NOTES TO BASIC FINANCIAL STATEMENTS
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(1) Summary of Significant Accounting Policies

The following is a summary of the more significant accounting policies:

(A) The Financial Reporting Entity

The County of San Diego is a political subdivision of the State of California (the "State") charged with general governmental powers and governed by an elected five-member Board of Supervisors (the "Board"). The County provides a full range of general government services. As required by generally accepted accounting principles, these financial statements present the County of San Diego (the primary government) and its component units, entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the County's operations, and the County Board of Supervisors is typically their governing body. They are reported as if they were part of the primary government, because they benefit the County exclusively. A discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the County. This unit is discretely presented because its Board is not substantively the same as the County's Board and it does not provide services entirely or almost entirely to the County. Management applied the criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," to determine whether the following component units should be reported as blended or discretely presented component units.

(B) Blended Component Units

County Service Districts – These special district funds were established to provide authorized services such as road, park, lighting maintenance, fire protection or ambulance service to specific areas in the county. They are financed by ad valorem property taxes in the area benefited or by special assessments levied on specific properties. These funds are included as special revenue funds.

Flood Control District – This fund was established to account for revenues and expenditures related to providing flood control in the county. It is financed primarily by ad valorem property taxes and federal grants. This fund is included as a special revenue fund.

Lighting Maintenance District - This fund was established to provide street and road lighting services to specified areas of the County. Revenue sources include ad valorem taxes, benefit fees, state funding and charges to property owners. This fund is included as a special revenue fund.

Air Pollution Control District – This fund was established to provide for control of air pollution from motor vehicles and other sources in order to attain health-based air quality standards. Revenue sources include license and permit fees, fines, state and federal funds, charges to property owners and vehicle registration fees. This fund is included as a special revenue fund.

San Diego County Housing Authority – This fund accounts for revenues and expenditures related to providing decent housing in a suitable environment for individuals who cannot afford standard private housing. Contracts with the U.S. Department of Housing and Urban Development provide the major funding sources. This fund is included as a special revenue fund.

Sanitation Districts – These funds are used to account for the activities of all individual sanitation districts governed by the County Board of Supervisors. They are included as enterprise funds.

San Diego County Redevelopment Agency – This agency was established to provide a method of eliminating slums and blighted areas, improving housing, expanding employment opportunities, and providing an environment for the social, economic and psychological growth, and well-being of all citizens of the County. This agency is included in the debt service and capital projects funds.

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San Diego County Capital Asset Leasing Corporation (SANCAL) – This corporation was established to finance the acquisition of county buildings and equipment. It is a nonprofit corporation governed by a five-member Board of Directors, which is appointed by the County Board of Supervisors. This corporation is included in the special revenue, debt service and capital projects funds.

San Diego County Employees' Retirement Association (SDCERA) – This fund is a legally separate entity reported as if it were part of the primary government, because it exclusively benefits the County by providing pensions for retired County employees. This fund is included in the fiduciary funds.

County of San Diego In-Home Supportive Services Public Authority (IHSS) – This fund was established to serve as the employer of record for the IHSS program which provides in-home assistance to low-income aged, blind, and disabled individuals enabling them to remain safely in their own homes and avoid institutionalization. The IHSS program is State-Mandated. This fund is included in the special revenue funds.

The San Diego County Tobacco Asset Securitization Corporation ("Corporation") – This is a separate legal nonprofit public benefit corporation created under the California Nonprofit Public Benefit Corporation Law. It was established to purchase tobacco settlement payments allocated to the County from the State of California, pursuant to the Master Settlement Agreement concluded on November 23, 1998 between the major tobacco companies and 46 states (including California), the District of Columbia and four U.S. Territories (see Note 5H for additional information regarding the sale by the County to the Corporation of all right, title and interest of the County to such monies). The Corporation is governed by the Board of Directors consisting of three members, two of which are employees of the County of San Diego and one independent director who is not an employee of the County.

The Tobacco Securitization Joint Powers Authority of Southern California (TSJPA) – This is a separate legal public entity created by a Joint Exercise of Powers Agreement by and between the County of San Diego and the County of Sacramento pursuant to the Government Code of the State of California. The authority's purpose is to finance a loan via the sale of bonds to the San Diego County Tobacco Asset Securitization Corporation which in turn uses the loan proceeds to purchase the County's future tobacco settlement revenues under the Purchase and Sale Agreement. The Authority is administered by the Board of Directors consisting of three members, two members which are appointed by the County of San Diego Board of Supervisors and the third member is appointed by the Sacramento County Board of Supervisors. The County changed its accounting policy from reporting the TSJPA as a discretely presented component to a blended component unit in the fiscal year. The net effect of the change increased the beginning fund balance in the Tobacco Securitization Joint Special Revenue Fund by $51,889 and eliminated the discretely presented component unit fund balance of $11,236.

Separate financial statements for the individual blended component units described above may be obtained by contacting the County Chief Financial Officer/Auditor and Controller's Office, County of San Diego, located at 1600 Pacific Highway, Room 166, San Diego, California 92101.

(C) Discretely Presented Component Unit

First 5 Commission of San Diego (Commission) – This fund was established by the County as a separate legal entity to administer the County's share of tobacco taxes levied by the State pursuant to Proposition 10. Its purpose is to develop, adopt, promote and implement early childhood development programs in the County. The Commission is a separate legal entity, and the County appoints a voting majority of the Commission's board. The County is able to impose its will on the Commission, due to its ability to change the appointees. The two boards (County and Commission) are not substantively the same and the Commission does not provide services entirely or almost entirely to the County, but to the citizens instead.

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Separate financial statements for the discretely presented component unit listed above can be obtained by contacting the Chief Financial Officer/Auditor and Controller's Office, County of San Diego, located at 1600 Pacific Highway, Room 166, San Diego, California 92101.

(D) Government-Wide and Fund Financial Statements

The basic government-wide financial statements, consisting of the statement of net assets and the statement of activities, report information on all of the non-fiduciary activities of the primary government and its component units. Whenever possible, the effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The focus of governmental and proprietary fund financial statements is on major funds. The financial information of each major fund is shown in a separate column in the fund financial statements, with the data for all nonmajor governmental funds and nonmajor proprietary funds aggregated into two single columns.

The County reports the following major governmental funds:

> The General Fund is the County's primary operating fund. It accounts for all financial resources of the County except those required to be accounted for in another fund. Revenues are primarily derived from taxes; licenses, permits and franchises; fines, forfeitures and penalties; use of money and property; intergovernmental revenues; charges for services; and other revenues. Expenditures are expended for functions of general government, public protection, public ways and facilities, health and sanitation, public assistance, education, and recreational and cultural. They also include capital outlay, and debt service.

> The Tobacco Securitization Special Revenue Fund accounts for tobacco settlement payments allocated to the County from the State of California, pursuant to the Master Settlement Agreement concluded on November 23, 1998 between the major tobacco companies and 46 states (including California), the District of Columbia and four U.S. Territories. (See Note 5H for additional information regarding the sale by the County to the Corporation of all right, title and interest of the County to such monies)

> The Tobacco Securitization Joint Special Revenue Fund accounts for the transactions of the San Diego County Tobacco Asset Securitization Corporation and Tobacco Securitization Joint Powers Authority, two component units, that are blended into the County's financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS
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The County reports the following major proprietary (enterprise) funds:

> The Airport Fund is used to account for the maintenance, operations and development of County airports. A major objective of the airport program is to purchase and develop airport property in order to create tax revenues and create jobs in the private sector.
>
> The Wastewater Management Fund accounts for operational services and support provided to sanitation districts governed by the County Board of Supervisors.
>
> The Sanitation District Funds are used to account for the activities of all individual sanitation districts and sewer maintenance district governed by the County Board of Supervisors.

Additionally, the County reports the following fund types:

> Internal Service Funds account for the financing of goods or services provided by one County department to other County departments on a cost reimbursement basis.
>
> The Pension Trust Fund is under the control of the Board of Retirement. The fund accumulates employer and employee contributions and earnings from the fund's investments. Disbursements are made from the fund for retirements, disability and death benefits and refunds. This fund includes all assets of the retirement system.
>
> The Investment Trust Fund accounts for the external portion of the County Treasurer's investment pool. This fund consists of school districts, special districts and funds held for other governments.
>
> The Agency Fund maintains assets held in an agent capacity for other governments, organizations and individuals. These assets do not support the County's programs or services. Any portion of the Agency Fund's assets held at fiscal year end for other County funds, are reported in those funds rather than in the Agency Fund.

(E) Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. For purposes of not overstating the true costs and program revenues reported for the various functions, interfund activities have been eliminated from the government-wide statement of activities.

All proprietary funds, the pension trust fund and the investment trust fund are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity for the proprietary funds (i.e., total net assets) is segregated into restricted and unrestricted. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. Financial Accounting Standards Board Statements issued after November 30, 1989, are not applied in reporting proprietary fund operations.

For proprietary funds, operating activities generally relate to transactions and events reported as components of operating income in the statement of revenues, expenses, and changes in fund net assets. Operating revenues would include charges for providing goods and services; operating expenses would include salaries and benefits, utilities, and payments to vendors and suppliers. In addition, nonoperating activities are used for any revenues or expenses that cannot be properly

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classified as components of operating income. Examples of nonoperating activities would include interest revenue, gain/loss on disposal of assets and capital expenses.

Governmental fund types are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when susceptible to accrual (i.e., both measurable and available). Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The County considers this to be one year for all items except property taxes, for which the County considers the period of availability to be sixty days. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. Revenues that are accrued include property taxes, sales tax, interest, and state and federal grants and subventions. Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include: (1) principal and interest on long-term debt which is recognized when due; and, (2) accumulated unpaid vacation, sick leave, and other employee benefits which are reported in the period due and payable rather than in the period earned by employees.

Proprietary fund types, the pension trust fund, the investment trust fund and agency funds are accounted for on the accrual basis of accounting. Their revenues are recognized in the period earned and expenses are recognized in the period incurred. There are no unbilled utility service receivables for the proprietary fund types.

(F) Property Taxes

Taxes are levied for each fiscal year on taxable real and personal property, which is situated in the County as of the preceding January 1 lien date. However, upon a change in ownership of property or completion of new construction, State law requires an accelerated recognition and taxation of changes in real property assessed valuation. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing locally assessed and State assessed property secured by a lien, which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are payable in two installments, due November 1 and February 1. If unpaid, such taxes become delinquent after 5:00 p.m. on December 10 and April 10, respectively, and a ten percent penalty attaches. Property on the secured roll with unpaid delinquent taxes is declared tax-defaulted after 5:00 p.m. on June 30th. Such property may thereafter be redeemed by payment of the delinquent taxes, the ten percent delinquency penalty, a ten dollar cost, a fifteen dollar per parcel redemption fee (from which the State receives five dollars), and redemption penalty of one and one-half percent per month starting July 1 and continuing until the end of redemption collectively, the "Redemption Amount". If taxes remain unpaid after five years on the default roll, the property becomes subject to tax sale by the County Treasurer-Tax Collector.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A ten percent penalty attaches to delinquent taxes on property on the unsecured roll and an additional penalty of one and one-half percent per month begins to accrue on November 1.

As established by the Teeter Plan, the Controller allocates to the County and other agencies 100% of the secured property taxes billed but not yet collected by the County; in return, as the delinquent property taxes and associated penalties and interest are collected, the County retains such amounts in the Agency Fund. To the extent the Agency Fund tax loss reserves are higher than required, transfers may be made to benefit the County's General Fund. The balance of the tax loss reserve as of June 30, 2003 was $7 million, which is included in the General Fund for reporting purposes.

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(G) Assets, liabilities, and net assets or equity

Cash and Investments

Investments in County funds are stated at fair value. Securities that are traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Short-term investments in the Pension Trust Fund are reported at cost, which approximates fair value. The fair value of Pension Trust Fund real estate investments is based on independent appraisals. Investments of the Pension Trust Fund that do not have an established market are reported at estimated fair value.

For purposes of reporting cash flows, all amounts reported as "Equity in pooled cash and investments," "Collections in transit," and "Imprest cash" are considered cash equivalents. Pooled cash and investment carrying amounts represent monies deposited in the County Treasurer's cash management pool and are similar in nature to demand deposits (i.e., funds may be deposited and withdrawn at any time without prior notice or penalty). Allocations of assets and liabilities to individual funds related to reverse repurchase agreements are not considered cash equivalents for purposes of cash flow reporting. For "Cash with fiscal agent" information see Note 4A.

Inventories

Inventories, which consist of expendable supplies, are stated at average cost. They are accounted for as expenditures at the time of purchase and reported in the balance sheet of the General Fund and the Special Revenue Funds as an asset with an offsetting reserve. Inventory held by the Road Fund, a special revenue fund, and the proprietary fund types is carried at average cost and is expended when consumed.

Capital Assets

Capital assets are recorded as expenditures in the fund financial statements for the governmental fund types at time of purchase. These assets are capitalized at cost in the statement of net assets. In the case of acquisitions through gifts or contributions, such assets are recorded at fair market value at the time received. Capitalization thresholds are as follows:

Structures and improvements	$50
Infrastructure (permanent road divisions, county service areas, sanitation and special districts)	$25
Infrastructure (all others)	$50
Equipment (governmental activities)	$ 5

Depreciation is charged over the capital assets' estimated useful lives using the straight-line method for proprietary and governmental fund types. Where applicable, the hours/miles-of-service method is used for proprietary fund type equipment. Governmental fund type depreciation is only shown in the statement of activities. Proprietary fund type depreciation is shown both in the fund statements and the statement of activities. The estimated useful lives are as follows:

Structures and improvements	50 years
Infrastructure	10-50 years
Equipment (governmental fund type)	5-20 years

Long-Term Liabilities

Long-term liabilities expected to be financed with resources from governmental and proprietary fund types are accounted for in the statement of net assets. Long-term liabilities of all proprietary fund types are also accounted for in the respective funds.

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Amounts recorded as accumulated leave benefits include an amount representing salary-related payments such as the employer's share of Social Security and Medicare taxes associated with payments made for such compensated absences. Accumulated leave benefits including vacation, sick leave, and compensatory time worked in the amount of approximately $75.4 million for the governmental fund types as of June 30, 2003, is recorded in the statement of net assets. These amounts would not be expected to be liquidated from expendable available financial resources but would be expected to be liquidated in future years as employees elect to use these benefits as prescribed by Civil Service rules and regulations.

Reservation of Fund Balances

In the fund statements, reserves represent those portions of fund balance not available for appropriation or legally segregated for a specific future use.

(2) Stewardship, Compliance and Accountability

(A) Fund Deficits

The following funds have an accumulated deficit at June 30, 2003:

Capital Projects Funds:		
San Diego County Redevelopment Agency (SDCRA)	$	6,236
Internal Service Funds:		
Risk Financing	$	23,943

The deficit within the SDCRA fund is due to the use of loan proceeds in advance of the receipt of benefit fees or incremental tax revenues. This deficit will be reduced in future years upon the receipt of the incremental tax revenues. The deficit in the Risk Financing fund is due to the prior years' recognition of liabilities based on actuarial studies. The County intends to reduce the deficit by focusing resources on injury prevention via a Countywide education and safety training program. The County anticipates this program will reduce the growth in the liability for new injury claims, and therefore the deficit, by 5% to 10% per year.

(3) Reconciliation of Government-Wide and Fund Financial Statements

(A) Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

Total fund balance of the County's governmental funds, $1,350,787, differs from net assets of governmental activities, $2,188,155, reported in the statement of net assets. The difference primarily results from the long-term economic resources measurement focus and the accrual basis of accounting in the statement of net assets versus the current financial resources measurement focus and modified accrual basis of accounting in the governmental fund balance sheets.

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Balance Sheet/Statement of Net Assets

	Total Governmental Funds	Long-term Assets, Liabilities (1)	Internal Service Funds (2)	Reclassi-fications and Eliminations	Statement of Net Assets Totals
ASSETS					
Cash and cash equivalents	$ 628,744		171,913		800,657
Cash with fiscal agent	609,772				609,772
Investments	45,415				45,415
Taxes receivable, net	15,983				15,983
Internal balances				(106)	(106)
Accounts and notes receivable	280,190		3,178	41,991	325,359
Due from other funds	235,238		19,208	(254,446)	
Advances to other funds	1,106		632	(1,738)	
Inventory of materials and supplies	8,846		879		9,725
Deferred charges and other assets	495	54,346			54,841
Capital assets		2,566,515	99,269		2,665,784
Total Assets	1,825,789	2,620,861	295,079	(214,299)	4,527,430
LIABILITIES					
Accounts payable	55,574		19,426		75,000
Accrued payroll	37,448		1,027		38,475
Amount due for tax & revenue anticipation notes	139,039				139,039
Accrued interest		25,478	14		25,492
Due to other funds	157,623		54,938	(212,561)	
Advances from other funds	11,232			(1,738)	9,494
Deferred credits and other liabilities	74,086	(21,701)	287		52,672
Long-term liabilities		1,895,579	103,524		1,999,103
Total liabilities	475,002	1,899,356	179,216	(214,299)	2,339,275
FUND BALANCE/NET ASSETS					
Total fund balances/net assets	1,350,787	721,505	115,863		2,188,155
Total liabilities and fund net assets	$ 1,825,789	2,620,861	295,079	(214,299)	4,527,430

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(1) Pension obligation bonds originally issued in 1994 were partially refunded through the issuance of new pension obligation bonds in 2002. These costs represent the deferred costs on the refunded debt. These costs are to be capitalized and amortized over the remaining life of the 1994 pension obligation bonds.

Net deferred costs of refunded bonds	$	17,590

Bond discounts are expended in governmental funds in the year of sale and are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net assets.

Net bond discount	$	10,275

Costs of issuances are reported as expenditures in governmental funds and thus have the effect of reducing fund balance because current financial resources have been used. In the government-wide statements, bond issuance costs are reported as a deferred charge and amortized over the life of the bond issue.

Net cost of issuance	$	26,481
Total deferred charges and other assets	$	54,346

When capital assets (land, buildings, equipment) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the County as a whole.

Cost of capital assets	$	3,443,675
Accumulated depreciation		(877,160)
Net capital assets	$	2,566,515

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

Total accrued interest	$	(25,478)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example, receivables) are offset by deferred revenues in the governmental funds and thus are not included in fund balance.

Adjustment of deferred revenue	$	30,020

Liabilities for long-term debt are not accrued in governmental funds, but rather are recognized as expenditures when due.

Pension obligation liability	$	(7,686)

Bond premiums are recognized as revenue in governmental funds in the year of sale and are recorded as a liability and amortized over the life of the corresponding bonds.

Total bond premiums	$	(633)
Total deferred credits and other liabilities	$	21,701

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Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, current and long-term, are reported in the statement of net assets. Balances at June 30, 2003 were:

Bonds and notes payable	$(1,231,298)
Capital lease	(40,000)
Arbitrage	(752)
Compensated absences	(73,294)
Landfill closure	(101,000)
Tobacco securitization corporation debt service	(449,235)
Total long term liabilities	$(1,895,579)

(2) Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.

Costs	$ 115,863

(B) Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The net change in fund balances for governmental funds $(22,147) differs from the change in net assets for governmental activities $(424,484) reported in the statement of activities. The differences arise primarily from the long-term economic resources measurement focus and the accrual basis of accounting in the statement of activities versus the current financial resources measurement focus and modified accrual basis of accounting in the governmental funds. The effect of the differences is illustrated in the following table.

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Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities

	Total Governmental Funds	Long-Term Revenues/ Expenses (3)	Capital-Related Items (4)	Internal Service Funds (5)	Long-term Debt Transactions (6)	Statement of Activities Totals
Revenues:						
Taxes	$ 446,835	12,658				459,493
Licenses, permits and franchises	39,335					39,335
Fines, forfeitures and penalties	41,236					41,236
Revenue from use of money and property	40,733			760		41,493
Aid from other governmental agencies:						
State	1,231,904					1,231,904
Federal	632,241					632,241
Other	66,116					66,116
Charges for current services	266,574	(994)		21,030		286,610
Other revenue	70,065	(1,138)				68,927
Total revenues	2,835,039	10,526		21,790		2,867,355
Expenditures:						
Current:						
General	209,874		22,031	17,695	(15,538)	234,062
Public protection	1,145,171		2,255	(7,973)	1,031	1,140,484
Public ways and facilities	123,202		19,952	(798)		142,356
Health and sanitation	600,525		286	(2,622)		598,189
Public assistance	1,037,467		(308)	(3,473)	1,379	1,035,065
Education	31,013		27	(190)		30,850
Recreational and cultural	20,805		2,795	(80)		23,520
Debt service:	83,748		(83,748)			
Capital outlay						
Principal	88,846				(88,846)	
Interest	73,747			121	13,759	87,627
Total expenditures	3,414,398		(36,710)	2,680	(88,215)	3,292,153
Other financing sources (uses):						
Sale of capital assets	474					474
Proceeds of long term debt	560,886				(560,886)	
Operating transfers (net)	(4,148)			3,988		(160)
Refunding bonds issued	176,890				(176,890)	
Payment to refunded bond escrow agent	(176,890)				176,890	
Total other financing sources (uses)	557,212			3,988	(560,886)	314
Net change for the year	$ (22,147)	10,526	36,710	23,098	(472,671)	(424,484)

Explanation of differences between governmental fund operating statements and the statement of activities:

(3) Governmental funds accrue property tax revenue, which is deemed collectible within sixty days. However, in the statement of activities the total amount estimated to ultimately be collected is accrued.

Property Taxes	$	12,658

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Adjustment for reserve for inventory of materials and supplies.

Adjustment	$	(994)

Long-term revenues are not available as current resources, and therefore are not reported as revenue in the governmental funds.

Adjustment of deferred revenue	$	(1,138)

(4) Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Loss on Disposal of assets	$	(137,345)
Capital outlay		257,539
Depreciation expense		(83,484)
Difference	$	36,710

(5) Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The adjustments for internal service funds "close" those funds by charging additional amounts to participating governmental activities to completely cover the internal service fund's costs for the year.

Adjustments	$	23,098

(6) Under the modified accrual basis of accounting used in the governmental funds, expenditures for the County's long term obligations for capital leases, claims and judgments, accumulated unpaid employee leave balances, loans and arbitrage rebate, are not recognized until they mature. In the statement of activities however, they are reported as expenses and liabilities as they accrue.

Other miscellaneous debt – public protection function	$	(1,031)
Other miscellaneous debt – public assistance function	$	(1,379)
Other miscellaneous debt – general function	$	(1,001)

Bond issuance costs are expended in governmental funds in the year of sale and are capitalized and amortized over the life of the corresponding bonds for purpose of the statement of net assets.

Cost of issuance – general function	$	16,539
Total adjustments - general function	$	15,538

Repayment of bond principal as well as refunding of bonds which are considered a repayment of principal are reported as an expenditure in governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used. For the County as a whole, however, the principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities. The County's long term debt was reduced by the amount of principal payments made to bond holders.

Principal payments made	$	88,846
Pension obligation bond proceeds - refunding	$	176,890

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Interest expense in the statement of activities differs from the amount reported in governmental funds because additional interest was calculated for bonds and notes payable and amortization of capitalized bond discounts and premiums that are expended in the governmental funds in the year paid.

Accrued interest	$	(10,734)
Amortization of bond premium		11
Amortization of bond discounts		(3,036)
Total additional interest	$	(13,759)

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net assets and does not affect the statement of activities. Bond proceeds were received from:

Pension obligation bond proceeds – new borrowing	$	(560,450)
Alpine capital lease proceeds		(436)
Total new borrowing	$	(560,886)
Pension obligation bond proceeds - refunding	$	(176,890)

(4) Detailed Notes on all Funds

(A) Equity in Pooled Cash and Investments, Cash, Investments, and Obligations under Reverse Repurchase Agreements

The County maintains a cash and investment pool that is available for use by the County as well as other agencies for which the County Treasury is the depository. The San Diego County Treasurer issues a separate annual financial report on the County Investment Pool. This report may be obtained by writing to the San Diego County Treasurer, Room 152, County Administration Center, 1600 Pacific Highway, San Diego, California, 92101 or by calling (619) 531-4743. Copies are also available on the internet at www.sdtreastax.com.

Each fund type’s portion of this pool is displayed on the balance sheet as “Equity in pooled cash and investments.” Interest earned on the pooled deposits is accrued in a pooled interest apportionment agency fund and is allocated based on the average daily cash balances of the participating funds. State law requires that interest income related to certain funds be considered income of the General Fund of the County. Such interest has been recorded as revenue in the General Fund.

“Cash with fiscal agent” represents amounts on deposit with trustees for the Air Pollution District, SANCAL, Pension Trust Fund, Housing Authority, Pension Obligation Bonds, Redevelopment Agency, Teeter Commercial Paper Notes, and for repayment of the General Fund Tax and Revenue Anticipation Notes.

“Investments,” represents the Inactive Wastesite Fund investments, the Pension Trust Fund investments and stocks and bonds held for other agencies.

Deposit and investment reconciliation as reported in the basic financial statements are summarized as follows:

Deposits: At year-end the carrying amount of the County’s deposits was $27,644 consisting of $27,252 in demand deposits and $392 in collateralized deposits. Of the balance $692 was covered by federal deposit insurance and $26,952 was uncollateralized according to State statutes which require depositories having public funds on deposit to maintain a pool of securities with the agent of the depository having a market value of at least 10% in excess of the total amount of all public funds on deposit. Bank balance and carrying amount with various financial institutions (Cash with fiscal agents)

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was $855,703 and entirely classified as Category 1 investments. Of this amount, $292,765 was deposited with the trustee and held in investments that are insured or registered or for which the securities are held in SDCERA and TSJPA's name. The balance of $562,938 was held by the trustee in the County's name.

Investments: State statutes authorize the County to invest in obligations of the U.S. Treasury, agencies and instrumentalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers acceptances, repurchase and reverse repurchase agreements, medium-term notes, and negotiable certificates of deposit issued by national and state licensed or chartered banks or federal or state savings and loan associations. Pension Trust Fund investments are authorized by the County Employees' Retirement Law of 1937. Statutes authorize "Prudent Expert" guidelines as to the form and types of investments which may be purchased. The County's investments are categorized below to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments for which the securities are held by counter party's trust department or agent in the County's name. There were no investments with a risk Category 2 at June 30, 2003. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party, or by its trust department or agent but not in the County's name.

	Category		Fair
	1	3	Value
Investments categorized			
Bankers acceptances	$	89,966	89,966
Repurchase agreements	325,000	65,426	390,426
Commercial paper	1,209,825		1,209,825
US government securities	1,819,163	158,734	1,977,897
Negotiable certificates of deposit	325,275		325,275
Corporate notes	61,300		61,300
Corporate bonds	872,577		872,577
Common and preferred stock	2,077,433		2,077,433
Mutual funds		319,100	319,100
Investments held by the County for other agencies:			
US government securities	103		103
Corporate bonds	1		1
Common stock	2		2
Subtotal	$ 6,690,679	633,226	7,323,905
Investments not categorized			
Investments held by broker dealers under security loans:			
US government securities			16,990
Corporate bonds			81,928
Common and preferred stock			204,490
Mutual funds			15,000
Real estate equity			471,348
Total investments			$ 8,113,661

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Reconciliation of the Statements of Net Assets to Total Investments at June 30, 2003:

	Primary Government	Fiduciary Funds	Sub-Total	Component Unit	Total
Equity in pooled cash and investments	$ 863,496	2,839,249	3,702,745	152,091	3,854,836
Cash with fiscal agent	609,772	245,931	855,703		855,703
Collections in transit	7,541		7,541		7,541
Imprest cash	535		535		535
Investments	2	4,241,054	4,241,056		4,241,056
Restricted investments	45,413		45,413		45,413
Total	1,526,759	7,326,234	8,852,993	152,091	9,005,084
Less:					
Cash with fiscal agents					(855,703)
Collections in transit					(7,541)
Imprest cash					(535)
Deposits					(27,644)
Total investments					$8,113,661

A total of $3,827,193 of investments is reported in the Equity in pooled cash and investments fund financial statements. Fair values and estimates of fair values are provided monthly by an independent pricing agency and such values are not supported by any guarantees on the part of the pool sponsor or the pricing agency. The County and certain school districts are mandated by state statues to participate in the County Treasurer's investment pool and represent 96 percent of the total pooled cash and investments on hand at June 30, 2003.

Reverse Repurchase Agreements: State statutes permit the County to enter into reverse repurchase agreements; that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The County had no reverse repurchase agreements outstanding at June 30, 2003.

Securities Lending Transactions: Under the provisions of State statutes, the County Treasurer lends U.S. government obligations and SDCERA lends U.S. government obligations, domestic and international bonds and equities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The County's custodial bank manages the securities lending programs for the County Treasurer and receives cash and securities as collateral pledged at 102 percent of the market value of securities lent. Fiscal agents for SDCERA manage the securities lending programs and receive cash securities pledged at 102 percent of fair value for domestic securities lent and 105 percent of the fair value of international securities lent. Additional collateral has to be provided the next business day if its value falls to 100 percent or less of the market value of the securities lent. The collateral securities cannot be pledged or sold by the County Treasurer or SDCERA unless the borrower defaults. No more than 20 percent of the Treasurer's pooled investment portfolio may be lent at one time. There is no restriction on the amount of SDCERA securities that may be lent at one time. Securities on loan at year-end are presented as unclassified in the preceding schedule of custodial credit risk and represent transactions of the SDCERA pension trust fund. At year-end, the pension trust fund has no credit risk exposure to borrowers because the amounts SDCERA owes the borrowers exceeds the amounts the borrowers owe SDCERA. The term to maturity of securities loans is generally matched with the term to maturity of the cash collateral. Such matching existed at fiscal year end.

(B) Restricted Assets-Investments

Certain investments have been restricted by operation of law to fund post closure landfill costs over a 30-year period. These investments are recorded in the Inactive Wastesite Special Revenue Fund.

NOTES TO BASIC FINANCIAL STATEMENTS
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(C) Capital Assets

Primary Government
Capital asset activity for the year ended June 30, 2003 was as follows:

Governmental Activities:

	Beginning Balance at July 1, 2002	Increases	Decreases	Ending Balance at June 30, 2003
Capital assets, not being depreciated:				
Land	$ 250,622	16,249	(915)	265,956
Construction and contracts in progress	243,145	70,559	(136,011)	177,693
Total capital assets, not being depreciated	493,767	86,808	(136,926)	443,649
Capital assets, being depreciated:				
Buildings and improvements	802,072	132,919	(3,569)	931,422
Equipment	156,015	19,711	(11,834)	163,892
Road network	1,974,564	37,868		2,012,432
Bridge network	36,487	1,938		38,425
Total capital assets, being depreciated	2,969,138	192,436	(15,403)	3,146,171
Less accumulated depreciation for:				
Buildings and improvements	(243,663)	(22,680)	3,561	(262,782)
Equipment	(76,832)	(14,508)	10,055	(81,285)
Road network	(513,933)	(55,124)		(569,057)
Bridge network	(10,198)	(714)		(10,912)
Total accumulated depreciation	(844,626)	(93,026)	13,616	(924,036)
Total capital assets, being depreciated, net	2,124,512	99,410	(1,787)	2,222,135
Governmental activities capital assets, net	$ 2,618,279	186,218	138,713	2,665,784

Building and infrastructure projects are recorded as construction in progress until completion. Intangible projects such as software acquisition and implementation are recorded as contracts in progress until implementation is completed.

Depreciation expense was charged to functions of the primary government as follows:

General government	$ 15,949
Public protection	6,021
Public ways and facilities	59,915
Health and sanitation	563
Public assistance	328
Education	56
Recreational and cultural	652
Internal Service Funds	9,542
Total depreciation expense – governmental activities	$ 93,026

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Business Type Activities:

Airport Enterprise Fund

	Beginning Balance at July 1, 2002	Increases	Decreases	Ending Balance at June 30, 2003
Capital assets, not being depreciated:				
Land and improvements	$ 6,401			6,401
Construction in progress	6,734	5,161		11,895
Total capital assets, not being depreciated	13,135	5,161		18,296
Capital assets, being depreciated:				
Buildings and equipment	28,715			28,715
Total capital assets, being depreciated	28,715			28,715
Less accumulated depreciation for:				
Buildings and equipment	(17,425)	(769)		(18,194)
Total accumulated depreciation	(17,425)	(769)		(18,194)
Total capital assets, being depreciated, net	11,290	(769)		10,521
Airport Enterprise Fund capital assets, net	$ 24,425	4,392		28,817

Wastewater Management Enterprise Fund

	Beginning Balance at July 1, 2002	Increases	Decreases	Ending Balance at June 30, 2003
Capital assets, not being depreciated:				
Land and improvements	$ 20			20
Total capital assets, not being depreciated	20			20
Capital assets, being depreciated:				
Buildings and equipment	898	7		905
Total capital assets, being depreciated	898	7		905
Less accumulated depreciation for:				
Buildings and equipment	(430)	(27)		(457)
Total accumulated depreciation	(430)	(27)		(457)
Total capital assets, being depreciated, net	468	(20)		448
Wastewater Management Enterprise Fund capital assets, net	$ 488	(20)		468

Sanitation Districts Enterprise Fund

	Beginning Balance at July 1, 2002	Increases	Decreases	Ending Balance at June 30, 2003
Capital assets, not being depreciated:				
Land and improvements	$ 1,069			1,069
Construction in progress	443	1,479		1,922
Total capital assets, not being depreciated	1,512	1,479		2,991
Capital assets, being depreciated:				
Buildings and equipment	2,181			2,181
Infrastructure	62,238	832	(7)	63,063
Total capital assets, being depreciated	64,419	832	(7)	65,244
Less accumulated depreciation for:				
Buildings and equipment	(1,814)	(48)	901	(961)
Infrastructure	(22,659)	(2,144)		(24,803)
Total accumulated depreciation	(24,473)	(2,192)	901	(25,764)
Total capital assets, being depreciated, net	39,946	(1,360)	894	39,480
Sanitation Districts Enterprise Fund capital assets, net	$ 41,458	119	894	42,471

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In the fiscal year 2001-2002 Sanitation Districts schedule, the accumulated depreciation for Buildings and equipment was overstated by $901 and the accumulated depreciation for the Infrastructure was understated by $901. The correction has been made for the fiscal year 2002-2003 schedule.

(D) Leases

(1) Lease Revenue
The County leases real property to the public sector and other governmental agencies. The lease revenues for both non-cancelable and cancelable leases for the year ended June 30, 2003 were approximately $12 million. The future minimum lease revenue from the non-cancelable leases is as follows:

Fiscal Year	Minimum Lease Revenue
2003-2004	$ 10,368,063
2004-2005	10,094,281
2005-2006	9,995,049
2006-2007	9,756,177
2007-2008	8,782,073
2008-2077	155,577,567
Total	$ 204,573,210

(2) Lease Commitments
The County has commitments under long-term property operating lease agreements for facilities used for operations. These leases do not meet the criteria for capitalization under FASB Statement 13. The County is the lessee under the terms of several non-cancelable operating leases for real property used to house certain County facilities. The combined rental cost for which the County is obligated under these leases is as follows:

Fiscal Year	Minimum Payments
2003-2004	$ 10,125
2004-2005	8,314
2005-2006	7,792
2006-2007	5,942
2007-2008	2,596
2008-2014	7,933
Total	$ 42,702

Total rental expense for all real property operating leases, including short-term cancelable leases for the year ended June 30, 2003, was approximately $26.7 million.

In addition to real property leases, the County has also entered into long-term operating leases for personal property, a large portion of which represents data processing and duplicating equipment. Many of these leases are subject to annual adjustment based upon negotiations. Management expects that in the normal course of business, leases that expire will be renewed or replaced by other leases. Total rental expense for these operating leases for the year ended June 30, 2003, was approximately $12.3 million.

Certain buildings and equipment are being leased under capital leases as defined in FASB Statement 13. The present value of the minimum lease obligation has been capitalized in the statement of net assets and is reflected as a liability in that statement. The County assumes responsibility for all maintenance, repair, and structural modifications under the terms of the lease agreements.

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The capital lease property classes at June 30, 2003 consisted of the following:

Capital Lease Property Class	2003
Structures and improvements	$ 35,475
Equipment	5,385
Total	$ 40,860

Future minimum lease payments under capital leases consisted of the following at June 30, 2003:

Fiscal Year	Minimum Lease Payments
2004	$ 5,367
2005	4,463
2006	4,348
2007	3,785
2008	3,455
2009-2013	15,351
2014-2018	15,263
2019-2023	6,125
Total minimum lease payments	58,157
Less: amount representing interest	(17,297)
Net lease payments	$ 40,860

(E) Short Term Obligations

The County's short term borrowing program consists of its annual Tax and Revenue Anticipation Notes (Notes), which fund the County's annual operating cash flow fluctuations, and the issuance of Teeter Commercial Paper, which fund payments to public agencies of their full share of property taxes levied. The County of San Diego bears the risk of loss on delinquent property taxes that go unpaid; however, it also benefits from the penalties associated with these delinquent property taxes when they are paid. Short-term borrowing activity during the year ended June 30, 2003 was as follows:

	Beginning Balance at July 1, 2002	Issued	Redeemed	Ending Balance at June 30, 2003
Tax and Revenue Anticipation Notes	$	135,000		135,000
Teeter B-1 Tax - Exempt Principal	$50,200	39,600	50,600	39,200
Teeter B-2 Taxable Principal	9,900	22,536	9,900	22,536
Total Teeter	$60,100	62,136	60,500	61,736

On July 3, 2002, the County of San Diego issued $135 million of Notes with an interest maturity date of June 30, 2003 and principal maturity date of July 31, 2003. The Notes carry an interest rate of 3% and a yield of 1.75%. As of June 30, 2003, accrued interest of $4,039 has been recorded in the General Fund with the Tax and Revenue Anticipation Notes obligation for a total obligation of $139,039.

In 1995 the County of San Diego Board of Supervisors approved the Master Teeter Resolution providing the terms and conditions of its teeter plan obligations. Pursuant to this resolution the

NOTES TO BASIC FINANCIAL STATEMENTS
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County is able to issue additional Series B Teeter Commercial Paper for each fiscal year. On May 13, 2003, the Board of Supervisors adopted a resolution for the additional Series B borrowings to finance the uncollected property taxes and assessments attributable to the fiscal year ending June 30, 2003. The Teeter commercial paper shall mature not more than 270 days after date of issuance and is not subject to redemption prior to maturity. The payment of principal and interest on each series is supported by an irrevocable direct pay letter of credit that will expire on June 22, 2007.

(F) General Long-Term Obligations

Outstanding general long-term obligations at June 30, 2003 consist of certificates of participation, capital lease obligations, third party financing leases, and other long-term obligations. Outstanding long-term obligations at June 30, 2003 were as follows:

(1) Governmental Activities

Obligation	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding
San Diego County Capital Asset Leasing Corporation (SANCAL):				
1993 Certificates of participation issued March, 1993	3.00 - 5.75%	2013	$ 7,640	5,080
1993 Certificates of participation issued March, 1993	3.25 - 5.10%	2007	26,085	10,065
1993 Certificates of participation issued May, 1993	2.50 - 5.625%	2012	203,400	100,175
1996 Certificates of participation issued May, 1996	4.30 - 5.50%	2018	52,230	37,780
1996 Certificates of participation issued December, 1996	4.00 - 6.00%	2019	37,690	33,170
1997 Certificates of participation issued June, 1997	4.00 - 4.80%	2004	28,035	3,430
1997 Certificates of participation issued July, 1997	4.00 - 5.00%	2025	80,675	71,790
1998 Certificates of participation issued January, 1999	4.00 - 4.94%	2022	73,115	60,475
1999 Certificates of participation issued September, 1999	3.60 - 4.75%	2009	15,010	11,140
2000 Certificates of participation issued May, 2000	4.50 - 5.125%	2010	51,620	38,775
2002 Certificates of participation issued May, 2000	2.00 - 3.30%	2011	26,060	23,405
Total certificates of participation			$ 601,560	395,285

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(1) Governmental Activities (continued)

Obligation	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding
Capitalized Leases:				
San Diego Regional Building Authority Lease beginning September 2001	2.15 - 5.25%	2019	36,960	35,475
Third party financing leases with various beginning dates from August, 1997 to the present	4.24 - 8.00%	2002 - 2008	10,720	5,385
Total capitalized leases			47,680	40,860
Other long-term obligations:				
Capital loans:				
Department of Transportation loans Beginning March 2001	5.63%	2017	3,584	3,154
United States Department of Agriculture	1.00%	2028	4,486	3,611
California Bank & Trust	7.75%	2007	436	323
Taxable pension obligation bonds:				
1994 Series A	4.7 - 6.6%	2007	430,430	87,055
2002 Series A, B & C	3.88 - 6.125%	2032	737,340	737,340
Redevelopment Agency revenue bonds	4.75 - 6.75%	2020	5,100	4,530
San Diego County Tobacco Asset Securitization Corporation	4.00 - 6.00%	2043	466,840	449,235
Arbitrage rebate				752
Compensated absences				75,370
Claims and judgments				100,588
Landfill closure				101,000
Total other long-term obligations			1,648,216	1,562,958
Total governmental activities			$2,297,456	1,999,103

The certificates of participation (COP) of the SANCAL non-profit corporation are secured by annual base rental lease payments payable primarily by the County General Fund for use of the facilities constructed or equipment purchased from the proceeds. There are also encumbrances on the facilities constructed with the proceeds of the SANCAL. The capital leases between the County and SANCAL have been eliminated for financial reporting purposes and the related assets and long-term obligation they (e.g. certificates of participation of SANCAL) are reported as San Diego County's assets and debt, respectively.

Also, the County, in compliance with the Tax Reform Act of 1986 and subsequent U.S. Treasury Regulations, has performed arbitrage rebate calculations to determine probable amounts due to the Federal government. An estimate of probable arbitrage rebate in the amount of $752 has been included in the statement of net assets.

NOTES TO BASIC FINANCIAL STATEMENTS
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(2) Business-Type Activities

Obligation	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding
Other long-term obligations:				
Airport				
Compensated absences			$	120
Wastewater Management				
Compensated absences				179
Sanitation Districts				
Long-term contract payable - Spring Valley			5,639	195
Total business-type activities			$ 5,639	494

(3) Long-term obligation activity for the year ended June 30, 2003 was as follows:

Governmental Activities

Obligation	Beginning Balance at July 1, 2002	Additions	Reductions	Ending Balance at June 30, 2003	Amounts Due within One Year
Bonds and notes payable:					
Certificates of participation	$ 433,790		(38,505)	$ 395,285	38,400
Redevelopment Agency	4,655		(125)	4,530	130
San Diego County Tobacco Securitization Corporation	458,795		(9,560)	449,235	1,830
Taxable pension obligation bonds	282,900	737,340	(195,845)	824,395	9,630
Capital loans	4,277	4,922	(2,111)	7,088	396
Total bonds and notes payable	1,184,417	742,262	(246,146)	1,680,533	50,386
Other liabilities:					
Capitalized leases	46,604		(5,744)	40,860	3,431
Arbitrage rebate	836		(84)	752	
Claims and judgments	97,794	35,372	(32,578)	100,588	32,578
Compensated absences	72,342	3,045	(17)	75,370	7,537
Landfill closures	101,000			101,000	
Total other liabilities	318,576	38,417	(38,423)	318,570	43,546
Total governmental activities	$1,502,993	780,679	(284,569)	$1,999,103	93,932

The following liabilities have been liquidated in prior years in the following governmental funds:

Liability	Fund(s) Used to Liquidate in Prior Years
Arbitrage rebate	Debt Service Fund – Nonprofit Corporation
Claims and judgments	Internal Service Fund - Risk Financing
Compensated absences	General Fund; Special Revenue Funds – County Library, Road, Cable TV, Air Pollution; Internal Service Funds – Facilities Management, Fleet Services, Purchasing, Mail Print & Records
Landfill closures	General Fund

NOTES TO BASIC FINANCIAL STATEMENTS
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Business-Type Activities

Obligation		Beginning Balance at July 1, 2002	Additions	Reductions	Ending Balance at June 30, 2003	Amounts Due within One Year
Airport						
Compensated absences	$	102	18		120	12
Wastewater Management						
Compensated absences		175	4		179	18
Sanitation Districts						
Julian sanitation loan		5		(5)		
Contract payable		195			195	
Total Sanitation Districts long-term liabilities		200		(5)	195	
Total business-type activities	$	477	22	(5)	494	30

The following is a schedule of debt service requirements to maturity, for long-term bond and note obligations outstanding at June 30, 2003.

Fiscal Year Ending June 30	Principal	Interest	Total
2004	$ 50,421	89,915	140,336
2005	55,990	84,951	140,941
2006	61,999	81,821	143,820
2007	65,771	78,365	144,136
2008	48,979	75,179	124,158
2009 - 2013	206,146	423,207	629,353
2014 - 2018	169,813	400,437	570,250
2019 - 2023	200,565	386,564	587,129
2024 - 2028	234,264	375,713	609,977
2029 - 2033	304,105	366,921	671,026
2034 - 2038	90,865	71,048	161,913
2039 - 2043	191,615	42,348	233,963
Total	$1,680,533	2,476,469	4,157,002

Prior Year Defeasance of Debt

In prior years, the County defeased certain lease revenue bonds or certificates of participation (COP's) by placing the proceeds of the original issue plus additional County contributions in an irrevocable trust to provide for all future debt service payments on the old obligations. Accordingly, the trust account assets and the liability for the defeased obligations are not included in the County's financial statements. At June 30, 2003, $147.9 million of bonds or COPs outstanding are considered defeased.

Advance Refunding of Long-Term Debt

On February 12, 2002, The Board of Supervisors of the County adopted enhanced retirement benefits for members of the SDCERA. As a result of these benefits, the County incurred an increased obligation pursuant to the Retirement Law as an unfunded accrued actuarial liability to the SDCERA.

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On October 3, 2002, the County of San Diego issued $737,340 of Taxable Pension Obligation Bonds. These bonds were issued with four series: Series A in the amount of $132,215 which are fixed rate Current Interest Bonds; Series B1 in the amount of $100 million which carry a variable rate are Auction Rate Securities; Series B2-4 in the amount of $405,125 are also Auction Rate Securities which have been swapped to fixed; and Series C in the amount of $100 million, which are fixed rate Public Income Notes (PINES). The County has entered into a swap agreement with two providers for the Series B2-4 bonds. These bonds carry a fixed rate of 5.31%. A portion of the proceeds, $176,890, was placed in an escrow account to be used to retire interest and principal on $156,425 of the County's outstanding 1994 Taxable Pension Obligation Bonds.

In order for the County to remain within its revenue constraints, a portion of the 1994 Taxable Pension Obligation Bonds was defeased by placing in escrow, certain proceeds of the October 2002 bond issuance. This resulted in an economic loss of $184. The 1994 bonds had a remaining life of approximately 5 years and have been replaced with $100 million, 30 year variable rate debt and a $56 million of 30 year fixed rate debt resulting in the economic loss. The variable rate debt is subject to market fluctuations.

Inactive Landfill Closure Costs

The County maintains seventeen waste disposal sites that were closed prior to 1985. Consistent with State and Federal regulations pertaining to closed landfills, post-closure costs for these landfills, including facilities maintenance and groundwater monitoring over a 30-year period, are estimated at $101 million in current year costs. This amount has been recorded in the statement of net assets. Actual costs may be higher due to inflation, changes in technology or changes in regulations. The County has funded this liability from cash reserves realized in prior years.

(G) Special Assessment Debt

The County Treasurer-Tax Collector acts as an agent for property owners and bondholders in collecting and forwarding special assessment monies. The County is not obligated for repayment of any special assessment bonds and all special assessment debt is solely the obligation of various separate governmental agencies. The amount of special assessment debt outstanding for which the County is a fiduciary is $17.6 million at June 30, 2003.

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(H) Receivables and Payables

(1) Receivables at June 30, 2003, were as follows:

Receivables	Accounts	Interest	Due From Other Gov't Agencies	Notes	Loans	Other	Total Receivables	Allowance For Doubtful Accounts	Receivables Net
Governmental activities:									
General Fund	$ 5,863	1,719	150,497	842	6,021	25,201	190,143	(41)	190,102
Tobacco Securitization Special Revenue Fund	889						889		889
Tobacco Securitization Joint Special Revenue Fund	382					5	387		387
Other governmental funds	36,493	340	77,185			15,164	129,182		129,182
Internal service funds	313		2,865			1,621	4,799		4,799
Total governmental activities	43,940	2,059	230,547	842	6,021	41,991	325,400	(41)	325,359
Business-type activities:									
Airport	168		1,009			233	1,410		1,410
Wastewater Management	1					2	3		3
Sanitation Districts						283	283		283
Total business-type activities	169		1,009			518	1,696		1,696
Component Unit:									
First 5 Commission		654	7,335				7,989		7,989
Total Component Unit	$	654	7,335				7,989		7,989

(2) Payables at June 30, 2003, were as follows:

Payables	Vendors	Due to Other Gov't Agency	Aid to Individual	Other	Total Payables
Governmental activities:					
Major funds					
General fund	$ 32,058	9,912	117	274	42,361
Nonmajor funds	12,426	641	144	2	13,213
Internal service funds	17,428	198		1,800	19,426
Total governmental activities	61,912	10,751	261	2,076	75,000
Business-type activities:					
Airport enterprise fund	1,427			26	1,453
Wastewater management fund	8				8
Sanitation districts fund	142	13			155
Total business-type activities	1,577	13		26	1,616
Component unit					
First 5 commission	1,852				1,852
Total component unit	$ 1,852				1,852

NOTES TO BASIC FINANCIAL STATEMENTS
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(I) Interfund Receivables, Payables and Transfers

(1) Transfers in/transfers out at June 30, 2003 were as follows:

From	To	Amount
General Fund	Nonmajor Governmental Funds	$ 149,562
	Internal Service Funds	7,317
Total General Fund		156,879
Tobacco Securitization Special Revenue Fund	General Fund	26,949
Nonmajor Governmental Funds	General Fund	451,048
	Nonmajor Governmental Funds	137,439
	Enterprise Funds	
	Airport	740
	Internal Service Funds	90
Total Nonmajor Governmental Funds		589,317
Enterprise Funds		
Airport	Nonmajor Governmental Funds	424
	Internal Service Funds	16
Total Airport		440
Entreprise Funds		
Wastewater Management	Internal Service Funds	15
	Nonmajor Governmental Funds	125
Total Wasterwater Management		140
Internal Service Funds	General Fund	809
	Nonmajor Governmental Funds	2,641
Total Internal Service Funds		3,450
Total		$ 777,175

The purpose of these transfers was primarily for reimbursement of project costs, lease payments, initiation fees, bank activity posting and replacement costs.

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(2) Due to/due from other funds at June 30, 2003 were as follows:

Receivable Fund	Payable Fund	Amount
General fund	Tobacco Securitization Special	
	Revenue Fund	$ 7,934
	Nonmajor Governmental Funds	122,547
	Enterprise Funds	
	Airport	93
	Wastewater Management	23
	Sanitation Districts	1
	Internal Service Funds	53,201
	Trust and Agency Funds	20,087
Total General Fund		203,886
Tobacco Securitization Special		
Revenue Fund	Trust and Agency Funds	5
Nonmajor Governmental Funds	General Fund	4,990
	Nonmajor Governmental Funds	1,438
	Enterprise Funds	
	Airport	196
	Wastewater Management	63
	Sanitation Districts	52
	Internal Service Funds	799
	Trust and Agency Funds	23,809
Total Nonmajor Governmental Funds		31,347
Enterprise Funds		
Airport	Nonmajor Governmental Funds	481
	Internal Service Funds	102
	Trust and Agency Funds	237
Total Airport		820
Enterprise Funds		
Wastewater Management	General Fund	58
	Nonmajor Governmental Funds	26
	Enterprise Funds	
	Sanitation Districts	541
	Internal Service Funds	9
	Trust and Agency Funds	8
Total Wastewater Management		642
Entreprise Funds		
Sanitation Districts	Internal Service Funds	1
	Trust and Agency Funds	284
Total Sanitation Districts		285
Internal Service Funds	General Fund	15,053
	Nonmajor Governmental Funds	1,560
	Enterprise Funds	
	Airport	25
	Wastewater Management	34
	Sanitation Districts	3
	Internal Service Funds	750
	Trust and Agency Funds	1,702
Total Internal Service Funds		19,127
Trust and Agency Funds	General Fund	3,375
	Nonmajor Governmental Funds	161
	Enterprise Funds	
	Airport	3
	Wastewater Management	7
	Sanitation Districts	1
	Internal Service Funds	77
	Trust and Agency Funds	27,634
Total Trust and Agency Funds		31,258
Total		$ 287,370

NOTES TO BASIC FINANCIAL STATEMENTS
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(3) Advances to/from at June 30, 2003 were as follows:

	Advances To Other Funds	Advances From Other Funds
General Fund	$ 689	
Nonmajor Governmental Funds		
Flood Control District	3	
County Service Districts		768
Nonprofit Corporation – Debt Service	414	
Redevelopment Agency – Debt Service		287
Redevelopment Agency – Capital Projects		10,177
Enterprise Funds		
Airport	9,637	
Sanitation Districts	135	278
Internal Service Funds		
Special District Loans	632	
Total	$ 11,510	11,510

NOTES TO BASIC FINANCIAL STATEMENTS
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(J) Divestiture of the County Transit System

On February 13, 2002, the Board of Supervisors approved divestiture of the County Transit System to the Metropolitan Transit Development Board (MTDB) to be effective on June 28, 2002. The County accounted for the transit system in the Transit Enterprise Fund. At June 30, 2002, a liability of $3.8 million was established to reflect cash and equivalents held in the Transit Fund pending disposition instructions from San Diego Association of Governments. A cash flow statement for the current year is included to reflect the disposition of the cash and equivalents which were held at June 30, 2002.

(5) Other Note Disclosures

(A) Commitments and Contingencies

(1) Litigation

In addition to the accrued liability for litigation and Workers Compensation claims described in Note 5B, the County has a potential liability of $21 million that could result if unfavorable final decisions were rendered in numerous lawsuits to which the County is a named defendant. Appropriations are budgeted annually for those portions of obligations coming due that fiscal year. Estimates of potential liabilities described above include estimates of claims incurred but not reported at June 30, 2003.

(2) Unrecorded Leave Benefits

County employees have unrecorded accumulated benefits of approximately $122.5 million in sick leave. These benefits are not payable to employees upon termination and are normally liquidated in future years as employees elect to use their benefits as prescribed by Civil Service rules and regulations. Accumulated vacation, sick leave, and compensatory time-off for which employees are eligible for payment upon separation have been recorded as current or long-term liabilities in the appropriate proprietary funds and the statement of net assets as described in Note 1G.

(3) Tax and Revenue Anticipation Notes

On July 1, 2003, the County issued $255 million of Tax and Revenue Anticipation Notes (Notes); the principal and interest will be due on the maturity date of June 30, 2004. The fiscal year 2003-2004 Notes carry an interest rate of 1.75% and a yield of .92% and are subject to scheduled set aside.

(4) Third Party Debt

The tax code allows for certain types of nongovernmental borrowers to take advantage of tax-exempt financing through a governmental agency. The County of San Diego as a governmental agency, has issued tax-exempt debt to qualified borrowers. The County of San Diego is not responsible for the repayment of the debt. Accordingly, no liability for these bonds have been recorded in the statement of net assets.

Mortgage Revenue Bonds

Mortgage Revenue Bonds are issued to provide construction and permanent financing to developers of multi-family residential rental projects located in the County to be partially occupied by persons of low or moderate income. Between 1995 and 1999, the County issued $24 million of Mortgage Revenue Bonds of which $22 million were still outstanding as of June 30, 2003.

NOTES TO BASIC FINANCIAL STATEMENTS
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Certificates of Participation

The County has implemented a conduit program whereby the County is the issuer of tax-exempt bonds and loans the proceeds to a qualifying for profit or nonprofit organization. These organizations make payments to the County equal to the debt service on the bonds. Beginning in April 1998, $112 million in Certificates of Participation (COPs) have been issued to provide funding for construction of capital improvements and refunding of prior obligations for a hospital and medical center located within the County. In December 1998, the County entered into a lease agreement with the San Diego Natural History Museum to issue $15 million of COPs to finance certain museum improvements. In September 1999, the County entered into a lease agreement with the Burnham Institute to issue $51.5 million of COPs to finance the purchase of real property. In March 2000, the County entered into a lease agreement with the San Diego Museum of Art to issue $6 million of COPs to finance certain museum improvements. In April 2000, the County entered into a lease with the Salk Institute to issue $15 million of COPs to finance the acquisition, construction and equipping of certain research facilities. In May 2001, the County entered into a lease agreement with the University of San Diego to issue $36.9 million of COPs to finance certain capital improvements for the University. In September 2002, the County entered into a lease with the San Diego-Imperial Counties Developmental Services to issue $10.8 million in COPs to finance the acquisition of their headquarter facility. In January 2003, the County entered into a lease agreement with Chabad Jewish Academy to issue $11.7 million in COPs to finance the construction of certain educational buildings. As of June 30, 2003, $251 million of such COPs are still outstanding.

Reassessment District Improvement Bonds

Reassessment District Improvement Bonds were issued to provide for refunding an earlier issuance of Improvement Bonds for an assessment district. The district issued $28.8 million of Improvement Bonds in July 1991 to finance the acquisition of certain infrastructure improvements specially benefiting properties within an assessment district. In July 1997, the district issued $21.8 million of Reassessment Bonds to refund the original issuance, of which $16.5 million were still outstanding as of June 30, 2003.

(5) Federal and State Programs

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

(6) SDCERA

SDCERA is party to financial instruments with off-balance sheet risk to generate earnings and stabilize excess earnings from active management of fixed income securities and common stocks. Managed futures contracts include, but are not limited to, contracts for delayed delivery of securities, commodities, or currencies in which the seller agrees to make delivery at a specified future date of a specified instrument at a specified price or yield. Risks arise from the possible inability of counter-parties to meet the terms of their contract. The risks of loss from these off-balance sheet financial instruments include minimal credit risks, but include the possibility that future changes in market prices may make such financial instruments less valuable (market risk). Not reflected in the pension trust fund financial statements are commitments to acquire real estate for investment totaling $81 million and alternative equity for $102.3 million.

NOTES TO BASIC FINANCIAL STATEMENTS
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(7) Deposits for Other Agencies

The Treasurer is a named paying agent for various bonds issued by other agencies, e.g., school districts, pursuant to the bond covenants. The proceeds from these issues are deposited in the County pool or as specified in the bond resolution. The amounts deposited belong to the specific agency which issued the bonds and are not assets of the County. The County has no liability with respect to these issues, the repayment of these bonds are from advalorem taxes levied on the properties in the school district.

(B) Risk Management

The County operates a Risk Management Program, whereby it is self-insured for premises liability at medical facilities, medical malpractice, errors and omissions, false arrest, forgery, and general liability. The County purchases insurance for property damage, certain casualty claims, public officials bond, employee dishonesty, faithful performance, volunteers, excess workers' compensation (for losses greater than $1 million), airport comprehensive, and loss of money and securities based upon site locations. Settlements in the areas covered have not exceeded insurance coverage for each of the past three fiscal years. During fiscal year 1994-1995, the County established an Internal Service Fund (ISF) to report all of its uninsured risk management activities. Risk management liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. An actuarial evaluation was used to determine the public liability and workers compensation total risk liability at June 30, 2003. At June 30, 2003, the amount of these liabilities, including an estimate for claims incurred but not reported, was estimated at $100.6 million, including $17.2 million in public liability and $83.4 million in workers' compensation. The County began allocating the cost of providing claims service to all its operating funds as a "premium" charge expressed as a percentage of payroll beginning fiscal year 1996-1997. Changes in the balances of claim liabilities for fiscal year 2001-2002 and 2002-2003 were as follows:

Fiscal Year	Beginning Balance at uly 1, 2002	Current-Year Claims and Changes in Estimates	Claim Payments	Ending Balance at June 30, 2003
2001-2002	$ 84,210	46,344	(32,760)	97,794
2002-2003	97,794	35,372	(32,578)	100,588

(C) Joint Venture

The County is a participant with seventeen incorporated cities in a joint venture to operate an emergency services organization for the purpose of providing regional planning and mutual assistance in the event of an emergency or disaster in the region including accidents involving hazardous waste. The organization is governed by the Unified Disaster Council composed of one voting member from each represented jurisdiction. A contractual agreement requires that the cities provide one-half of the total required funding each year. The County, by agreement, also provides one-half of the required yearly funding. Any participant may terminate participation in the agreement by giving 120 days notice prior to the beginning of the next fiscal year. Total participant contributions for fiscal year 2002-2003 were $860. The organization had a cumulative surplus of $32 at June 30, 2003. Separate financial statements for the joint venture may be obtained from the County Chief Financial Officer/Auditor and Controller.

(D) Jointly Governed Organizations

The County Board of Supervisors jointly governs two service authorities, the Service Authority for Abandoned Vehicles and the Service Authority for Freeway Emergencies (S.A.F.E.). These Authorities are governed by two seven-member boards, consisting of representatives from the city councils of the incorporated cities within the County and two members of the County Board of Supervisors. The

NOTES TO BASIC FINANCIAL STATEMENTS
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purpose of the authorities is to provide for the removal of abandoned vehicles on streets and highways and to provide for freeway emergency call boxes on major freeways within the County, respectively. Funding for the authorities is derived from vehicle license fee surcharges, which are collected by the State and deposited into the County Treasury. The County provides minimal administrative staff support for these authorities.

The County Board of Supervisors and the San Diego City Council jointly govern the San Diego Workforce Partnership (Partnership). The Partnership's Board of Directors consists of two members of the County Board of Supervisors, two members from the San Diego City Council and one member of a charitable organization. The purpose of the Partnership is to provide employment training to area residents. Funding for such training is provided by State and Federal grants.

The County also jointly governs the San Dieguito River Valley Authority, the Serra Cooperative Library System, Southern California Regional Training and Development Center, and the Van Horn Regional Treatment Facility. The governing boards of these entities consist of representatives from the County and/or other regional governments and other counties. The County does not appoint a voting majority to the above boards. Services provided by these entities include park land acquisition, coordination of library services, regional governmental training, and treatment of emotionally disturbed youth.

(E) San Diego County Employees' Retirement System

(1) Plan Description

The SDCERA administers a multi-employer plan which provides retirement, disability, and death benefits for plan members and beneficiaries pursuant to the County Retirement Law of 1937, as enacted and amended by the State legislature. The plan is integrated with the Federal Social Security System. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the SDCERA Board of Retirement. SDCERA issues a publicly available financial report that includes financial statements and required supplementary information for the pension plan. The financial report may be obtained by writing to the San Diego County Employees Retirement Association, 401 West A Street, Suite 1300, San Diego, California 92101 or by calling (619) 515-0130.

(2) Basis of Accounting and Fair Value of Investments (See Notes 1E and 1G, respectively).

(3) Funding Policy

State statutes require member contributions to be actuarially determined to provide a specific statutory level of benefit. Member contribution rates, as a percentage of salary, vary according to age at entry, benefit tier level, and certain negotiated contracts which provide for the County to pay a portion of the employees' contribution. Member contribution rates (weighted average) expressed as a percentage of salary are 8.39%-8.85% for general members and 9.27% for safety members. The County is also required by State statutes to contribute at an actuarially determined rate; the fiscal year 2002-2003 rates, expressed as a percentage of covered payroll, are 0% for general members and 6.87% for safety members.

In March 2002, the County implemented a new enhanced retirement package. In October 2002, the County issued taxable Pension Obligation Bonds to fund a portion of its statutory obligations arising from enhanced benefits. Member and County contribution rates will be adjusted to cover enhanced benefits.

(4) Annual Pension Cost

An actuarial valuation is not yet available to provide current annual pension costs and comparative figures with the prior year. For the fiscal year ended June 30, 2002, the County's annual pension cost was zero. The County's actual contribution during the fiscal year ended June 30, 2002, totaled $5.3 million, resulting in a net pension obligation of $7.7 million as of June 30, 2002. The required

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contribution rates, as adopted by the SDCERA Board, were determined as part of the June 30, 2001 actuarial valuation based on entry-age actuarial cost method. The actuarial assumptions included (a) an 8.25% investment rate-of-return, (b) projected salary increases of 4.5% per year, and (c) cost-of-living increases for retirees of 3%.

(5) Three-Year Trend Information:

Fiscal Year Ending June 30	Annual Pension Cost (ARC)	Percentage of ARC Contributed	Net Pension Obligation
2000	$14,341		$14,341
2001	4,927	41.3%	15,548
2002		100%	7,686

The Board of Retirement elected to offset the County's annual required contributions (ARC) for the fiscal year ended June 30, 2000 from the considerable surplus within the Pension Trust Fund. Therefore, no County monies were expended for the ARC.

(6) Retiree Health Benefits:

Retiree health benefits may be available to eligible retirees to the extent that the Board of Retirement on an annual basis approves the payments of such benefits. The Board of Supervisors and the Board of Retirement adopted a funding mechanism under 401(h) of the Internal Revenue Service Code, which calls for a portion of the County's contributions to be deposited to a separate account each year. The amount of the contributions placed in this account are then withdrawn from the investment earnings which exceed the assumed rate of return of the portfolio, and placed in the retirement fund to ensure the funding of the pension benefits are made whole and complete. The health benefits fund began its funding with $19.9 million that can only be used to pay retirement health benefits.

Approximately 9.65 thousand retirees or surviving spouses are eligible to receive these benefits. SDCERA recognizes the cost of providing those benefits by expending annual insurance premiums, which approximated $20 million for fiscal year 2002-2003. A reserve established by the SDCERA Board of Directors for the payment of postretirement health care benefits was approximately $269.1 million at June 30, 2003, a $16.5 million decrease from the previous fiscal year.

(7) Equity and Bond Swaps and Futures Contracts

SDCERA utilizes various financial instruments, such as, equity and bond interest rate swap agreements and stock and bond futures contracts, in order to synthetically create exposure to the equity and bond markets. These financial instruments are intended to be equivalent to the asset they are designed to emulate, and SDCERA management believes such investments offer significant advantages over the direct investment in securities, including lower transaction fees and custody costs. The SDCERA governing board of directors has adopted a policy whereby specified amounts of cash and certain securities equal the exposures resulting from these agreements.

The use of swap agreements does expose the pension trust fund to the risk of dealing with financial counter parties and their ability to meet the terms of the contracts. Forward contracts for the purchase of certain commodities are reported at fair market value in the financial statements. Obligations to purchase the commodities are not recognized until the commodities are delivered.

(F) Prior Year Advance

Prior to the issuance of Revenue Bonds in 1995 by the San Diego County Redevelopment Agency, the County Airport Enterprise Fund funded the initial expenditures of the Agency's two airport projects. The Redevelopment Agency is required to reimburse the Airport Enterprise Fund, which spent approximately $9.6 million on the projects consisting of $3.7 million for initial expenditures and $5.9 million for 2001.

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The Agency pays interest on advances, but is not responsible for payment until funds are available for this purpose. As of June 30, 2003, interest of approximately $3.7 million has accrued on these advances.

(G) New Governmental Accounting Standards

In June 2001, GASB issued Statement No. 38, "Certain Financial Statement Note Disclosures". This statement modifies, establishes, and rescinds certain financial statement disclosure requirements. Modifications to the note disclosures primarily focus on: a) revenue recognition policies; b) action taken in response to significant violations of legal or contractual provisions; c) debt service requirements; d) lease obligations; e) short-term debt; and f) interfund balances. GASB Statement No. 38 was partially implemented in the previous year. For the year ended June 30, 2003, the County adopted the disclosure provisions for receivables, payables, interfund transfers and short-term debt per GASB 38 requirements. Accordingly, certain note disclosures have been revised or added to comply with the provisions of this statement.

(H) Securitization of Tobacco Settlement Revenues

The Tobacco Securitization Authority of Southern California (the "Authority") issued $466.8 million in aggregate principal amount of Tobacco Settlement Asset-Backed Bonds in January of 2002 (the "Bonds"), in order to fund the Authority's loan to San Diego Tobacco Asset Securitization Corporation, a California non-profit public benefit corporation (the "Borrower") pursuant to a loan agreement between the Authority and the Borrower. The Borrower in turn used the net proceeds of the financing, in the amount of $411 million, to pay to the County, in return for the County's transfer to the Corporation of all of the County's right, title and interest in and to and under a Master Settlement Agreement (the "MSA"), as agreed to by the State and participating jurisdiction, and a Memorandum of Understanding (the "MOU") and a supplemental agreement (the "ARIMOU") among the State of California, all California counties and four California cities, including the right of the County to receive Tobacco Settlement Payments. The MSA was entered into in November 1998, among the Attorney Generals of 46 states, the District of Columbia, The Commonwealth of Puerto Rico, Guam, U.S. Virgin Islands, American Samoa and the Commonwealth of Northern Mariana Islands and collectively, the "Settling States" and the four largest tobacco manufacturers. Under the terms of the MSA, the settling tobacco companies agreed, among other things, to make periodic payments in perpetuity ("Tobacco Settlement Payments") in exchange for being released from claims related to the use of tobacco products. Under the MOU and the ARIMOU, the State of California agreed to distribute 50% of the Tobacco Settlement Payments it received to California counties (including the County) and four cities; the relative amounts to be received by the counties is based upon population, with adjustments being made in response to each decennial U.S. census. When the Tobacco Settlement Payments became available to the County, the County Board of Supervisors adopted Board Policy E-14, which establishes guidelines for the allocation of these revenues to new and expanded programs that would serve these targeted populations and also promote healthy lifestyles. The emphasis is on prevention and education, and is intended to reduce the abuse of alcohol, tobacco and other addictive substances, improve mental health services, significantly reduce violence and abuse, reduce the incidence of chronic and infectious diseases, and provide education regarding the effects of tobacco.

Prior to its sale of the Tobacco Settlement Payments, the County of San Diego had received approximately three years of annual payments. The County expects to use approximately $29.4 million annually from the proceeds from the sale (which were deposited in an endowment fund and invested in municipal securities) for Board Policy E-14 purposes.

The bonds are limited obligations of the Authority payable solely from payments made by the Corporation, from Tobacco Settlement Payments purchased from the County, between the Corporation and the Authority. For the year ended June 30, 2003, $35,444 of Tobacco Settlement Payments was recorded as Other revenue in the Tobacco Securitization Joint Special Revenue Fund. The bonds do not constitute a charge against the general credit of the Authority or the County and neither will the Authority (except from loan payments by the Corporation) or the County be obligated to pay the

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interest on or principal of these bonds. These bonds do not constitute a debt, liability or obligation (legal, moral or otherwise) of the County.

Future debt service requirements of the Authority as of June 30, 2003 are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total Debt Service
2004	$ 1,830	24,892	26,722
2005	2,155	24,818	26,973
2006	2,015	24,732	26,747
2007	1,890	24,652	26,542
2008	2,065	24,557	26,622
2009-2013	12,750	121,050	133,800
2014-2018	15,245	117,631	132,876
2019-2023	24,620	112,800	137,420
2024-2028	39,880	104,919	144,799
2029-2033	64,305	91,679	155,984
2034-2038	90,865	71,048	161,913
2039-2043	191,615	42,348	233,963
Total	$449,235	785,126	1,234,361

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