



**San Diego County Investment Pool**  
An Investment Trust Fund of the County of San Diego, CA



# COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

**ISSUED BY DAN McALLISTER, SAN DIEGO COUNTY TREASURER-TAX COLLECTOR**







# San Diego County Treasurer-Tax Collector

**San Diego County Investment Pool**

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

San Diego, California

## ***Comprehensive Annual Financial Report***

***For the Year Ended June 30, 2020***

ISSUED BY DAN MCALLISTER, SAN DIEGO COUNTY  
TREASURER-TAX COLLECTOR



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**County of San Diego Treasurer-Tax Collector**  
**San Diego County Investment Pool**  
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# INTRODUCTORY SECTION

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# TREASURER-TAX COLLECTOR SAN DIEGO COUNTY

[www.sdttc.com](http://www.sdttc.com)

**Dan McAllister**  
Treasurer-Tax Collector



San Diego County Administration Center  
1600 Pacific Highway  
Room 162  
San Diego, CA 92101

November 6, 2020

San Diego County Board of Supervisors and Treasury Oversight Committee

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

I am pleased to submit the Comprehensive Annual Financial Report (CAFR) of the San Diego County Investment Pool (Pool) for the fiscal year ended June 30, 2020. This report and the annual audit are presented to demonstrate compliance with the San Diego County Treasurer's Pooled Money Fund Investment Policy (Investment Policy) dated January 1, 2020.



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 County Treasurer's Office (Treasury Division). 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 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. All disclosures necessary to enable the reader to gain an understanding of the Pool's financial activities have been included.

The Pool's financial statements have been audited by Brown Armstrong Accountancy Corporation, an independent firm of licensed certified public accountants. The goal of the independent audit is to provide reasonable assurance that the Pool's financial statements as of and for the fiscal year ended June 30, 2020, are fairly stated in accordance with GAAP. The independent audit involves performing procedures to obtain evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, and evaluating the overall financial statement presentation. Based upon the audit, the independent auditors concluded that there was a reasonable basis for rendering an unmodified ("clean") opinion that the Pool's financial statements as of and for the fiscal year ended June 30, 2020, are fairly presented in accordance 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 Pool's MD&A can be found after the independent auditor's report.

## PROFILE OF THE SAN DIEGO COUNTY INVESTMENT POOL

The Pool was created when the State Legislature established the five-member San Diego County (County) Board of Supervisors in 1853. It is a local government pool with \$10.3 billion in investments as of June 30, 2020. The 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 Pool is managed by the Treasurer's Office on behalf of Pool participants. The County of San Diego (County) portion of the Pool investments as of June 30, 2020 is \$4.2 billion while the external, non-County portion is approximately \$6.1 billion. Depositors in the Pool include both mandatory and voluntary participants located within the County.

Mandatory participants include the County, K-12 school districts, 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 Treasury Division. Mandatory participants comprise the majority of the Pool, which is approximately 91.1% as of June 30, 2020.

Voluntary participants are those agencies that are not required to place their funds in the Pool and do so only as an investment option. Voluntary participants include some cities, fire districts, special districts, and other municipal entities in the countywide area. As of June 30, 2020, voluntary participants accounted for approximately 8.7% of the Pool.

Community colleges have characteristics of both mandatory and voluntary participants. While they have limited authority to invest funds outside of the Pool, community colleges receive banking, checking, and investment services from the Treasury Division. In this financial report, they are categorized as mandatory participants.

In addition to investment management, the Treasury Division 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 Pool, as set forth in the Investment Policy, in order of importance, are safety, liquidity, and yield. The following goals have been set for fiscal year 2021:

- Promote fiscal stability by maintaining a 'AAAf/S1' rating from Fitch Ratings;
- Review established investment and reporting processes with the goal of improving efficiency;
- Implement new vendors for custodian bank and combined investment advisor/treasury management system;
- Continue constituent outreach and increase public awareness of services offered by the Investment Division; and
- Obtain a certificate of achievement for excellence in financial reporting by the Government Finance Officers Association.

The Treasury Division updates the Investment Policy on an annual basis to ensure the integrity of the Pool and to provide guidelines for its operation, in accordance with California Government Code. Upon completion of the Investment Policy by the Treasury Division, 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 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, supranationals, commercial paper, pass-through securities, money market mutual funds, municipal bonds and corporate medium-term notes. The maturities of the investments range from one day to five years, with an average weighted maturity of 559 days. The yield to maturity (annualized) on investments as of June 30, 2020 was 1.56%.

To safeguard the investments, a custodian is employed to safekeep, settle, and accept interest payments on investments held by the 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 fiscal year 2020, investments provided a 2.02% apportionment rate, which is the rate used in allocating the net earnings to the participants. The Pool's average apportionment rate over the last three and five fiscal years was 1.92% and 1.47%, respectively.

The Treasury Division has implemented a system of internal controls designed to ensure the reliability of reported investment information. The Treasury Division provides monthly investment reports for the Treasury Oversight Committee, which monitors the management of funds and reviews the Investment Policy. Please refer to the Investment Section of this CAFR for additional information on investments.

## SIGNIFICANT EVENTS

The Pool's rating was affirmed at 'AAAF/S1' by Fitch Ratings, Inc. 'AAAF' is the top rating possible for a local government investment pool and indicates the Pool's portfolio contains securities of the highest underlying credit quality. The 'S1' volatility rating signifies the Pool possesses very low sensitivity to market risk, given its conservative investment policies. Rating considerations include:

- High quality credit portfolio
- Liquidity management as a key objective
- Oversight that decreases operational risk
- Stable investor base
- Low sensitivity to market risk
- Industry-standard administration and systems

The Pool was not immune to effects of the onset of the COVID-19 pandemic in March 2020; however, the high-quality investment portfolio and conservative investment policies protected investors from the market turmoil that ensued. Investment staff responded by dramatically increasing overnight liquidity and temporarily pausing credit investments due to uncertainties over future cash flows and credit conditions. As markets calmed in the following weeks, credit investments resumed and liquidity buffers were reduced, though they remain well above pre-pandemic levels. Investment staff continue to refine cash flow projections as new information is released by state, federal, and other entities and are in frequent communication with Pool participants.

The Federal Reserve (Fed) lowered the benchmark Fed funds rate by 25 basis points (bps) three times in early fiscal 2020: in August, September and October 2019. Then, in response to the onset of the COVID-19 pandemic in March 2020 and the sharp economic downturn caused by lockdown measures, the Fed implemented a further 50 bps cut and then a 100 bps cut, just two weeks apart. This dropped the target range to 0% - 0.25% (its effective minimum), where it remains today. Obviously, the Fed cutting rates to near zero resulted in significantly lower rates for short-term securities and contributed to a significant reduction of the Pool's yield. The Fed has already said they don't plan on raising rates through at least 2023, given the ongoing economic weakness resulting from the pandemic, so returns are expected to fall further and then stay near historic lows. The Pool's yield to maturity decreased by 83 bps in fiscal year 2020, even though the weighted average maturity for investments increased from 528 days to 559 days. The Pool reached a record high balance of \$12.3 billion in mid-April 2020. Growth in assets under management is due to higher assessed values and strong tax collections, bond issuance by schools and other local agencies, CARES Act transfers from the federal government, new deposits from voluntary participants, and increased confidence in the Investment pool as an investment option.

Despite modest improvement in domestic economic conditions since the onset of the COVID-19 pandemic, the Pool continues to be managed conservatively with the following measures:

- Investing primarily in U.S. Treasury, government agencies, AAA-rated supranationals, AAA-rated pass-through securities, and municipal bonds for maturities beyond three years;
- Selective purchase of corporate securities out to three years using a maturity tiering strategy; and
- Maintaining extensive liquidity buffers consisting of top-tier securities with laddered maturities between one day and one year.

## NATIONAL ECONOMIC ENVIRONMENT

During the first several months of fiscal year 2020, the U.S. economy continued to grow, but the onset of the COVID-19 pandemic in March 2020 and associated lockdowns dramatically curtailed economic activity, leading to an extremely sharp downturn. After a smaller decline in the first quarter of 2020, nominal and real gross domestic product plunged by 33.3% and 31.7%, respectively, during the second quarter, which were the worst declines ever

recorded. The unemployment rate soared from a low of 3.5% in February 2020 to an astronomical 14.7% by April, though it subsequently recovered somewhat to 11.1% by the end of the fiscal year. Concurrently, the labor force participation rate hit an all-time low of 60.2% in April 2020 before rebounding somewhat to 61.5% in June. Annual real wage growth turned negative in this downturn as well, but still finished up 4.1% over the fiscal year as a whole. Annual inflation metrics continued to stagnate and then fell further after the onset of the pandemic to levels well below the Fed's 2% target. By June 2020, annual Consumer Price Index (CPI) growth was only 0.7%, compared to 1.6% a year earlier. Housing prices have been much less impacted by the pandemic, with the S&P/Case-Shiller 20-City Index recording 3.47% year-over-year growth in June 2020 and remaining near its all-time high. Home sales did slow sharply when the lockdowns were implemented but improved significantly by the end of the fiscal year, perhaps due to people reevaluating their living situations during quarantine.

As stated previously, the Federal Reserve lowered the Fed funds target rate a total of five times during fiscal year 2020, ultimately dropping it to its effective minimum range of 0% - 0.25%. As economic data remains poor with full recovery expected to take several years, the Fed has already committed to keep rates unchanged through at least 2023 and until inflation rises above their 2% target, in an effort to calm markets. The 10-year US Treasury yield fluctuated during the first few months of the fiscal year, but then plunged at the onset of the pandemic and remained at historic low levels the rest of the year. The yield closed on June 30, 2020 at 0.66%, or 135 bps lower than the prior year. U.S. equity markets climbed steadily during the first several months of the fiscal year before also experiencing a sharp lockdown-related plunge; however, they recovered most or all of their losses in the following months, despite the negative economic and COVID data. The S&P 500 index gained 5.39% and the NASDAQ rose a whopping 25.64% during fiscal year 2020. World indices were again mixed, however, with the EURO STOXX 50 Index declining 6.90% and the NIKKEI rising 4.76%.

#### SAN DIEGO COUNTY ECONOMIC CONDITION

Economic conditions in the San Diego region during fiscal year 2020 generally followed the same trends as the nation as a whole, though the COVID-related downturn was even more pronounced. The unemployment rate within the County dropped to a low of just 2.8% in December 2019, but then soared to 15.2% in May 2020 and only recovered to 13.8% in June, above the nationwide rate. Local job losses have been most severe in the leisure and hospitality sector, as there has been a sharp decline in tourist visits and a halt in convention activity in San Diego. Despite the dramatic impacts of lockdowns on many aspects of the local economy, however, the housing market in San Diego has so far been mostly unaffected, as indicated by the 5.0% rise in the S&P/ Case-Shiller San Diego home price index between June 2019 and June 2020, when it reached a new record high. Household incomes also continued to rise, though this may have shifted in the last couple months of the fiscal year.

The County has maintained fiscal stability within the discipline of the General Management System (GMS) that establishes strong fiscal management practices. The GMS is the County's business model that guides operations and service delivery to residents, businesses, and visitors. This fiscal discipline has allowed the County to commit to maintaining a portion of Unassigned Fund Balance as a reserve that equals a minimum of two months (16.7%) of audited General Fund expenses to protect the County against expenditure and revenue volatility, natural disasters, economic downturns, or other unforeseen emergencies. Appropriation of the Reserve minimum balance requires a 4/5th vote of the Board of Supervisors. On April 21, 2020, the Board voted to temporarily suspend the minimum General Fund Reserve requirement for the duration of the COVID-19 local emergency.

Many local municipalities, including school districts, continue to take advantage of the low interest rate environment to issue bonds for a variety of purposes. As a result of the influx of bond proceeds, tax receipts, CARES Act funds, and voluntary deposits, the Pool had a significant amount of additional funds to invest during fiscal year 2020, especially after the Fed's dramatic rate cuts in March caused rates to plunge. The Pool's yield to maturity has fallen from 2.39% as of June 30, 2019 to 1.56% as of June 30, 2020.

#### AWARDS AND ACKNOWLEDGMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Pool for its Comprehensive Annual Financial Report (CAFR) for fiscal year 2019. This was the twenty-second consecutive year that the Pool has achieved this prestigious award.

To be awarded a Certificate of Achievement, the Treasury Division must publish an easily readable and efficiently organized CAFR. This report must satisfy both GAAP and applicable legal requirements.

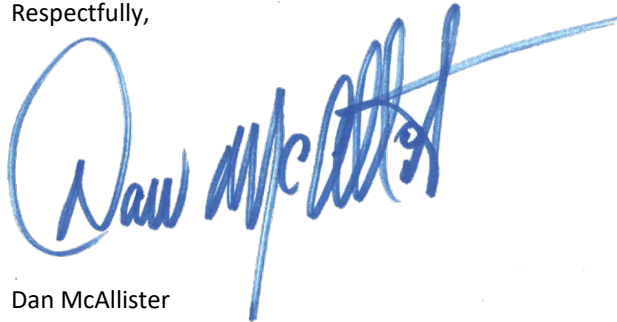
A Certificate of Achievement is valid for a period of one year only. We believe this CAFR continues to meet the Certificate of Achievement Program's requirements and will be submitted to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of many individuals in the Treasury Division. 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 Pool.

#### REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Pool's activities during fiscal year 2020. Questions concerning any of the information provided in this report or requests for additional financial information, including a complete list of the 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 CAFR as well as the monthly Pool results are also available at [www.sdttc.com](http://www.sdttc.com).

Respectfully,

A handwritten signature in blue ink, appearing to read "Dan McAllister", with a long horizontal flourish extending to the right.

Dan McAllister  
SAN DIEGO COUNTY TREASURER-TAX COLLECTOR

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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, 2019

*Christopher P. Morill*

Executive Director/CEO



## Treasury Oversight Committee



**Dan McAllister**  
*Treasurer-Tax Collector*  
County of San Diego



**Don Steuer**  
*Assistant Chief  
Administrative Officer*  
County of San Diego



**Tracy Drager**  
*Auditor & Controller*  
County of San Diego



**Michael Simonson**  
County Superintendent of  
Schools Representative



**Gregory Ottinger, Ed.D.**  
Public Member  
(School/Community  
College District  
Representative)



**André Douzjian**  
Public Member  
(Special District  
Representative)



**Colleen Harvey**  
Public Member  
(Public Finance Expertise)

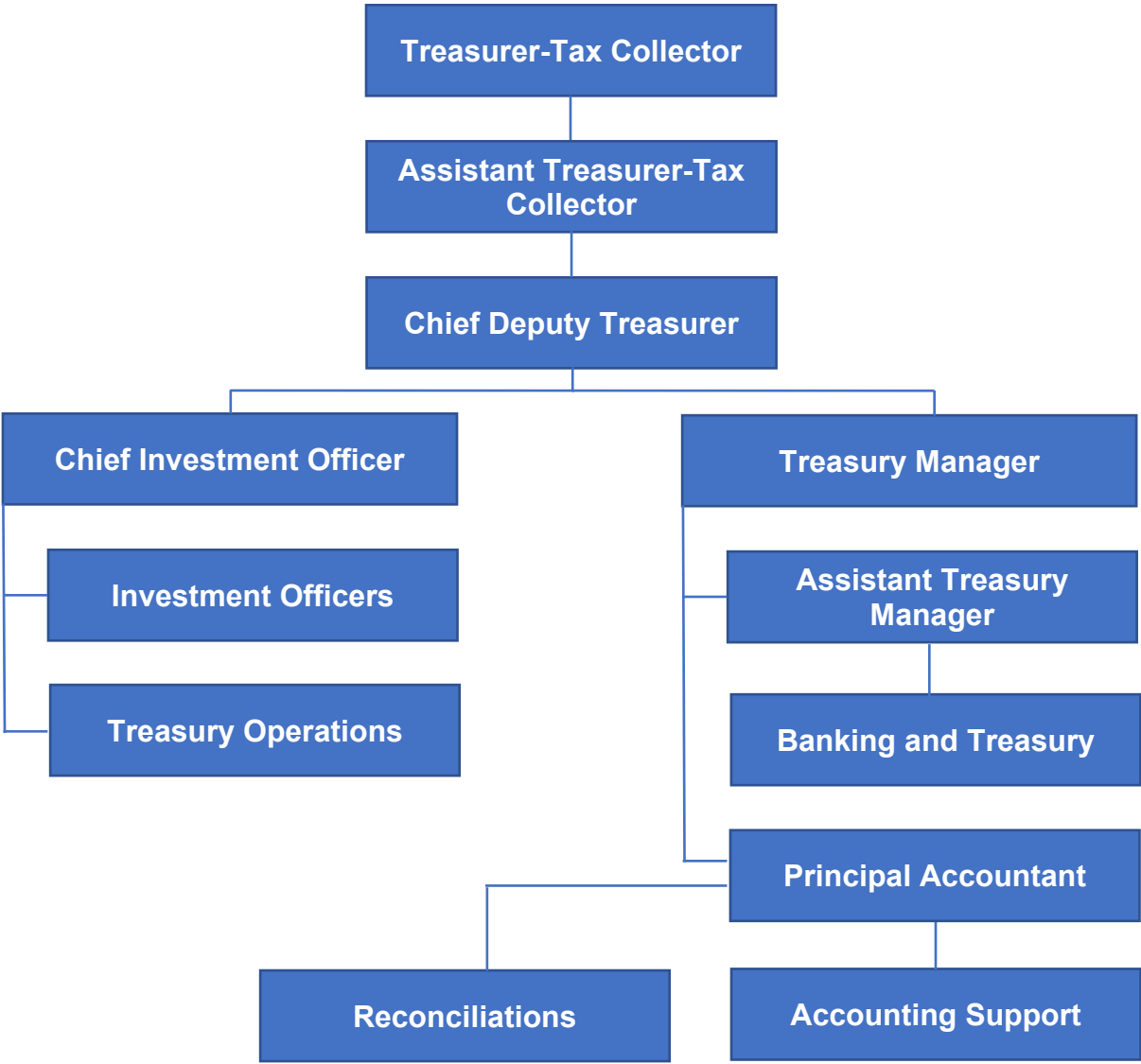


**Maria Kachadoorian**  
Public Member  
(City Representative)



**Gabriel Wisdom**  
Public Member  
(Public Finance Expertise)

**San Diego County Treasury Division  
Organization Chart**



# **Treasury and Investments Division**

## **As of June 30, 2020**

**Lauren Warrem, CPA**  
Chief Deputy Treasurer

**Hank Kim**  
Chief Investment Officer

**Kevin Foley, CFA**  
Investment Officer

**Cameron Urquhart, CFA**  
Investment Officer

**R.C. Kinzly**  
Investment Officer

**Kristine Gachalian**  
Investment Analyst

**Erin Lahti**  
Investment Analyst

**Lisa Kondrat-Dauphin, CGFM**  
Treasury Manager

**Zinda Jimenez**  
Assistant Treasury Manager

**Timothy Henry, CPA**  
Principal Accountant

**Gregg Rosner**  
Banking and WARP Services Supervisor

**Ricardo Aquino**  
Reconciliations Supervisor

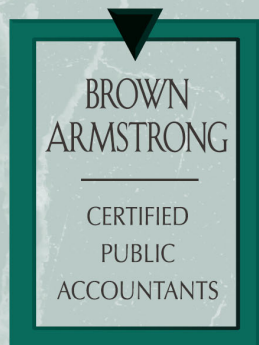
**Ling Chu Hung**  
Accounting Support Supervisor

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## FINANCIAL SECTION

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# BROWN ARMSTRONG

*Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT

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 (the Investment Pool) of the County of San Diego (the County), California, as of and for the fiscal year ended June 30, 2020, and the related notes to the basic 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 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 from 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 the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relating to the Investment Pool, relevant to the Treasurer Tax Collector's (TTC'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 TTC's internal control relating to the Investment Pool. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall 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.

#### BAKERSFIELD OFFICE

##### (MAIN OFFICE)

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STOCKTON, CA 95207  
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## Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the net position of the Investment Pool, as of June 30, 2020, and the changes in net 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 the 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 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 November 6, 2020, on our consideration of the County TTC's internal control over financial reporting relating to the Investment Pool 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 the effectiveness of the TTC's 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 TTC's internal control over financial reporting and compliance relating to the Investment Pool.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
November 6, 2020

## Management's Discussion and Analysis

As management of the San Diego County Investment Pool (Pool), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the Pool for fiscal year 2020.

The following analysis primarily focuses on the Pool's current year results in comparison with the prior year. The information presented here should be considered in conjunction with the information provided in the Letter of Transmittal.

### Financial Highlights

- The assets of the Pool exceeded its liabilities at the close of fiscal year 2020 by \$10.3 billion (net position).
- The Pool's total net position increased by \$213.4 million representing a net increase of 2.1% over fiscal year 2019.
- The Pool's net investment income, which includes the change in fair value from the prior year, increased from \$298.6 million in fiscal year 2019 to \$320.6 million in fiscal year 2020.
- During fiscal year 2020, the Pool distributed earnings of \$194.1 million to participants compared to the previous year's distribution of \$206.8 million. This represents a decrease of \$12.7 million, or 6.1% below fiscal year 2019.
- The Pool's expense ratio was 0.067% of the average daily balance for fiscal year 2020 and 0.072% for fiscal year 2019.
- The fair value of the Pool included an undistributed and net unrealized gain of \$142.0 million (1.37% of the portfolio fair value) at June 30, 2020 compared to an undistributed and net unrealized gain of \$24.3 million (0.24% of the portfolio fair value) at June 30, 2019.

### Overview of the Financial Statements

The Pool's annual financial report consists of four parts: (1) management's discussion and analysis; (2) basic financial statements; (3) an investment section; and (4) a statistical section, which furnishes relevant statistical data of the Pool.

Management's discussion and analysis provided here is intended to serve as an introduction to the Pool's basic financial statements. The Pool's basic financial statements consist of two components: (1) basic financial statements; and (2) the notes to the basic financial statements.

**Basic financial statements.** The Pool provides a statement of net position and a statement of changes in net position.

The *statement of net position* presents financial information on all Pool assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Pool is improving or deteriorating.

The *statement of changes in net position* presents information showing changes in the Pool's net position during the most recent fiscal year. All changes in net position are reported when the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods.



**Notes to the basic financial statements.** The notes provide additional information that is necessary to acquire a full understanding of the data provided in the financial statements. The notes to the basic financial statements can be found on pages 15 to 24 of this report.

**Other information.** In addition to the basic financial statements, detailed investment information can be found on pages 33 to 42 of this report, and statistical data for the past ten years can be found on pages 45 to 49 of this report.

## Overall Financial Analysis

### San Diego County Investment Pool Condensed Statement of Net Position (In Thousands)

	2020	2019	Increase/(Decrease)	
			Amount	Percentage
Assets				
Investments at Fair Value	\$ 10,332,868	\$ 10,140,149	\$ 192,719	1.9%
Other Assets	56,856	98,821	(41,965)	(42.5%)
Total Assets	10,389,724	10,238,970	150,754	1.5%
Liabilities				
Distributions Payable and Accrued Expenses	47,640	110,315	(62,675)	(56.8%)
Total Liabilities	47,640	110,315	(62,675)	(56.8%)
Net Position Held in Trust for Pool Participants	\$ 10,342,084	\$ 10,128,655	\$ 213,429	2.1%

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Pool, assets exceeded liabilities by \$10,342,084 at the close of the most recent fiscal year.

There was a \$40 million security that matured on Sunday, June 30, 2019, and therefore was reported as cash (in-transit) as the cash did not settle with the bank until July 1, 2019. There was not an in-transit at June 30, 2020, therefore this prior year in-transit was the primary reason for the 42.5% other assets decrease over fiscal year 2019. See the Investment Section on pages 33 to 42 for further detail on investments.

The decrease in liabilities of 56.8% was primarily due to a timing difference for the distribution of quarterly interest income allocation. At June 30, 2020, distributions payable included the fourth quarter allocation, whereas at June 30, 2019, distributions payable included a portion of the third quarter allocation and the full fourth quarter allocation. Accrued expenses were consistent with the prior year with a minimal change of only 0.1%.

**San Diego County Investment Pool**  
**Statement of Changes in Net Position**  
(In Thousands)

	2020	2019	Increase/(Decrease)	
			Amount	Percentage
Additions:				
Additions to Pooled Investments	\$ 18,477,596	\$ 17,708,087	\$ 769,509	4.3%
Net Investment Income	320,586	298,554	22,032	7.4%
Total Additions	18,798,182	18,006,641	791,541	4.4%
Deductions:				
Deductions from Pooled Investments	18,385,346	17,626,265	759,081	4.3%
Distributions to Participants	194,094	206,812	(12,718)	(6.1%)
Administrative Expenses	5,313	5,773	(460)	(8.0%)
Total Deductions	18,584,753	17,838,850	745,903	4.2%
Change in Net Position	213,429	167,791	45,638	27.2%
Net Position, Beginning of Year	10,128,655	9,960,864	167,791	1.7%
Net Position, End of Year	\$ 10,342,084	\$ 10,128,655	\$ 213,429	2.1%

The Statement of Changes in Net Position presents information on how the Pool's net position changed during fiscal year 2020. Key elements of the change between fiscal years 2020 and 2019 are as follows:

- Increases include additions to investments, investment earnings and changes in fair value of investments. Changes in the market prompted a 32.2% increase in the fair value of investments, which ended fiscal year 2020 at \$117.8 million as compared to \$89.0 million at June 30, 2019. A falling interest rate environment was the main reason for the 3.2% decrease in net interest earnings, a decrease of \$6.7 million over fiscal year 2019.
- Unrealized gains or losses of securities are determined by taking the difference between amortized cost and the fair value of investments.
- Deductions consist of withdrawals by Pool participants, interest distributions to Pool participants and administrative expenses. The largest change to Deductions was the increase of withdrawals by Pool participants of \$759.1 million, which is a 4.3% increase over fiscal year 2019. Interest income allocations to Pool participants were \$12.7 million less in fiscal year 2020 compared to fiscal year 2019, which equated to a decrease of about 6.1%.

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

During fiscal year 2020, there was a net inflow primarily related to higher assessed property values and improved tax collections, bond issuances by schools and other local agencies, new deposits from voluntary participants. The proceeds are currently invested in the Pool and are expected to be spent over the next two to three years.

The Pool is managed for the sole benefit of its participants. All income is accrued quarterly after deducting investment and administrative costs. Distributions to participants reflect only the actual interest income received during the fiscal year and may differ from the amounts accrued. The Pool, in practice, holds most

investments to maturity, based on a detailed cash flow analysis. Therefore, any undistributed gains or losses as a result of fair value fluctuations are not reflected in the distributions to participants.

### **Requests for Information**

This financial report was designed to provide a general overview of the Pool finances for all those interested. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the San Diego County Treasurer-Tax Collector, 1600 Pacific Highway, Room 152, San Diego, California 92101.

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# **BASIC FINANCIAL STATEMENTS**

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**San Diego County Investment Pool**  
**Statement of Net Position**  
**June 30, 2020**  
**(in Thousands)**

**ASSETS**

Investments at Fair Value:

Pass-Through Securities	\$ 841,701
U.S. Government Agencies:	
Federal Home Loan Mortgage Corporation Notes	457,171
Federal Home Loan Bank Notes	451,259
Federal National Mortgage Association Notes	353,932
Federal Farm Credit Bank Notes	643,886
U.S. Treasury Notes	519,792
Supranationals	1,101,661
Commercial Paper	2,029,638
Corporate Medium-Term Notes	1,038,249
Local Government Investment Pools	250,292
Money Market Mutual Funds	352,925
Municipal Bonds	79,189
Negotiable Certificates of Deposit	2,213,173
Total Investments at Fair Value	10,332,868

Other Assets:

Cash on Hand and in Banks	15,196
Receivables	41,660
Total Assets	10,389,724

**LIABILITIES**

Distributions Payable	45,943
Accrued Expenses	1,697
Total Liabilities	47,640

Net Position Held in Trust for Pool Participants	\$ 10,342,084
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See accompanying Notes to the Basic Financial Statements.

**San Diego County Investment Pool**  
**Statement of Changes in Net Position**  
**For the Fiscal Year Ended June 30, 2020**  
**(in Thousands)**

**ADDITIONS**

Additions to Pooled Investments	\$ 18,477,596
Investment Income:	
Net Increase in Fair Value of Investments	117,750
Investment Earnings	204,151
Less Investment Expenses	<u>(1,315)</u>
Net Investment Income	<u>320,586</u>
Total Additions	<u>18,798,182</u>

**DEDUCTIONS**

Deductions from Pooled Investments	18,385,346
Distributions to Participants	194,094
Administrative Expenses	<u>5,313</u>
Total Deductions	<u>18,584,753</u>
Change in Net Position	213,429
Net Position Held in Trust for Pool Participants:	
Beginning of Year	<u>10,128,655</u>
End of Year	<u>\$ 10,342,084</u>

See accompanying Notes to the Basic Financial Statements.

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## **NOTES TO THE BASIC FINANCIAL STATEMENTS**

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**San Diego County Investment Pool  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of the San Diego County Investment Pool (the "Pool") have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body of establishing governmental accounting and financial reporting principles. The more significant of the Pool accounting policies are described below.

**A. Reporting entity**

The Pool was originally formed in 1853 by the County Board of Supervisors (Board) to invest the assets of the County and other external parties. The Pool is a part of the County of San Diego (County) and is responsible for approximately \$10.3 billion in investments as of June 30, 2020. The Pool is administered by the Treasurer-Tax Collector, an elected office that is responsible for tax collection, banking, investment, disbursement and accountability of public funds and is managed by the County Treasurer's Office (Treasury) on behalf of the Pool participants.

Participants of the Pool include the County, local school districts, local community colleges, other districts and cities. The school districts are required by State statute to deposit their funds with the Treasury. Mandatory participants in the Pool comprise the majority of the Pool's assets, at 91.1%. All participants comply with the same requirements per the Treasurer's Pooled Money Investment Policy (Investment Policy). The State of California gives the Board the ability to delegate the investment authority to the Treasury in accordance with Section 53607 of the California Government Code (Government Code).

Pursuant to Sections 27130-27137 of the Government Code, the Board has established the Treasury Oversight Committee (TOC) which 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 or an academic background in public finance. The TOC requires a financial audit to be conducted annually on a fiscal year basis, which includes limited tests of compliance with laws and regulations. The Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company. The Pool does not have any legally binding guarantees of share values.

**B. Pool basic financial statements**

The basic financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all activities of the Pool.

**C. Measurement focus, basis of accounting, and basic financial statement presentation**

The accompanying basic financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The accompanying basic financial statements present only the statement of net position and statement of changes in net position of the Pool and are not intended to present fairly, the financial position and changes in financial position of the County as a whole in conformity with accounting principles generally accepted in the United States (GAAP). Contributions from Pool participants are recognized as contributions in the period in which they are received and distributions to Pool participants are recognized in the period in which they are allocated.

**San Diego County Investment Pool**  
**Notes to the Basic Financial Statements, Continued**  
**For the Fiscal Year Ended June 30, 2020**

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. In accordance with GAAP, the Pool records investment purchases and sales on the trade settlement date. Pool participants' cash balances and withdrawals are based on the cost on the trade settlement date, while investments are reported at fair value.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* (GASB Statement No. 31) and GASB Statement No. 72, *Fair Value Measurement and Application* (GASB Statement No. 72), the accompanying basic financial statements reflect the fair value of investments. Specific disclosures related to GASB Statement No. 31 and GASB Statement No. 72 appear in Note II.C. Pool participants' cash balances and withdrawals are based on cost. Pool revenue/loss distribution is shared on a pro-rata basis with Pool participants. Pool revenue/loss distribution is performed quarterly, net of administrative costs authorized by Government Code Section 27013. This method used to determine participants' shares sold and redeemed differs from the method used to report investments.

**D. Distributions payable**

The Treasury calculates and records all interest earned, received, and accrued for the Pool on a monthly basis. Gains or losses as a result of fair value fluctuations are not reflected in the apportionment to Pool participants unless a security is actually sold. Income earned on the pooled investments is apportioned quarterly based on the average daily balance of each Pool participant. Accrued expenses represent the administrative fees for the last quarter of fiscal year 2020.

**E. Use of estimates**

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements. Actual results could differ from the estimates.

**II. CASH AND INVESTMENTS**

Cash and investments consisted as follows on June 30, 2020 (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>
Cash - demand deposits	\$ 15,196
Investments	10,332,868
<b>Total cash deposits and investments</b>	<b><u>\$ 10,348,064</u></b>

**A. Cash deposits**

As of June 30, 2020, the Pool maintained accounts in two banks. The carrying amount of the Pool's total deposits was \$15,195,958 and the bank balance was \$11,289,671. The difference between the carrying amount and the bank balance includes temporary reconciling items such as outstanding checks and deposits in transit.

**San Diego County Investment Pool**  
**Notes to the Basic Financial Statements, Continued**  
**For the Fiscal Year Ended June 30, 2020**

Government Code Section 53652 et. seq. and the Investment Policy prescribe the amount of collateral that is required to secure the deposit of public funds. Federal Deposit Insurance Corporation (FDIC) insurance is available for funds deposited at any one insured depository institution for up to a maximum of \$250 thousand for demand deposits and up to a maximum of \$250 thousand for time and savings deposits. The aforementioned Government Code and Investment Policy require that depositories collateralize public funds with securities having a fair 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. At June 30, 2020, \$10,789,671 was collateralized with securities held by a depository agent on behalf of the Pool.

**B. Investments**

The Pool's cash and investments are invested pursuant to Investment Policy guidelines established by the County Treasurer. As permitted by the Government Code, the Treasury developed, and the Board adopted, an Investment Policy that further defines and restricts the limits within which the Treasury may invest. The investments are managed by the Treasury, which publicly posts investment activity for the Board on a monthly basis.

Government Code Sections 53601 and 53635 authorize the Treasury to invest the Pool funds (Note I) in obligations further defined in Note II.D.

**C. Fair value measurements**

Investments are stated at fair value and are valued on a monthly basis. The Treasury categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72. This pronouncement establishes a hierarchy of inputs to valuation techniques used to measure fair value and requires disclosures to be made about investment fair value measurements, the level of fair value hierarchy, and valuation techniques.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement.

The GASB Statement No. 72 hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and fair value is determined through the use of models or other valuation methodologies including:

**San Diego County Investment Pool**  
**Notes to the Basic Financial Statements, Continued**  
**For the Fiscal Year Ended June 30, 2020**

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in markets that are inactive;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. These unobservable inputs reflect the Treasury assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include Treasury data.

The Treasury does not value any of its investments using Level 1 and Level 3 inputs. Money market mutual funds and local government investment pool (LGIP) funds are not subject to the fair value hierarchy.

The Treasury uses the market approach as a valuation technique in the application of GASB Statement No. 72. This method uses prices and other relevant information generated by market transactions involving identical or comparable assets or groups of assets.

The following table summarizes the Pool recurring fair value measurements and fair value hierarchy as of June 30, 2020 (in thousands):

		Fair Value Measurements		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
		(Level 1)	(Level 2)	(Level 3)
	June 30, 2020			
Investments by fair value level				
U.S. Government Agencies	\$ 1,906,248	\$ -	\$ 1,906,248	\$ -
U.S. Treasury Notes	519,792	-	519,792	-
Municipal Bonds	79,189	-	79,189	-
Corporate Medium-Term Notes	1,038,249	-	1,038,249	-
Commercial Paper	2,029,638	-	2,029,638	-
Supranationals	1,101,661	-	1,101,661	-
Negotiable Certificates of Deposit	2,213,173	-	2,213,173	-
Pass-Through Securities	841,701	-	841,701	-
<b>Total investments by fair value level</b>	<b>\$ 9,729,651</b>	<b>\$ -</b>	<b>\$ 9,729,651</b>	<b>\$ -</b>

Investment securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

#### **D. Risk Disclosures**

In conjunction with the discussion below concerning investment risks, please refer to the Investment Statistics Table in the Investment Section on page 40.

**San Diego County Investment Pool**  
**Notes to the Basic Financial Statements, Continued**  
**For the Fiscal Year Ended June 30, 2020**

**1. Interest rate risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

To mitigate the effect of interest rate risk, the Pool maintains a laddered portfolio in compliance with the Investment Policy, which requires at least 15% of securities to mature within 90 days and at least 35% of securities to mature within one year. In addition, the Pool limits the maximum effective duration of the portfolio to 2 years. As of June 30, 2020, the Pool was in full compliance with all provisions of the Investment Policy.

Actual weighted average days to maturity (WAM) by investment type is presented in the table below (in thousands):

Investment Type	Fair Value	Maturity Range	WAM	% of Portfolio
<b>Investments:</b>				
U.S. Government Agencies	\$ 1,906,248	10/30/2020 - 6/15/2025	1116	18.45%
U.S. Treasury Notes	519,792	1/30/2021 - 4/30/2025	1049	5.03%
Corporate Medium-Term Notes	1,038,249	7/22/2020 - 9/23/2022	587	10.05%
Commercial Paper	2,029,638	7/06/2020 - 11/25/2020	45	19.64%
Supranationals	1,101,661	4/19/2021 - 4/22/2025	1176	10.66%
Negotiable Certificates of Deposit	2,213,173	7/6/2020 - 6/30/2021	92	21.42%
Local Government Investment Pools	250,292	N/A	1	2.42%
Money Market Mutual Funds	352,925	N/A	1	3.42%
Pass-Through Securities	841,701	4/15/2021 - 10/15/2024	1033	8.14%
Municipal Bonds	79,189	2/15/2021 - 2/15/2024	950	0.77%
<b>Total Investments</b>	<b>\$ 10,332,868</b>		<b>559</b>	<b>100.00%</b>

Government Code Section 53601 indicates that when there is no specific limitation on the term or remaining maturity at the time of the investment, then 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.

**2. Custodial credit risk**

Custodial credit risk for investments is the risk that the Treasury, in the event of the failure of the counterparty to a transaction, will not be able to recover the value of investment securities or collateral securities that are in the possession of another party. Investments are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Treasury and are held by either the counterparty, or the counterparty's trust department or agent. At

**San Diego County Investment Pool**  
**Notes to the Basic Financial Statements, Continued**  
**For the Fiscal Year Ended June 30, 2020**

and are held by either the counterparty, or the counterparty's trust department or agent. At June 30, 2020, all Pool securities were either held by the Treasury or by the custodian bank in the name of the Treasury.

The Investment Policy requires that securities purchased from any bank or dealer including appropriate collateral (as defined by California State Law), not insured by FDIC, shall be placed with an independent third party for custodial safekeeping. Securities purchased by the Pool are held by a third-party custodian, Citibank, in their trust department to mitigate custodial credit risk.

For sweep (deposit) accounts, the Treasury utilizes national or state-chartered banks where amounts exceeding the FDIC insurance limit 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 Government Code.

As of June 30, 2020, the Treasury invested in primarily high-quality investments as shown below:

<b>Credit Ratings</b>	<b>% of Total Investments</b>
AAA	57.99%
AA+	4.44%
AA-	6.80%
AA	0.59%
A+	2.96%
A-	0.89%
F1+	18.34%
F1	7.99%
<b>Total</b>	<b>100.00%</b>

Fitch Ratings [includes all ratings in this category (e.g., AAA, A, A+)].

### **3. Credit risk**

Investments are subject to credit risk when there is the possibility that the issuer, or other counterparty to an investment, will not fulfill its obligations, or that negative perceptions of the issuer's ability to make these payments will cause the price to decline.

The Investment Policy, which is more restrictive than Government Code, places a minimum standard on the ratings of investments held in the 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 "F1" for short-term. Nonrated securities include sweep accounts 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 Government Code Section 53601, having a fair value of at least 102% of the amount of the repurchase agreement. The Pool did not have any repurchase agreements in its portfolio as of June 30, 2020.

**San Diego County Investment Pool**  
**Notes to the Basic Financial Statements, Continued**  
**For the Fiscal Year Ended June 30, 2020**

The Pool's rating was affirmed at 'AAAF/S1' by Fitch Ratings, Inc. 'AAAF' is the top rating possible for a local government investment pool and indicates the Pool's portfolio contains securities of the highest underlying credit quality. The 'S1' volatility rating signifies the Pool possesses very low sensitivity to market risk, given its conservative investment policies.

Credit quality based on Fitch's Fund Credit Quality Rating is presented below and in detail in the Investment Section on page 40:

	<b>Pool Rating at June 30, 2020</b>	<b>Minimum Investment Policy Ratings at Time of Purchase</b>
Overall credit rating	AAAF/S1	
Short-term		F1
Long-term		A

**4. Concentration of credit risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. This occurs when there is a lack of diversification or having too much invested in a few individual issuers. As disclosed in the table below, the Treasury maintains an Investment Policy that establishes thresholds for holdings of individual securities. The Pool did not have any holdings meeting nor exceeded the allowable threshold levels as of June 30, 2020.

Investment Type	Maximum Maturity		Maximum % of Portfolio		Maximum % with One Issuer		Minimum Rating	
	Gov. Code	Invest. Policy	Gov. Code	Invest. Policy	Gov. Code	Invest. Policy	Gov. Code	Invest. Policy
U.S. Treasury Obligations	5 years	5 years	None	None	None	None	None	None
U.S. Agency Obligations	5 years	5 years	None	None	None	35%	None	None
Local Agency Obligations	5 years	5 years	None	30%	None	10%	None	A
Bankers' Acceptances	180 days	180 days	40%	40%	30%	5%	None	A-1
Commercial Paper <sup>1</sup>	270 days	270 days	40%	40%	10%	10%	A-1	A-1
Negotiable Certificates of Deposit	5 years	5 years	30%	30%	30%	10%	None	A
Repurchase Agreements <sup>2</sup>	1 year	1 year	None	40%	None	Note (2)	None	None
Reverse Repurchase Agreements	92 days	92 days	20%	20%	20%	10%	None	None
Corporate Medium-Term Notes	5 years	5 years	30%	30%	30%	5%	A	A
Collateralized Certificates of Deposits	N/A	13 months	None	5%	None	5%	None	None
Money Market Mutual Funds	N/A	N/A	20%	20%	10%	10%	AAAm	AAAm
Local Government Investment Pools	N/A	N/A	None	5%	None	5%	None	AAAm
Pass-Through Mortgage Securities	5 years	5 years	20%	20%	20%	5%	AA	AA
Supranationals <sup>3</sup>	5 years	5 years	30%	30%	30%	10%	AA	AA

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

<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>The following institutions are considered "Supranationals": International bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), Inter-American Development Bank (IADB).



**San Diego County Investment Pool**  
**Notes to the Basic Financial Statements, Continued**  
**For the Fiscal Year Ended June 30, 2020**

As of June 30, 2020, with the exception of investments that are explicitly guaranteed by the U.S. Government and investments in mutual funds, the Pool did not have any investments with more than 5 percent of the total investments under one issuer except for the following securities (in thousands):

<u>Investment</u>	<u>Fair Value</u>	<u>% of Pool</u>
Toyota Motor Credit Corp	\$ 646,339	6.25%
Federal Farm Credit Bank (FFCB)	643,886	6.23%
Inter-American Development Bk	568,864	5.51%
Bank of Nova Scotia	560,668	5.43%
JP Morgan	532,827	5.16%

The Pool's holdings of Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) securities 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), Federal National Mortgage Association (FNMA), or Federal Home Loan Mortgage Corporation (FHLMC).

**5. Foreign currency risk**

The Pool does not have foreign currency risk as all investments in the Pool are in U.S. dollar-denominated assets.

**E. Investment income**

Pool investments are accounted for in accordance with the provisions of GASB Statement No. 31 which requires governmental entities to report certain investments at fair value in the Statement of Net Position and the change in value in the year in which the change occurred. The fair value fluctuates with interest rates and increasing rates could cause the value of investments to decline below original cost. Treasury management believes the liquidity in the portfolio is more than adequate to meet cash flow requirements and to preclude the Treasury from having to sell investments below original cost for that purpose.

<u>Pool Income</u> <u>(in Thousands)</u>	
Investment Earnings	\$ 204,151
Net Increase in Fair Value	117,750
Less: Investment Expenses	<u>(1,315)</u>
<b>Total Pool Income</b>	<b><u>\$ 320,586</u></b>

**San Diego County Investment Pool**  
**Notes to the Basic Financial Statements, Continued**  
**For the Fiscal Year Ended June 30, 2020**

For fiscal year 2020, the Pool's investment earnings totaled \$204.2 million. During the same period, the net increase in the value of investments was \$117.8 million, which includes all changes (realized and unrealized) during the fiscal year. The GASB Statement No. 31 fair value adjustment on investments held as of June 30, 2020, was an unrealized gain of \$142.0 million.

Government Code Section 27013 authorizes the Treasury to deduct operational costs related to investments. All income is distributed quarterly to Pool participants after deducting these operational costs. Unrealized gains or losses as a result of fair value fluctuations are not reflected in the earnings distribution to participants.

### **III. INTEREST RECEIVABLE**

Interest receivable consists of interest accrued on investments including interest purchased with certain securities. At June 30, 2020, the Pool had \$41.7 million of interest receivable.

### **IV. INTEREST APPORTIONMENT**

Earnings realized on investments based on amortized cost are distributed to Pool participants on a cash basis and are reported using the accrual basis of accounting. Section 27013 of the Government Code authorizes the Treasury and Auditor and Controller's Office to deduct administrative fees related to investments. Please refer to the Schedule of Expenses in the Statistical Section on page 47. The net realized earnings on investments are apportioned to Pool participants quarterly, based on the participants' average daily balances. During fiscal year 2020, the Pool recognized \$194.1 million of investment earnings, compared to the previous year's amount of \$206.8 million. These investment earnings are classified as distributions to participants on the Statement of Changes in Net Position and are reinvested in the Pool.

### **V. POOL COMPOSITION**

As of June 30, 2020, the Pool participants by percentage of net position consist of:

<b>Participant</b>	<b>% of Pool</b>
County Funds	40.89%
K-12 School Districts	42.23%
Community Colleges	7.98%
Voluntary Depositors	8.67%
Undistributed and Unrealized Gains	0.23%
<b>Total</b>	<b>100.00%</b>

### **VI. RELATED PARTY**

The County portion of the Pool's net position as of June 30, 2020 was \$4.2 billion. Certain costs allocated by the County to the Pool include salaries and benefits, services and supplies, and overhead and equipment totaling \$5.3 million for fiscal year 2020.

**San Diego County Investment Pool  
Notes to the Basic Financial Statements, Continued  
For the Fiscal Year Ended June 30, 2020**

**VII. EFFECTS OF NEW PRONOUNCEMENTS**

New Accounting Pronouncements. There were no new accounting pronouncements that affected the Pool for fiscal year 2020.

**VIII. SUBSEQUENT EVENT**

The County Treasurer-Tax Collector has evaluated the Pool's net position and changes in net position through November 6, 2020, the date on which the Pool's financial statements were available to be issued. As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which have not yet materially negatively impacted the Net Position but may negatively impact the Net Position in the future. COVID-19 has resulted in significantly lower rates for short-term securities and contributed to a significant reduction of the Pools yield.

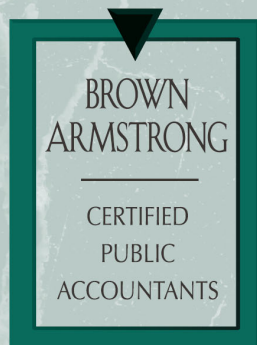
On September 16, 2020, the Pool's rating was affirmed at 'AAAf/S1' by Fitch Ratings, Inc. 'AAAf' is the top rating possible for a local government investment pool and indicates the Pool's portfolio contains securities of the highest underlying credit quality. The 'S1' volatility rating signifies the Pool possesses very low sensitivity to market risk, given its conservative investment policies.

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## **OTHER INDEPENDENT AUDITOR'S REPORTS**

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# BROWN ARMSTRONG

*Certified Public Accountants*

## **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

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We have audited, in accordance with the 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, the financial statements of the San Diego County Investment Pool (the Investment Pool) of the County of San Diego (the County), California, as of and for the fiscal year ended June 30, 2020, and the related notes to the basic financial statements, which collectively comprise the Investment Pool's basic financial statements, and have issued our report thereon dated November 6, 2020.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the County Treasurer-Tax Collector's (TTC) internal control over financial reporting (internal control) relating to the Investment Pool as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the TTC's internal control relating to the Investment Pool. Accordingly, we do not express an opinion on the effectiveness of the TTC's internal control relating to the Investment Pool.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Investment Pool's basic financial statements are free from material misstatement, we performed tests of the TTC's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

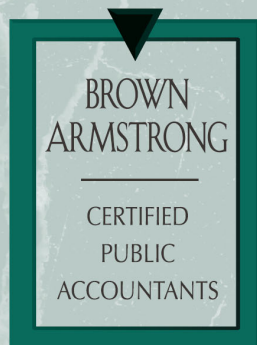
## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the TTC's internal control or on compliance relating to the Investment Pool. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the TTC's internal control and compliance relating to the Investment Pool. Accordingly, this communication is not suitable for any other purpose.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
November 6, 2020



# BROWN ARMSTRONG

*Certified Public Accountants*

## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH CALIFORNIA GOVERNMENT CODE SECTIONS 27134, 53601, AND 53635**

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

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### **Report on Compliance with California Government Code**

We have audited the San Diego County Treasurer-Tax Collector's (TTC) assertion that the San Diego County Investment Pool (the Investment Pool) of the County of San Diego, California, is in compliance with the applicable provisions contained in Sections 27134, 53601, and 53635 of the California Government Code (Government Code) that could have a direct and material effect on the Investment Pool for the fiscal year ended June 30, 2020. Compliance with the requirements referred to above is the responsibility of the TTC's management. Our responsibility is to express an opinion on the TTC's compliance based on our audit.

### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the TTC's compliance with the provisions contained in Sections 27134, 53601, and 53635 of the Government Code. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Government Code. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the Investment Pool has occurred. An audit includes examining, on a test basis, evidence about the TTC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on the TTC's compliance with provisions contained in Sections 27134, 53601, and 53635 of the Government Code. However, our audit does not provide a legal determination of the TTC's compliance with those requirements.

### **Opinion**

In our opinion, the TTC complied, in all material respects, with the provisions contained in Sections 27134, 53601, and 53635 of the Government Code referred to above that could have a direct and material effect on the Investment Pool for the fiscal year ended June 30, 2020.



## Report on Internal Control over Compliance

Management of the TTC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the TTC's internal control over compliance with the types of requirements that could have a direct and material effect on the Investment Pool to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the Investment Pool and to test and report on internal control over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the TTC's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Restriction of Use

This report is intended solely for the information of the County of San Diego Audit Committee, the Treasury Oversight Committee, and management of the Investment Pool and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
November 6, 2020

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## INVESTMENT SECTION

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## **I. REPORT ON INVESTMENT ACTIVITIES**

During fiscal year 2020, the San Diego County Investment Pool's (the "Pool") investment activities included the following:

- The Pool maturity structure has remained in compliance with the San Diego County Treasurer's Pooled Money Investment Policy (Investment Policy), which requires 15% of securities to mature within 90 days and no more than 35% to mature within one year. As of June 30, 2020, the Pool had 47.21% of investments maturing in less than one year;
- The Pool had an increase in weighted average days to maturity from 528 days at June 30, 2019 to 559 days at June 30, 2020;
- The Pool's total net position increased by 2.1% from \$10.1 billion on June 30, 2019 to \$10.3 billion on June 30, 2020;
- Undistributed and unrealized gains were \$24.3 million at June 30, 2019, compared to undistributed and unrealized gains of \$142.0 million at June 30, 2020;
- The weighted average effective yield to maturity (annualized) of the Pool decreased from 2.39% at June 30, 2019 to 1.56% on June 30, 2020;
- The Pool's expense ratio decreased from 0.072% of the average daily balance in fiscal year 2019 to 0.067% for fiscal year 2020; and
- The Pool maintained an 'AAAf/S1' rating by Fitch Ratings, a nationally recognized rating agency.

## **II. OUTLINE OF THE INVESTMENT POLICY**

The 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 primary objectives, in priority order, of the Pool investment activities are:

1. Safety: Safeguard the principal of the funds under the control of the Treasurer's Office (Treasury), with the goal of mitigating credit risk and interest rate risk;
2. Liquidity: The portfolio shall remain sufficiently liquid to meet the needs of participants; and
3. Return on investments: The portfolio shall achieve a competitive rate of return within the parameters of prudent risk management and the other primary goals of safety and liquidity.

The investment portfolio is managed in accordance with the parameters specified within the Investment Policy.

On an annual basis, the County 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 Investment 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 Pool.

The Pool is actively managed, and the Investment Policy prescribes that the Treasury will observe, review, and adjust to changing conditions that affect the Pool as a full-time responsibility. Authority to execute investment transactions is limited to the following:

- County Treasurer-Tax Collector
- Assistant Treasurer-Tax Collector
- Chief Deputy Treasurer
- Chief Investment Officer
- Investment Officers

Major components of the Investment Policy are as follows:

General Strategy: The Investment Policy authorizes the use of a buy and hold investment strategy, where securities are purchased with the intent of holding them to maturity. The investment staff will update the TOC on its asset allocation and investment strategy at its regularly scheduled meetings. Securities may be sold prior to maturity when deemed prudent.

Credit Ratings: Minimum credit ratings are set forth in the Investment Policy for each type of security. These credit limits apply to the initial purchase of a security and do not automatically force the sale of a security if the credit ratings of the security fall below the Investment Policy limits. The Investment Policy also sets forth procedures to monitor credit ratings. To ensure the Pool maintains the highest overall credit rating with the contracted nationally recognized statistical rating (NRSRO), the asset allocation and portfolio holdings will be provided to the contracted NRSRO on a monthly basis.

Internal Controls: The Chief Deputy Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the Pool assets are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met.

Reporting: The Investment Policy requires an independent review to be conducted annually by an external auditor to determine if the Treasury is in compliance with the Investment Policy, other internal policies and procedures, and the California Government Code. In addition, a monthly investment report is required to be posted on the County Treasurer-Tax Collector's website.

Permissible Investments: California Government Codes 53601, 53601.1, 53601.2, 53601.8, 53635, 53635.8, 53637, 53638, 53651, 53652, and 53653 address permissible investments. The Investment Policy addresses individual investment categories.

Qualified Brokers and Dealers: In order to minimize risk in executing security transactions under the Investment Policy, security transactions will be made only through qualified dealers. Money market fund and local government investment pool transactions will be executed directly with the issuing entity.

Delegation of Investment Authority to the County Treasurer: The Board has the ability to delegate investment authority to the County Treasurer for a one-year period and requires annual renewal.

Safekeeping Authority: Board Resolution 109, adopted September 29, 1959, delegated the deposit for safekeeping authority to the County Treasurer. In exercising this function, the County Treasurer has prescribed requirements on depositories and the County Treasurer's Continuity of Operations Plan (COOP) addresses contingency plan in the event of a disaster.

External Oversight: The Investment Policy requires an independent third-party investment advisor to provide oversight and compliance monitoring. The Treasury has engaged Financial Main Street Advisors (FHN) for this purpose. Additionally, Fitch Ratings has been retained to fulfill the NRSRO requirement to provide a rating for the Pool.

Cost and Earnings Apportionment: The Investment Policy provides detail of the manner in which Pool participants will be allocated interest.

Terms and Conditions for Depositing Funds by Voluntary Participants: California Government Code 53684 allows local agencies, upon adoption of a resolution by a governing body, the option of depositing excess funds in the Pool.

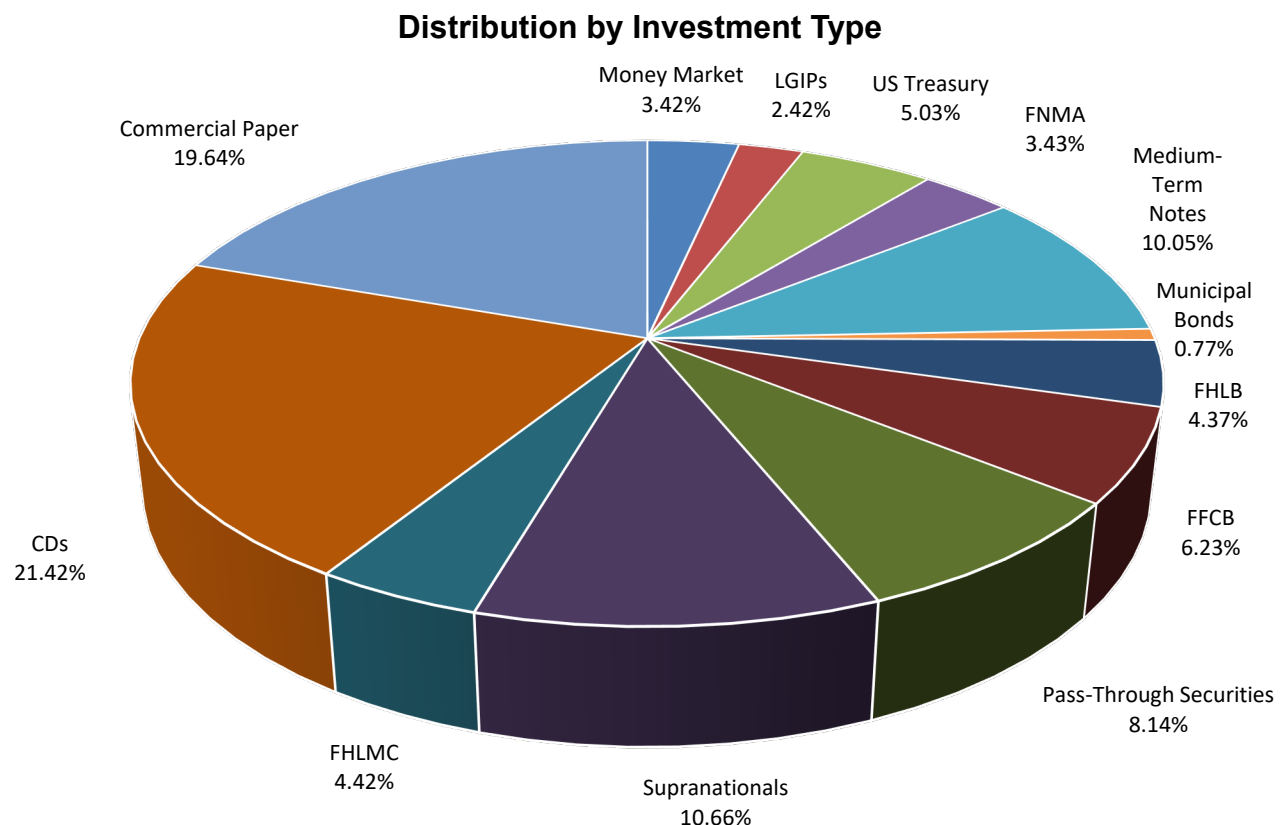
### III. RISK PROFILE

The three main risk factors for the Pool are credit, liquidity and interest rate exposure. The credit limits of investments held by the Pool meet the requirements of the Investment Policy and the California Government Code. See the Notes to the Basic Financial Statements for more detail on risks of the Pool.

### IV. INVESTMENT RESULTS

The objective of the Pool is to preserve capital, maintain liquidity and earn income. The County Treasury Investment Group (Investment Group) maintains a conservative approach to managing the Pool's credit risk. Specifically, the Pool invests in high quality credits and utilizes a maturity-tiering strategy that limits counterparty exposure. For maturities greater than three years, the Pool only invests in treasuries, agency securities, supranationals and other AAA-rated securities.

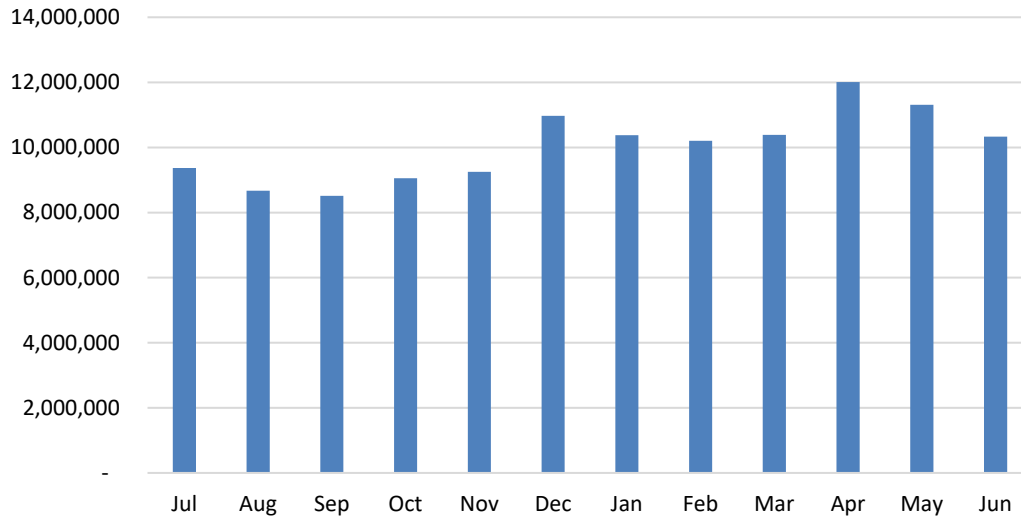
The investment distribution at June 30, 2020, is provided in the chart below:



A complete list of current and historical Pool holdings is available on the Treasurer-Tax Collector's website at [www.sdttc.com](http://www.sdttc.com).

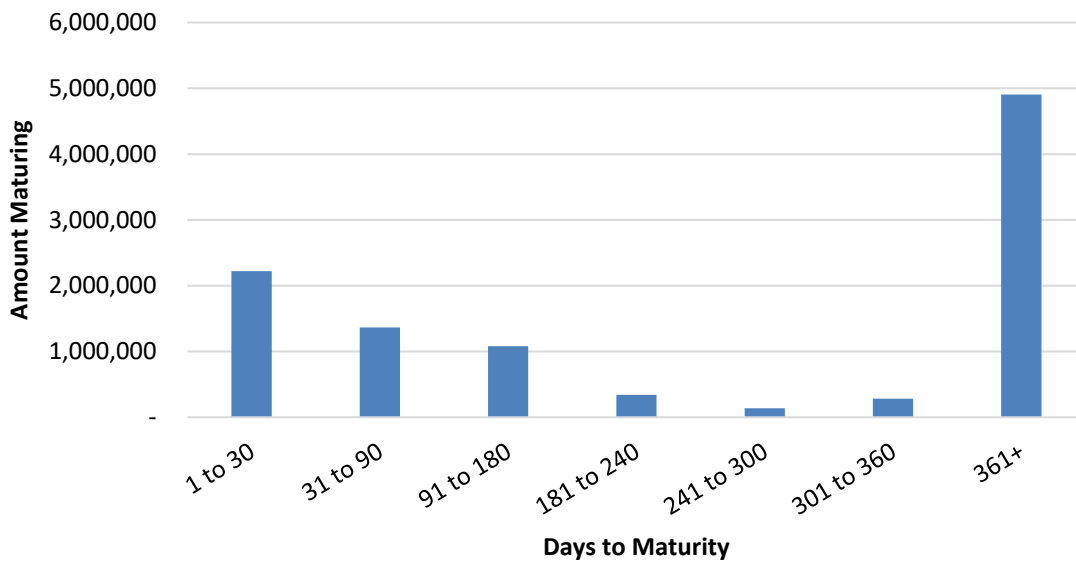
Balances fluctuated from a month-end low of \$8.5 billion in September 2019 to a month-end peak of \$12.0 billion in April 2020 as shown in the table below:

### Fiscal Year 2020 Investment Balances (in Thousands)



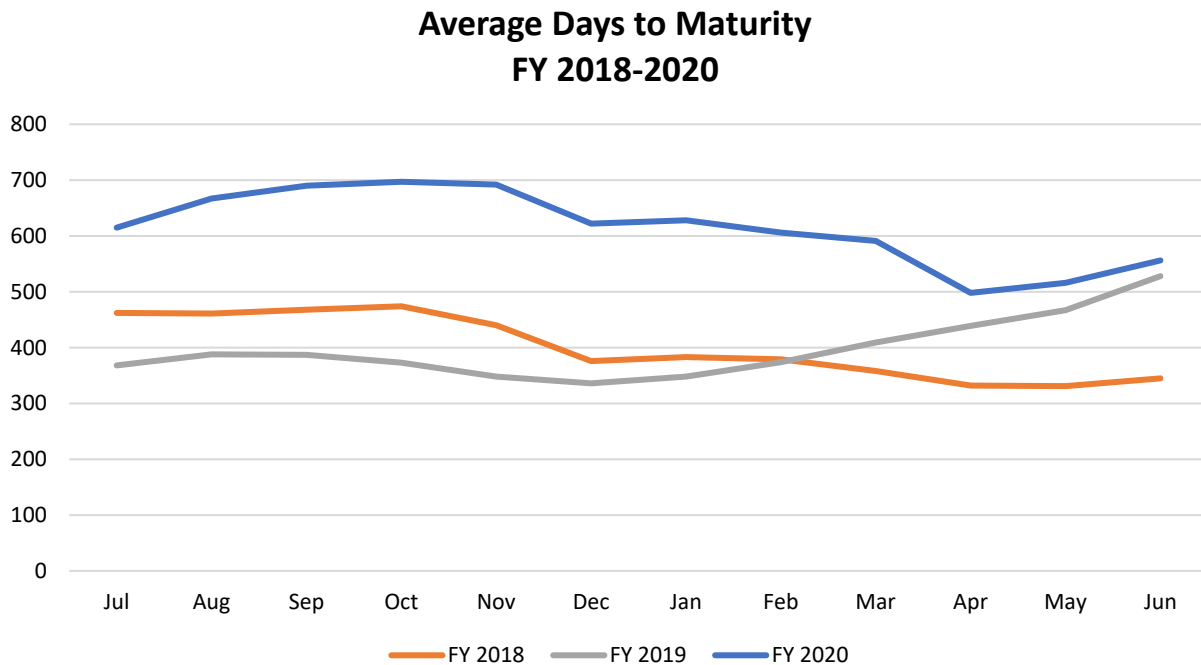
The Treasury uses a ladder approach for Pool maturity to maintain adequate cash balances and generally reinvests unspent liquidity in money markets to cover liquidity needs over the next few days. When there is a large unspent balance, the Treasury will invest in a security for future liquidity needs. The table below provides a snapshot at June 30, 2020 of investments maturing within the next 30 days, in 60-day increments through 360 days, and 361 days through 5 years:

### Maturity Analysis (in Thousands)



The apportionment rate during fiscal year 2020 was 2.02%. The apportionment 3-year average return was 1.95%, and the apportionment 5-year average return was 1.47%.

The monthly average days to maturity has fluctuated from 498 days to 697 days in fiscal year 2020. The three-year average days to maturity by month are shown in the chart below:



Mostly due to the onset of the COVID-19 pandemic, the Federal Reserve cut rates by a total of 2.25 percent in fiscal year 2020, fully erasing all increases implemented since the financial crisis in 2008. The federal funds rate at June 30, 2020 was in a range from 0.00 percent to 0.25 percent, its effective minimum. Rates are expected to remain at historic lows for the foreseeable future, as the Fed has already committed to keep them at this level through at least 2023, given ongoing economic weakness. As a result of these moves, yields on the Pool have decreased and are expected to fall further before stabilizing near historic lows.

The table below reflects the effective yield of the Pool over the past five fiscal years versus the benchmark indices.

**Effective Yields  
For the Last Five Fiscal Years**

Fiscal Year	Effective Yield	Change From Previous Year
2020	2.02%	-0.24%
2019	2.26%	0.68%
2018	1.58%	0.48%
2017	1.10%	0.43%
2016	0.67%	0.16%
3-year average	1.95%	N/A
5-year average	1.52%	N/A

Investment Benchmarks	1 Year	3 Year	5 Year
Local Agency Investment Fund Benchmark	1.93%	1.86%	1.35%
0-2 Yr U.S. Treasury Index	2.35%	2.02%	1.40%



The following schedule of investment results presents the weighted average effective yields for each major category of investments.

<b>Investment Type</b>	<b>Weighted Average Effective Yields<sup>1,2,3,4</sup></b>		
	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>
Pass-Through Securities	2.13%	2.23%	1.84%
U.S. Government Agencies	1.85%	1.82%	1.60%
U.S. Treasury Notes	1.65%	1.54%	1.34%
Supranationals	2.14%	1.18%	1.16%
Commercial Paper	1.19%	2.02%	1.45%
Corporate Medium-Term Notes	2.69%	1.79%	1.08%
Negotiable Certificates of Deposit	2.83%	2.61%	1.98%
Local Government Investment Pools	0.56%	0.00%	0.00%
Municipal Bonds	1.90%	0.00%	0.00%
Money Market Mutual Funds	0.10%	2.14%	1.46%
<b>Total Pool</b>	<b>1.56%</b>	<b>1.69%</b>	<b>1.18%</b>

<sup>1</sup> Excluding bank balances

<sup>2</sup> Before Administrative Expense

<sup>3</sup> Local Government Investment Pools were combined with Money Market Mutual Funds in prior years

<sup>4</sup> The Pool did not invest in Municipal Bonds from fiscal years 2015 - 2019

#### LIST OF LARGEST ASSETS HELD:

#### Schedule of Top Ten Holdings June 30, 2020 (in Thousands)

<b>Security Name</b>	<b>Type</b>	<b>CUSIP No.</b>	<b>Par Value</b>	<b>Fair Value</b>
Fidelity Government Fund	Money Market Fund	31607A703	\$ 348,100	\$ 348,100
CAMP	Local Government Investment Pool	48085925	200,292	200,292
Toyota Motor Credit Corp	Commercial Paper	89233GG67	150,000	149,997
Cooperative Rabo	Commercial Paper	21687AHA4	130,000	129,983
Bank of Nova Scotia	Negotiable CD	06417MED3	125,000	125,209
ING (US) Funding LLC	Commercial Paper	4497W0GX0	110,000	109,987
Federal Farm Credit Bank	U.S. Government Agency	3133EKQU3	105,350	111,853
Inter-American Development Bk	Supranational	4581X0DB1	100,000	101,872
Toronto Dominion NY	Negotiable CD	89114NJP1	100,000	100,172
Bank of Nova Scotia	Negotiable CD	06417MFQ3	100,000	100,029

A complete list of current and historical Pool holdings is available on the Treasurer-Tax Collector's website at [www.sdttc.com](http://www.sdttc.com).

## SCHEDULE OF EXPENSES:

Fees charged to the Pool include both investment and administrative costs as shown below:

### Schedule of Expenses by Category (In Thousands)

<u>Category</u>	<u>6/30/2020</u>
<b>Investment Expenses</b>	
Banking Expenses	\$ 820
Custodial Expenses	140
Application Expenses	<u>355</u>
Total Investment Expenses	1,315
<b>Administrative Expenses</b>	
Computer Related Expenses	188
Salaries and Benefits	3,598
Services and Supplies	453
Department Overhead	360
External Overhead	494
Auditor & Controller Allocated Cost	<u>220</u>
Total Administrative Expenses	5,313
Total Expenses	<u>\$ 6,628</u>

Expenses are charged to Pool participants net of interest earnings and allocated on a quarterly basis. Total expenses were less than one percent of the Pool's investment balance at June 30, 2020. The interest earned by each 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 Pool. The Pool's expense ratio for fiscal year 2020 was 0.067% of the average daily balance. The apportionment rate is calculated approximately two weeks following the end of each calendar quarter. Apportionments are not paid out by warrant; instead, all earnings are reinvested in the Pool and allocated to each participant for the benefit of the participants.

## V. LEVERAGE EXPOSURE

The Pool is authorized to 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 in fiscal year 2020.

The Investment Statistics table on the next page provides a detailed listing of the Pool diversification, yields by type of securities, and weighted average maturities as of June 30, 2020.

Investment Type	% of Portfolio	Book Value	Par Value	Market Price	Fair Value	WAM <sup>1</sup>	YTM <sup>2</sup>	Accrued Interest	Unrealized Gain/(Loss)	NRSRO Rating
<b>Investments:</b>										
Pass-Through Securities	8.14%	\$ 828,653	\$ 827,924	101.66%	\$ 841,701	1033	2.13%	\$ 1,174	\$ 13,048	F1+/AAA
U.S. Government Agencies:										
Federal Home Loan Mortgage Corporation (FHLMC)	4.42%	454,913	454,975	100.48%	457,171	1308	1.58%	1,236	2,258	AAA
Federal Home Loan Bank (FHLB)	4.37%	437,699	433,420	104.12%	451,259	918	1.85%	2,621	13,560	AAA
Federal Farm Credit Bank (FFCB)	6.23%	621,251	620,458	103.78%	643,886	1194	1.70%	2,128	22,635	AAA
Federal National Mortgage Association (FNMA)	3.43%	345,607	345,000	102.59%	353,932	981	1.53%	1,394	8,325	AAA
Total U.S. Government Agencies	18.45%	1,859,470	1,853,853	102.83%	1,906,248	1116	1.68%	7,379	46,778	
U.S. Treasury Notes	5.03%	502,805	500,000	103.96%	519,792	1049	1.51%	2,151	16,986	AAA
Supranationals	10.66%	1,063,261	1,057,415	104.18%	1,101,661	1176	2.14%	7,703	38,400	AAA
Commercial Paper	19.64%	2,028,020	2,030,000	99.98%	2,029,638	45	1.24%	-	1,618	F1+ - F1
Corporate Medium-Term Notes	10.05%	1,018,412	1,016,597	102.13%	1,038,249	587	2.33%	8,525	19,837	A - AA+
Local Government Inv Pools	2.42%	250,292	250,292	100.00%	250,292	1	0.56%	88	-	AAA
Money Market Mutual Funds	3.42%	352,925	352,925	100.00%	352,925	1	0.10%	228	-	AAA
Municipal Bonds	0.77%	76,999	76,535	103.47%	79,189	950	1.90%	524	2,190	AAA
Negotiable Certificates of Deposit	21.42%	2,210,001	2,210,000	100.14%	2,213,173	92	1.28%	13,888	3,173	F1+ - F1
<b>Total Investments</b>	<b>100.00%</b>	<b>\$ 10,190,838</b>	<b>\$ 10,175,541</b>	<b>101.55%</b>	<b>\$ 10,332,868</b>	<b>559</b>	<b>1.56%</b>	<b>\$ 41,660</b>	<b>\$ 142,030</b>	

<sup>1</sup> Weighted Average Maturity (in days)

<sup>2</sup> Yield to Maturity (365 days)

Participants required to invest in the Pool ended the year with a majority of the holdings at 91.1% while voluntary participants held 8.67% at fiscal year-end. The remaining 0.23% was made up of undistributed unrealized gains. Detail of participation is shown below.

<b>Required Participants (91.1%):</b>			
<b>County:</b>			<b>40.89%</b>
<b>Schools (K thru 12):</b>			<b>42.23%</b>
Alpine Union	Fallbrook Union Elementary	San Diego Unified	
Autistic Pupils Minor High	Fallbrook Union High	San Dieguito Union High	
Autistic Pupils Minor Elementary	Grossmont Union High	San Marcos Unified	
Bonsall Union	Jamul-Dulzura Union	San Pasqual Union	
Borrego Springs Unified	Julian Union	San Ysidro	
Cajon Valley Union	Julian Union High	Santee	
Cardiff	La Mesa-Spring Valley	Solana Beach	
Carlsbad Unified	Lakeside Union	South Bay Union	
Chula Vista Elementary	Lemon Grove	Spencer Valley	
Coronado Unified	Mountain Empire Unified	Sweetwater Union High	
Dehesa	National	Vallecitos	
Del Mar Union	Oceanside Unified	Valley Center Union	
Encinitas Union	Poway Unified	Various Charter Schools	
Escondido Union	Ramona Unified	Vista Unified	
Escondido Union High	Rancho Santa Fe	Warner Unified	
<b>Community College Districts:</b>			<b>7.98%</b>
San Diego	MiraCosta	Southwestern	
Grossmont-Cuyamaca	Palomar		

<b>Voluntary Participants (8.67%):</b>			
<b>Cities:</b>			<b>1.22%</b>
Chula Vista	El Cajon	Oceanside	
Coronado	Encinitas	Solana Beach	
Del Mar	National City		
<b>Fire Protection Districts (FPD):</b>			<b>0.72%</b>
Alpine	Lakeside	San Miguel	
Bonita-Sunnyside	Lower Sweetwater	Valley Center	
Borrego Springs	North County Fire	Vista	
Deer Springs	Rancho Santa Fe		
Julian-Cuyamaca	San Marcos		
<b>Water Districts:</b>			<b>0.37%</b>
Canbrake County Water District	Rincon del Diablo Municipal Water District	Valley Ctr Water District	
Otay Water District	Vallecitos Water District		
<b>Cemetery District:</b>			<b>0.10%</b>
North County Cemetery District	Valley Center Cemetery District		
Pomerado Cemetery District	Ramona Cemetery District		
<b>Other Agencies:</b>			<b>6.26%</b>
Fallbrook Public Utility District	Public Agencies Self Insurance System	San Diego Regional Training Center	
FIRST 5 COMMISSION	Palomar Resource Conservation District	San Dieguito River Park	
Grossmont Healthcare District	SANCAL	Santa Fe Irrigation District	
Lake Cuyamaca Rec & Park District	SANDAG	SDCERA	
Leucadia Wastewater District	SD County Regional Airport Authority	Serra Cooperative Library System	
Metropolitan Transit System	San Diego Geographic Information Source (SanGIS)	Upper San Luis Rey Resource Conserv Dist	
Mission Resource Conservation District	San Diego Housing Commission	Whispering Palms Community Services Dist	
North County Dispatch	San Diego Law Library		
North County Transit District	San Diego Local Agency Formation Comm (LAFCO)		
<b>Undistributed and Unrealized Gains:</b>			<b>0.23%</b>

## **VI. OUTLOOK FOR FISCAL YEAR 2021**

The decade long economic expansion grinded to a halt with COVID-19. U.S. gross domestic product (GDP) fell 5% in the first quarter of 2020 and fell 32.9% in the second quarter. Experts expect the economy to shrink by 6.5% in 2020. The path to economic recovery will ultimately depend on the course of the virus and the public health response. Against this backdrop, the Federal Reserve has vowed to keep rates near zero as the economy recovers from the pandemic. Fed Chairman Jerome Powell stated, “We’re not even thinking about raising rates. What we are thinking about is providing support for the economy. We think this is going to take some time.” In early March, the Fed cut the target range for its overnight funds rates to 0%-0.25%, where it was during the financial crisis. The Fed expects to maintain this range through 2023. The coronavirus has also triggered state budget shortfalls as revenues decline and costs rise. California expects revenues to decline by \$32 billion in 2021. Given the uncertainty around the expected inflows from the state, we have increased our liquidity position by reducing the duration of the portfolio and by holding more overnight liquidity. The yield on the Pool is expected to decline throughout fiscal year 2021 given the low interest rate environment. In consideration of the ongoing economic uncertainties brought on by the pandemic, the objectives of the Pool are to remain invested in securities of the highest quality and to establish enough liquidity to meet the cashflow needs of the Pool participants.

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# STATISTICAL SECTION

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This section presents detailed information on the Pool with historical perspective as a context for understanding and using the information in the Financial and Investment Sections of this report.

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

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This table allows the reader to evaluate the year-over-year changes in net position.	
<b>Table 2 - Schedule of Earnings, Returns, Expenses, Apportionment Rate, Average Daily Balances (ADB), and Ratio of Fees/ADB - Last Ten Fiscal Years</b>	<b>46</b>
This table contains information to help the reader assess the Pool's performance. It also presents the related expenses and its impact on returns.	
<b>Table 3 - Schedule of Expenses (Investment and Administrative Costs) - Last Ten Fiscal Years</b>	<b>47</b>
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This table presents historical changes in the value held by Pool participants to help the reader identify the entities who hold and contribute major percentages of assets to the Pool.	

Sources: Unless otherwise noted, the information in these schedules is derived from the annual financial reports for the relevant year.

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**Table 1**  
**San Diego County Investment Pool**  
**Schedule of Additions to Pool Investments, Deductions from Pool Investments,**  
**and Changes in Net Position**  
**Last Ten Fiscal Years**  
**(In Thousands)**

	Fiscal Year				
	2011	2012	2013	2014	2015
<b>Net Position, Beginning of Year</b>	\$ 5,208,310	\$ 5,878,413	\$ 6,167,491	\$ 6,694,713	\$ 7,303,046
<b>Additions</b>					
Additions to Pooled Investments	11,384,733	10,837,600	12,011,630	14,276,347	15,275,295
Net Increase/(Decrease) in Fair Value of Investments	(10,760)	(1,351)	(24,390)	7,139	3,057
Investment Earnings, Net	40,691	33,982	24,116	32,257	35,136
<b>Total Additions</b>	<b>11,414,664</b>	<b>10,870,231</b>	<b>12,011,356</b>	<b>14,315,743</b>	<b>15,313,488</b>
<b>Deductions</b>					
Deductions from					
Pooled Investments	10,702,188	10,546,697	11,457,557	13,677,452	15,049,716
Distributions To Participants	36,432	28,064	21,441	24,592	27,927
Administrative Expenses	5,941	6,392	5,136	5,366	5,646
<b>Total Deductions</b>	<b>10,744,561</b>	<b>10,581,153</b>	<b>11,484,134</b>	<b>13,707,410</b>	<b>15,083,289</b>
<b>Change in Net Position</b>	<b>670,103</b>	<b>289,078</b>	<b>527,222</b>	<b>608,333</b>	<b>230,199</b>
<b>Net Position, End of Year</b>	<b>\$ 5,878,413</b>	<b>\$ 6,167,491</b>	<b>\$ 6,694,713</b>	<b>\$ 7,303,046</b>	<b>\$ 7,533,245</b>

	Fiscal Year				
	2016	2017	2018	2019	2020
<b>Net Position, Beginning of Year</b>	\$ 7,533,245	\$ 8,707,978	\$ 8,948,614	\$ 9,960,864	\$ 10,128,655
<b>Additions</b>					
Additions to Pooled Investments	16,410,088	16,270,794	17,620,889	17,708,087	18,477,596
Net Increase/(Decrease) in Fair Value of Investments	6,548	(40,842)	(34,326)	89,044	117,750
Investment Earnings, Net	51,265	92,685	146,596	209,510	202,836
<b>Total Additions</b>	<b>16,467,901</b>	<b>16,322,637</b>	<b>17,733,159</b>	<b>18,006,641</b>	<b>18,798,182</b>
<b>Deductions</b>					
Deductions from					
Pooled Investments	15,243,483	15,989,801	16,575,184	17,626,265	18,385,346
Distributions To Participants	44,261	86,384	140,155	206,812	194,094
Administrative Expenses	5,424	5,816	5,570	5,773	5,313
<b>Total Deductions</b>	<b>15,293,168</b>	<b>16,082,001</b>	<b>16,720,909</b>	<b>17,838,850</b>	<b>18,584,753</b>
<b>Change in Net Position</b>	<b>1,174,733</b>	<b>240,636</b>	<b>1,012,250</b>	<b>167,791</b>	<b>213,429</b>
<b>Net Position, End of Year</b>	<b>\$ 8,707,978</b>	<b>\$ 8,948,614</b>	<b>\$ 9,960,864</b>	<b>\$ 10,128,655</b>	<b>\$ 10,342,084</b>



**Table 2**  
**San Diego County Investment Pool**  
**Schedule of Earnings, Returns, Expenses, Apportionment Rate,**  
**Average Daily Balances (ADB), and Ratio of Fees/ADB**  
**Last Ten Fiscal Years**  
**(In Thousands)**

Fiscal Year	Investment Earnings	Effective Yield	Expenses	Net Distributed	Apportionment Rate	Avg. Daily Balances	Ratio of Fees/ADB
2011	\$ 42,428	0.73%	\$ 7,678	\$ 34,750	0.66%	\$ 5,806,012	0.132%
2012	35,417	0.57%	7,827	27,590	0.47%	6,241,688	0.125%
2013	25,670	0.42%	6,690	18,980	0.36%	6,146,889	0.109%
2014	33,762	0.46%	6,871	26,891	0.35%	7,294,330	0.094%
2015	36,650	0.51%	7,160	29,490	0.40%	7,144,495	0.100%
2016	52,836	0.67%	6,995	45,841	0.58%	7,907,115	0.088%
2017	94,058	1.10%	7,190	86,868	1.02%	8,552,771	0.084%
2018	147,837	1.58%	6,811	141,026	1.51%	9,375,547	0.073%
2019	213,624	2.26%	6,812	206,812	2.23%	9,458,543	0.072%
2020	200,722	2.02%	6,628	194,094	2.02%	9,955,356	0.067%

**Table 3**  
**San Diego County Investment Pool**  
**Schedule of Expenses (Investment and Administrative Costs)**  
**Last Ten Fiscal Years**  
**(In Thousands)**

	Fiscal Year									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Investment expenses:</b>										
Allocated costs by County:										
Banking	\$ 977	\$ 884	\$ 880	\$ 813	\$ 794	\$ 799	\$ 825	\$ 805	\$ 744	\$ 820
Custodial	70	57	101	120	149	164	145	141	107	140
Portfolio order management system	342	279	357	378	341	355	340	278	168	337
Treasury management system	348	215	216	195	230	253	63	17	20	18
Total investment expenses:	1,737	1,435	1,554	1,506	1,514	1,571	1,373	1,241	1,039	1,315
<b>Administrative expenses:</b>										
Allocated costs by County:										
Equipment cost	32	19	-	-	-	-	-	-	-	-
Computer related expenses:										
Software services	10	3	-	30	-	-	-	-	-	-
WAUSAU financial systems	6	5	12	4	39	86	115	90	72	56
Computer leases and data	107	120	118	121	137	156	137	111	132	132
Salaries and benefits	3,137	3,830	3,364	3,423	3,269	3,476	3,666	3,692	4,031	3,598
Services and supplies	1,443	1,121	696	814	1,229	609	881	565	332	453
Department overhead	421	409	364	409	420	446	383	411	296	360
External overhead	565	665	362	344	332	431	415	481	690	494
Auditor & controller allocated cost	220	220	220	220	220	220	220	220	220	220
Total administrative expenses:	5,941	6,392	5,136	5,365	5,646	5,424	5,817	5,570	5,773	5,313
Total expenses:	\$ 7,678	\$ 7,827	\$ 6,690	\$ 6,871	\$ 7,160	\$ 6,995	\$ 7,190	\$ 6,811	\$ 6,812	\$ 6,628

**Table 4**  
**San Diego County Investment Pool**  
**Asset Allocation at Fair Value**  
**Last Ten Fiscal Years**  
**(In Thousands)**

Investment Type	Fiscal Year									
	2011		2012		2013		2014		2015	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
U.S. government agencies	\$ 3,605,184	62.15%	\$ 3,452,494	56.71%	\$ 4,198,521	63.62%	\$ 2,879,158	39.99%	\$ 2,571,792	34.52%
U.S. treasury notes	284,271	4.90%	286,075	4.70%	245,818	3.73%	430,300	5.98%	456,320	6.12%
Supranationals	-	0.00%	-	0.00%	-	0.00%	-	0.00%	174,995	2.35%
Commercial paper	1,411,418	24.33%	1,049,982	17.25%	1,024,733	15.53%	1,371,990	19.06%	1,867,577	25.06%
Corporate medium-term notes	25,770	0.44%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Repurchase agreements	774	0.01%	-	0.00%	22,159	0.34%	807	0.01%	8,999	0.12%
Negotiable certificates of deposit	380,000	6.55%	1,185,003	19.46%	945,002	14.32%	1,964,007	27.29%	2,094,701	28.11%
Local Government Investment Pools	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Money market accounts	93,725	1.62%	114,380	1.88%	162,430	2.46%	551,740	7.67%	277,360	3.72%
Municipal Bonds	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Pass-through securities	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Total investments at fair value	<u>\$ 5,801,142</u>	<u>100.00%</u>	<u>\$ 6,087,934</u>	<u>100.00%</u>	<u>\$ 6,598,663</u>	<u>100.00%</u>	<u>\$ 7,198,002</u>	<u>100.00%</u>	<u>\$ 7,451,744</u>	<u>100.00%</u>

Investment Type	Fiscal Year									
	2016		2017		2018		2019		2020	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
U.S. government agencies	\$ 2,099,147	24.29%	\$ 2,433,324	27.33%	\$ 2,458,821	24.71%	\$ 2,810,388	27.72%	\$ 1,906,248	18.45%
U.S. treasury notes	904,536	10.47%	768,213	8.63%	474,142	4.77%	484,451	4.78%	519,792	5.03%
Supranationals	400,145	4.63%	631,434	7.09%	668,215	6.72%	1,018,299	10.04%	1,101,661	10.66%
Commercial paper	2,134,985	24.70%	2,355,747	26.46%	2,994,041	30.09%	2,239,962	22.09%	2,029,638	19.64%
Corporate medium-term notes	-	0.00%	-	0.00%	-	0.00%	594,535	5.86%	1,038,249	10.05%
Repurchase agreements	2,302	0.03%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Negotiable certificates of deposit	2,575,000	29.79%	2,168,500	24.35%	2,794,513	28.09%	1,849,607	18.24%	2,213,173	21.42%
Local Government Investment Pools	-	0.00%	-	0.00%	-	0.00%	-	0.00%	250,292	2.42%
Money market accounts	478,157	5.53%	365,300	4.10%	348,802	3.50%	409,093	4.03%	352,925	3.42%
Municipal Bonds	-	0.00%	-	0.00%	-	0.00%	-	0.00%	79,189	0.77%
Pass-through securities	48,142	0.56%	182,056	2.04%	210,808	2.12%	733,814	7.24%	841,701	8.14%
Total investments at fair value	<u>\$ 8,642,414</u>	<u>100.00%</u>	<u>\$ 8,904,574</u>	<u>100.00%</u>	<u>\$ 9,949,342</u>	<u>100.00%</u>	<u>\$ 10,140,149</u>	<u>100.00%</u>	<u>\$ 10,332,868</u>	<u>100.00%</u>

**Table 5**  
**San Diego County Investment Pool**  
**Net Position by Major Participant**  
**Last Ten Fiscal Years**  
**(In Thousands)**

Participant	Fiscal Year									
	2011		2012		2013		2014		2015	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
County	\$ 2,220,873	37.92%	\$ 2,539,396	41.17%	\$ 2,670,317	39.88%	\$ 2,921,096	40.00%	\$ 3,175,889	42.16%
Non-county investments	352,406	6.02%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
K-12 schools	2,138,030	36.51%	2,256,676	36.59%	2,881,630	43.04%	2,952,217	40.42%	2,942,221	39.06%
Community colleges	654,309	11.17%	779,940	12.65%	554,058	8.28%	811,136	11.11%	896,613	11.90%
Voluntary deposits	471,357	8.05%	573,429	9.30%	595,049	8.89%	617,800	8.46%	514,666	6.83%
Undistributed and unrealized gains/(losses)	19,328	0.33%	18,050	0.29%	(6,341)	-0.09%	798	0.01%	3,856	0.05%
Total net position	<u>\$ 5,856,303</u>	<u>100.00%</u>	<u>\$ 6,167,491</u>	<u>100.00%</u>	<u>\$ 6,694,713</u>	<u>100.00%</u>	<u>\$ 7,303,047</u>	<u>100.00%</u>	<u>\$ 7,533,245</u>	<u>100.00%</u>

Participant	Fiscal Year									
	2016		2017		2018		2019		2020	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
County	\$ 3,398,594	39.03%	\$ 3,581,507	40.02%	\$ 3,768,251	37.83%	\$ 3,915,445	38.66%	\$ 4,229,268	40.89%
Non-county investments	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
K-12 schools	3,915,184	44.96%	3,865,844	43.20%	4,407,465	44.25%	4,498,468	44.41%	4,367,527	42.23%
Community colleges	973,058	11.17%	1,068,047	11.94%	1,061,914	10.66%	1,005,385	9.93%	825,424	7.98%
Voluntary deposits	410,737	4.72%	463,654	5.18%	787,998	7.91%	685,077	6.76%	895,585	8.67%
Undistributed and unrealized gains/(losses)	10,404	0.12%	(30,438)	-0.34%	(64,764)	-0.65%	24,280	0.24%	24,280	0.23%
Total net position	<u>\$ 8,707,977</u>	<u>100.00%</u>	<u>\$ 8,948,614</u>	<u>100.00%</u>	<u>\$ 9,960,864</u>	<u>100.00%</u>	<u>\$ 10,128,655</u>	<u>100.00%</u>	<u>\$ 10,342,084</u>	<u>100.00%</u>