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NOTE 1 Summary of Significant Accounting Policies

The Reporting Entity

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

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

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

These are entities for which the County is considered to be financially responsible and has a potential financial benefit/burden relationship.

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. The County Board of Supervisors therefore has the ability to impose its will.

These component units have a direct financial benefit/burden relationship with the County, 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.

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(Amounts expressed in thousands unless otherwise noted)

Department of Housing and Urban Development provide the major funding sources. *SDCHA* is reported as a *special revenue 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

Notes to the Financial Statements

(Amounts expressed in thousands unless otherwise noted)

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 position 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 position, 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 position 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:

Notes to the Financial Statements

(Amounts expressed in thousands unless otherwise noted)

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.

Pooled Investments - Investment Trust Funds account for investment activities on behalf of external entities and include the portion of the County Treasurer's investment pool applicable to external entities. In general, external entities include school districts, independent special districts and various other governments.

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.

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 Position 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 position/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. \$820 thousand of interest earned by certain funds has been assigned to and reported as revenue of another fund. For fiscal year 2013, the General Fund was assigned \$651 thousand and the Other Governmental Funds were assigned \$151 thousand.

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 (\$11.162 million and \$1.852 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.

Notes to the Financial Statements

(Amounts expressed in thousands unless otherwise noted)

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 position - 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 net position, as applicable.

Inventories and Prepaid Items

Inventories include both inventories on hand for sale and consumable inventories. Inventories are valued at average cost. They are accounted for as expenditures at the time of purchase and reported in governmental funds as an asset with an offsetting nonspendable amount. Proprietary fund types are carried at average cost and are expended when consumed. Prepaid items reflect payments for costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements, with expenditures recorded when consumed. Inventories and prepaid items recorded in the governmental funds are not in spendable form 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, easements, buildings and improvements, construction in progress, equipment, software and infrastructure.

Infrastructure assets include roads, bridges and sewers.

Capital assets are recorded at *historical cost* if purchased or constructed. Donated capital assets are recorded at *estimated fair value* at the date of donation. Capital assets with original unit costs equal to or greater than the *capitalization thresholds* shown in **Table 1** are reported in the applicable *governmental activities* or *business-type activities* columns in the government-wide financial statements.

Land	\$	0
Easements		50
Buildings and improvements		50
Equipment		5
Software		50-100
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 government-wide statement of activities. Estimated useful lives are shown in **Table 2**.

Buildings and improvements	10-50 years
Equipment	5-20 years
Software	3-10 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.

Notes to the Financial Statements

(Amounts expressed in thousands unless otherwise noted)

Unearned revenue can be found in government-wide financial reporting as well as in the governmental, proprietary, and fiduciary funds' 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 position.

Long-Term Obligations

Long-term liabilities reported in the statement of net position 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 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 position. 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 unaccrued appreciation. Unaccrued appreciation represents the difference between the maturity value of the debt and their par (face) value. The unaccrued appreciation is accreted as interest over the life of the CABs.

Employees' Compensated Absences

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

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(Amounts expressed in thousands unless otherwise noted)

Accumulated leave benefits including vacation, sick leave, and compensatory time worked are recorded in the government-wide statement of net position. 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 position.

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. All are equally binding. 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

Notes to the Financial Statements

(Amounts expressed in thousands unless otherwise noted)

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 Position

Net investment in capital assets, 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 position. Capital assets cannot readily be sold and converted to cash.

Restricted net position consists of restricted assets reduced by liabilities related to those assets. Constraints placed on net position 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 position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

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.

Notes to the Financial Statements

(Amounts expressed in thousands unless otherwise noted)

NOTE 2

Reconciliation of Government-Wide and Fund Financial Statements

Balance Sheet/Statement of Net Position

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

Table 3

Governmental Funds Balance Sheet / Government-Wide Statement of Net Position Reconciliation At June 30, 2013

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 \$(1,862,561) difference are as follows:

Bonds, notes and loans payable

Certificates of participation and lease revenue bonds	\$	(405,010)
Taxable pension obligation bonds		(770,530)
Tobacco settlement asset-backed bonds		(564,230)
Loans - non-internal service funds		(2,260)
Unamortized issuance premiums (to be amortized as interest expense)		(13,079)
Unamortized issuance discounts (to be amortized as interest expense)		13,050
Unamortized deferred amounts on refundings (to be amortized as interest expense)		5,389
Compensated absences (excluding Internal Service Funds)		(98,223)
Landfill postclosure - San Marcos landfill		(19,358)
Pollution remediation		(8,310)
Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities	\$	(1,862,561)

Internal Service Funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net position. The details of this \$102,823 difference are as follows:

Net position of the internal service funds	\$	103,265
Less: Internal payable representing charges in excess of cost to business-type activities - prior years		(351)
Less: Internal payable representing charges in excess of cost to business-type activities - current year		(91)
Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities	\$	102,823

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, 2013

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 \$48,777 difference are as follows:

Capital outlay	\$ 165,737
Depreciation/amortization expense	(116,960)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position - governmental activities	\$ 48,777

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position. The details of this \$24,543 difference are as follows:

The proceeds from the sale of capital assets provide current financial resources but have no effect on net position	\$ (5,997)
The loss on the disposal of capital assets does not affect current financial resources but decreases net position	(1,361)
The gain on the disposal of capital assets does not affect current financial resources but increases net position	5,459
Donations of assets to the County do not provide current financial resources but resources increase net position	26,442
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position - governmental activities	\$ 24,543

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 position. 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 \$51,656 difference are as follows:

Debt issued or incurred:	
Bonds issued	\$ (29,335)
Plus: Premium	(574)
Less: Issuance costs	393
Principal repayments	75,687
Accreted interest paid	5,485
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position - governmental activities	\$ 51,656

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 \$(10,463) difference are as follows:

Compensated absences	\$ (1,942)
Accrued interest	359
Accretion of capital appreciation bonds	(7,310)
Amortization of premiums	1,150
Amortization of discounts	(1,075)
Amortization of deferred amounts on refundings	(507)
Amortization of issuance costs	(1,138)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position - governmental activities	\$ (10,463)

Internal Service Funds. The net revenue (or expense) of certain activities of internal service funds is reported with governmental activities. The details of this \$5,130 difference are as follows:

Change in net position of the internal service funds	\$ 5,221
Less: Loss from charges to business activities	(91)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position - governmental activities	\$ 5,130

Notes to the Financial Statements

(Amounts expressed in thousands unless otherwise noted)

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 Treasury 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 152, San Diego, California, 92101 and can also be accessed at <http://www.sdtreastax.com>.

Total pooled cash and investments totaled \$6,692,976 consisting of: \$6,598,663 investments in the County pool; \$77.935 million in demand deposits; \$15.856 million of collections in transit; and, \$522 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, 2013, 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 \$77.935 million, and the bank balance at June 30, 2013 was \$77.883 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, \$250 thousand was covered by federal deposit insurance and \$77.633 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.

Notes to the Financial Statements

(Amounts expressed in thousands unless otherwise noted)

b. The carrying amount of demand deposits with Fiscal Agents (outside of the Pool) was \$1.481 million and the bank balance per various financial institutions was \$1.820 million. Of the total bank balance, \$844 thousand was covered by federal deposit insurance and \$976 thousand 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). 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, and no more than 50% of securities to mature within one to five years. In addition, the Investment Pool limits the maximum effective duration of the portfolio to 18 months. As of June 30, 2013, 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.

Notes to the Financial Statements

(Amounts expressed in thousands unless otherwise noted)

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 and on **Table 7**.

	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, 2013, 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, 2013 comprised 23.5%, 7.0%, 20.5%, and 12.6% 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, 2013 are shown in **Table 6**.

Issuer	Tobacco Endowment Fund	Percent	Nonmajor Governmental Funds	Percent
BlackRock MuniFund	\$ 27,000	8		
Federal home loan mortgage corporation			\$ 34,152	54
Federal national mortgage association			14,458	23
Federated treasury obligation			13,665	22

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 another party.

The investment policy requires securities, not insured by FDIC insurance, including appropriate collateral, placed with an independent third party for custodial safekeeping. 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.

Notes to the Financial Statements

(Amounts expressed in thousands unless otherwise noted)

Foreign Currency Risk - Investments

This is the risk that investments are exposed to foreign currency risk. The County's investments do not have any foreign currency risk as all investments are in U.S. dollar-denominated assets.

Table 7

**Pooled Investments
At June 30, 2013**

	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	\$ 833,227	832,150	0.16% - 5.00%	9/13 - 8/17	773	A-1+/AA+	12.63%
Federal home loan bank notes	1,549,588	1,548,182	0.13% - 5.50%	7/13 - 6/18	300	A-1+/AA+	23.48%
Federal national mortgage association notes	1,353,335	1,362,208	0.10% - 5.00%	7/13 - 4/18	818	A-1+/AA+	20.51%
Federal farm credit bank notes	462,371	462,531	0.15% - 0.30%	7/13 - 6/14	143	A-1+/AA+	7.01%
US treasury notes	245,818	245,565	0.50% - 4.50%	8/13 - 5/18	1068	AA+	3.73%
Repurchase agreement	22,159	22,159	0.02%	07/13	1	AA+	0.34%
Commercial paper	1,024,733	1,024,881	0.12% - 0.17%	7/13 - 9/13	31	A-1/A-1+	15.53%
Money market mutual funds	127,325	127,325	0.01% - 0.05%	07/13	40	AAA	1.93%
Negotiable certificates of deposit	945,002	945,002	0.10% - 0.19%	7/13 - 10/13	33	A-1/A-1+	14.32%
Bond funds	35,105	35,000	0.34%	07/13	445	AA	0.52%
Total investments	\$ 6,598,663	6,605,003			398		100.00%

Notes to the Financial Statements

(Amounts expressed in thousands unless otherwise noted)

Table 8

**Investments with Fiscal Agents
At June 30, 2013**

	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	\$ 18,054	5% - 5.13%	8/22 - 2/28	4366	A	4.52%
Fixed income tax exempt bonds	12,920	5.00%	6/18 - 7/23	2637	A+	3.23%
Fixed income tax exempt bonds	41,253	5% - 7%	2/15 - 12/28	3288	AA	10.32%
Fixed income tax exempt bonds	27,432	0% - 5.75%	4/20 - 1/34	4344	AA-	6.86%
Fixed income tax exempt bonds	114,700	5% - 5.25%	12/14 - 11/36	3133	AA+	28.69%
Fixed income tax exempt bonds	50,856	5% - 5.25%	7/13 - 2/28	2769	AAA	12.72%
Fixed income tax exempt bonds	2,338	5.25%	11/29	5982	BBB+	0.58%
Fixed income tax exempt bonds	41,980	5% - 6.38%	7/16 - 2/33	4160	NR	10.50%
MuniFunds	27,000	0.02%	8/13	39	AAA	6.75%
Subtotal	<u>336,533</u>					
Restricted:						
Federal national mortgage association notes	14,458	2.75% - 4.63%	2/14 - 10/14	299	AA+	3.62%
Federal home loan mortgage corporation discount notes	34,152	0.00%	11/13	148	NA	8.54%
Money market mutual funds	14,682	0% - 0.01%	8/13	52-57	AAA	3.67%
Subtotal	<u>63,292</u>					
Total County investments with fiscal agents	<u>399,825</u>					<u>100.00%</u>
Private Purpose investments:						
Money market mutual funds	1,155	0.01%	8/13	52	AAA	100.00%
Total Private Purpose investments	<u>1,155</u>					<u>100.00%</u>
Total investments with fiscal agents	<u>\$ 400,980</u>					

Table 9
Investment Pool Policy Restrictions versus California Government (Gov) Code Section 53601 Requirements

Investment Type	Maximum Maturity		Maximum% of Portfolio		Maximum % with One Issuer		Minimum Rating	
	Gov. Code	Pool Policy	Gov. Code	Pool Policy	Gov. Code	Pool Policy	Gov. Code	Pool Policy
US Treasury obligations	5 years	5 years	None	None	None	None	None	None
Agency obligations	5 years	5 years	None	None	None	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	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 5 days, and 15% of the portfolio value for maturities of 5 days or less.

(3) Rating of "A" required for issuer, if rated; and rating of "AA" required for issue.

NOTE 4 Restricted Assets

Restricted assets include monies or other resources required to be set aside to repay principal and interest under debt covenants; and to comply with other legal or contractual requirements. For fiscal year 2013 restricted assets were as follows:

Table 10		
Restricted Assets		
Fund	Legal or Contractual Requirements	Debt Covenants
General Fund	\$ 158	\$ 4,818
Nonmajor Governmental Funds		
Housing Authority Special Revenue Fund	545	
Tobacco Securitization Joint Special Revenue Fund		47,817
Pension Obligation Bonds Debt Service Fund		7
San Diego Regional Building Authority Debt Service Fund		17,157
SANCAL Debt Service Fund		4,538

NOTE 5 Receivables

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

Due from Other Governmental Agencies - Governmental activities - \$61.421 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- \$69.245 million

This amount includes: \$35.128 million in housing rehabilitation loan programs for low-income or special need residents, and loans for low income housing down payments; \$27.307 million in community development block grant loans; \$3.417 million in low

Notes to the Financial Statements

(Amounts expressed in thousands unless otherwise noted)

income housing developers loans; a \$1.120 million loan related to the sale of land to fund the future replacement of the County's Health and Human Services Agency public health clinic; \$1.232 in other loans; and \$1.041 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. 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- \$6.828 million

This amount includes \$2.978 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 \$3.850 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. 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, 2013

	Accounts	Investment Earnings	Due From Other Government Agencies	Loans	Other	Total Receivables	Allowance For Doubtful Accounts	Receivables Net
Governmental activities:								
General Fund	\$ 8,331	1,158	441,728	56,022	541	507,780		\$ 507,780
Public Safety Special Revenue Fund			42,564			42,564		42,564
Tobacco Endowment Fund		4,576				4,576		4,576
Other Governmental Funds	24,529	970	26,467	12,096		64,062	(1,852)	62,210
Internal Service Funds	335	148	603	86	15	1,187		1,187
Total governmental activities - fund level	\$ 33,195	6,852	511,362	68,204	556	620,169	(1,852)	\$ 618,317
Add: loan receivable from the County of San Diego Successor Agency Private Purpose Trust Fund				1,041		1,041		1,041
Total governmental activities - Statement of Net Position	\$ 33,195	6,852	511,362	69,245	556	621,210	(1,852)	\$ 619,358
Business-type activities:								
Enterprise Funds	\$ 54	59	3,530	2,978		6,621		\$ 6,621
Add: loan receivable from the County of San Diego Successor Agency Private Purpose Trust Fund				3,850		3,850		3,850
Total business-type activities - Statement of Net Position	\$ 54	59	3,530	6,828		10,471		\$ 10,471
Component Unit:								
First 5 Commission of San Diego	\$		6,746			6,746		\$ 6,746

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 \$6.2 million at June 30, 2013. The lease revenue received by the SDRBA and the County for the year ended June 30, 2013 was approximately \$750 thousand and \$891 thousand, respectively.

The County also has noncancelable operating leases for certain properties which are not material to the County's governmental operations. Additionally, the Airport Enterprise Fund derives a substantial portion of its revenues from noncancelable operating leases with

Notes to the Financial Statements

(Amounts expressed in thousands unless otherwise noted)

air carriers and concessionaires. The Airport Enterprise Fund's property under operating leases includes an estimated \$2.48 million in land at June 30, 2013.

Lease revenue from noncancelable operating leases for the year ended June 30, 2013 was approximately \$17.24 million. Future minimum lease payments to be received under the direct financing and noncancelable operating leases are noted in **Table 12**.

Lease Revenue		
County Property Leased To Others		
Fiscal Year	Direct Financing Leases	Operating Leases
2014	\$ 1,626	\$ 17,632
2015	1,637	13,014
2016	1,624	11,797
2017	1,627	10,671
2018	1,632	10,384
2019 - 2023	2,899	45,811
2024 - 2028		40,959
2029 - 2033		37,979
2034 - 2038		25,969
2039 - 2043		16,094
2044 - 2048		12,398
2049 - 2053		10,023
2054 - 2058		5,844
2059 - 2063		3,722
2064 - 2068		1,631
Total	\$ 11,045	\$ 263,928

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:

Capital Assets - Governmental Activities				
	Beginning Balance at July 1, 2012	Increases	Decreases	Ending Balance at June 30, 2013
Capital assets, not being depreciated/amortized:				
Land	\$ 380,608	11,587	(128)	\$ 392,067
Easements	6,852	597		7,449
Construction in progress	208,126	120,733	(165,322)	163,537
Total capital assets, not being depreciated/amortized	595,586	132,917	(165,450)	563,053
Capital assets, being depreciated/amortized:				
Buildings and improvements	1,330,943	155,470	(607)	1,485,806
Equipment	259,187	28,108	(21,892)	265,403
Software	50,340	11,514	(3,061)	58,793
Road infrastructure	2,489,011	49,849	(1,432)	2,537,428
Bridge infrastructure	68,861	3,210		72,071
Total capital assets, being depreciated/amortized	4,198,342	248,151	(26,992)	4,419,501
Less accumulated depreciation/amortization for:				
Buildings and improvements	(336,677)	(29,162)	579	(365,260)
Equipment	(153,610)	(21,753)	20,519	(154,844)
Software	(21,153)	(10,447)	2,998	(28,602)
Road infrastructure	(1,132,751)	(67,891)	286	(1,200,356)
Bridge infrastructure	(19,062)	(1,333)		(20,395)
Total accumulated depreciation/amortization	(1,663,253)	(130,586)	24,382	(1,769,457)
Total capital assets, being depreciated/amortized, net	2,535,089	117,565	(2,610)	2,650,044
Governmental activities capital assets, net	\$ 3,130,675	250,482	(168,060)	\$ 3,213,097

Notes to the Financial Statements

(Amounts expressed in thousands unless otherwise noted)

Table 14				
Capital Assets - Business-type Activities				
	Beginning Balance at July 1, 2012	Increases	Decreases	Ending Balance at June 30, 2013
Capital assets, not being depreciated:				
Land	\$ 11,565			\$ 11,565
Construction in progress	11,640	10,025	(5,857)	15,808
Total capital assets, not being depreciated	23,205	10,025	(5,857)	27,373
Capital assets, being depreciated:				
Buildings and improvements	113,990	21	(69)	113,942
Equipment	1,110	81	(301)	890
Road infrastructure	6,449			6,449
Sewer infrastructure	91,038	5,836	(709)	96,165
Total capital assets, being depreciated	212,587	5,938	(1,079)	217,446
Less accumulated depreciation for:				
Buildings and improvements	(33,187)	(3,274)	25	(36,436)
Equipment	(926)	(31)	296	(661)
Road infrastructure	(361)	(167)		(528)
Sewer infrastructure	(37,131)	(1,855)	268	(38,718)
Total accumulated depreciation	(71,605)	(5,327)	589	(76,343)
Total capital assets, being depreciated, net	140,982	611	(490)	141,103
Business-type activities capital assets, net	\$ 164,187	10,636	(6,347)	\$ 168,476

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	\$ 9,757
Public protection	24,353
Public ways and facilities	68,806
Health and sanitation	7,422
Public assistance	1,844
Education	1,743
Recreation and cultural	3,035
Internal Service Funds	13,626
Total	\$ 130,586

Table 16	
Depreciation Expense - Business-type Activities	
Airport Fund	\$ 3,368
Sanitation District Fund	1,941
Wastewater Management Fund	18
Total	\$ 5,327

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, 2013, the County General Fund's outstanding encumbrances totaled \$337.023 million while the Public Safety Fund's outstanding encumbrances totaled \$3.606 million. Nonmajor governmental funds' outstanding encumbrances totaled \$27.247 million.

At June 30, 2013, major contracts entered into for structures and improvements and other commitments within governmental and business-type activities are noted in **Table 17**.

Capital Commitments		Remaining
At June 30, 2013		Commitments
Governmental Activities		
General Fund:		
Construction of Women's Detention Facility	\$	109,230
Construction of East Mesa Detention Facility		29,748
Construction of Registrar of Voters Building		25,074
Construction of Waterfront Park		24,701
Development of Integrated Property Tax System		24,051
Construction of County Operations Center Phase 1B		7,841
Construction of Rancho San Diego Sheriff's Station		4,069
Construction of Pine Valley Sheriff's Station		2,531
Subtotal		227,245
Nonmajor Governmental Funds:		
Flood Control Improvement to Wing Avenue		5,519
Improvement to County Roads		4,855
Construction of South Santa Fe Ave.		1,454
Subtotal		11,828
Governmental Activities Subtotal		239,073
Business-type Activities		
Enterprise Funds:		
Construction of Jamacha Pump Station		2,738
Improvement to Borrego Valley Airport Runway		2,062
Improvement to Gillespie Field Airport Access Road		1,549
Sanitation District Sewer Improvement in Spring Valley		1,869
Business-Type Activities Subtotal		8,218
Total	\$	247,291

NOTE 8 Interfund Balances

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

Interfund Balances		DUE FROM							
At June 30, 2013		General Fund	Public Safety	Tobacco Endowment	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Private Purpose Trust Fund	Total
DUE TO	General Fund	\$	28,757	2,359	5,789	110	3,547	1,041	\$ 41,603
	Nonmajor Governmental		19,548		8,079	197	499		28,323
	Nonmajor Enterprise		42		1	282		3,850	4,175
	Internal Service		21,978		1,293	98	927		24,296
	Total	\$	41,568	28,757	2,359	15,162	687	4,973	4,891

Notes to the Financial Statements

(Amounts expressed in thousands unless otherwise noted)

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

- a) \$45 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. \$30 thousand of the balance is not scheduled to be collected in the subsequent year.
- b) \$1.041 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) \$3.850 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 31 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 Position, the "Due from other funds" for the General Fund's \$1.041 million Upper San Diego River Project loan and the "Due from other funds" for the \$3.850 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.

NOTE 9 Interfund Transfers

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

Transfers In/Transfers Out At June 30, 2013		TRANSFERS OUT						Total
		General Fund	Public Safety	Tobacco Endowment	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	
TRANSFERS IN	General Fund	\$	224,667	24,189	13,623		724	\$ 263,203
	Nonmajor Governmental		185,414		8,577	342	3,395	197,728
	Nonmajor Enterprise		308		50			358
	Internal Service		11,145		4,210	130		15,485
	Total	\$	196,867	224,667	24,189	26,460	472	4,119

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

NOTE 10 Payables

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

	Vendors	Due to Other Government Agencies	Other	Total Payables
Governmental Activities:				
General Fund	\$ 89,018	15,166	4,250	\$108,434
Other Governmental Funds	23,752	1,234	295	25,281
Internal Service Funds	51,036	927	8	51,971
Total governmental activities	\$163,806	17,327	4,553	\$185,686
Business-type activities:				
Enterprise Funds	\$ 2,640	5		\$ 2,645
Component Unit:				
First 5 Commission of San Diego	\$ 4,928	9,116	569	\$ 14,613

NOTE 11 Short-Term Obligations

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

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

	Beginning Balance at July 1, 2012	Issued	Redeemed	Ending Balance at June 30, 2013
Tax and revenue anticipation notes \$		50,000	50,000	\$

NOTE 12 Lease Obligations

Operating Leases

Real Property

The County has obligations under long-term operating lease agreements through fiscal year 2024 (**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, 2013 was approximately \$28.8 million, including \$20.9 million for non-cancelable leases.

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

Fiscal Year	Minimum Lease Payments	
2014	\$	19,044
2015		16,031
2016		12,966
2017		11,042
2018		7,205
2019-2023		23,387
2024		840
Total	\$	90,515

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, 2013, was approximately \$3.3 million.

Capital Lease

Minimum Lease Payments

Equipment has been leased from the Bowe Bell and Howell Company. The present value of the minimum lease obligation has been capitalized in the Facilities Management internal service fund statement of net position; 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 shown **Table 23**.

Notes to the Financial Statements

(Amounts expressed in thousands unless otherwise noted)

Table 23

Capital Lease - Future Minimum Lease Payments

Fiscal Year	Amount
2014	\$ 40
2015	40
2016	40
2017	40
2018	11
Total minimum lease payments	171
Less: Amount representing interest	(19)
Net lease payments	\$ 152

Book Value

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

Table 24

**Capital Lease - Book Value
At June 30, 2013**

Capital Lease Property	Original Cost	Accumulated Amortization	Net Book Value
Equipment	\$ 310	173	137

The accumulated amortization of this equipment capital lease was \$173 thousand as of June 30, 2013. The current year's portion is included in the Internal Service Funds' depreciation/amortization of \$13.626 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.

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

In October 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 is to be used for design and construction costs; 3) \$1.663 million of proceeds were used to fund the Series 2012 Certificates' debt service reserve fund; 4) \$142 thousand was used to pay the underwriter's discount; and 5) \$264 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.

Notes to the Financial Statements

(Amounts expressed in thousands unless otherwise noted)

Details of the COPs and LRBs outstanding at June 30, 2013 are as follows:

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2013
2003 San Miguel Consolidated Fire Protection District Refunding LRB	\$ 10,005	2.00 - 5.00%	2020	\$ 5,230
2005 Edgemoor Project COP	83,510	3.00 - 5.00%	2030	69,215
2005 Regional Communications System Refunding COP	28,885	3.00 - 5.00%	2019	8,710
2005 North & East Justice Facilities Refunding COP	28,210	3.25 - 5.00%	2020	16,140
2006 Edgemoor Completion Project COP	42,390	4.00 - 5.00%	2030	36,985
2009 Series A COC and Annex Project LRB	136,885	3.00 - 5.50%	2036	130,530
2009 Justice Facilities Refunding of 1998 Courthouse COP	32,640	2.00 - 5.00%	2023	21,765
2009 Justice Facilities Refunding of 1997 Central Jail COP	48,300	2.00 - 5.00%	2026	39,835
2011 Metropolitan Transit System Towers Refunding COP	19,260	1.00-5.00%	2020	15,175
2011 CAC Waterfront Park Project COP	32,665	3.00-5.00%	2042	32,090
2012 Cedar-Kettner Development Project COP	29,335	2.00-5.00%	2042	29,335
Total	\$ 492,085			\$ 405,010

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

Fiscal Year	Principal	Interest	Total
2014	\$ 20,600	18,664	\$ 39,264
2015	19,880	17,861	37,741
2016	20,645	17,009	37,654
2017	21,565	16,073	37,638
2018	22,565	15,069	37,634
2019-2023	96,750	60,908	157,658
2024-2028	84,345	39,799	124,144
2029-2033	64,640	20,702	85,342
2034-2038	40,545	7,002	47,547
2039-2042	13,475	1,299	14,774
Subtotal	\$ 405,010	214,386	\$ 619,396
Add:			
Unamortized issuance premium	13,079		
Less:			
Unamortized deferred amounts on refundings	(3,927)		
Unamortized discount	(170)		
Total	\$ 413,992		

Notes to the Financial Statements

(Amounts expressed in thousands unless otherwise noted)

Taxable Pension Obligation Bonds (POBs)

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

Details of POBs outstanding at June 30, 2013 are as follows:

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2013
2002 Series A	\$ 132,215	3.88 - 4.95%	2016	\$ 51,990
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	45,225
2004 Series C Unaccrued Interest CABs				(2,925)
2008 Series A	343,515	3.33 - 6.03%	2027	315,545
Total	\$ 929,843			\$ 770,530

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

Fiscal Year	Principal	Unaccrued Appreciation	Interest	Total
2014	\$ 39,775	1,575	41,233	\$ 82,583
2015	38,240	1,202	39,556	78,998
2016	32,755	148	38,380	71,283
2017	44,340		36,065	80,405
2018	46,995		33,413	80,408
2019-2023	280,535		120,270	400,805
2024-2027	277,990		27,137	305,127
Subtotal	\$ 760,630	2,925	336,054	\$ 1,099,609
Add:				
Accrued appreciation through June 30, 2013	32,317			
Less:				
Accrued appreciation paid through fiscal year 2013	(15,685)			
Less:				
Accrued appreciation to be paid in fiscal year 2014 (already included in the 2014 principal shown above)	(6,732)			
Subtotal	770,530			
Less:				
Unamortized deferred amounts on refundings	(1,462)			
Total	\$ 769,068			

As shown in **Table 28**, the unpaid Taxable Pension Obligation Bonds' accrued appreciation as of June 30, 2013 was \$16,632 (accrued appreciation through June 30 of \$32,317 less \$15,685 accretion paid through fiscal year 2013). Of this amount, \$6,732 will be paid in fiscal year 2014; \$2,955 will be paid in fiscal year 2015; and, \$6,945 will be paid in fiscal year 2016.

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 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.

Notes to the Financial Statements

(Amounts expressed in thousands unless otherwise noted)

Details of TSAB outstanding at June 30, 2013 are as follows:

Table 29
Tobacco Settlement Asset-Backed Bonds

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2013
Series 2006A Senior Current Interest Bonds	\$ 534,610	4.75 - 5.125%	2018-2030	\$ 486,360
Series 2006B CABs	19,770	6.25%	2032	94,284
2006B unaccreted appreciation CABs				(63,706)
Series 2006C CABs	8,686	6.40%	2033	47,097
2006C unaccreted appreciation CABs				(33,524)
Series 2006D CABs	20,565	7.10%	2036	153,091
2006D unaccreted appreciation CABs				(119,372)
Total	\$ 583,631			\$ 564,230

In the following schedule, the principal and interest payments are presented as if turbo redemptions will be made beginning June 1, 2014 through June 1, 2036 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 April 2013 TSR receipts included one-time revenues in the amount of \$13.966 million, resulting from a settlement related to the non-participating manufacturer (NPM) adjustment dispute for the years 2003 through 2012 ("Settlement Payment"). This one-time Settlement Payment supported the Turbo Redemption payment of \$17.035 million on June 1, 2013, which is \$4.5 million greater than the projected

Turbo Redemption payment of \$12.535 million as presented in the related Official Statement dated May 26, 2006 ("Official Statement").

With the exception of the June 1, 2013 Turbo Redemption, the overall turbo redemption of the Authority's Series 2006 Bonds has been and continues to be at a pace slower than what was projected when the Series 2006 Bonds were issued. The \$48.25 million of bonds that have been turbo redeemed to date is \$24.89 million less than the \$73.14 million projected in the Official Statement to be redeemed through June 1, 2013.

Additionally, as a result of the Settlement Payment, the final maturity of the Series 2006 Bonds has shortened by one year to June 1, 2036. This final maturity is based on the TSR projections based on assumptions made at the time of issuance of the Series 2006 Bonds. As stated above, no assurance can be given that these structuring assumptions, upon which the projections of the Series 2006 Bonds Turbo Redemptions are based, will be realized.

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
2014	\$ 14,200	5,258	24,398	\$ 43,856
2015	13,400	5,617	23,727	42,744
2016	14,440	5,998	23,086	43,524
2017	15,585	6,402	22,396	44,383
2018	19,355	6,842	21,638	47,835
2019-2023	120,710	41,820	92,185	254,715
2024-2028	171,875	58,098	56,680	286,653
2029-2033	146,842	69,511	9,333	225,686
2034-2036	18,974	17,058		36,032
Subtotal	\$ 535,381	216,604	273,443	\$ 1,025,428
Add:				
Accreted appreciation through June 30, 2013	28,849			
Subtotal	564,230			
Less:				
Unamortized issuance discount	(12,880)			
Total	\$ 551,350			

Notes to the Financial Statements

(Amounts expressed in thousands unless otherwise noted)

As shown in **Table 30**, the unpaid Tobacco Settlement Asset-Backed Bonds' accreted appreciation as of June 30, 2013 was \$28,849. Of this amount, \$24,343 will be paid in fiscal years 2030 through 2033; and \$4,506 will be paid in fiscal year 2034.

TSAB pledged revenue for the year ended June 30, 2013 was as follows:

Debt Pledged	Final Maturity Date	Pledged Revenue To Maturity	Fiscal Year 2013	
			Debt Principal & Interest Paid	Pledged Revenue Received
Series 2006 Tobacco Settlement Asset-Backed Bonds	2036	\$ 1,054,275	\$ 42,298	\$ 41,349

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.

In November 2011, the County Board of Supervisors authorized the use of San Diego Gas & Electric (SDG&E) On Bill Financing (OBF) program to fund energy efficiency and demand response projects. This program will finance installations, modifications and upgrades at County-owned facilities such as lighting retrofits and controls and mechanical system

upgrades with the goal of reducing utility costs. The financing is a zero percent interest loan which will be repaid from energy savings generated by each San Diego Gas and Electric meter.

In February 2013, the County of San Diego received its first On Bill Financing loan from SDG&E for lighting improvements in its El Cajon Library facility.

Details of loans outstanding at June 30, 2013 for governmental activities are as follows:

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2013
Loans - non internal service funds (ISF)				
Firebird Manor	\$ 4,486	1.00%	2028	\$ 2,260
Total loans - non-ISF	4,486			2,260
Loans - ISF				
California Energy Comm Loan 1 (Facilities ISF)	1,977	4.00%	2015	343
California Energy Comm Loan 2 (Facilities ISF)	3,001	3.95%	2016	785
California Energy Comm Loan 3 (Facilities ISF)	2,565	4.50%	2018	1,745
San Diego Gas and Electric On Bill Financing (Facilities ISF)	38	0.00%	2017	36
Total loans - ISF	7,581			2,909
Total	\$ 12,067			\$ 5,169

Notes to the Financial Statements

(Amounts expressed in thousands unless otherwise noted)

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

Fiscal Year	Principal	Interest	Total
2014	\$ 1,082	135	\$ 1,217
2015	1,003	95	1,098
2016	503	65	568
2017	516	48	564
2018	528	29	557
2019-2023	761	62	823
2024-2028	776	23	799
Total	\$ 5,169	457	\$ 5,626

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, 2013 for business-type activities are as follows:

Loan	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2013
2001 Airport Development Loan - Ramona Sewer Line	\$ 2,388	5.63%	2017	\$ 697
2001 Airport Development Loan - Ramona Control Tower	1,196	5.63%	2017	349
Total	\$ 3,584			\$ 1,046

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

Fiscal Year	Principal	Interest	Total
2014	\$ 279	59	\$ 338
2015	291	43	334
2016	304	27	331
2017	172	10	182
Total	\$ 1,046	139	\$ 1,185

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, 2013, the probable arbitrage rebate was zero.

NOTE 14
Changes in Long-Term Liabilities

Long-term liability activities for the year ended June 30, 2013 were as follows:

Table 36						
Changes in Long-Term Liabilities						
	Beginning Balance at July 1, 2012	Additions	Reductions	Accreted Interest	Ending Balance at June 30, 2013	Amounts Due Within One Year
Governmental Activities:						
COPs, bonds & loans						
Certificates of participation and lease revenue bonds	\$ 400,970	29,335	(25,295)		405,010	\$ 20,600
Taxable pension obligation bonds	806,845		(38,700)	2,385	770,530	39,775
Tobacco settlement asset-backed bonds	576,340		(17,035)	4,925	564,230	14,200
Loans - non-internal service funds	2,401		(141)		2,260	142
Loans - internal service funds (ISF)	3,766	38	(895)		2,909	940
Unamortized issuance premiums	13,655	574	(1,150)		13,079	1,152
Unamortized issuance discounts	(14,125)		1,075		(13,050)	(1,076)
Unamortized deferred amounts on refundings	(5,896)		507		(5,389)	(506)
Total COPs, bonds & loans	\$ 1,783,956	29,947	(81,634)	7,310	1,739,579	\$ 75,227
Other long-term liabilities:						
Capital Leases - ISF	\$ 185		(33)		152	\$ 33
Claims and judgments - ISF	138,839	45,875	(28,162)		156,552	36,421
Compensated absences - non-ISF	96,281	67,355	(65,413)		98,223	37,626
Compensated absences - ISF	2,275	1,689	(1,696)		2,268	925
Landfill postclosure	19,465		(107)		19,358	791
Pollution remediation	7,904	518	(112)		8,310	4,155
Total Other long-term liabilities	264,949	115,437	(95,523)		284,863	79,951
Total Governmental Activities	\$ 2,048,905	145,384	(177,157)	7,310	2,024,442	\$ 155,178
Business-type activities:						
Loans	\$ 1,313		(267)		1,046	\$ 279
Compensated absences	421	309	(306)		424	173
Total Business-type Activities	\$ 1,734	309	(573)		1,470	\$ 452

Notes to the Financial Statements

(Amounts expressed in thousands unless otherwise noted)

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	Special Revenue Fund: Inactive Wastesites
Pollution Remediation	General Fund, Special Revenue Fund: Inactive Wastesites

NOTE 16

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, 2013, the aggregate conduit debt principal amount outstanding was \$257.26 million.

NOTE 17

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, 2013 for the San Marcos Landfill was \$19.358 million. This estimated amount is based on what it would cost to perform all postclosure care in calendar year 2013 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.

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 18 **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, 2013, the County's estimated pollution remediation obligations totaled \$8.310 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 19 **Fund Balance Policy - General Fund**

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

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

General Fund Minimum Fund Balance: In order to be prepared for broader levels of economic uncertainty, the minimum level of Unassigned fund balance in the General Fund shall be targeted at the equivalent of 10% of the total amount of budgeted general purpose revenue. The Board may waive the requirement to maintain the fund balance at the targeted level specified if it finds that it is in the best interest of the residents of the County to so do. To the extent that fund balance is available in excess of that amount, the Chief Administrative Officer (CAO) may recommend

Notes to the Financial Statements

(Amounts expressed in thousands unless otherwise noted)

the appropriation or commitment of the available balance for one time purposes. The recommendations may appear in the CAO Proposed Operational Plan or as an agenda item for a regularly scheduled meeting of the Board. In fiscal year 2010 the County Board of Supervisors took action to set aside \$100 million of the General Fund's fund balance for future economic uncertainty. This amount is included in the Unassigned fund balance classification on the General Fund's Balance Sheet.

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

NOTE 20

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

At June 30, 2013, 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, 2013		
Fund Type:	Purpose	Amount
Major Fund		
Public Safety Fund	Public safety activities	\$ 55,377
Nonmajor Funds		
Special Revenue Funds		
Air Pollution Fund	Air pollution activities	\$ 20,524
Asset Forfeiture Program Fund	Law enforcement	7,931
County Library Fund	Library services	9,650
County Service District Funds	Road, park lighting maintenance, fire protection and ambulance services	17,703
Edgemoor Development Fund	Edgemoor development	14,326
In Home Supportive Services Public Authority Fund	In home supportive services	83
Inmate Welfare Fund	Benefit, education, and welfare of jail inmates	10,588
Lighting Maintenance District Fund	Street and road lighting maintenance	1,369
Other Special District Funds	Retracement or remonument surveys, improvements for grazing lands, wildlife propagation and aviation purposes capital improvements and repairs	667
Park Land Dedication Fund	Developing new or rehabilitating existing neighborhood or community park or recreational facilities	11,684
Total Nonmajor Funds (Special Revenue Funds)		\$ 94,525
Total Fund Balances Restricted for Laws or Regulations of Other Governments: Fund Purpose		\$ 149,902

NOTE 21

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

At June 30, 2013, 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, 2013	
Major Fund	
General Fund	
Custody of non-violent, non-serious, non-sex offenders and supervision of post release offenders	\$ 55,163
Improvement and maintenance of recorded document systems	21,424
Defray administrative costs, other general restrictions	18,303
Vector control	14,295
Teeter tax loss	11,868
Mental health	8,838
Fire safety projects and equipment	8,796
Fingerprinting equipment purchase and operation	7,910
Parks and Recreation land acquisition, improvements, stewardship and other activities	4,925
Sheriff automated warrant system	4,729
Probation Department activities	4,019
Public Defender defense of indigent cases	3,902
Emergency medical services, various construction costs	3,531
Real estate fraud prosecution	3,017
Domestic violence and child abuse prevention	2,499
Sheriff law enforcement	2,211
Sheriff vehicle maintenance and replacement	1,947
Parole revocation hearings	1,138
Equipment replacement/system enhancement Caller ID Remote Access Network	1,072
Projects, programs and services that benefit Crest -Dehesa - Harbison Canyon - Granite Hills sub-region	884
Administration, operation and conservation of trails, paths or other facilities for off-highway motor vehicles	535
Acquisition, rehabilitation, construction and financing of courtrooms, courtroom building or court facilities	242
Social services child safety education	88
Probation community transition unit activities	205
Total General Fund	\$ 181,541
Nonmajor Funds	
Special Revenue Funds	
Flood Control District Fund	
Flood control future drainage improvements	\$ 23,442
Housing Authority Fund	
Housing repairs and improvements	154
Disaster related administration	44
Total Nonmajor Funds (Special Revenue Funds)	\$ 23,640
Total Fund Balances Restricted for Laws or Regulations of Other Governments: Other Purposes	\$ 205,181

Notes to the Financial Statements

(Amounts expressed in thousands unless otherwise noted)

NOTE 22

Fund Balances Committed to Other Purposes

At June 30, 2013, 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, 2013	
Major Fund	
General Fund	
Regional communication system infrastructure enhancements	\$ 16,549
Replacement and upgrade of Public Safety Communication System	16,300
Health based programs reducing adult/youth smoking	8,119
Sheriff's Department future capital expenditures	6,000
Department of Environmental Health services	3,273
Sheriff's Department helicopter replacement	2,664
San Diego Fire Authority equipment replacement	1,883
Parks and Recreation land acquisition	1,446
Department of Planning and Land Use services	659
Management of conduit financing programs	574
Future lease payments	454
Registrar of Voters equipment acquisition	445
Future replacement of Health and Human Services Agency public health clinic	431
Assessor/Recorder/County Clerk services	111
South County Shelter capital improvements	58
Capital Improvement	12
Senior Volunteer Patrols Program in the unincorporated communities	9
Clerk of the Board services	5
Parks and Recreation turf replacement Sweetwater Valley	4
Total General Fund	\$ 58,996
Nonmajor Funds	
Special Revenue Funds	
Inactive Wastesites Fund	
Landfill postclosure and landfill maintenance	\$ 59,809
Total Nonmajor Funds (Special Revenue Funds)	59,809
Total Fund Balances Committed to Other Purposes	\$ 118,805

NOTE 23

Fund Balances Assigned to Other Purposes

At June 30, 2013, 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, 2013	
Major Fund	
General Fund	
Legislative and administrative services	\$ 16,188
Health, mental health and social services	14,095
Law enforcement, detention, legal and other protection services	10,267
Park and recreation services	3,527
Planning, land use, agriculture, watershed and other public services	3,323
Assessor/Recorder/County Clerk services	2,218
Maintenance	843
Treasurer-Tax Collector services	709
Fire protection	396
Animal Services	316
Registrar of Voters services	103
Total General Fund	\$ 51,985

NOTE 24

Net Position Restricted for Laws or Regulations of Other Governments: Other Purposes

At June 30, 2013, the net position restricted for laws or regulations of other governments: other purposes are presented in **Table 42** as follows:

Table 42	
Net Position Restricted for Laws or Regulations of Other Governments: Other Purposes	
At June 30, 2013	
Custody of non-violent, non-serious, non-sex offenders and supervision of post release offenders	\$ 55,163
Air pollution activities	20,524
Road, park lighting maintenance, fire protection and ambulance services	17,703
Edgemoor development	14,326
Developing new or rehabilitating existing neighborhood or community park or recreational facilities	11,684
Benefit, education, and welfare of jail inmates	10,588
Library services	9,650
Fire safety projects and equipment	8,796
Law enforcement	7,931
Fingerprinting equipment purchase and operation	7,910
Parks and Recreation land acquisition, improvements, stewardship and other activities	4,925
Sheriff automated warrant system	4,729
Probation Department activities	4,019
Public Defender defense of indigent cases	3,902
Emergency medical services, various construction costs	3,531
Real estate fraud prosecution	3,017
Domestic violence and child abuse prevention	2,499
Sheriff law enforcement	2,211
Sheriff vehicle maintenance and replacement	1,947
Street and road lighting maintenance	1,369
Parole revocation proceedings	1,138
Equipment replacement/system enhancement Caller ID Remote Access Network	1,072
Projects, programs and services that benefit Crest - Dehesa - Harbison Canyon - Granite Hills sub-region	884
Retracement or remonument surveys, improvements for grazing lands, wildlife propagation and aviation purpose capital improvements and repairs	667
Administration, operation and conservation of trails, paths or other facilities for off-highway motor vehicles	535
Acquisition, rehabilitation, construction and financing of courtrooms, courtroom building or court facilities	242
Probation community transition unit activities	205
Housing repairs and improvements	154
Social services child safety education	88
In home supportive services	83
Disaster related administration	44
Total Net Position Restricted for Laws or Regulations of Other Governments: Other Purposes	\$ 201,536

NOTE 25

Risk Management

The County operates a Risk Management Program, whereby it is self-insured for general liability (California Government Code Section 990), medical malpractice (California Government Code Section 990.9), automobile liability (California Vehicle Code Section 16020(b)(4)) and workers' compensation (California Code of Regulations, Title 8, Section 15203.4). The County purchases insurance coverage for all risk

property losses, government crime insurance, including employee dishonesty and faithful performance, airport comprehensive liability, and aircraft hull and liability insurance. Settlements in the areas covered have not exceeded insurance coverage for each of the past three fiscal years.

The County's Employee Benefits and Public Liability Insurance Internal Service Funds (ISF) are used to report all of its uninsured risk management activities. Risk management liabilities are reported when it is probable that a loss has occurred and the amount of

Notes to the Financial Statements

(Amounts expressed in thousands unless otherwise noted)

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, 2013, these liabilities discounted for anticipated investment return (public liability of 1% and workers' compensation of 2.5%), totaled \$157 million, including \$24 million in public liability and \$133 million in workers' compensation. Changes in the balances of claim liabilities for fiscal year 2013 and 2012 are shown below:

Table 43				
Risk Management - Changes in Claim Liabilities				
	2013		2012	
Employee Benefits Fund				
Unpaid claims, July 1	\$	112,960	\$	106,563
Incurred claims		46,323		28,057
Claim payments		(26,779)		(21,660)
Unpaid claims, June 30	\$	132,504	\$	112,960
Public Liability Insurance Fund				
Unpaid claims, July 1	\$	25,879	\$	29,036
Incurred claims		(448)		4,245
Claim payments		(1,383)		(7,402)
Unpaid claims, June 30	\$	24,048	\$	25,879

NOTE 26

Contingencies

Litigation

The County has a potential liability of \$26.7 million that could result if unfavorable final decisions are rendered in numerous lawsuits to which the County is a named defendant. Appropriations are budgeted annually for those portions of obligations coming due that fiscal year.

Unrecorded Leave Benefits

County employees have unrecorded accumulated benefits of approximately \$175.73 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 position.

Federal and State Programs

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

NOTE 27

Joint Ventures

The San Diego Geographic Information Source (SanGIS) was created in July 1997 as a joint powers agreement between the City of San Diego and the County of San Diego. SanGIS objectives are to create and maintain a geographic information system; marketing and licensing compiled digital geographic data and software; providing technical services; and publishing geographic and land related information for the City and the County, other public agencies, and the private sector. It is governed by a Board of Directors consisting of the 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 \$80 thousand and ending net assets of \$320 thousand for the fiscal year ended June 30, 2012. 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 a decrease in net assets of \$53 thousand and ending net assets of \$305 thousand for the fiscal year ended June 30, 2012. 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, 2012, the Partnership reported a decrease in net assets of \$201 thousand and ending net assets of \$435 thousand. Complete financial reports may be obtained by writing to the San Diego Workforce Partnership, 3910 University Ave., Suite 400, San Diego CA 92105 or by calling (619) 228-2900.

In November 2011, the County of San Diego, which oversees the San Diego County Regional Fire Authority, agreed to be a participant in the Heartland Fire Training Authority, to be effective July 1, 2012. The Authority includes eight other member agencies and was formed for the purposes of jointly equipping, maintaining, operating, and staffing to provide training of fire-fighting and emergency response personnel to member agencies. It is governed by a Commission that consists of elected officials from each agency and also a Board of Chiefs from each respective

agency. The District 2 County Supervisor serves as the County appointee on the Heartland Fire Training Authority Commission and the County's Fire Warden serves as the County appointee on the Heartland Fire Training Authority Board of Fire Chiefs. The training facility will be funded and operated by the joint powers agreement to supply shared resources of equipment, maintenance, operations, and training. In its latest report, Heartland Fire Training Authority reported a decrease in net assets of \$228 thousand and ending net assets of \$78 thousand for the fiscal year ended June 30, 2012. The financial report may be obtained by writing to Heartland Fire Training Authority at 1301 North Marshall Ave., El Cajon CA 92020 or by calling (619) 441-1693.

NOTE 28

Pension and Retiree Health Plans

Pension Plan

Plan Description

The County contributes to the San Diego County Employees Retirement Association pension plan, (SDCERA-PP), a cost-sharing multiple-employer defined benefit pension plan that is administered by SDCERA. The SDCERA-PP has five Tiers and provides retirement, disability, death and survivor benefits to its General and Safety members. Tier C is the current open system for most new members. Tiers I, A, and B are generally 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

Notes to the Financial Statements

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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 10.80% for General Tiers I, A, and B; and Safety Tiers A and B members, combined, and set the employer contribution rate for the above categories combined at 29.96%. The General Tier C average member and employer contribution rates were established at 7.05% and 20.97%, respectively. The Safety Tier C average member and employer contribution rates were established at 12.58% and 32.76%, respectively. The Board of Supervisors chose to adopt non-Tier C employer contribution rates at a level higher than the levels recommended by the actuary in order to pay down the unfunded actuarial accrued liability (UAAL) of the retirement fund and to help position the County and other member employers for an expected further increase in rates in Fiscal Year 2013-14. The average employer contribution rate for all non-Tier C categories combined adopted by the Board of Supervisors was 31.24%.

CoSD employer contributions to SDCERA-PP for the three years ended June 30, 2013, which equaled or exceeded the required contributions are noted in **Table 44**.

Fiscal Year Ended June 30	Annual Required Contribution (ARC)	Contributions Made	Percentage of ARC Contributed
2013	\$ 273,852	\$ 281,548	102.8%
2012	249,891	255,233	102.1%
2011	186,979	214,978	115.0%

Retiree Health Plan

Plan Description

Effective July 1, 2007, the County commenced contributing to the SDCERA retiree health plan, (SDCERA-RHP) a cost-sharing multiple-employer defined benefit health plan administered by SDCERA. The Retirement Act assigns the authority to establish and amend health allowance benefits to the SDCERA Board of Retirement. The retiree health plan provides a non-taxable health insurance allowance to Tier I and Tier II retirees. Health insurance allowances range from

\$200 per month to \$400 per month based on members' service credits. (See note below regarding SDCERA Financial Report information.)

Funding Policy

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

CoSD's employer contributions to SDCERA-RHP for the three years ended June 30, 2013, which equaled or exceeded the required contributions, were the following:

Fiscal Year Ended June 30	Annual Required Contribution (ARC)	Contributions Made	Percentage of ARC Contributed
2013	\$ 17,236	\$ 17,272	100.2%
2012	17,429	17,600	101.0%
2011	16,239	16,239	100.0%

SDCERA Financial Report

SDCERA issues a publicly available financial report that includes financial statements and required supplementary information for the SDCERA-PP and the SDCERA-RHP. The financial report may be obtained by writing to San Diego County Employees Retirement Association, 2275 Rio Bonito Way, Suite 200, San Diego, California 92108-1685 or by calling (619) 515-6800.

NOTE 29

Fund Deficit

Internal Service Fund:	
Employee Benefits Fund	\$ (28,648)

The Employee Benefits Fund deficit of \$28.6 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, 2013. The liability increased to \$132.5 million from the prior year's estimate of \$113.0 million. The County intends to reduce the deficit through increased premium rate charges to County departments by \$3.0 million per year in excess of projected operating expenses beginning in fiscal year 2014.

NOTE 30

Subsequent Events

Tax and Revenue Anticipation Notes

In July 2013, the County issued tax and revenue anticipation notes (TRANS) totaling \$60 million due June 30, 2014 at a coupon rate of 2.00% and a yield of 0.17%. Proceeds from the notes will be used to meet fiscal year 2014 cash flow requirements. Fiscal year 2014 unrestricted revenues collateralize the notes.

NOTE 31

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 provided 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 provided that upon dissolution of a redevelopment agency, either the County or another unit of local government would 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 an 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 continue to 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.

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. These assets and activities are accounted for in the County Housing Fund and 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.

Due To Other Funds

The County of San Diego Successor Agency Private Purpose Trust Fund's "Due To Other Funds" consists of the \$1.041 million Upper San Diego River Project and \$3.850 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 principal 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.

Notes to the Financial Statements

(Amounts expressed in thousands unless otherwise noted)

NOTE 32

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, 2013 were the following:

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2013
Revenue Refunding Bonds Series 2005A	\$ 16,000	3.65 - 5.75%	2033	\$ 13,510
Total	\$ 16,000			\$ 13,510

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

Fiscal Year	Principal	Interest	Total
2014	\$ 415	728	\$ 1,143
2015	430	708	1,138
2016	455	686	1,141
2017	475	662	1,137
2018	500	637	1,137
2019-2023	2,915	2,755	5,670
2024-2028	3,790	1,847	5,637
2029-2033	4,530	620	5,150
Total	\$ 13,510	8,643	\$ 22,153
Less:			
Unamortized issuance discount	(33)		
Total	\$ 13,477		

SDCRA pledged revenue for the year ended June 30, 2013 was as follows:

Debt Pledged	Final Maturity Date	Pledged Revenue To Maturity	Fiscal Year 2013	
			Debt Principal & Interest Paid	Pledged Revenue Received
Series 2005A Revenue Refunding Bonds	2033	\$ 22,153	\$ 1,144	\$ 1,144

Changes in Long-Term Liabilities

Long-term liability activities for the year ended June 30, 2013 were as follows:

	Beginning Balance at July 1, 2012	Additions	Reductions	Ending Balance at June 30, 2013	Amounts Due Within One Year
SDCRA revenue refunding bonds Series 2005A	\$ 13,905		(395)	13,510	\$ 415
Unamortized issuance discounts	(35)		2	(33)	(2)
Total Private Purpose Trust Fund Debt	\$ 13,870		(393)	13,477	\$ 413

NOTE 33

New Governmental Accounting Standards

Implementation Status

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.

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

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

Notes to the Financial Statements

(Amounts expressed in thousands unless otherwise noted)

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.

The County has implemented this Statement for the current fiscal year.

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.

The County has implemented this Statement for the current fiscal year.

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.

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The County has implemented the portions of this statement pertaining to the standards for reporting net position. The remaining standards are not currently applicable.

Under Analysis

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

In March 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

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(Amounts expressed in thousands unless otherwise noted)

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.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes

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accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term operations for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold.

This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the

holder of the obligation if the entity that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range.

This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units.

This Statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees.

Except for disclosures related to cumulative amounts paid or received in relation to a financial guarantee, the provisions of this Statement are required to be applied retroactively. Disclosures related to cumulative amounts paid or received in relation to a financial guarantee may be applied prospectively.

The provisions of this Statement are effective for reporting periods beginning after June 15, 2013.