# COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2013

# SAN DIEGO COUNTY INVESTMENT POOL



**COUNTY OF SAN DIEGO, CALIFORNIA** 



The San Diego County Treasurer-Tax Collector manages the Investment Pool exclusively for the benefit of its participant agencies, districts and institutions. We are pleased to present a variety of photographs that characterize the important work that is performed by these agencies for the public good.

We thank the Investment Pool participants who contributed photographs to this year's report:

San Marcos Unified School District	City of Carlsbad	City of La Mesa		
	City of Chula Vista	City of Lemon Grove		
Vallecitos Water District (© Justin Galloway / www.justingalloway.com)	City of Coronado	National City		
	City of Del Mar	City of Oceanside		
Mira Costa College	City of El Cajon	City of Poway		
San Diego Unified School District	City of Encinitas	City of San Marcos		
Grossmont-Cuyamaca Community College District	City of Escondido	City of Santee		
	City of Imperial Beach			
Fallbrook Public Utility District				
Poway Unified School District				
San Diego County Regional				

Airport Authority

# 2017 COMPREHENSIVE ANNUAL FOR THE FISCAL YEAR ENDED JUNE 30, 2013



SAN DIEGO COUNTY TREASURER-TAX COLLECTOR



AN INVESTMENT TRUST FUND OF THE COUNTY OF SAN DIEGO, CA

Library building at Mira Costa College, located in Oceanside, California.







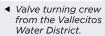


▼ The view of the County Administration Building from N. Harbor Drive in downtown San Diego, CA.



▲ Tanya Duggan, daughter Sienna, and former U.S. Secretary of Housing and Urban Development Henry Cisneros at the Treasurer-Tax Collector's annual Investment and Retirement Symposium.

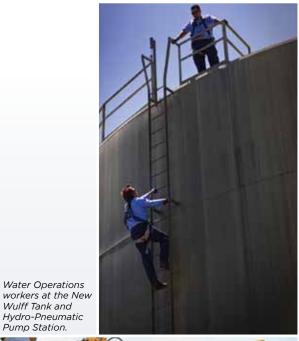






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▼ The beautiful Vista Civic Center, located in Vista,





◆ Dennis Gibson, David Baker and Detra Williams at the Treasurer-Tax Collector's annual Property Tax Sale.



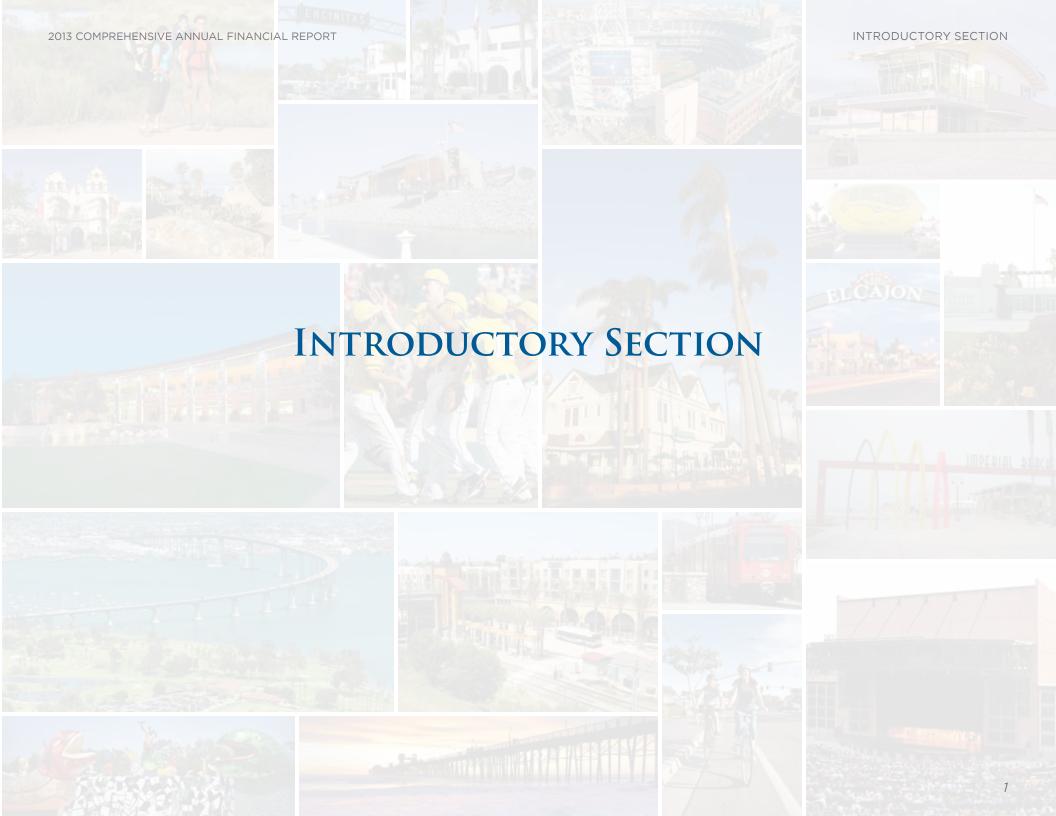
▲ Vallecitos Water District construction crew.

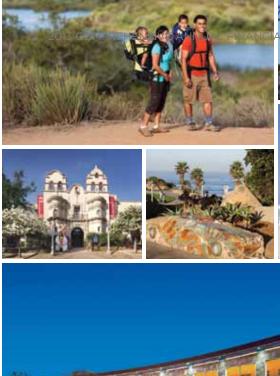
► Water Operations

Wulff Tank and Hydro-Pneumatic



▲ County of San Diego Treasurer-Tax Collector Dan McAllister, State Senator Ben Hueso, State Senator Mark Wyland, and State Senator Marty Block hold a press conference regarding School Bond Reform legislative measure AB182 where the issuance of Capital Appreciation Bonds (CABs) is concerned.







ENCINITAS

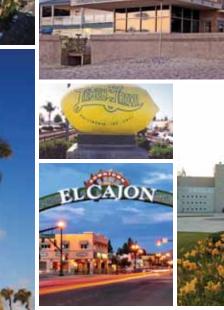






















The Encinitas sign along Coast Highway 101 with historic Paloma Theater in the background.



south of downtown San

Petco Park, home of the San Diego Padres, located in downtown San Diego.







Chula Vista's Little League World Series champion Eastlake.





The Ocean House location is one of Carlsbad's best-known landmarks. It is a combination of two identical Victorian homes built side by side in the 1880s.







One of La Mesa's smart growth developments, Al Terra and Pravada apartments located at the Grossmont Transit Center.











The El Cajon Archway landmark is a dramatic gateway welcoming residents and visitors to the revitalized downtown area. The official lighting of the archway was held on June 10, 2009.





"Surfhenge" consists of four 16-20 foot high surfboard shaped arches, weighing up to three quarters of a ton each, which are believed to be the largest colored acrylic moldings ever cast.





The iconic 2.12-mile San Diego-Coronado Bridge as it gracefully curves from Coronado to San Diego. Built in 1969, the landmark bridge has a 200-foot clearance and was the first structure to span the San Diego Bay.





# TREASURER-TAX COLLECTOR COUNTY OF SAN DIEGO

County Administration Center
1600 Pacific Highway, Room 112 | San Diego, California 92101-2477
619.531.5225 | fax 619.531.6411
www.sdtreastax.com





# LETTER OF TRANSMITTAL FROM THE TREASURER

October 30, 2013

BOARD OF SUPERVISORS AND TREASURY OVERSIGHT COMMITTEE

County of San Diego San Diego County Administration Center San Diego, California 92101

am pleased to submit the Comprehensive Annual Financial Report (CAFR) of the San Diego County Investment Pool (the "Investment Pool") for the fiscal year ended June 30, 2013. This report and the annual audit are presented to demonstrate compliance with Section 32 of the Investment Pool's Investment Policy (the "Investment Policy"). Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Treasurer's Office. A framework of internal controls has been established by management for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

To the best of our knowledge and belief, the enclosed data are accurate in all material respects, and are reported in a manner designed to present fairly the financial position and changes in financial position of the Investment Pool in conformity with accounting principles generally accepted in the United States of America (GAAP) and audited in accordance with auditing standards generally accepted in the United States of America by a firm of licensed certified public accountants. All disclosures necessary to enable the reader to gain an understanding of the Investment Pool's financial activities have been included.

The Investment Pool's financial statements have been audited by Macias Gini & O'Connell LLP, a firm of licensed certified public accountants. The goal of the independent audit is to provide reasonable assurance that the Investment Pool's financial statements as of and for the fiscal year ended June 30, 2013, are fairly stated in accordance with generally accepted accounting principles. The independent audit involves performing procedures to obtain evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. Based upon the audit, the independent auditor's concluded that there was a reasonable basis for rendering an unqualified opinion that the Investment Pool's financial statements as of and for the fiscal year ended June 30, 2013, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the Financial Section of this report.

Management provides a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Investment Pool's MD&A can be found after the independent auditors' report.

### PROFILE OF THE SAN DIEGO COUNTY INVESTMENT POOL

The Investment Pool was created when the State Legislature established the five-member County Board of Supervisors in 1853. It is a local government Pool with \$6.7 billion in assets as of June 30, 2013. The Investment Pool is headed by the San Diego County Treasurer-Tax Collector, an elected official who is responsible for tax collection, banking, investment, disbursement and accountability of public funds. The Investment Pool is managed by the Treasurer's Office on behalf of the Investment Pool participants. The County portion of the Investment Pool assets as of June 30, 2013 is \$2.7 billion, while the external, non-County portion is \$4.0 billion. Depositors in the Investment Pool include both mandatory and voluntary participants located within the County of San Diego.

Mandatory participants include the County of San Diego, K-12 school districts, and certain special districts and accounts controlled by the County Board of Supervisors. Mandatory participants are defined as those agencies required by law to deposit their funds with the County Treasurer's Office. Mandatory participants comprise the majority of the Investment Pool's assets, approximately 91.2% as of June 30, 2013.

Voluntary participants are those agencies that are not required to place their funds in the Investment Pool, and do so only as an investment option. Voluntary participants include cities, fire districts, and certain special districts. As of June 30, 2013, voluntary participants accounted for approximately 8.9% of the Investment Pool.

Community colleges have characteristics of both mandatory and voluntary participants. While they have the authority to invest funds outside of the Investment Pool, community colleges receive banking, checking, and investment services from the County Treasurer's Office. In this financial report, they are categorized as mandatory participants.

In addition to investment management, the Treasurer's Office also provides banking services to all mandatory participants. These services include, but are not limited to, warrant redemption, electronic fund transfers, acceptance of deposits, and fund accounting.

### **INVESTMENT POLICIES AND PRACTICES**

The primary objectives of the Investment Pool, as set forth in the Investment Policy, in order of importance, are safety, liquidity, and yield. The following goals have been set for the fiscal year 2013/2014:

- Promote fiscal stability by maintaining a 'AAAf/S1' rating from Standard & Poor's rating service;
- Improve investment benchmark management process by continuing implementation of the portfolio analysis application;
- Improve constituent outreach by increasing public awareness of services offered by the Investment Division;
- Obtain a certificate of achievement for excellence in financial reporting by the Government Finance Officers Association.

The Treasurer's Office prepares the Investment Policy on an annual basis to ensure the integrity of the Investment Pool and to provide guidelines for its operation. Upon completion of the Investment Policy by the Treasurer's Office, it is presented for review to the Treasury Oversight Committee, and then to the County Board of Supervisors for their approval at a public meeting.

The maturity distribution of the Investment Pool is limited by the Investment Policy, which places restrictions on the securities that may be purchased. Cash temporarily idle during the year was invested in negotiable certificates of deposit, obligations of the U.S. Treasury, U.S. government agencies, commercial paper, corporate bonds and medium-term notes, money market mutual funds, repurchase agreements and collateralized certificates of deposit. The maturities of the investments range from one day to five years, with an average weighted maturity of 398 days. The weighted average effective yield (annualized) on investments as of June 30, 2013 was 0.44%.

To safeguard the investments, a custodian is employed to safekeep, settle, and accept interest payments on investments held by the Investment Pool. To facilitate internal security and safeguards, the Investment Policy requires an annual audit and the establishment and maintenance of internal controls and procedures.

For the 2012/2013 fiscal year, investments provided a 0.36% apportionment rate, which is the rate used in allocating the net earnings to the participants. The Investment Pool's average apportionment rate over the last three and five fiscal years was 0.50% and 0.98%, respectively. The Treasurer's Office has implemented a system of internal controls designed to ensure the reliability of reported investment information. The Treasurer's Office provides monthly investment reports for the Treasury Oversight Committee, who monitors the management of funds and reviews the Investment Policy. Please refer to the Investment Section of this CAFR for additional information on investments.

## DURING THE FISCAL YEAR 2012/2013, SIGNIFICANT EVENTS INCLUDED:

- (1) Standard and Poor's reaffirmed 'AAAf/S1' rating on the County Investment Pool. This rating of 'AAAf' indicates the extremely strong protection that the Investment Pool's portfolio investments provide against losses from credit defaults. The 'S1' volatility rating signifies that the Investment Pool possesses low sensitivity to changing market conditions, given its low-risk profile and conservative investment policies. Rating considerations include:
  - Low exposure to market risk by virtue of conservative investment policies and practices;
  - No current use of leverage;
  - High standards for credit quality and diversification;
  - High degree of liquidity resulting from maturity profile and composition of Investment Pool participants;
  - Strong ability to forecast ongoing cash requirements; and
  - Solid management oversight and operational policies, including a robust internal control structure.
- (2) During the fiscal year, the Federal Reserve continued and expanded its asset purchase program or the so-called "quantitative easing" by purchasing \$45 billion of treasury and \$40 billion of agency mortgage-backed securities each month. This unprecedented highly accommodative monetary policy suppressed yields in nearly all fixed income markets. Lower yields in the treasuries and agency securities consequently held down the Pool's yield.
- (3) Despite improvements in economic conditions in the U.S. and Europe, the Pool continues to be managed conservatively with the following measures:
  - Increased holding of U.S. agency securities.
  - Selective purchase of corporate securities using a tiering strategy.
  - In most cases, certificate of deposit maturities were limited to between one and six months.
- (4) Even as the U.S. unemployment rate improved to 7.6% in June 2013 from 8.2% a year earlier, the Federal Reserve policies had remained relatively unchanged during Fiscal Year 2012/2013. The target federal funds rate stayed at a range of 0%-0.25%, and the Federal Reserve maintained a substantial asset purchase program. The Investment Pool's yield to maturity decreased by 11 basis points from the prior fiscal year end. The weighted average life of the portfolio increased slightly from 370 days to 398 days over that same period.

# SAN DIEGO COUNTY - ECONOMIC CONDITION

By available metrics it appears the recovery within San Diego County outpaced that of the national economy. The unemployment rate within San Diego County dropped from 9.3% to 7.4% during the fiscal year, comparing favorably to the statewide rate which stands at 8.8%. The University of San Diego Index of Leading Economic Indicators has improved by 4.4% from 121.3 to 126.6 during the fiscal year. This forward-looking composite index, which includes local building permits, initial jobless claims, stock prices, consumer confidence, help wanted ads and the national economic outlook, has been a reasonably good indicator for the local economy. The previous fiscal year, 2011-2012, saw a similar improvement in this leading index, and that translated into an almost 2.0% drop in the local unemployment rate.

The County of San Diego has maintained fiscal stability within the discipline of the General Management System that establishes strong fiscal management practices. This fiscal discipline has allowed the County to commit \$55.5 million as a general reserve for unforeseen catastrophic events and \$100 million designated as the general fund minimum fund balance for economic uncertainty. Both the reserve and minimum fund balance are higher than the minimums required pursuant to board policy.

### AWARDS AND ACKNOWLEDGEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Investment Pool for its Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2012. This was the fifteenth consecutive year that the Investment Pool has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the Treasurer's Office must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe this current report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of many individuals in the Treasurer's Office. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions and determining responsible stewardship of the funds in the Investment Pool.

# REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Investment Pool's activities during fiscal year 2012/2013. Questions concerning any of the information provided in this report or requests for additional financial information, including a complete list of the Investment Pool's current holdings, should be addressed to the Office of San Diego County Treasurer-Tax Collector, 1600 Pacific Highway, Room 152, San Diego, California, 92101. Copies of the comprehensive annual financial report are also available on the Internet at www.sdtreastax.com.

Respectfully,

Dan Mcallister

SAN DIEGO COUNTY TREASURER-TAX COLLECTOR



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

# San Diego County Investment Pool, California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

# TREASURY OVERSIGHT COMMITTEE



#### FROM LEFT TO RIGHT:

Leslie
Deese
City Manager
City of
National City

Jenny Salkeld Interim Chief Financial Officer San Diego Unified School District

# Benjamin Dillingham III

LaHay Public Member Public Member

# **Thomas**

Chairman of Oversight Committee Public Member

Vernon

**Evans** 

# Dan McAllister

Treasurer-Tax Collector County of San Diego

#### Don Steuer

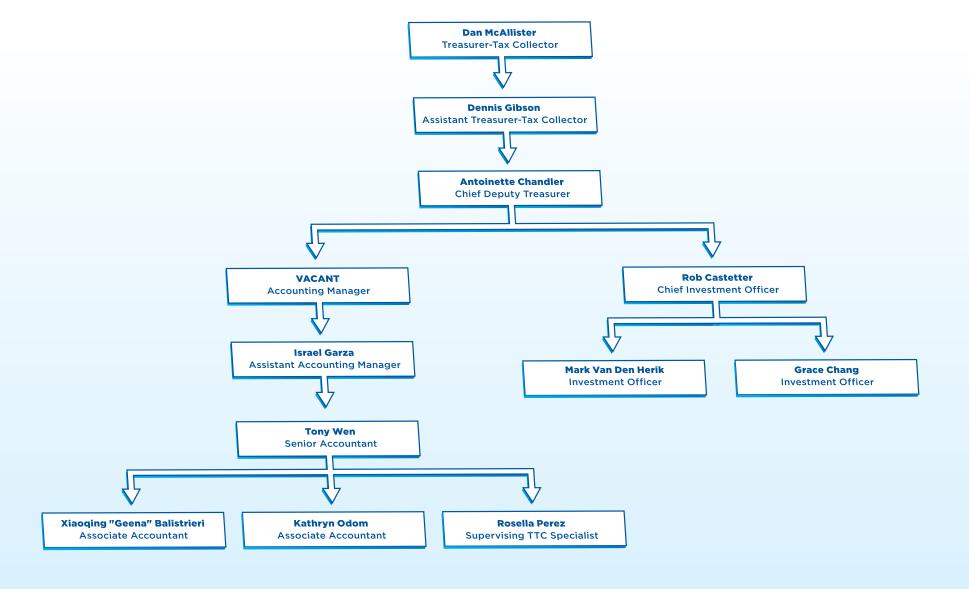
Assistant Chief Administrative Officer County of San Diego

#### Tracy Sandoval

General Manager Finance and General Government/ Auditor and Controller County of San Diego

Not Pictured: Lora Duzyk | Asst. Superintendent of Business Services | San Diego County Office of Education Renee Wasmund | Ex-Officio Chief Financial Officer | San Diego Association of Governments

# TREASURER-TAX COLLECTOR ORGANIZATION CHART



# **INVESTMENT POOL STAFF MEMBERS**



► Meadowlark Water Reclamation Facility based in Carlsbad, CA recycles up to 74% of the wastewater generated within the District's boundaries.



▼ (middle pic) Faye Robinson, of the Fallbrook Public Utility District, answers a customer service call.



◆ TTC staffers at the Treasurer-Tax Collector's Investment and Retirement Symposium.



▲ San Marcos Unified School District students enjoying each other's company after a healthy lunch.



▲ Twin Inns, located in Carlsbad, California was originally constructed in 1887.

▼ Meadowlark Water Reclamation Facility earned the plant the Civil Engineering Society's "Award of Excellence" and "Recycled Water Agency of the Year" award from the Water Use Association.

► Dan McAllister, Gary London, Grace Chang, Rob Castetter, and Antoinette Chandler at the 2013 Investment Seminar.





▲ The newly constructed County Operations Center, located in Kearny Mesa, is home to many of the County's departments.





▲ Airport CFO Vernon Davis, in front of The Green Build, which will help meet the airport's current and future demand for travel, while improving customer service and serving as an economic stimulus for the San Diego region.

# FINANCIAL SECTION

We hope that the information presented here, and in the Letter of Transmittal, provides you with a solid understanding of the Investment Pool's financial status as of June 30, 2013.



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To the County of San Diego Audit Committee and Treasury Oversight Committee County of San Diego, California

#### Report on the Financial Statements

We have audited the accompanying financial statements of the San Diego County Investment Pool (Investment Pool) of the County of San Diego, California, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Investment Pool's basic financial statements as listed in the table of contents.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Investment Pool, as of June 30, 2013, and the changes in its financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

#### Other Matters

#### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Investment Pool's basic financial statements. The accompanying introductory, investment, and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory, investment and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

#### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 4, 2013, on our consideration of the Investment Pool's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Investment Pool's internal control over financial reporting and compliance.

Macias Jini & O'Connell LLP San Diego, California December 4, 2013

# SAN DIEGO COUNTY INVESTMENT POOL MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2013 Unaudited

s management of the San Diego County Investment Pool (the "Investment Pool"), we offer readers of the Investment Pool's financial statements this narrative overview and analysis of the financial activities of the Investment Pool for the fiscal year ended June 30, 2013.

The following analysis primarily focuses on the Investment Pool's current year results in comparison with the prior year. We hope that the information presented here, and in the Letter of Transmittal, provides you with a solid understanding of the Investment Pool's financial status as of June 30, 2013.

#### FINANCIAL RESULTS

- The assets of the Investment Pool exceeded its liabilities at the close of the most recent fiscal year by \$6.7 billion (net position).
- The Investment Pool's total net position increased by \$527 million. This represents a net increase of 8.5% compared to the prior fiscal year.
- The net investment income of the Investment Pool, which includes the change in fair value from the prior year, decreased by 101.0% from \$32.6 million for the year ended June 30, 2012 to (\$0.3) million for the fiscal year ended June 30, 2013.
- During the year, the Investment Pool distributed earnings of \$21.4 million to participants compared to the previous year's distribution of \$28.1 million. This represents a decrease of \$6.6 million (23.6%) from the last fiscal year.
- The Investment Pool's expense ratio was competitive at 0.109% of the average daily balance for the fiscal year 2012/2013 and 0.125% for the fiscal year 2011/2012.
- The fair value of the Investment Pool showed an undistributed and net unrealized loss of -\$6.3 million (0.1% of portfolio fair value) at June 30, 2013 compared to an undistributed and net unrealized gain of \$18.1 million (0.3% of portfolio fair value) at June 30, 2012.

# OVERVIEW OF THE INVESTMENT POOL FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The Investment Pool's basic financial statements consist of two components:

1) Statement of Net Position and Statement of Changes in Net Position

#### 2) Notes to the Basic Financial Statements

This report also contains other supplementary information in addition to the financial statements.

The Statement of Net Position presents information on the Investment Pool's assets and liabilities, with the difference between the two reported as *net position*.

### **NET POSITION**

The Investment Pool's net position increased by \$527.2 million (8.5%) for the fiscal year ended June 30, 2013. The majority of this increase can be attributed to large additions from the San Diego Unified School District (SDUSD) Proposition Z Building Fund, San Dieguito Union High School District, and the San Diego County Regional Airport Authority (SDCRAA). SDUSD invested Proposition Z bond proceeds in the Pool. San Dieguito Union High School District invested bond proceeds in the Pool from the issuance of 2013 General Obligation bonds election of 2012 in April, 2013. SDCRAA increased its balance invested in the Pool during the fiscal year. Most of this increase can be attributed to the bond proceeds from Revenue Bonds Series 2013A&B that were issued in January 2013.

A summary of the Investment Pool's net position is presented below.

# SAN DIEGO COUNTY INVESTMENT POOL STATEMENT OF NET POSITION

(amounts expressed in thousands, except percentages)

	AS OF JU	NE 30,	VARIANCE 2013 VS. 2012		
	2013	2012	AMOUNT	PERCENTAGE	
ASSETS					
Investments at Fair value	\$ 6,598,663	\$ 6,087,933	\$ 510,730	8.4%	
Cash, Non-negotiable CD's and Receivables	102,950	87,285	15,665	17.9%	
TOTAL ASSETS	6,701,613	6,175,218	526,395	8.5%	
LIABILITIES					
Distributions Payable and Accrued Expenses	6,900	7,727	(827)	-10.7%	
NET POSITION HELD IN TRUST FOR POOL PARTICIPANTS	\$ 6,694,713	\$ 6,167,491	\$527,222	8.5%	

# **CHANGES IN NET POSITION**

The Statement of Changes in Net Position presents information on how the Investment Pool's net position changed during the most recent fiscal year. The additions include additions to investments, interest income and changes in fair value of investments. Unrealized gains or losses of securities are determined by taking the difference between amortized cost and the fair value of investments. The deductions consist of deductions from pool participant investments, distributions to the Investment Pool's participants and administrative expenses.

All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of timing of related cash flows. Thus, additions and deductions are reported in this statement for some items that will result in cash flows in future fiscal periods.

A summary of the changes in the Investment Pool's net position is presented below.

# SAN DIEGO COUNTY INVESTMENT POOL STATEMENT OF CHANGES IN NET POSITION

(amounts expressed in thousands, except percentages)

	AS OF JU	INE 30,	VARIANCE 2013 VS. 2012		
	2013 2012		AMOUNT	PERCENTAGE	
ADDITIONS					
Additions to Pooled Investments	\$ 12,011,630	\$10,837,600	\$ 1,174,030	10.8%	
Net Investment Income	(274)	32,631	(32,905)	-100.8%	
TOTAL ADDITIONS	12,011,356	10,870,231	1,141,125	10.5%	
DEDUCTIONS					
Deductions from Pooled Investments	11,457,557	10,546,697	910,860	8.6%	
Distributions to Participants	21,441	28,064	(6,623)	-23.6%	
Administrative Expenses	5,136	6,392	(1,256)	-19.6%	
TOTAL DEDUCTIONS	11,484,134	10,581,153	902,981	8.5%	
Changes in Net Position	527,222	289,078	238,144	82.4%	
Net Position Beginning of Year	6,167,491	5,878,413	289,078	4.9%	
NET POSITION END OF YEAR	\$ 6,694,713	\$ 6,167,491	\$ 527,222	8.5%	

Additions to pooled investments increased by \$1.2 billion, or 10.8%, from the previous fiscal year. Deductions from pooled investments increased by \$910.9 million, or 8.6%, from the previous fiscal year. During the 2012-13 fiscal year, there was a significant inflow of bond proceeds from Pool participants. The majority of the bond proceeds deposited into the pool was from General Obligation Bonds. The proceeds are currently invested in the pool and are expected to be spent down over the next 2-3 years.

For the 2012-2013 Fiscal Year, the Investment Pool's Investment Earnings totaled \$25.7 million. This represents a decrease of \$9.7 million in Investment Earnings as compared to the prior fiscal year. During this same period, the change in the Fair Value of Investments decreased by \$23.0 million. The offset of these figures, including investment pool expenses, resulted in a Net Investment Loss totaling \$0.3 million. Overall, net investment income decreased by \$32.9 million from the prior fiscal year. The decrease in interest earnings is due to the prolonged low interest rate environment as a result of Federal Reserve policies in response to the economic downturn. A full discussion of the interest rate environment and the overall economy is contained in the Investment Section of this report.

The Investment Pool is managed for the sole benefit of the participants. All income is distributed quarterly after deducting investment and administrative costs. The Investment Pool, in practice, holds all investments to maturity, based on a detailed cash flow analysis. Therefore, any undistributed gains or losses as a result of market value fluctuations are not reflected in the distributions to participants. These distributions to participants reflect only the actual interest income received during the fiscal year. Distributions to participants decreased by \$6.6 million, or 23.6%, due to the continued decline in interest rates on Investment Pool securities. This decrease is reflective of the interest rate environment and the Investment Pool's transition to investments of lower risk to ensure the safety of principal during the current economic downturn.

### SAN DIEGO COUNTY INVESTMENT POOL STATEMENT OF NET POSITION

AS OF JUNE 30, 2013 (amounts expressed in thousands)

ASSETS	
Investments at Fair Value:	
U.S. Government Agencies:	
Federal Home Loan Mortgage Corporation Notes	\$ 833,227
Federal Home Loan Bank Notes	1,549,588
Federal National Mortgage Association Notes	1,353,335
Federal Farm Credit Bank Notes	462,371
U.S. Treasury Notes	245,818
Commercial Paper	1,024,733
Repurchase Agreements Collateralized By:	
Government Securities	22,159
Money Market Mutual Funds	127,325
Negotiable Certificates of Deposit	945,002
Bond Funds	35,105
TOTAL INVESTMENTS AT FAIR VALUE	6,598,663
OTHER ASSETS	
Cash on Hand and in Banks	13,322
Non-negotiable Certificates of Deposits	64,613
Receivables and Other	25,015
TOTAL ASSETS	6,701,613
LIABILITIES	
Distributions Payable	5,156
Accrued Expenses	1,744
TOTAL LIABILITIES	6,900
NET POSITION HELD IN TRUST FOR POOL PARTICIPANTS	\$ 6,694,713

The notes to financial statements are an integral part of this statement.

### SAN DIEGO COUNTY INVESTMENT POOL STATEMENT OF CHANGES IN NET POSITION

FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (amounts expressed in thousands)

ADDITIONS	
Additions to Pooled Investments	\$ 12,011,630
Investment Income:	
Net Decrease in Fair Value of Investments	(24,390)
Investment Earnings	25,670
Less Expenses	(1,554)
Net Investment Loss	(274)
TOTAL ADDITIONS	12,011,356
DEDUCTIONS	
Deductions From Pooled Investments	11,457,557
Distributions To Participants	21,441
Administrative Expenses	5,136
TOTAL DEDUCTIONS	11,484,134
Change in Net Position	527,222
Net Position Held in Trust for Pool Participants:	6,167,491
Beginning of Year	
END OF YEAR	\$ 6,694,713

The notes to financial statements are an integral part of this statement.

# SAN DIEGO COUNTY INVESTMENT POOL NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

# 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**The Financial Reporting Entity.** The San Diego County Investment Pool (the "Investment Pool") is a part of the County of San Diego (the "County") and is responsible for approximately \$6.7 billion in assets as of June 30, 2013. The Investment Pool is administered by the Treasurer-Tax Collector, an elective office that is responsible for tax collection, banking, investment, disbursement and accountability of public funds. The Investment Pool is managed by the County Treasurer's Office on behalf of the Investment Pool participants.

The Investment Pool participants include the County, local school districts, local community colleges and other districts and agencies. The local school districts are required by State statutes to deposit their funds with the County Treasurer. "Mandatory" participants in the Investment Pool comprise the majority of the Investment Pool's assets, at 91.2%. All participants comply with the same requirements per the Investment Policy. The State of California gives the Board of Supervisors the ability to delegate the investment authority to the County Treasurer's Office in accordance with Section 53607 of the California Government Code (the "Gov. Code"). The Investment Pool's investment objectives are to safeguard principal, meet the liquidity needs of the participants, and return an acceptable yield within the parameters of prudent risk management.

Pursuant to Sections 27130-27137 of the California Government Code, the County Board of Supervisors has established the Treasury Oversight Committee ("TOC") which monitors and reviews the Investment Policy (the "Pool 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.

Measurement Focus, Basis of Accounting and Financial Statement Presentation. The accompanying financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Earnings on investments are recognized as revenue in the period in which they are earned and administrative costs are recognized as expenses when incurred, regardless of the timing of the related cash flows. Investment Pool participants' cash balances and withdrawals are based on cost on a trade-date basis while investments are reported at fair value.

**New Accounting Pronouncement.** In June 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* The objective of this Statement is to improve financial reporting by standardizing the presentation of deferred outflows of resources

and deferred inflows of resources and their effects on a government's net position. The application of the revised guidance of Statement No. 63 changes the terminology of net assets to net position, but did not have a material impact on the Investment Pool's financial statements.

**Use of Estimates.** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

# 2. CASH AND INVESTMENTS

**Deposits.** Deposits consist of cash in banks as well as non-negotiable certificate of deposits. At year-end, the carrying amount of the Investment Pool's deposits was \$77,934,453 and the bank balance at June 30, 2013 was \$77,883,033, which consisted 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, \$250,000 was covered by federal deposit insurance and \$77,633,033 was collateralized with securities held by a depository agent on behalf of the Investment Pool as required by California Government Code Section 53656. The California Government Code 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. The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Also, a financial institution may, in accordance with the California Government Code, secure local agency deposits using first trust deed mortgages; however, the fair value of the first trust deed mortgages collateral must be at least 150% of the total amount deposited.

**Custodial Credit Risk.** Custodial credit risk for deposits exists when, in the event of a failure of the counterparty to a transaction, a government will not be able to recover the value of its deposits or collateral securities that are in the possession of another party. For sweep (deposit) accounts, the Investment Pool utilizes national or state chartered banks where amounts exceeding the FDIC insurance level are 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.

**Pool Investments.** The Investment Pool operates under the prudent person standard. Specifically, California Government Code Sections 27000.1-27000.5, 27130-27137, and 53600-53686 authorize the Treasurer to invest funds in permissible types of investment or financial instruments. These include: U.S. Treasuries, U.S. Federal agencies, local agency obligations, bankers' acceptances, commercial paper, corporate medium-term notes, negotiable certificates of deposit, repurchase and reverse repurchase agreements, pass-through securities, money market mutual funds, local agency investment funds, and bond funds.

TABLE 1: SAN DIEGO COUNTY INVESTMENT POOL

# POLICY RESTRICTIONS VERSUS CALIFORNIA GOVERNMENT CODE SECTION 53601 REQUIREMENTS

	MAXIMUM MATURITY		MAXIMUM % OF PORTFOLIO		MAXIMUM % WITH ONE ISSUER		MINIMUM RATING	
INVESTMENT TYPE	GOV. CODE	POOL POLICY	GOV. CODE	POOL POLICY	GOV. CODE	POOL POLICY	GOV. CODE	POOL POLICY
U.S. 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	Α
Bankers' Acceptances	180 days	180 days	40%	40%	30%	5%	None	A-1
Commercial Paper (1)	270 days	270 days	40%	40%	10%	5%	Α	Α
Negotiable Certificates of Deposit	5 years	5 years	30%	30%	30%	5%	None	Α
Repurchase Agreements	1 year	1 year	None	40%	None	Note (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%	Α	Α
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

<sup>(1)</sup> Government Code Section 53635(a)(1-2) specifies percentage limitations for this security type for county investment pools.

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 mutual 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. The calculation of realized gains and losses is independent of the calculation of the net change in 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.

<sup>(2)</sup> 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.

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

The Investment Pool is authorized to have leverage exposure through the use of reverse repurchase agreements (RRP) and securities lending. The maximum exposure to these investments is 20% of the total portfolio. There were no RRPs or securities lending transactions during the fiscal year.

Table 2 below presents the maturity levels and credit ratings by investment type as of June 30, 2013. The balances are reported using the weighted average days to maturity (WAM) method.

# TABLE 2: SAN DIEGO COUNTY INVESTMENT POOL

### **INVESTMENT STATISTICS**

AS OF JUNE 30, 2013 (amounts expressed in thousands, except percentages and days)

	S&P RATING	RATE RANGE %	MATURITY DATE RANGE	PAR VALUE	BOOK VALUE	FAIR VALUE	YIELD TO MATURITY	WEIGHTED AVERAGE MATURITY (IN DAYS)
U.S. Government Agencies:								
Federal Home Loan Mortgage Corporation Notes	A-1+/AA+	0.16-5.00	09/13-08/17	\$ 827,879	\$ 832,150	\$ 833,227	0.86%	773
Federal Home Loan Bank Notes	A-1+/AA+	0.13-5.50	07/13-06/18	1,543,765	1,548,182	1,549,588	0.44%	300
Federal National Mortgage Association Notes	A-1+/AA+	0.10-5.00	07/13-04/18	1,356,497	1,362,208	1,353,335	0.62%	818
Federal Farm Credit Bank Notes	A-1+/AA+	0.15-0.30	07/13-06/14	462,689	462,531	462,371	0.21%	143
U.S. Treasury Notes	AA+	0.50-4.50	08/13-05/18	242,000	245,565	245,818	1.18%	1068
Repurchase Agreement	AA+	0.02	07/13	22,159	22,159	22,159	0.02%	1
Commercial Paper	A-1/A-1+	0.12-0.17	07/13-09/13	1,025,000	1,024,881	1,024,733	0.14%	31
Money Market Mutual Funds	AAA	0.01-0.05	N/A	127,325	127,325	127,325	0.03%	40
Negotiable Certificates of Deposit	A-1/A-1+	0.10-0.19	07/13-10/13	945,000	945,002	945,002	0.15%	33
Bond Funds	AA	0.34	N/A	35,000	35,000	35,105	0.34%	445
TOTAL INVESTMENTS				\$6,587,314	\$6,605,003	\$6,598,663	0.44%	398

**Credit Risk.** Credit risk exists when there is the possibility that the issuer or other counterparty to an investment may be unable to fulfill its obligations. To mitigate this risk, 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.

**Concentration of Credit Risk.** This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. To mitigate this risk, the Investment Policy limits the amount of exposure to any one single issuer to the percentages listed in Table 1. As noted in Table 1, the Investment Policy is more restrictive, in most cases, than the California Government Code. As of June 30, 2013, all investments are in compliance with State law and with the Investment Policy.

In accordance with GASB Statement No. 40, disclosure is required for instruments in any one issuer that represent 5% or more of the Investment Pool holdings and are not explicitly guaranteed by the United States Government. 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 investment in FHLB, FFCB, FNMA, and FHLMC securities as for June 30, 2013 comprised 23.5%, 7.0%, 20.5%, and 12.6% of investments, respectively.

**Custodial Credit Risk.** Custodial credit risk for investments exists when, in the event of a failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Securities purchased by the Investment Pool are held by a third-party custodian, The Bank of New York Mellon Corporation, in their trust department to mitigate custodial credit risk.

**Foreign Currency Risk.** The Investment Pool does not have any foreign currency risk as all investments in the Investment Pool are in U.S. dollar-denominated assets.

*Interest Rate Risk.* Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, investments of longer maturities are more sensitive to changes in market interest rates.

To mitigate the effect of interest rate risk, the Investment Pool maintains a laddered portfolio in compliance with the Investment Policy, which requires at least 25% of securities to mature within 90 days, at least 50% 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 2.

California Government Code Section 53601 indicates where the Gov. 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.

## 3. RECEIVABLES AND PAYABLES

Receivables primarily consist of interest accrued on investments. Distributions payable represent the interest for the last quarter of the fiscal year that will be credited to Investment Pool participants for reinvestment. Accrued expenses represent the administrative fees for the last quarter of the fiscal year ended June 30, 2013.

## 4. INTEREST APPORTIONMENT

Earnings realized on investments based on amortized cost are distributed to Investment Pool participants and are calculated using the accrual basis of accounting. Section 27013 of the California Government Code authorizes the Treasurer's Office and Auditor and Controller's Office to deduct administrative fees related to investments. The net realized earnings on investments are apportioned to the Investment Pool participants quarterly, based on the participants' average daily balances. During the year ended June 30, 2013, the Investment Pool distributed \$21.4 million of investment earnings, compared to the previous year's distribution of \$28.1 million. These investment earnings are classified as distributions to participants on the Statement of Changes in Net Position and are reinvested in the Investment Pool.

## 5. INVESTMENT POOL COMPOSITION

As of June 30, 2013, the Investment Pool participants by percentage of net position consist of:

## TABLE 3: SAN DIEGO COUNTY INVESTMENT POOL

### **PARTICIPANT ALLOCATION**

AS OF JUNE 30, 2013

County Funds	39.89%
Schools	43.03%
Community Colleges	8.28%
Voluntary Depositors	8.89%
Undistributed and Unrealized Losses	-0.09%
TOTAL	100.00%

## 6. RELATED PARTY

The County portion of the Investment Pool's net position as of June 30, 2013 is \$2.7 billion. Certain costs allocated by the County to the Investment Pool include salaries and benefits, services and supplies, overhead and equipment totaling \$5.1 million in the current fiscal year.

► Chicano Park, located below the Coronado bridge, is home to the country's largest collection of outdoor murals and dedicated to the cultural heritage of the community.



▼ Attendees at the Treasurer-Tax Collector's Debt Symposium.

► Tedd Ted, of the Fallbrook Public Utilities District, talks with students about the lab on a field trip plant tour.











◆ Harry Blackwood, of the Treasurer-Tax Collector's Kearny Mesa office, assists a San Diego property owner paying his taxes.

► Vallecitos Water District chlorine contact tank.



▼ Mira Costa College Nursing School students.



R

► Rachel Weber and Alejandra Lopez check people in at the Treasurer-Tax Collector's Fraud Seminar.



▲ Jay Posteraro, Heather Smith and Kerry Araiza, Poway Unified School District's 2013-14 Teachers of the Year.



▲ The seawall along the boardwalk in Carlsbad.



▲ Chula Vista City Hall.

# INVESTMENT SECTION

This section provides investment highlights and statistics for the fiscal year 2012-2013 and an outline of the Investment Policy.

COUNTY OF SAN DIEGO



### **ADMINISTRATIVE OVERVIEW**

he San Diego County Investment Pool (the "Investment Pool) was created when the State Legislature established the five-member County Board of Supervisors in 1853. During fiscal year 2012/2013, the Investment Pool activities included the following:

- The Investment Pool maturity structure has remained in compliance with the Investment Policy, which requires 25% of securities to mature in 90 days, 25% to mature from 91-365 days, and no more than 50% to mature in one to five years. As of June 30, 2013 the Investment Pool has 70.1% of investments maturing in less than one year.
- The Investment Pool had an increase in weighted average days to maturity from 370 days at June 30, 2012 to 398 days at June 30, 2013.
- The Investment Pool's total net position increased by 8.5% from \$6.2 billion on June 30, 2012 to \$6.7 billion on June 30, 2013.
- Undistributed and unrealized losses were \$6.3 million at June 30, 2013 compared to undistributed and unrealized gains of \$18.1 million at June 30, 2012.
- The weighted average effective yield (annualized) of the Investment Pool decreased from 0.58% for the year ended June 30, 2012 to 0.39% for the year ended June 30, 2013.
- The Investment Pool's expense ratio remained competitive at 0.125% of the average daily balance for the fiscal year 2011/2012 and 0.109% for 2012/2013.
- The Investment Pool maintained an 'AAAf/S1' rating by Standard & Poor's, a nationally recognized rating agency.

### **OUTLINE OF THE INVESTMENT POLICY**

The Investment Pool is managed in accordance with prudent money management principles and California Government Code Sections 27000.1 - 27000.5, 27130 - 27137, and 53600 - 53686.

The objectives of the Investment Pool in order of importance are:

- 1) Safeguard the principal of the funds under the control of the Treasurer's Office,
- 2) Meet the liquidity needs of participants,
- 3) Achieve an investment return on the funds under control of the Treasurer within the parameters of prudent risk management.

On an annual basis, the Treasury Oversight Committee (TOC) reviews and approves the Investment Policy. Once the TOC has recommended approval, the Board of Supervisors reviews and adopts the Investment Policy in a public forum. The Invest-

ment Policy focuses on risk management by setting limits on principal exposure by type of security, by issuer of debt, by minimum credit ratings, and by liquidity. The Investment Policy includes a detailed section on terms and conditions for Voluntary Participants' deposits and withdrawal of funds from the Investment Pool. All investment transactions are handled by the internal Investment Officers.

## **INVESTMENT RESULTS**

Over the past five fiscal years, the federal funds rate dropped by more than 500 basis points. The effective federal funds rate was reduced from 5.25% on September 14, 2007 to 0.07% on June 30, 2013. Bond yields are positively correlated with changes in the federal funds rate. When a material decline in the federal funds rate occurs over a short period of time, it is anticipated that fixed income portfolios will realize significantly lower yields. The table below reflects the effective yield of the Investment Pool over the past five fiscal years.

TABLE 4: SAN DIEGO COUNTY INVESTMENT POOL **HISTORICAL EFFECTIVE YIELD**AS OF JUNE 30, 2013

FISCAL YEAR	EFFECTIVE YIELD	CHANGE FROM PREVIOUS YEAR
2012-2013	0.39%	-0.19%
2011-2012	0.58%	-0.15%
2010-2011	0.73%	-0.62%
2009-2010	1.35%	-1.06%
2008-2009	2.41%	-1.79%
3-year average	0.57%	N/A
5-year average	1.09%	N/A

## TABLE 5: SAN DIEGO COUNTY INVESTMENT POOL WEIGHTED AVERAGE EFFECTIVE YIELDS

AS OF JUNE 30, 2013

(amount's expressed in percentages)

INVESTMENT TYPE	1 YEAR	3 YEAR	5 YEAR
U.S. Government Agencies	0.56%	0.75%	1.08%
U.S. Treasury Notes	1.18%	2.04%	2.37%
U.S. Treasury Bills	-	0.00%	0.07%
Commercial Paper	0.14%	0.14%	0.17%
Corporate Medium-Term Notes	-	2.02%	2.91%
Repurchase Agreements	0.02%	0.03%	0.12%
Certificates of Deposit	0.15%	0.14%	0.18%
Money Market Mutual/Bond Funds	0.10%	0.11%	0.33%
TOTAL INVESTMENT POOL	0.39%	0.57%	1.09%
Investment Benchmarks			
LAIF Benchmark	0.31%	0.50%	2.22%
1-3 Yr U.S. Agency Index	0.34%	0.97%	2.30%
0-2 Yr U.S. Treasury Index	0.31%	0.45%	1.11%
3-6 Month U.S. Treasury Bills Index	0.17%	0.17%	0.48%

Pursuant to the County Treasurer's Investment Policy, the Investment Pool is charged with safeguarding principal, meeting liquidity needs, and earning an investment return. Despite the unprecedented market volatility and credit crisis, the Investment Pool maintained an acceptable yield without any loss of principal. The Investment Pool attributes these results to the effective implementation of an adaptable investment strategy, ongoing monitoring of market events, and thorough analysis of credit rating changes, while effectively managing the associated administrative expenses.

# CHART 1: SAN DIEGO COUNTY INVESTMENT POOL **EARNINGS AND EXPENSES**

(amounts expressed in thousands)



### **INCOME ALLOCATION**

The interest earned by each Investment Pool participant is proportionate to the average daily balance of the local agency. Prior to distribution, expenses incurred by the County are deducted from the realized earnings of the Investment Pool. The Investment Pool's expense ratio for fiscal year 2012/2013 was 0.109% of the average daily balance. The apportionment rate is set approximately two weeks following the end of each calendar quarter. Apportionments are not paid out by warrants; all earnings are reinvested in the Investment Pool for the benefit of the participants.

### **ECONOMIC ENVIRONMENT RECAP**

The economic environment during FY 2012 – 2013 can be categorized as one of growth without acceleration. Nominal Gross Domestic Product (GDP) expanded at a 3.1% pace, while the real GDP grew at a fairly anemic 1.6% rate. Inflation remained muted, with various consumer and producer price indices remaining stable in the 1.5% - 2.0% range. The labor markets saw unemployment rates fall from 8.2% to 7.6% over this 12-month period. Non-farm payrolls grew by an average of 190,000 jobs per month, consistent with a 1.5% - 2.0% GDP growth rate. However, the labor force participation rate and employment/population ratio have drifted to new lows, belying the positive message of a falling unemployment rate. Manufacturing also presents a picture of growth without acceleration. Capital utilization rates remain stuck at a modest 77%. The ISM manufacturing index has averaged 51 over the previous 12 months, signifying that manufacturing is growing, albeit just barely. Despite unprecedentedly accommodative monetary policy, the economy has not responded with accelerating growth coming out of the mid -2009 recession. To the contrary, the economy seems to have resigned itself to the 1.5% - 2.0% growth experienced this past fiscal year.

The second half of the fiscal year saw the detrimental effects on the economy of the sequestration, the reduction in federal discretionary spending due to the Budget Control Act of 2011. The 2013 full-year effect on GDP of the \$85 billion drop in outlays have been estimated at 0.6% by the Congressional Budget Office. This annual austerity program has also been identified as affecting the creation or retention of 500,000 to 750,000 jobs. The housing market has continued to improve, the beneficiary of 30-year mortgage rates bottoming at just above 3.0% during the fiscal year. The S&P/Case-Shiller Composite-20 City Index shows a housing market that has benefited from lower mortgage rates, with monthly year-over-year changes in housing prices moving from 1.2% to 12.0% over that period. The fiscal year also saw a modest improvement in the mortgage delinquency rates from 7.58% to 6.96%. However, mortgage rates moved up sharply in the final two months of the fiscal year, following the 80 basis point increase in bond yields which rose due to interpretations of comments by Chairman Bernanke that the Federal Reserve (the "Fed") might begin tapering back on its most recent iteration of quantitative easing.

With the Fed Funds target rate at 0% - 0.25% and Quantitative Easing (QE) 1 and 2 completed, the Fed launched QE3 in September of 2012. This program continued the purchase of mortgage and U.S. Treasury securities by the Fed, in an effort to maintain lower market interest rates, which would in turn stimulate the economy. This program, initially targeted at \$40 billion, was upped to purchase \$85 billion of securities a month by December and continued throughout the fiscal year. The Fed's balance sheet has grown from \$2.9 trillion to \$3.5 trillion during the fiscal year, up from a pre-crisis level of \$600 billion.

The questions of how long the Fed will, or can, continue this program, what, if any, positive impacts these efforts are having on the economy, and what will happen to interest rates and stock prices when the program is tapered, are widely debated by market participants.

The equity markets in the U.S. experienced returns in the 18% - 20% returns across major indices during the fiscal year, while the Chinese and Brazilian exchanges posted negative returns of (8.6%) and (21.0%), respectively. These returns were consistent with the general theme of the equity markets during this time of outperformance of the developed markets over their emerging brethren.

### **LOCAL ECONOMIC CONDITION**

By available metrics it appears the recovery within San Diego County outpaced that of the national economy. The unemployment rate within San Diego County dropped from 9.3% to 7.4% during the fiscal year, comparing favorably to the statewide rate which stands at 8.8%. The University of San Diego Index of Leading Economic Indicators has improved by 4.4% from 121.3 to 126.6 during the fiscal year. This forward-looking composite index, which includes local building permits, initial jobless claims, stock prices, consumer confidence, help wanted ads and the national economic outlook, has been a reasonably good indicator for the local economy. The previous fiscal year, 2011-2012, saw a similar improvement in this leading index, and that translated into an almost 2.0% drop in the local unemployment rate.

There was continued uncertainty surrounding the State's budget and the resulting effects on the cash flows of the Investment Pool participants; therefore, the Investment Pool continues to maintain a high degree of liquidity in its portfolio. As a result, Investment Pool holdings of securities maturing within one year increased from 68.6% as of June 30, 2012 to 70.1% as of June 30, 2013. The move to invest in low-risk and short-term securities have contributed to a decrease in the Investment Pool's effective yield from 0.58% at June 30, 2012 to 0.39% at June 30, 2013.

### SUMMARY OF POOL'S INVESTMENT STRATEGY

For the past five years the County of San Diego Treasury Investment Group has managed the Pool's credit risk by investing in top tier entities and by limiting the term to maturity of securities with non-U.S. government counterparties to either 30 days or less or 60 days or less. The term limit for the very top tier was extended to 90 days or less during the fiscal year, reflecting the Investment Group's improved comfort with credit risk.

For the past six years, a portion of the Pool has been managed to replicate to a long-term benchmark portfolio. This subportfolio is positioned at a point on the yield curve that is expected to perform well throughout a full interest rate cycle. The remainder of the portfolio is invested to build cash flows to meet future obligations. The Investment Group has focused efforts to build cash flows over the next 3 years in this segment of the portfolio. The Pool continued to retain greater than normal liquidity during the 2012/2013 fiscal year due to uncertainty surrounding the timing of deferred state payments to local participants. The fiscal year began with state level budgetary shortfalls, some of which was alleviated by the passage of Prop 30. As the remainder of the deferred state payment is received and the need for higher liquidity abates, the weighted average maturity of the portfolio will likely increase by some 3 to 6 months.

### **OUTLOOK FOR FISCAL YEAR 2013/2014**

Anticipating the continuation of moderate economic growth and elevated unemployment levels, the Fed has officially stated their intention to keep interest rates low until mid-2015. Due to this policy decision, yields of Treasury and Agency securities maturing within five years are expected to remain at historically low levels throughout the upcoming fiscal year. As a result, the yield on the Investment Pool will also remain lower than historical averages. In consideration of the ongoing economic and political uncertainties in the United States and abroad, the primary objectives of the Investment Pool are to remain invested in securities of the highest quality and to establish sufficient liquidity to meet the cash flow needs of the Investment Pool participants.

## **RISK PROFILE**

The three main risk factors for the Investment Pool are credit, liquidity and interest rate exposure. The credit limits of the investments held by the Investment Pool meet the requirements of the Investment Policy and California Government Code.

# TABLE 6: SAN DIEGO COUNTY INVESTMENT POOL PARTICIPANTS

AS OF JUNE 30, 2013

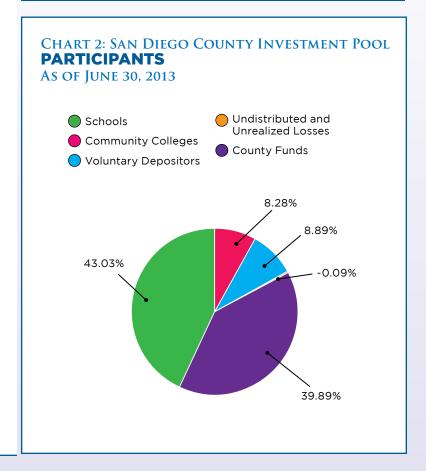
PARTICIPANT 9	% OWNERSHIP	PARTICIPANT %	OWNERSHIP
COUNTY	39.89%	Schools (K - 12)	
Schools (K - 12) Alpine Union Autistic Pupils Minor High Autistic Pupils Minor Elementary Bonsall Union Borrego Springs Unified Cajon Valley Union Cardiff Carlsbad Unified		Santee Solana Beach South Bay Union Spencer Valley Sweetwater Union High Vallecitos Valley Center Union Vista Unified Warner Unified	
Chula Vista Elementary		TOTAL FOR SCHOOLS:	43.03%
Coronado Unified Dehesa Del Mar Union Encinitas Union Escondido Union Escondido Union High Fallbrook Union Elementary		Community Colleges San Diego Grossmont MiraCosta Palomar Southwestern TOTAL FOR COMMUNITY COLLEGES:	8.28%
Fallbrook Union High		RETIREMENT	0.06%
Grossmont Union High Jamul-Dulzura Union Julian Union Julian Union High La Mesa-Spring Valley Lakeside Union Lemon Grove		Cities Chula Vista Del Mar Encinitas Lemon Grove National City	
Mountain Empire Unified		TOTAL FOR CITIES:	0.81%
National City Oceanside Unified Poway Unified Ramona Unified Rancho Santa Fe San Diego Unified San Dieguito Union High San Marcos Unified San Pasqual Union San Ysidro		Independent Agencies Alpine Fire Protection Bonita Sunnyside Fire Protection Borrego Springs Fire Protection Deer Springs Fire Protection Fallbrook Public Utility Fire Agency Self Insurance System (PAS Julian-Cuyamaca Fire Protection Lake Cuyamaca Recreation & Park	SIS) es on next page)

### TABLE 6: SAN DIEGO COUNTY INVESTMENT POOL **PARTICIPANTS**

AS OF JUNE 30, 2013

PARTICIPANT	% OWNERSHIP
Independent Agencies Lakeside Fire Leucadia Water District Lower Sweetwater Fire Protection Majestic Pines Community Service Metropolitan Transit Service Mission Resource Conservation North County Cemetery District	
North County Cemetery Perpetual North County Dispatch North County Fire Protection Otay Water District Palomar Resource Conservation	
Pine Valley Fire Protection Pomerado Cemetery Perpetual Pomerado Cemetery District Ramona Cemetery District Ramona Cemetery Perpetual Rancho Santa Fe Fire Protection San Diego Housing Commission San Diego Capital Asset Leasing	
San Diego Association of Governm San Diego Rural Fire Protection San Dieguito River San Marcos Fire Protection San Miguel Fire Protection San Ysidro Sanitation Santa Fe Irrigation District South County Operations Center	nents
SDC Regional Airport Authority Spring Valley/Casa de Oro Upper San Luis Rey Resource Convallecitos Water District Valley Center Fire Protection Valley Center Cemetery Valley Center Cemetery Perpetual	servation

PARTICIPANT	% OWNERSHIP
Independent Agencies Valley Center Water District Vista Fire Protection District	
TOTAL FOR INDEPENDENT AGENCIES:	8.02%
UNDISTRIBUTED AND UNREALIZED GAINS	-0.09%
TOTAL	100.00%



## LEVERAGE EXPOSURE

The Investment Pool is allowed to have leverage exposure up to 20% of the Portfolio value through the use of Reverse Repurchase Agreements (RRP) and Securities Lending. There were no RRP's or Securities Lending transactions during fiscal year 2012/2013.

The Investment Statistics table provides a detailed listing of the Investment Pool diversification, yields by type of securities, and weighted average maturities as of June 30, 2013.

## TABLE 7: SAN DIEGO COUNTY INVESTMENT POOL

### **INVESTMENT STATISTICS**

AS OF JUNE 30, 2013

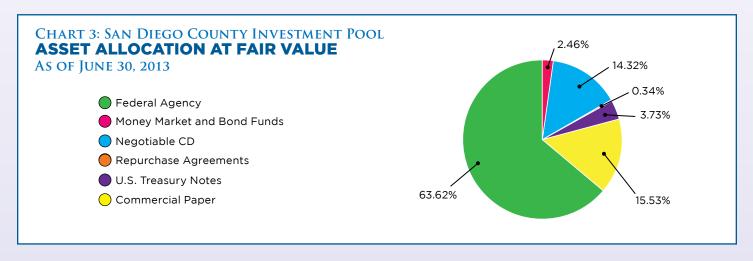
(amount's expressed in thousands, except percentages and days)

	PERCENT OF PORTFOLIO	BOOK VALUE	MARKET PRICE	ACCRUED INTEREST	PAR VALUE	FAIR VALUE	UNREAL- IZED GAIN/ (LOSS)	YIELD TO MATURITY	WAM (IN DAYS)
U.S. Government Agencies:									
Federal Home Loan Mortgage Corporation Notes	12.62%	\$ 832,150	100.65%	\$ 3,775	\$ 827,879	\$ 833,227	\$ 1,076	0.86%	773
Federal Home Loan Bank Notes	23.48%	1,548,182	100.38%	2,491	1,543,765	1,549,588	1,406	0.44%	300
Federal National Mortgage Association Notes	20.51%	1,362,208	99.77%	3,414	1,356,497	1,353,335	(8,873)	0.62%	818
Federal Farm Credit Bank Notes	7.01%	462,531	99.93%	160	462,689	462,371	(160)	0.21%	143
U.S. Treasury Notes	3.73%	245,565	101.58%	831	242,000	245,817	252	1.18%	1068
Repurchase Agreement	0.34%	22,159	100.00%	0	22,159	22,159	-	0.02%	1
Commercial Paper	15.53%	1,024,881	99.97%	-	1,025,000	1,024,733	(147)	0.14%	31
Money Market Mutual Funds	1.93%	127,325	100.00%	2	127,325	127,325	-	0.03%	40
Negotiable Certificates of Deposit	14.32%	945,002	100.00%	99	945,000	945,002	-	0.15%	33
Bond Funds	0.53%	35,000	100.30%	10	35,000	35,105	105	0.34%	445
TOTAL INVESTMENTS	100.00%	\$ 6,605,003	100.17%	\$ 10,782	\$6,587,314	\$6,598,663	\$ (6,341)	0.44%	398

A complete list of current and historical Investment Pool holdings is available on the Treasurer-Tax Collector's website at www.sdtreastax.com. The apportionment rate during fiscal year 2012/2013 was 0.36%. The 3-year average return was 0.50% and 5-year average return was 0.98%.

TABLE 8: SAN DIEGO COUNTY INVESTMENT POOL **TOP TEN FIXED-INCOME SECURITIES**AS OF JUNE 30, 2013

SECURITY NAME	CUSIP NO.	PAR VALUE	MARKET VALUE
Commercial Paper - Union Bank of CA	90526MU39	\$ 145,000,000	\$ 144,968,535
Negotiable CD Fortis/BNP Paribas Bank	34959TAM8	100,000,000	99,578,222
Federal Home Loan Bank	313380TY3	100,000,000	100,007,133
Federal Home Loan Bank	313374Y61	100,000,000	100,260,833
Negotiable CD - Bank of Montreal	06366X5P3	100,000,000	100,027,714
Commercial Paper - Toyota Motor Credit Corp.	89233GU38	95,000,000	94,970,360
Federal National Mortgage Association	31398AX31	83,729,000	84,309,962
Federal Home Loan Bank	313379QQ5	80,000,000	80,075,066
Money Market - BlackRock	0924U718	75,000,000	74,682,750
Negotiable CD - Svenska Hndl NY	86958CZS6	75,000,000	74,684,625



# TABLE 9: SAN DIEGO COUNTY INVESTMENT POOL SCHEDULE OF INVESTMENT EXPENSES BY CATEGORY

FISCAL YEAR ENDED JUNE 30, 2013 (amounts expressed in thousands)

Banking Expenses		
Bank of America	9	\$ 7
Wells Fargo		727
Armored Transport		146
BANKING EXPENSES TOTAL		880
Custodial Expenses		
The Bank of New York Mellon		101
CUSTODIAL EXPENSES TOTAL		101
Application Expenses		
Bloomberg Portfolio Order Management System		357
Sungard Investment Accounting System		216
APPLICATION EXPENSES TOTAL		573
TOTAL EXPENSES	\$	1,554

► Eddie Taylor of the Fallbrook Public Utility District working in the field with a concrete saw cutter.





◆ Vallecitos Water District operations at the Deer Springs Pump Station.



▲ The District's Twin Oaks Reservoirs Nos. 1 and 2 were designed to provide Vallecitos customers with potable water during a major emergency, such as an earthquake.



◆ Dusk at the County Operation Building.



▲ Riders enjoy the bike path in Carlsbad.

▼ Attendees at the 2013 Debt Symposium, sponsored by the Treasurer-Tax Collector's office.

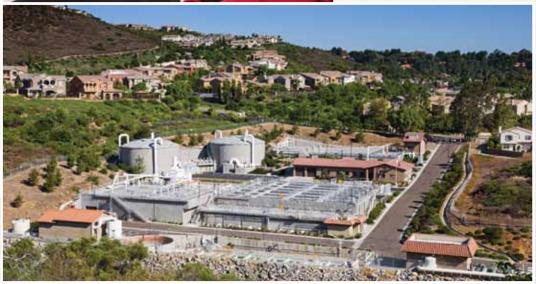




◆ Students in a Grossmont College Art Class.



▲ The Vallecitos Water District's Construction Department performs new installations, maintenance and repairs of the District's water and sewer systems.



▲ The Vallecitos Water District's Meadowlark Water Reclamation Facility, which is capable of recycling up to 74% of the wastewater generated in the District's service area.

# STATISTICAL SECTION

This section presents detailed information on the Investment Pool with historical perspective as a context for understanding and using the information in the financial statements, note disclosures, and required supplementary information.



### INTRODUCTION

Government Accounting Standards Board (GASB) Statement No. 44, *Economic Condition Reporting: The Statistical Section (an amendment of NCGA Statement I,* requires that certain detailed statistical information be presented in this section, typically in ten-year trends, to assist users in utilizing the basic financial statements, notes to the basic financial statements, and required supplementary information in order to assess the economic condition of the Investment Pool. For governments that prepare this statistical section, the provisions of this Statement encourage, but do not require, retroactive presentation of all years of information.

## **OBJECTIVES**

This section presents detailed information on the Investment Pool with historical perspective as a context for understanding and using the information in the financial statements, note disclosures, and required supplementary information.

TABLE 10: SAN DIEGO COUNTY INVESTMENT POOL SCHEDULE OF ADDITIONS, DEDUCTIONS OF POOL INVESTMENTS AND CHANGES IN NET POSITION (amounts expressed in whole numbers)

FOR THE FISCAL YEARS ENDED:	06/30/2013	06/30/2012	06/30/2011	06/30/2010	
NET POSITION, BEGINNING OF YEAR	\$ 6,167,491,320	\$ 5,878,413,336	\$ 5,208,309,163	\$ 5,670,738,848	
Additions					
Additions to Pooled Investments (1)	12,011,630,480	10,837,600,676	11,384,734,425	10,402,572,172	
Net Increase/(Decrease) in Fair Value of Investments	(24,390,182)	(1,351,224)	(10,759,705)	(1,319,450)	
Net Investment Income	24,116,447	33,981,865	40,690,796	67,031,904	
TOTAL ADDITIONS	12,011,356,745	10,870,231,317	11,414,665,516	10,468,284,626	
Deductions					
Deductions from Pooled Investments (1)	11,457,556,754	10,546,696,926	10,702,188,409	10,869,498,883	
Distributions To Participants	21,441,455	28,064,214	36,432,021	55,000,318	
Administrative Expenses	5,135,992	6,392,193	5,940,913	6,215,110	
TOTAL DEDUCTIONS	11,484,134,201	10,581,153,334	10,744,561,343	10,930,714,311	
CHANGES IN NET POSITION	527,222,544	289,077,983	670,104,173	(462,429,685)	
NET POSITION, END OF YEAR	\$ 6,694,713,864	\$ 6,167,491,320	\$ 5,878,413,336	\$ 5,208,309,163	

(1) In fiscal year 2005/2006 and prior years, the Investment Pool reports included interfund activity in additions and deductions. As of fiscal year 2006/2007, the report has been revised to reflect elimination of interfund activity. The report is now on a net cash inflow and outflow basis which management believes is more representative of the Investment Pool's inflows and outflows and accounts for the significant decrease in additions and deductions in comparison to the prior year.

(Continues on next page)

The following schedules contain ten-year trend information to help the reader assess the changes over time.

• Schedule of Additions, Deductions of Pooled Investments and Changes In Net Position
This table allows the reader to evaluate the year-over-year changes in net assets.

### Schedule of Earnings, Returns, Expenses, Apportionment Rate, Average Daily Balances (ADB) and Ratio of Fees/ADB

This table contains information to help the reader assess the Investment Pool's performance. It also presents the related expenses and its impact on returns.

### Schedule of Expenses (Investment and Administrative Costs)

This table presents expenses by object to help the reader evaluate the fees and expenses incurred by the Investment Pool.

### Asset Allocation at Fair Value

This table presents historical changes in asset allocation to help the reader evaluate portfolio diversity and risk.

### Investments at Fair Value by Major Participant

This table presents historical changes in the value held by the Investment Pool participants to help the reader identify the entities which hold and contribute major percentages of resources to the Investment Pool.

06/30/2009	06/30/2008	06/30/2007	06/30/2006	06/30/2005	06/30/2004
\$ 5,072,465,123	\$ 4,566,611,085	\$ 4,004,178,164	\$ 4,131,299,129	\$ 3,799,621,101	\$ 3,858,274,156
11,267,908,077	11,314,634,544	11,909,698,604	28,473,113,569	26,593,131,286	37,800,817,256
14,254,540	85,028,266	(22,259,995)	28,912,662	(27,930,661)	(36,912,555)
119,160,842	201,627,108	206,546,440	140,131,928	93,727,388	66,442,613
11,401,323,459	11,601,289,918	12,093,985,049	28,642,158,159	26,658,928,013	37,830,347,314
10,683,888,892	10,893,808,772	11,325,005,688	28,629,147,195	26,233,522,597	37,821,417,224
113,592,340	197,271,678	202,150,125	136,174,373	89,470,591	63,539,605
5,568,502	4,355,430	4,396,315	3,957,556	4,256,797	4,043,540
10,803,049,734	11,095,435,880	11,531,552,128	28,769,279,124	26,327,249,985	37,889,000,369
598,273,725	505,854,038	562,432,921	(127,120,965)	331,678,028	(58,653,055)
\$ 5,670,738,848	\$ 5,072,465,123	\$ 4,566,611,085	\$ 4,004,178,164	\$ 4,131,299,129	\$ 3,799,621,101

(Continued from previous page)

### TABLE 11: SAN DIEGO COUNTY INVESTMENT POOL

# SCHEDULE OF EARNINGS, RETURNS, EXPENSES, APPORTIONMENT RATE, AVERAGE DAILY BALANCES (ADB) AND RATIO OF FEES/ADB

(amounts expressed in whole numbers)

FISCAL YEAR	INTEREST EARNINGS	EFFECTIVE YIELD	EXPENSES	NET DISTRIBUTED	APPORT. RATE	AVG. DAILY BALANCES (IN MILLIONS)	RATIO OF FEES/ADB
2012/2013	\$ 25,670,144	0.39%	\$ 6,689,689	\$ 21,441,455	0.36%	\$ 6,146.9	0.109%
2011/2012	35,416,752	0.58%	7,827,080	28,064,214	0.47%	6,241.7	0.125%
2010/2011	42,427,623	0.73%	7,677,940	36,432,021	0.66%	5,806.0	0.132%
2009/2010	69,238,152	1.35%	8,421,359	55,000,318	1.05%	5,516.7	0.153%
2008/2009	121,241,248	2.41%	7,648,908	113,592,340	2.36%	5,188.0	0.147%
2007/2008	203,423,635	4.05%	6,151,957	197,271,678	4.61%	4,619.3	0.133%
2006/2007	208,254,888	4.58%	6,104,763	202,150,125	5.00%	4,277.6	0.143%
2005/2006	141,493,964	3.54%	5,319,592	136,174,372	3.47%	4,154.7	0.128%
2004/2005	94,916,466	2.32%	5,445,875	89,470,591	2.24%	4,182.8	0.130%
2003/2004	67,583,142	1.64%	4,043,540	63,539,602	1.59%	4,168.7	0.097%

STATISTICAL SECTION

# TABLE 12: SAN DIEGO COUNTY INVESTMENT POOL SCHEDULE OF EXPENSES (INVESTMENT AND ADMINISTRATIVE COSTS)

(amounts expressed in whole numbers)

FOR THE FISCAL YEARS ENDED:	06/30/13	06/30/12	06/30/11	06/30/10	06/30/09	06/30/08	06/30/07	06/30/06	06/30/05	06/30/04
INVESTMENT EXPENSES:										
Banking	\$ 879,623	\$ 884,102	\$ 976,576	\$ 1,451,641	\$ 1,451,443	\$ 1,449,664	\$ 1,317,570	\$ 1,071,080	\$ 857,252	\$ 967,323
State Street Bank-Custodial	-	-	-	-	-	-	84,971	94,496	109,612	88,182
The Bank of New York Mellon-Custodial	100,868	56,808	70,000	70,001	87,499	80,000	31,250	-	-	-
Bloomberg	357,227	278,599	342,238	321,846	201,067	248,093	256,232	185,417	217,186	56,600
Sungard Financial Systems	215,979	215,378	348,013	362,760	340,397	18,770	18,425	11,043	5,028	28,424
TOTAL INVESTMENT EXPENSES	1,553,697	1,434,887	1,736,827	2,206,248	2,080,406	1,796,527	1,708,448	1,362,036	1,189,078	1,140,529
ADMINISTRATIVE EXPENSES:										
Allocated Costs by County:										
Equipment Cost	-	18,380	31,855	21,729	49,205	56,252	16,985	56,336	55,153	65,815
Computer Related Expenses:										
Software Services	174	3,046	9,923	8,512	6,130	4,187	12,903	163,011	10,161	56,371
WASSAU Financial Systems	12,392	4,813	5,957	106,149	37,632	69,574	149,196	163,990	232,007	-
Computer Leases and Data	118,214	120,326	107,460	108,107	31,664	-	-	-	-	-
Salaries and Benefits	3,363,684	3,830,093	3,137,229	3,622,888	3,374,093	2,621,940	2,611,336	2,107,955	1,947,523	1,750,405
Services and Supplies	695,662	1,121,180	1,442,865	1,073,834	947,568	576,586	485,834	269,158	1,016,979	106,680
Department Overhead	364,093	409,247	421,137	505,964	464,321	519,810	502,131	400,395	210,900	347,421
External Overhead	361,773	665,108	564,487	547,928	437,889	287,081	397,930	576,711	564,074	426,319
Sub-Total	4,915,992	6,172,193	5,720,913	5,995,111	5,348,502	4,135,430	4,176,315	3,737,556	4,036,797	2,753,011
Auditor & Controller Allocated Cost	220,000	220,000	220,000	220,000	220,000	220,000	220,000	220,000	220,000	150,000
TOTAL ADMINISTRATIVE EXPENSES	5,135,992	6,392,193	5,940,913	6,215,111	5,568,502	4,355,430	4,396,315	3,957,556	4,256,797	2,903,011
TOTAL EXPENSES	\$ 6,689,689	\$ 7,827,080	\$ 7,677,740	\$ 8,421,359	\$ 7,648,908	\$ 6,151,957	\$ 6,104,763	\$ 5,319,592	\$ 5,445,875	\$ 4,043,540

# TABLE 13: SAN DIEGO COUNTY INVESTMENT POOL ASSET ALLOCATION AT FAIR VALUE

(amounts expressed in thousands, except percentages)

	06/30/13		06/30	06/30/12		D/11	06/30	/10
INVESTMENT TYPE	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
U.S. Government Agencies	\$ 4,198,521	63.62%	\$3,452,494	56.71%	\$3,605,184	62.15%	\$2,945,639	57.36%
U.S. Treasury Notes	245,818	3.73%	286,075	4.70%	284,271	4.90%	287,990	5.61%
U.S. Treasury Bills	-	-	-	0.00%	-	0.00%	104,974	2.04%
Commercial Paper	1,024,733	15.53%	1,049,982	17.25%	1,411,418	24.33%	905,922	17.64%
Corporate Medium-Term Notes	-	-	-	0.00%	25,770	0.44%	51,599	1.00%
Repurchase Agreements	22,159	0.34%	-	0.00%	774	0.01%	177,251	3.45%
Negotiable Certificates of Deposit	945,002	14.32%	1,185,003	19.46%	380,000	6.55%	489,932	9.54%
Money Market Mutual Funds and Bond Funds	162,430	2.46%	114,380	1.88%	93,725	1.62%	172,280	3.35%
Asset Backed Notes	-	-	-	-	-	-	-	-
TOTAL INVESTMENTS AT FAIR VALUE	\$ 6,598,663	100.00%	\$6,087,934	100.00%	\$5,801,142	100.00%	\$5,135,587	100.00%

(Continues on next page)

# TABLE 14: SAN DIEGO COUNTY INVESTMENT POOL **NET POSITION BY MAJOR PARTICIPANT**

(amounts expressed in thousands, except percentages)

	06/30/13		06/30	)/12	06/30	D/11	06/30/10		
PARTICIPANT	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%	
County	\$ 2,670,317	39.89%	\$2,539,396	41.17%	\$ 2,220,873	37.92%	\$2,046,371	39.54%	
Non-County Investments	-	-	-	-	352,406	6.02%	220,992	4.27%	
K-12 Schools	2,881,630	43.04%	2,256,676	36.59%	2,138,030	36.51%	2,171,100	41.95%	
Community Colleges	554,058	8.28%	779,940	12.65%	654,309	11.17%	427,492	8.26%	
Voluntary Deposits	595,049	8.89%	573,429	9.30%	471,357	8.05%	279,474	5.40%	
Undistributed and Unrealized Gains/(Losses)	(6,341)	-0.09%	18,050	0.29%	19,328	0.33%	30,018	0.58%	
TOTAL INVESTMENTS AT FAIR VALUE	\$ 6,694,713	100.00%	\$ 6,167,491	100.00%	\$5,856,303	100.00%	\$5,175,446	100.00%	

(Continues on next page)

06/30/09		06/30/09 06/30/08		06/30/07		06/30/06		06/30/05		06/30/04	
AMOUNT	%	<b>AMOUNT</b>	%	AMOUNT	%	<b>AMOUNT</b>	%	AMOUNT	%	<b>AMOUNT</b>	%
\$3,443,523	65.36%	\$3,014,950	60.74%	\$643,197	14.31%	\$1,645,272	41.19%	\$1,793,294	43.92%	\$1,460,381	38.82%
377,797	7.17%	377,359	7.60%	319,459	7.11%	-	-	98,555	2.41%	123,016	3.27%
99,920	1.90%	-	-	-	-	-	-	-	-	-	-
474,925	9.01%	619,295	12.48%	1,708,348	38.00%	1,190,899	29.82%	1,135,940	27.82%	1,049,756	27.91%
78,853	1.50%	98,270	1.98%	228,303	5.08%	324,129	8.12%	294,883	7.22%	175,232	4.66%
258,370	4.90%	360,677	7.27%	302,494	6.73%	218,391	5.47%	50,000	1.23%	200,000	5.32%
274,975	5.22%	375,035	7.56%	1,190,259	26.48%	484,821	12.14%	623,287	15.27%	669,739	17.80%
260,040	4.94%	78,165	1.57%	56,950	1.27%	54,050	1.35%	27,600	0.68%	34,400	0.91%
-	-	39,523	0.80%	46,141	1.03%	76,307	1.91%	59,128	1.45%	49,313	1.31%
\$5,268,403	100.00%	\$4,963,274	100.00%	\$4,495,151	100.00%	\$3,993,869	100.00%	\$4,082,687	100.00%	\$3,761,837	100.00%

(Continued from previous page)

06/30/09		06/30/08		06/30/07		06/30/06		06/30/05		06/30/04	
AMOUNT	%										
\$1,816,616	33.93%	\$1,846,556	36.72%	\$1,886,003	41.44%	\$1,512,448	37.87%	\$1,326,085	32.48%	\$1,419,976	37.75%
266,094	4.97%	198,535	3.95%	241,386	5.31%	238,034	5.96%	388,864	9.52%	126,864	3.37%
2,573,672	48.07%	2,170,480	43.17%	1,974,358	43.39%	1,963,386	49.16%	1,946,789	47.68%	1,887,028	50.16%
513,985	9.60%	621,438	12.36%	375,286	8.25%	224,455	5.62%	354,746	8.69%	231,956	6.17%
153,660	2.87%	173,982	3.46%	77,426	1.70%	74,685	1.87%	94,134	2.31%	124,800	3.32%
29,982	0.56%	17,283	0.34%	(4,308)	-0.09%	(19,139)	-0.48%	(27,931)	-0.68%	(28,787)	-0.77%
\$5,354,009	100.00%	\$5,028,274	100.00%	\$4,550,151	100.00%	\$3,993,869	100.00%	\$4,082,687	100.00%	\$3,761,837	100.00%

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► Workers inspecting facilities at the Vallecitos Water District.

► Dan McAllister talks with TTC staffers at the 2013 Treasurer-Tax Collector's Property Tax Sale.



► Vallecitos Water District's helpful Customer Service staff assisting a customer with water and sewer service needs.







■ Auction participants at the 2013 Treasurer-Tax Collector's Property Tax Sale.



▲ The newly constructed County Operations Building in Kearny Mesa.

▼ Antoinette Chandler, Chief Deputy Treasurer, and Mellody Hobson, Chairman, Ariel Investment Trust & contributor/analyst on finance and the economy for CBS News, discuss investment strategies at the 2013 Investment Symposium.



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■ Students enjoy fresh fruit at San Marcos Unified School District schools.



▲ Dan McAllister, San Diego County Treasurer-Tax Collector, and Bill Lockyer, California State Treasurer, answer questions from a reporter before the 2013 Debt Symposium, hosted by the County of San Diego Treasurer-Tax Collector's office.



▲ Kyle Drake of the Fallbrook Public Utility Division checks a sewer line that is armed with a SmartCover which alerts staff of a sewer line issue or problem.



▲ Vallecitos Water District's Meadowlark Water Reclamation Facility.



# SAN DIEGO COUNTY INVESTMENT POOL



AN INVESTMENT TRUST FUND OF THE COUNTY OF SAN DIEGO, CA



SAN DIEGO COUNTY TREASURER-TAX COLLECTOR 1600 PACIFIC HIGHWAY, ROOM 152, SAN DIEGO, CA 92101