirements	Debt Covenants
General Fund	$ 157	$ 5,568
Nonmajor Governmental Funds		
Housing Authority Special Revenue Fund	470	
Tobacco Securitization Joint Special Revenue Fund		47,069
Pension Obligation Bonds Debt Service Fund		8
San Diego Regional Building Authority Debt Service Fund		18,296
SANCAL Debt Service Fund		4,711

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 - $62.433 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- $68.684 million

This amount includes: $40.042 million in housing rehabilitation loan programs for low-income or special need residents, and loans for low income housing down payments; $27.607 million in community development block grant loans; and $1.035 million owed to the General Fund from the County of San Diego Successor Agency Private Purpose Trust Fund as a result of a loan to provide funding for project improvements for the Upper San Diego River Project.

(Amounts expressed in thousands unless otherwise noted)

Note that at the fund level, in the General Fund, this loan is presented as "Due From Other Funds". See Note 8 to the financial statements, "Interfund Balances".

Loans- Business-type activities- $7.116 million

This amount includes $3.278 million in 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; and $3.838 million owed to the AEF from the County of San Diego Successor Agency Private Purpose Trust Fund as a result of a loan to fund airport projects. Note that in the Airport Enterprise Fund, this loan is presented as "Due From Other Funds". See Note 8 to the financial statements, "Interfund Balances".

Table 11

Receivables
Primary Government and Discretely Presented Component Unit
At June 30, 2012

		Accounts	Investment Earnings	Due From Other Government Agencies	Loans	Other	Total Receivables	Allowance For Doubtful Accounts	Receivables Net
Governmental activities:									
General Fund	$	5,093	1,267	453,424	55,480	1,463	516,727		516,727
Public Safety Special Revenue Fund				41,364			41,364		41,364
Tobacco Endowment Fund			4,637				4,637		4,637
Other Governmental Funds		21,738	930	24,947	12,037	59	59,711	(1,046)	58,665
Internal Service Funds		238	162	973	132	6	1,511		1,511
Total governmental activities - fund level	$	27,069	6,996	520,708	67,649	1,528	623,950	(1,046)	622,904
Add: loan receivable from the County of San Diego Successor Agency Private Purpose Trust Fund					1,035		1,035		1,035
Total governmental activities - Statement of Net Assets	$	27,069	6,996	520,708	68,684	1,528	624,985	(1,046)	623,939
Business-type activities:									
Enterprise Funds	$	104	222	535	3,278		4,139		4,139
Add: loan receivable from the County of San Diego Successor Agency Private Purpose Trust Fund					3,838		3,838		3,838
Total business-type activities - Statement of Net Assets		104	222	535	7,116		7,977		7,977
Component Unit:									
First 5 Commission of San Diego	$	1	222	5,695			5,918		5,918

(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 $5.96 million at June 30, 2012. The lease revenue received by the SDRBA and the County for the year ended June 30, 2012 was approximately $731 thousand and $890 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, 2012.

Lease revenue from noncancelable operating leases for the year ended June 30, 2012 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
2013	$ 1,640	$ 17,237
2014	1,626	16,278
2015	1,637	11,410
2016	1,624	10,235
2017	1,627	9,167
2018 - 2022	4,531	41,992
2023 - 2027		36,701
2028 - 2032		34.559
2033 - 2037		23,944
2038 - 2042		13,233
2043 - 2047		9,147
2048 - 2052		7,278
2053 - 2057		4,209
2058 - 2062		1,386
2063 - 2067		130
Total	$ 12,685	$ 236,906

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, 2011	Increases	Decreases	Ending Balance at June 30, 2012
Capital assets, not being depreciated/amortized:				
Land	$ 341,692	38,931	(15)	$ 380,608
Easements	5,640	1,212		6,852
Construction in progress	138,525	163,251	(93,650)	208,126
Total capital assets, not being depreciated/ amortized	485,857	203,394	(93,665)	595,586
Capital assets, being depreciated/ amortized:				
Buildings and improvements	1,357,516	42,562	(69,135)	1,330,943
Software	83,190	22,630	(55,480)	50,340
Equipment	251,350	20,824	(12,987)	259,187
Road infrastructure	2,454,528	34,483		2,489,011
Bridge infrastructure	67,028	1,833		68,861
Total capital assets, being depreciated/ amortized	4,213,612	122,332	(137,602)	4,198,342
Less accumulated depreciation/amortization for:				
Buildings and improvements	(348,457)	(27,457)	39,237	(336,677)
Software	(67,165)	(9,468)	55,480	(21,153)
Equipment	(143,597)	(21,807)	11,794	(153,610)
Road infrastructure	(1,065,617)	(67,134)		(1,132,751)
Bridge infrastructure	(17,770)	(1,292)		(19,062)
Total accumulated depreciation/ amortization	(1,642,606)	(127,158)	106,511	(1,663,253)
Total capital assets, being depreciated/ amortized, net	2,571,006	(4,826)	(31,091)	2,535,089
Governmental activities capital assets, net	$ 3,056,863	198,568	(124,756)	$ 3,130,675

(Amounts expressed in thousands unless otherwise noted)

Table 14

Capital Assets - Business-type Activities

	Beginning Balance at July 1, 2011	Increases	Decreases	Ending Balance at June 30, 2012
Capital assets, not being depreciated:				
Land	$ 11,565			$ 11,565
Construction in progress	12,587	4,803	(5,750)	11,640
Total capital assets, not being depreciated	24,152	4,803	(5,750)	23,205
Capital assets, being depreciated:				
Buildings and improvements	114,787	473	(1,270)	113,990
Equipment	1,169	8	(67)	1,110
Road infrastructure	6,445	4		6,449
Sewer infrastructure	85,764	5,274		91,038
Total capital assets, being depreciated	208,165	5,759	(1,337)	212,587
Less accumulated depreciation for:				
Buildings and improvements	(30,912)	(3,545)	1,270	(33,187)
Equipment	(924)	(40)	38	(926)
Road infrastructure	(194)	(167)		(361)
Sewer infrastructure	(35,453)	(1,678)		(37,131)
Total accumulated depreciation	(67,483)	(5,430)	1,308	(71,605)
Total capital assets, being depreciated, net	140,682	329	(29)	140,982
Business-type activities capital assets, net	$ 164,834	5,132	(5,779)	$ 164,187

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	$ 6,599
Public protection	24,468
Public ways and facilities	67,742
Health and sanitation	6,613
Public assistance	1,474
Education	2,160
Recreation and cultural	2,634
Internal Service Funds	15,468
Total	$ 127,158

Table 16

Depreciation Expense - Business-type Activities

Airport Fund	$ 3,647
Sanitation District Fund	1,765
Wastewater Management Fund	18
Total	$ 5,430

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, 2012, the County General Fund's outstanding encumbrances totaled $390.778 million while the Public Safety Fund's outstanding encumbrances totaled $3.606 million. Non-major governmental funds' outstanding encumbrances totaled $36.006 million.

At June 30, 2012, major contracts entered into for structures and improvements and other commitments within governmental and business-type activities are noted in **Table 17**.

Table 17

Capital Commitments
At June 30, 2012

	Remaining Commitments
Governmental Activities	
Other Governmental Funds:	
Construction of Women's Detention Facility	$ 149,455
Construction of Waterfront Park	33,993
Development of Integrated Property Tax System	29,110
Construction of County Operations Center Phase 1B	22,681
Construction of Rancho San Diego Sheriff's Station	9,985
Construction of County Operations Center Phase 1A	5,541
Construction of South Santa Fe Ave.	4,196
Improvement to Sweetwater Park	3,612
Construction of Lawson Valley Road Bridge	1,894
Improvement to Lincoln Acres Library	1,207
Construction of Jamacha Blvd. Phase II	1,085
Subtotal	262,759
Business-type Activities	
Enterprise Funds:	
Construction of Jamacha Pump Station	4,669
Construction of Flinn Springs Interceptor	1,366
Subtotal	6,035
Total	$ 268,794

(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, 2012

		DUE FROM							
		General Fund	Public Safety	Tobacco Endowment	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Private Purpose Trust Fund	Total
DUE TO	General Fund	$	38,204	4,401	13,755	116	5,707	1,035	$ 63,218
	Nonmajor Governmental	15,611			8,170	378	47		24,206
	Nonmajor Enterprise	37				256	2	3,838	4,133
	Internal Service	20,514			1,353	87	1,528		23,482
	Total	$ 36,162	38,204	4,401	23,278	837	7,284	4,873	$ 115,039

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

a) $60 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. $45 thousand of the balance is not scheduled to be collected in the subsequent year.

b) $1.035 million is due to the General Fund from the County of San Diego Successor Agency Private Purpose Trust Fund (Upper San Diego River Project) as a result of a loan to provide funding for Project improvements.

c) $3.838 million is due from the County of San Diego Successor Agency Private Purpose Trust Fund to the Airport Enterprise Fund as a result of a loan to fund airport projects.

For further discussion of the loans to the County of San Diego Successor Agency Private Purpose Trust Fund, refer to Note 33 to the financial statements, "County of San Diego Successor Agency Private Purpose Trust Fund for Assets of Former San Diego County Redevelopment Agency". Note that on the Statement of Net Assets, the "Due from other funds" for the General Fund's $1.035 million Upper San Diego River Project loan and the "Due from other funds" for the $3.838 million Airport Enterprise Fund's airport projects loan, are included in the governmental activities' and business-type activities' "Receivables, net", respectively. See note 5 to the financial statements, "Receivables."

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.

(Amounts expressed in thousands unless otherwise noted)

NOTE 9
Interfund Transfers

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

Table 19

Transfers In/Transfers Out
At June 30, 2012

		TRANSFERS OUT						
		General Fund	Public Safety	Tobacco Endowment	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Total
TRANSFERS IN	General Fund	$	203,106	24,200	14,903		1,939 $	244,148
	Nonmajor Governmental	203,971			8,648	332	3,093	216,044
	Nonmajor Enterprise	310			50			360
	Internal Service	8,297			1,621			9,918
	Governmental Activities*						6,733	6,733
	Total	$ 212,578	203,106	24,200	25,222	332	11,765 $	477,203

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 2012 for purposes other than those described above included a one-time $6.733 million "transfer out" of capital assets (equipment) from the Fleet Internal Service Fund to the General Fund. As the General Fund does not report capital assets under the modified accrual basis of accounting, there is no corresponding "transfer in" reported in the General Fund; however, the assets are reported in the Government-wide Statement of Net Assets in the Governmental Activities column.

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, 2012

	Vendors	Due to Other Government Agencies	Other	Total Payables
Governmental Activities:				
General Fund	$ 92,034	21,654	4,367	$ 118,055
Other Governmental Funds	35,093	1,050	657	36,800
Internal Service Funds	34,023	797		34,820
Total governmental activities	$ 161,150	23,501	5,024	$ 189,675
Business-type activities:				
Enterprise Funds	$ 991	2		$ 993
Component Unit:				
First 5 Commission of San Diego	$ 3,778	9,702	1,810	$ 15,290

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, 2011	Issued	Redeemed	Ending Balance at June 30, 2012
Tax and revenue anticipation notes	$	50,000	50,000	$

(Amounts expressed in thousands unless otherwise noted)

NOTE 12

Lease Obligations

Operating Leases

Real Property

The County has obligations under long-term operating lease agreements through fiscal year 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, 2012 was approximately $31.52 million, including $22.55 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
2013	$	19,956
2014		16,497
2015		11,986
2016		8,523
2017		7,087
2018-2022		18,344
Total	$	82,393

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, 2012, was approximately $2.9 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 noted in **Table 23**.

Table 23

Capital Lease - Future Minimum Lease Payments

Fiscal Year		Amount
2013	$	40
2014		40
2015		40
2016		40
2017		40
2018		14
Total minimum lease payments		214
Less: Amount representing interest		(29)
Net lease payments	$	185

Book Value

The book value of the equipment capital lease is as follows:

Table 24

Capital Lease - Book Value
At June 30, 2012

Capital Lease Property		Original Cost	Accumulated Amortization	Net Book Value
Equipment	$	310	142	168

The accumulated amortization of this equipment capital lease was $142 thousand as of June 30, 2012, and is included in the Internal Service Funds' depreciation/amortization of $15.468 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 SMCFPD 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.

(Amounts expressed in thousands unless otherwise noted)

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 August 2011, the San Diego Capital Asset Leasing Corporation issued $32.665 million of fixed rate certificates of participation titled "County of San Diego Certificates of Participation (County Administration Center Waterfront Park (the Certificates)." The 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 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) $2.094 million of proceeds were used to fund the Certificates' debt service reserve fund; 3) $151 thousand was used to pay the underwriter's discount; and 4) $234 thousand was set aside to pay certain costs of issuance. The interest on these Certificates is excludable from gross income for federal income tax purposes and is exempt from State of California income taxes.

Details of COPs and LRBs outstanding at June 30, 2012 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, 2012
1993 Master Refunding COP	$ 203,400	2.50 - 5.625%	2013	$ 3,800
2003 San Miguel Consolidated Fire Protection District Refunding LRB	10,005	2.00 - 5.00%	2020	5,855
2005 Edgemoor Project COP	83,510	3.00 - 5.00%	2030	71,780
2005 Regional Communications System Refunding COP	28,885	3.00 - 5.00%	2019	11,120
2005 North & East Justice Facilities Refunding COP	28,210	3.25 - 5.00%	2020	18,065
2006 Edgemoor Completion Project COP	42,390	4.00 - 5.00%	2030	38,415
2009 Series A COC and Annex Project LRB	136,885	3.00 - 5.50%	2036	133,755
2009 Justice Facilities Refunding of 1998 Courthouse COP	32,640	2.00 - 5.00%	2023	25,520
2009 Justice Facilities Refunding of 1997 Central Jail COP	48,300	2.00 - 5.00%	2026	42,730
2011 Metropolitan Transit System Towers Refunding COP	19,260	1.00- 5.00%	2020	17,265
2011 CAC Waterfront Park Project COP	32,665	3.00- 5.00%	2042	32,665
Total	$ 666,150			$ 400,970

(Amounts expressed in thousands unless otherwise noted)

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

Table 26

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

Fiscal Year	Principal	Interest	Total
2013	$ 25,295	18,388	$ 43,683
2014	20,015	17,589	37,604
2015	19,285	16,800	36,085
2016	20,030	15,966	35,996
2017	20,935	15,052	35,987
2018-2022	97,460	60,859	158,319
2023-2027	82,045	40,021	122,066
2028-2032	65,130	21,131	86,261
2033-2037	41,750	7,290	49,040
2038-2042	9,025	1,241	10,266
Subtotal	$ 400,970	214,337	$ 615,307
Add:			
Unamortized issuance premium	13,655		
Less:			
Unamortized deferred amounts on refundings	(4,323)		
Unamortized discount	(176)		
Total	$ 410,126		

Taxable Pension Obligation Bonds (POBs)

POBs are issued by the County to reduce its pension unfunded actuarial accrued 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, 2012 are as follows:

Table 27

Taxable Pension Obligation Bonds

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2012
2002 Series A	$ 132,215	3.88 - 4.95%	2016	$ 69,505
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	61,015
2004 Series C Unaccreted Interest CABs				(5,310)
2008 Series A	343,515	3.33 - 6.03%	2027	320,940
Total	$ 929,843			$ 806,845

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
2013	$ 38,700	2,386	42,313	$ 83,399
2014	33,043	1,575	41,233	75,851
2015	38,240	1,202	39,556	78,998
2016	32,755	147	38,380	71,282
2017	44,340		36,065	80,405
2018-2022	264,695		136,586	401,281
2023-2027	340,825		44,234	385,059
Subtotal	$ 792,598	5,310	378,367	$ 1,176,275
Add:				
Accreted appreciation through June 30, 2012	29,932			
Less:				
Accreted appreciation paid through fiscal year 2012	(10,200)			
Less:				
Accreted appreciation to be paid in fiscal year 2013	(5,485)			
Subtotal	806,845			
Less:				
Unamortized deferred amounts on refundings	(1,573)			
Total	$ 805,272			

(Amounts expressed in thousands unless otherwise noted)

Tobacco Settlement Asset-Backed Bonds (TSAB)

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

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

In fiscal year 2002, the Authority issued $446.86 million 2001 Tobacco Settlement Asset-Backed Bonds (Bonds), to fund the Authority's loan to the San Diego Tobacco Asset Securitization Corporation (Corporation), pursuant to a loan agreement between the Authority and the Corporation. (Both entities are blended component units of the County.) According to the loan agreement, the Corporation has pledged, assigned and granted to the Authority, a first priority perfected security interest in all rights, title and interest of the Corporation, to the TSRs the Corporation purchased from the County, and future TSRs. The Corporation used the net proceeds of the loan, $411.913 million, to pay the County, in exchange for the County's transfer to the Corporation of all the County's rights, title and interest in the TSRs. Net proceeds have been placed in an endowment fund to fund healthcare-based programs pursuant to Board Policy E-14 and IRS regulations, and do not secure the repayment of the TSAB.

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 proceeds were placed into the endowment fund for the aforementioned purposes. The Series 2006 Bonds are limited obligations of the Authority, anticipated to reach final maturity in fiscal year 2036-2037 based on receipts of future TSRs as projected in the May 2006 Global Insight Base Case analysis (the "Base Case") performed in conjunction with the issuance of the Series 2006 TSAB.

Under the terms of the 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 TSRs and earnings on such funds (collections).

The minimum payments under the TSAB are based on the indenture and the Series 2006 Supplement, both dated as of May 1, 2006. However, actual payments on the TSAB depend on the amount of TSRs received by the County. The amount of these TSRs is affected by cigarette consumption and the financial capability of the participating manufacturers. There are a number of risks associated with the amount of actual TSRs the County receives each year, including litigation affecting the participating manufacturers and possible bankruptcy as a result thereof, increased growth of non participating manufacturer's market share, disputed payments set-aside by the participating manufacturers into an escrow account, a decline in cigarette consumption materially beyond forecasted levels, reduction in investment earnings due to unforeseen market conditions, and other future adjustments to the calculation of the TSRs.

No assurance can be given that actual cigarette consumption in the United States during the term of the TSAB will be as assumed in the Base Case, or that the other assumptions underlying these Base Case assumptions, including that certain adjustments and offsets will not apply to payments due under the MSA, will be consistent with future events. If actual events deviate from one or more of the assumptions underlying the Base Case, the amount of TSRs available to make payments, including Turbo Redemption Payments will be affected. No assurance can be given that these structuring assumptions, upon which the projections of the TSAB payments and Turbo Redemptions are based, will be realized.

Details of TSAB outstanding at June 30, 2012 are as follows:

Table 29

Tobacco Settlement Asset-Backed Bonds

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2012
Series 2006A Senior Current Interest Bonds	$ 534,610	4.75 - 5.125%	2018-2031	$ 503,395
Series 2006B CABs	19,770	6.25%	2033	96,549
2006B unaccreted appreciation CABs				(67,796)
Series 2006C CABs	8,686	6.40%	2034	48,291
2006C unaccreted appreciation CABs				(35,545)
Series 2006D CABs	20,565	7.10%	2037	158,338
2006D unaccreted appreciation CABs				(126,892)
Total	$ 583,631			$ 576,340

(Amounts expressed in thousands unless otherwise noted)

In the following schedule, the principal and interest payments are presented as if turbo redemptions will be made beginning June 1, 2013 through June 1, 2037 based upon the May 2006 Base Case analysis of the TSR collections to fund the Turbo Redemptions. Turbo Redemptions occur when all excess revenues after the payment of operating expenses, interest, and rated principal are used to retire term bonds early in order of maturity. The principal or accreted value of the TSAB must be paid by its stated maturity date to avoid an Event of Default under the Indenture. Under the Indenture, collections which are in excess of the requirements for, among other things, the periodic funding of operating expenses, sinking fund installments, turbo term bond maturities and replenishment of the Senior Liquidity Reserve Account are applied to the mandatory redemption of the TSAB at the principal amount or accreted value thereof on each distribution date in accordance with the payment priorities.

The fiscal year 2012 receipts of TSR were adequate to allow for $3.755 million of Turbo Redemption on June 1, 2012.

Based on the Base Case assumptions, 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
2013	$ 11,820	4,925	25,217 $	41,962
2014	12,065	5,258	24,654	41,977
2015	13,000	5,617	24,078	42,695
2016	14,065	5,998	23,456	43,519
2017	15,185	6,402	22,783	44,370
2018-2022	109,690	39,166	100,147	249,003
2023-2027	157,595	54,399	67,962	279,956
2028-2032	187,270	72,975	21,780	282,025
2033-2037	31,726	35,493		67,219
				-
Subtotal	$ 552,416	230,233	310,077 $	1,092,726
Add:				
Accreted appreciation through June 30, 2012	23,924			
Subtotal	576,340			
Less:				
Unamortized issuance discount	(13,949)			
Total	$ 562,391			

TSAB pledged revenue for the year ended June 30, 2012 was as follows:

Table 31

Tobacco Settlement Asset-Backed Bonds - Pledged Revenues

			Fiscal Year 2012	
Debt Pledged	Final Maturity Date	Pledged Revenue To Maturity	Debt Principal & Interest Paid	Pledged Revenue Received
Series 2006 Tobacco Settlement Asset-Backed Bonds	2037	$ 1,116,650 $	29,197 $	27,344

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.

Details of loans outstanding at June 30, 2012 for governmental activities are as follows:

Table 32

Loans - Governmental Activities

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2012
Loans - non internal service funds (ISF)				
Firebird Manor	$ 4,486	1.00%	2028	$ 2,401
Total loans - non-ISF	4,486			2,401
Loans - ISF				
California Energy Comm Loan 1 (Facilities ISF)	1,977	4.00%	2015	560
California Energy Comm Loan 2 (Facilities ISF)	3,001	3.95%	2016	1,156
California Energy Comm Loan 3 (Facilities ISF)	2,565	4.50%	2018	2,050
Total loans - ISF	7,543			3,766
Total	$ 12,029			$ 6,167

(Amounts expressed in thousands unless otherwise noted)

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

Table 33

Loans - Governmental Activities
Debt Service Requirements to Maturity

Fiscal Year	Principal	Interest	Total
2013	$ 1,032	174	$ 1,206
2014	1,073	135	1,208
2015	993	95	1,088
2016	493	65	558
2017	510	48	558
2018-2022	1,134	82	1,216
2023-2027	792	31	823
2028	140	1	141
Total	$ 6,167	631	$ 6,798

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, 2012 for business-type activities are as follows:

Table 34

Loans - Business-type Activities

Loan	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2012
2001 Airport Development Loan - Ramona Sewer Line	$ 2,388	5.63%	2017	$ 875
2001 Airport Development Loan - Ramona Control Tower	1,196	5.63%	2017	438
Total	$ 3,584			$ 1,313

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

Table 35

Loans - Business-type Activities
Debt Service Requirements to Maturity

Fiscal Year	Principal	Interest	Total
2013	$ 267	$ 74	$ 341
2014	279	59	338
2015	291	43	334
2016	304	27	331
2017	172	10	182
Total	$ 1,313	213	$ 1,526

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. At June 30, 2012, the defeased TSAB were completely paid off and no bonds remained 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, 2012, the probable arbitrage rebate was zero.

(Amounts expressed in thousands unless otherwise noted)

NOTE 14
Changes in Long-Term Liabilities

Long-term liability activities for the year ended June 30, 2012 were as follows:

Table 36

Changes in Long-Term Liabilities

	Beginning Balance at July 1, 2011	Additions	Reductions	Accreted Interest	Ending Balance at June 30, 2012	Amounts Due Within One Year
Governmental Activities:						
COPs, bonds & loans						
Certificates of participation and lease revenue bonds	$ 392,100	32,665	(23,795)		400,970 $	25,295
Taxable pension obligation bonds	841,337		(37,545)	3,053	806,845	38,700
Tobacco settlement asset-backed bonds	575,482		(3,755)	4,613	576,340	11,820
SDCRA revenue refunding bonds	14,280		(14,280)			
Loans - non-internal service funds	2,541		(140)		2,401	140
Loans - internal service funds (ISF)	4,621		(855)		3,766	892
Arbitrage	220		(220)			
Unamortized issuance premiums	14,793		(1,138)		13,655	1,138
Unamortized issuance discounts	(15,055)	(182)	1,112		(14,125)	(1,076)
Unamortized deferred amounts on refundings	(10,827)		4,931		(5,896)	(506)
Total COPs, bonds & loans	1,819,492	32,483	(75,685)	7,666	1,783,956	76,403
Other long-term liabilities:						
Capital Leases - ISF	$ 212		(27)		185 $	31
Claims and judgments - ISF	135,599	32,302	(29,062)		138,839	35,842
Compensated absences - non-ISF	95,706	66,485	(65,910)		96,281	37,332
Compensated absences - ISF	2,274	1,671	(1,670)		2,275	930
Landfill postclosure	20,425		(960)		19,465	777
Pollution remediation		7,904			7,904	2,454
Total Other long-term liabilities	254,216	108,362	(97,629)		264,949	77,366
Total Governmental Activities	$ 2,073,708	140,845	(173,314)	7,666	2,048,905 $	153,769
Business-type activities:						
Loans	$ 1,566		(253)		1,313 $	267
Compensated absences	428	278	(285)		421	172
Total Business-type Activities	$ 1,994	278	(538)		1,734 $	439

NOTE 15
Funds Used to Liquidate Liabilities

The following funds presented in **Table 37** below have typically been used to liquidate other long-term obligations in prior years:

Table 37

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, Inactive Wastesites and Air Pollution; Internal Service Funds - Facilities Management, Fleet Services and Purchasing; and, Enterprise Funds - Airport and Wastewater Management
Landfill Postclosure	General Fund, Special Revenue Fund: Inactive Wastesites
Pollution Remediation	General Fund, Special Revenue Fund: Inactive Wastesites

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 4-S Ranch special assessment debt matured on

September 2, 2011 and no bonds remain outstanding.

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) twelve certificates of participation (COPs) for the acquisition, construction, capital improvement and equipping of various facilities and b) three 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, 2012, the aggregate conduit debt principal amount outstanding was $268.716 million.

NOTE 18
Landfill Site 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 postclosure care liability at June 30, 2012 for the San Marcos Landfill was $19.465 million. This estimated amount is based on what it would cost to perform all postclosure care in calendar year 2012 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, 2012, $24.947 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, 2012 revegetation requirements have been met and closure costs considered complete.

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

NOTE 19
Pollution Remediation

Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, establishes accounting and reporting guidelines for the recognition and measurement of pollution remediation obligations (liabilities).

The County is involved in several remediation actions to clean up pollution sites within its boundaries. These matters generally coincide with the County's ownership of land, buildings and infrastructure assets. In some cases, regulatory agencies (e.g., California Regional Water Quality Control Board) notified the County of the need for remedial action. In addition, the County conducts its own environmental monitoring and this activity identifies pollution sites and matters requiring further investigation and possible remediation. Once the County is aware of these conditions, it commences monitoring, assessment, testing, and/or cleanup activities, and recognizes pollution remediation obligations when estimates can reasonably be determined.

The types of pollution that have been identified include leaking underground storage tanks, water, groundwater and soil contamination, and excessive levels of other contaminants. Remediation efforts include developing remediation and feasibility studies, source identification studies, site testing, sampling and analysis, ground water cleanup, removal of storage tanks, and other hazardous materials.

As of June 30, 2012, the County's estimated pollution remediation obligations totaled $7.904 million. These obligations were all associated with the County's government-wide governmental activities. The estimated liabilities were determined by project managers and/or consultants, based on historical cost information for projects of the same type, size and complexity and measured at their current value or current quotes from outside service providers. In subsequent periods, the County will adjust estimated obligations when new information indicates that such changes are required. At this time, the County has determined there are no estimated recoveries reducing the obligations.

NOTE 20
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.

(Amounts expressed in thousands unless otherwise noted)

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

At June 30, 2012, the fund balances restricted for laws or regulations of other governments: fund purpose are presented in **Table 38** as follows:

Table 38

Fund Balances Restricted for Laws or Regulations of Other Governments: Fund Purpose
At June 30, 2012

Fund Type:	Purpose		Amount
Major Fund			
Public Safety Fund	Public safety activities	$	42,311
Nonmajor Funds			
Special Revenue Funds			
Air Pollution Fund	Air pollution activities	$	17,528
Asset Forfeiture Program Fund	Law enforcement		9,464
County Library Fund	Library services		7,520
County Service District Funds	Road, park lighting maintenance, fire protection and ambulance services		18,625
Edgemoor Development Fund	Edgemoor development		13,314
In Home Supportive Services Public Authority Fund	In home supportive services		85
Inmate Welfare Fund	Benefit, education, and welfare of jail inmates		9,504
Lighting Maintenance District Fund	Street and road lighting maintenance		1,267
Other Special District Funds	Retracement or remonument surveys, improvements for grazing lands, wildlife propagation and aviation purposes capital improvements and repairs		578
Park Land Dedication Fund	Developing new or rehabilitating existing neighborhood or community park or recreational facilities		11,434
Total Nonmajor Funds (Special Revenue Funds)		$	89,319
Total Fund Balances Restricted for Laws or Regulations of Other Governments: Fund Purpose		$	131,630

NOTE 22
Fund Balances Restricted for Laws or Regulations of Other Governments: Other Purposes

At June 30, 2012, the fund balances restricted for laws or regulations of other governments: other purposes are presented in **Table 39** as follows:

Table 39

Fund Balances Restricted for Laws or Regulations of Other Governments: Other Purposes
At June 30, 2012

Major Fund		
General Fund		
Custody of non-violent, non-serious, non-sex offenders and supervision of post release offenders	$	23,043
Improvement and maintenance of recorded document systems		17,327
Defray administrative costs, other general restrictions		16,532
Teeter tax loss		14,643
Vector control		13,918
Mental health		12,605
Fire safety projects and equipment		9,526
Fingerprinting equipment purchase and operation		7,655
Sheriff automated warrant system		4,736
Public Defender defense of indigent cases		3,918
Emergency medical services, various construction costs		3,178
Domestic violence and child abuse prevention		2,450
Real estate fraud prosecution		2,180
Probation Department activities		1,836
Sheriff vehicle maintenance and replacement		1,770
Equipment replacement/system enhancement Caller ID Remote Access Network		1,116
Administration, operation and conservation of trails, paths or other facilities for off-highway motor vehicles		521
Parole revocation hearings		286
Acquisition, rehabilitation, construction and financing of courtrooms, courtroom building or court facilities		193
Social services child safety education		95
Public safety activities		50
Sheriff's correction training		1
Total General Fund	$	137,579
Nonmajor Funds		
Special Revenue Funds		
Flood Control District Fund		
Flood control future drainage improvements	$	26,166
Housing Authority Fund		
Housing repairs and improvements		134
Total Nonmajor Funds (Special Revenue Funds)	$	26,300
Total Fund Balances Restricted for Laws or Regulations of Other Governments: Other Purposes	$	163,879

(Amounts expressed in thousands unless otherwise noted)

NOTE 23
Fund Balances Committed to Other Purposes

At June 30, 2012, the fund balances committed to other purposes are presented in **Table 40** as follows:

Table 40

Fund Balances Committed To Other Purposes At June 30, 2012

Major Fund		
General Fund		
Replacement and upgrade of Public Safety Communication System	$	16,300
Regional communication system infrastructure enhancements		15,673
Health based programs reducing adult/youth smoking		8,120
Sheriff's Department future capital expenditures		6,000
Sheriff's Department helicopter replacement		2,674
Department of Environmental Health services		2,212
Future lease payments		857
Landfill postclosure and landfill maintenance		844
Department of Planning and Land Use services		659
Management of conduit financing programs		545
Registrar of Voters equipment acquisition		445
Future replacement of Health and Human Services Agency public health clinic		353
Assessor/Recorder/County Clerk services		111
Parks and Recreation land acquisition		85
South County Shelter capital improvements		60
Senior Volunteer Patrols Program in the unincorporated communities		25
Capital Improvement		12
Clerk of the Board services		5
Parks and Recreation turf replacement Sweetwater Valley		4
Total General Fund	$	54,984
Nonmajor Funds		
Special Revenue Funds		
Inactive Wastesites Fund		
Landfill postclosure and landfill maintenance	$	64,369
Total Nonmajor Funds (Special Revenue Funds)	$	64,369
Total Fund Balances Committed to Other Purposes	$	119,353

NOTE 24
Fund Balances Assigned to Other Purposes

At June 30, 2012, the fund balances assigned to other purposes are presented in **Table 41** as follows:

Table 41

Fund Balances Assigned to Other Purposes At June 30, 2012

Major Fund		
General Fund		
Health, mental health and social services	$	17,868
Law enforcement, detention, legal and other protection services		10,702
Legislative and administrative services		9,923
Park and Recreation services		3,238
Assessor/Recorder/County Clerk services		3,165
Planning, land use, agriculture, watershed and other public services		2,855
Treasurer-Tax Collector services		1,077
Fire protection		1,036
Registrar of Voters services		760
Maintenance		516
Animal Services		185
Total General Fund	$	51,325

(Amounts expressed in thousands unless otherwise noted)

NOTE 25
Net Assets Restricted for Laws or Regulations of Other Governments: Other Purposes

At June 30, 2012, the net assets restricted for laws or regulations of other governments: other purposes are presented in **Table 42** as follows:

Table 42

Net Assets Restricted for Laws or Regulations of Other Governments: Other Purposes
At June 30, 2012

Custody of non-violent, non-serious, non-sex offenders and supervision of post release offenders	$	23,043
Road, park lighting maintenance, fire protection and ambulance services		18,625
Air pollution activities		17,528
Developing new or rehabilitating existing neighborhood or community park or recreational facilities		11,434
Sheriff's correction training		9,527
Benefit, education, and welfare of jail inmates		9,504
Law enforcement		9,464
Fingerprinting equipment purchase and operation		7,655
Library services		7,520
Sheriff automated warrant system		4,736
Public Defender defense of indigent cases		3,918
Emergency medical services, various construction costs		3,178
Edgemoor development		2,663
Domestic violence and child abuse prevention		2,450
Real estate fraud prosecution		2,180
Probation Department activities		1,836
Sheriff vehicle maintenance and replacement		1,770
Street and road lighting maintenance		1,267
Equipment replacement/system enhancement Caller ID Remote Access Network		1,116
Retracement or remonument surveys, improvements for grazing lands, wildlife propagation and aviation purpose capital improvements and repairs		578
Administration, operation and conservation of trails, paths or other facilities for off-highway motor vehicles		521
Parole revocation proceedings		286
Acquisition, rehabilitation, construction and financing of courtrooms, courtroom building or court facilities		193
Housing repairs and improvements		134
Social services child safety education		95
In home supportive services		85
Total Net Assets Restricted for Laws or Regulations of Other Governments: Other Purposes	$	141,306

NOTE 26
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, 2012, these liabilities discounted for anticipated investment return (public liability of 1% and workers' compensation of 3%), totaled $138.8 million, including $25.8 million in public liability and $113 million in workers' compensation. Changes in the balances of claim liabilities for fiscal year 2012 and 2011 are shown below:

Table 43

Risk Management - Changes in Claim Liabilities

		2012		2011
Employee Benefits Fund				
Unpaid claims, July 1	$	106,563	$	94,973
Incurred claims		28,057		32,707
Claim payments		(21,660)		(21,117)
Unpaid claims, June 30	$	112,960	$	106,563
Public Liability Insurance Fund				
Unpaid claims, July 1	$	29,036	$	23,126
Incurred claims		4,245		14,950
Claim payments		(7,402)		(9,040)
Unpaid claims, June 30	$	25,879	$	29,036

NOTE 27
Contingencies
Litigation

The County has a potential liability of $10.8 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 $173.45 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 28
Joint Ventures

The San Diego Geographic Information Source (SanGIS) was created in July 1997 as a joint powers agreement between the City of San Diego and the County of San Diego. SanGIS objectives are to create and maintain a geographic information system; marketing and licensing compiled digital geographic data and software; providing technical services; and publishing geographic and land related information for the City and the County, other public agencies, and the private sector. It is governed by a Board of Directors consisting of the City Manager and the Chief Administrative Officer. SanGIS relies mostly on an annual budget of $1.3 million shared equally by the City and the County to supplement its operating revenues. In its latest report, SanGIS reported an increase in net assets of $91 thousand and ending net assets of $240 thousand for the fiscal year ended June 30, 2011. The financial report may be obtained by writing to SanGIS at 5510 Overland Ave., Suite 230, 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 Red Cross. A contractual agreement requires that the cities and the County provide the total required funding each year; one half from the cities and the other half from the County. In its latest report, the organization reported an increase in net assets of $52 thousand and ending net assets of $358 thousand for the fiscal year ended June 30, 2011. Separate financial statements may be obtained from the Operational Area Emergency Operations Center, 5555 Overland Ave., Suite 1911, San Diego CA 92123 or by calling (858) 565-3490.

The City of San Diego and the County of San Diego jointly formed a Consortium under the Workforce Investment Act of 1998 to provide regional employment and training services. The Consortium is governed by a five member board consisting of two members designated from the County Board of Supervisors, two members designated from the San Diego City Council and one member from the Board of Directors of United Way, a charitable organization. The board assigned the San Diego Workforce Partnership, Inc. as grant recipient and the administrative entity to operate the San Diego Consortium. The City and the County agreed to share equally any debt or liability incurred with respect to State and Federal grants. For the year ended June 30, 2011, the Partnership reported an increase in net assets of $454 thousand and ending net assets of $636 thousand. Complete financial reports may be obtained by writing to the San Diego Workforce Partnership, 3910 University Ave., Suite 400, San Diego CA 92105-1326 or by calling (619) 228-2900.

(Amounts expressed in thousands unless otherwise noted)

NOTE 29

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 10.94% 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 26.98%.

CoSD employer contributions to SDCERA-PP for the three years ended June 30, 2012, which equaled or exceeded the required contributions are noted in **Table 44**.

Table 44

CoSD Employer Contributions - SDCERA - PP

Fiscal Year Ended June 30	Annual Required Contribution (ARC)	Contributions Made	Percentage of ARC Contributed
2012	$ 249,891	$ 255,233	102.1%
2011	186,979	214,978	115.0%
2010	172,453	176,243	102.2%

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, 2012, which equaled or exceeded the required contributions, were the following:

Table 45

COSD Employer Contributions - SDCERA-RHP

Fiscal Year Ended June 30	Annual Required Contribution (ARC)	Contributions Made	Percentage of ARC Contributed
2012	$ 17,429	$ 17,600	101.0%
2011	16,239	16,239	100.0%
2010	16,886	16,886	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 30
Fund Deficit

Table 46

Fund Deficit
At June 30, 2012

Internal Service Fund:		
Employee Benefits Fund	$	(8,850)

The Employee Benefits Fund deficit of $8.9 million resulted primarily 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, 2012. The liability increased to $113.0 million from the prior year's estimate of 106.6 million. The County intends to reduce the deficit through increased premium rate charges to County departments by $2.0 million per year in excess of projected operating expenses beginning in fiscal year 2012-13.

NOTE 31
Restatement
First 5 Commission of San Diego

On March 16, 2011 both houses of the California Legislature approved Assembly Bill No. 99 (AB 99) and the bill was signed by Governor Edmund G. Brown, Jr. on March 24, 2011. This bill required First 5 California to remit $50 million, and the combined County Commissions to remit $950 million to the State Treasury by June 30, 2012. Commissions that receive less than $600 thousand per year in Prop 10 revenue were exempt from this requirement.

Each County Commission not exempt from the requirement was to remit 50% of its fund balance as of June 30, 2010 to the State Treasury. If the State received more than $950 million, the excess would be returned to the County Commissions. As First 5 Commission of San Diego's net assets was $176.749 million on June 30, 2010, it was required to send $88.376 million to the State Treasurer by June 30, 2012.

The Department of Finance indicated that AB 99 did not require voter approval because it was consistent with the purposes of Proposition 10 and was a one-time action that did not institute on-going changes.

Twelve County Commissions (including San Diego) combined their individual lawsuits into one suit in the Fresno Superior Court against the State of California that claimed AB 99 was not lawful. Arguments were heard by the presiding judge on August 30, 2011 and the case was decided on November 21, 2011 in favor of the counties. The State did not appeal the Court's decision.

Even though the First 5 Commission of San Diego participated in the lawsuit, the Commission materially reduced funding to account for the potential loss of $88.376 million in fund balance and related cash and was an expenditure for the 2010-11 fiscal year. The court ruling in essence returned the $88.376 million to the fund balance. Thus, the $88.376 million accrual in the June 30, 2011 Financial Statements was reversed in the June 30, 2012 Financial Statement, Statement of Activities as a prior period adjustment.

Table 47

Restatement - First 5 Commission of San Diego

Net asset balance as of June 30, 2011	$	69,347
Adjustment for restatement		88,376
Net asset balance, restated June 30, 2011	$	157,723

NOTE 32

Subsequent Events

Tax and Revenue Anticipation Notes

In July 2012, the County issued tax and revenue anticipation notes (TRANS) totaling $50 million due June 28, 2013 at a coupon rate of 2.00% and a yield of 0.17%. Proceeds from the notes will be used to meet fiscal year 2013 cash flow requirements. Fiscal year 2013 unrestricted revenues collateralize the notes.

San Diego County Capital Asset Leasing Corporation - "County of San Diego Certificates of Participation (2012 Cedar and Kettner Development Project)"

In October 2012, the San Diego County Capital Asset Leasing Corporation issued $29.335 million of fixed rate Certificates of Participation titled, 2012 Cedar and Kettner Development Project (the "Series 2012 Certificates"). The Series 2012 Certificates were issued at fixed interest rates ranging from 2.00% to 5.00% with maturity dates ranging from February 1, 2014 to February 1, 2042.

These Certificates were issued with a premium of $574 thousand. Certificate proceeds of $29.909 million along with the County's contribution of $8.26 million were distributed as follows: 1) $27.84 million was transferred to the construction fund used to pay construction costs on the Cedar and Kettner Development project; 2) $8.26 million was transferred to the capital project fund; 3) $1.663 million of proceeds were used to fund the Series 2012 Certificates' debt service reserve fund; 4) $142 thousand were used to pay the underwriter's discount; and 5) $264 thousand was set aside to pay certain costs of issuance.

NOTE 33

County of San Diego Successor Agency Private Purpose Trust Fund for Assets of Former San Diego County Redevelopment Agency

On December 29, 2011, the California Supreme Court upheld Assembly Bill x1 26 ("the Bill") that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the County that previously had reported the San Diego County Redevelopment Agency (SDCRA) as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the County or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. On January 24, 2012, via Minute Order 14, the County Board of Supervisors designated the County as the successor agency to the SDCRA; in accordance with the Bill.

Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

Prior to that date, the final seven months of the activity of the SDCRA continued to be reported in the governmental funds of the County. After the date of dissolution, as allowed in the Bill, the County elected to retain the housing assets and functions previously performed by the former SDCRA. The assets and activities for the newly created County Housing Fund are reported in the County's governmental fund financial statements. The remaining assets, liabilities, and activities of the dissolved SDCRA, are reported in the County of San Diego Successor Agency Private Purpose Trust Fund (fiduciary fund) financial statements of the County.

The transfer of the assets and liabilities of the former SDCRA as of February 1, 2012 (effectively the same date as January 31, 2012) from governmental funds of the County to the County of San Diego Successor Agency Private Purpose Trust Fund was reported in the governmental funds as an extraordinary loss in the governmental fund financial statements. The receipt of these assets and liabilities as of January 31, 2012 was reported in the County of San Diego Successor Agency Private-Purpose Trust Fund as an extraordinary loss. An extraordinary gain was reported on the County's Statement of Net Assets' Governmental Activities, principally due to the transfer of the former SDCRA's long-term debt to the County of San Diego Successor Agency Private Purpose Trust Fund.

(Amounts expressed in thousands unless otherwise noted)

Due To Other Funds

The County of San Diego Successor Agency Private Purpose Trust Fund's "Due To Other Funds" consists of the $1.035 million Upper San Diego River Project and $3.838 million Airport Projects loans made from the County's General Fund and Airport Enterprise Fund, respectively, to the former San Diego County Redevelopment Agency (SDCRA). Upon dissolution of the SDCRA on February 1, 2012, these loans were transferred to the County of San Diego Successor Agency Private Purpose Trust Fund. Interest accrues on the average quarterly outstanding balance, at a rate equal to the average County earned investment rate as determined by the County Treasurer. Under California Assembly Bills ABx1 26 and AB 1484, it is expected that the County Successor Agency will pay principle and interest on the loans outstanding when funds are available for this purpose. The timing and total amount of any repayment is subject to applicable law.

NOTE 34

San Diego County Redevelopment Agency (SDCRA) Revenue Refunding Bonds

In December 2005, the San Diego County Redevelopment Agency (SDCRA) issued $16 million Revenue Refunding Bonds Series 2005A that mature in fiscal year 2033. The SDCRA 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. Pursuant to California Assembly Bill ABx1 26, the responsibility for the payment of this debt was transferred to the County of San Diego Successor Agency Private Purpose Trust Fund.

SDCRA revenue refunding bonds outstanding at June 30, 2012 were the following:

Table 48

SDCRA Revenue Refunding Bonds

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2012
Revenue Refunding Bonds Series 2005A	$ 16,000	3.65 - 5.75%	2033	$13,905
Total	$ 16,000			$13,905

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

Table 49

SDCRA Revenue Refunding Bonds - Debt Service Requirements to Maturity

Fiscal Year	Principal	Interest	Total
2013	$ 395	748	$ 1,143
2014	415	728	1,143
2015	430	708	1,138
2016	455	686	1,141
2017	475	662	1,137
2018-2022	2,770	2,905	5,675
2023-2027	3,590	2,054	5,644
2028-2032	4,505	880	5,385
2033	870	21	891
Total	$ 13,905	9,392	$ 23,297
Less:			
Unamortized issuance discount	(35)		
Total	$ 13,870		

SDCRA pledged revenue for the year ended June 30, 2012 was as follows:

Table 50

SDCRA Revenue Refunding Bonds - Pledged Revenues

			Fiscal Year 2012	
Debt Pledged	Final Maturity Date	Pledged Revenue To Maturity	Debt Principal & Interest Paid	Pledged Revenue Received
Series 2005A Revenue Refunding Bonds	2033	$ 23,297	$ 1,142	$ 1,451

(Amounts expressed in thousands unless otherwise noted)

Changes in Long-Term Liabilities

Long-term liability activities for the year ended June 30, 2012 were as follows:

Table 51

SDCRA Changes in Long-Term Liabilities

	Beginning Balance at July 1, 2011	Additions	Reductions	Ending Balance at June 30, 2012	Amounts Due Within One Year
SDCRA revenue refunding bonds Series 2005A	$	13,905		13,905 $	395
Unamortized issuance discounts		(35)		(35)	(2)
Total Private Purpose Trust Fund Debt	$	13,870		13,870 $	393

NOTE 35

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 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.

The application of the revised guidance for hedge accounting termination provisions did not have a material impact to the County of San Diego's 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*. The 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 March 2012, GASB issued Statement No. 65: *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued.

Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations.

This Statement is effective for periods beginning after December 15, 2012.

In March 2012, GASB issued Statement No. 66: *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to resolve conflicting accounting and financial reporting guidance that resulted from the issuance of two recent standards-Statement No. 54, *Fund Balance Reporting and Governmental Fund Type* Definitions, and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This statement provides guidance on how to address conflicts in those pronouncements with Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, and Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases.*

The provisions of this Statement are effective for periods beginning after December 15, 2012.

In June 2012, GASB issued Statement No. 67: *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions.

This Statement is effective for fiscal years beginning after June 15, 2013.

This Statement does not apply to the basic financial statements of the County. The County contributes to a cost-sharing multiple-employer defined benefit pension plan.

In June 2012, GASB issued Statement No. 68: *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

This Statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement-determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.

Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.

Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/ expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans - pension plans in which pensions are provided to the employees of only one employer.

Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans - pension plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.

Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans - pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a nonemployer entity has a legal requirement to make contributions directly to a pension plan.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014.