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I. Summary of Significant Accounting Policies

A. The Reporting Entity

The County of San Diego (the "County" or "CoSD"), 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 "CoSD Board"). The County provides a full range of general government services including police protection, detention and correction, public assistance, health and sanitation, recreation, library, flood control, public ways and facilities, inactive waste management, airport management and general financial and administrative support.

As required by generally accepted accounting principles in the United States of America (GAAP), these financial statements present the County (the primary government) and its component units, entities for which the County is considered to be financially accountable. The component units discussed below are included in the County's reporting entity because of the significance of their operational or financial relationships with the County. Management applied the criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," and Statement No. 39, "Determining Whether Certain Organizations are Component Units - an amendment of GASB Statement No. 14," to determine whether the following component units should be reported as blended or discretely presented component units. Blended component units, although legally separate entities are, in substance, part of the County's operations. Data from these component units are combined with the data from the primary government. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the County.

1. Blended Component Units

Blended component units governed by the CoSD Board include the County of San Diego In-Home Support Services Public Authority (IHSS), the San Diego County Housing Authority, the San Diego County Redevelopment Agency, as well as various service areas and districts which provide specific services County-wide or to distinct geographic areas within the County. While each of these component units is legally separate from the County, the County is financially accountable for these entities. Financial accountability is demonstrated by the CoSD Board acting as the governing board for each of these component units. Descriptions of these component units are as follows:

County of San Diego In-Home Supportive Services Public Authority (IHSS) - This authority 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 as a *special revenue fund.*

San Diego County Housing Authority - This authority 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*.

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*.

Air Pollution Control District - This district 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*.

County Service Districts - These special districts 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 district 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 district 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*.

Sanitation Districts - These districts 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*.

Blended component units governed by Boards other than the CoSD Board include the San Diego County Capital Asset Leasing Corporation, the San Diego County Tobacco Asset Securitization Corporation, the Tobacco Securitization Joint Powers Authority of Southern California. Because of their relationship with the County and the nature of their operations, these component units are, in substance, part of the County's operations and, accordingly, the activities of these component units are combined (blended) with the activities of the County for purposes of reporting in the accompanying basic financial statements. The basis for blending these component units is that the governing bodies are substantially the same as the CoSD Board.

Descriptions of these component units are as follows:

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 CoSD Board. This corporation is included in the *special revenue, debt service* and *capital projects 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. The Corporation is governed by a 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. This fund is included as a *special revenue fund*.

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 between the County of San Diego and the County of Sacramento pursuant to Government Code Sections 6500 et seq. 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

CoSD's future tobacco settlement revenues under the Purchase and Sale Agreement. The Authority is administered by a Board of Directors consisting of three members, two members who are appointed by the CoSD Board and the third member is appointed by the Sacramento County Board of Supervisors. This fund is included as a *special revenue fund*.

Separately issued financial reports of the County's blended component units can be obtained from the County Auditor and Controller's Office located at 1600 Pacific Highway, Room 166, San Diego, California 92101.

The San Diego County Employees' Retirement Association (SDCERA) is a separate legal entity and is fiscally independent of the County. It is controlled and governed by the Board of Retirement and not by the County Board of Supervisors. In previous fiscal periods, SDCERA was reported as a component unit of the County. Based on a reevaluation of the financial accountability criteria established in Governmental Accounting Standards Board Statement Number 14 "The Financial Reporting Entity," SDCERA was determined not to be a component unit of the County. Accordingly, beginning in fiscal year 2006-07 (2007), SDCERA is excluded from the County's fiduciary funds and no longer reported as a pension trust fund in the basic financial statements. The SDCERA publishes a separately audited Comprehensive Annual Financial Report which may be obtained by writing to the San Diego County Employees Retirement Association, 2275 Rio Bonito Way Suite 200, San Diego, California 92108 or by calling (619) 515-0130.

2. Discrete Component Unit

The *First 5 Commission of San Diego (Commission)* was established by the Board as a separate legal entity under the authority of the California Children and Families First Act and Sections 130100 et seq. of the Health and Safety Code. It administers the County's share of tobacco taxes levied by the State for the purpose of implementing early childhood development programs. The County appoints all of the Commission's board and can remove appointed members at will. The Commission is discretely presented because its Board is not substantively the same as the County's and it does not provide services entirely or almost entirely to the County. A separately financial report can be obtained by writing to The First 5 Commission, 1495 Pacific Highway, Suite 202, (MS-A211), San Diego, CA, 92101-6466 or at http://www.first5sandiego.com/ContentPage.asp?ContentID=188

B. Government-Wide and Fund Financial Statements

1. Government-Wide Financial Statements

The government-wide financial statements consist of the statement of net assets and the statement of activities and report information on all of the nonfiduciary activities of the primary government and its component units. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. However, interfund services provided and used are not eliminated in the process of consolidation. All internal balances in the statement of net assets have been eliminated, with the exception of those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total government column. The statement of activities presents function revenue and expenses of governmental activities and business-type activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. In the statement of activities, internal service funds' revenue and expenses related to interfund services have been eliminated. Revenue and expenses related to services provided to external customers have not been eliminated and are presented within governmental activities.

The government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the County include general government, public protection, public ways and facilities, public assistance, health and sanitation, recreation and cultural, and education activities. The business type activities of the County include sanitation, wastewater and airport.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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.

2. Fund Financial Statements

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. Major individual governmental funds are reported as separate columns in the fund financial statements.

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 recreation and cultural. Expenditures 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.

The County reports the following additional funds and fund types:

Enterprise Funds account for airport, sanitation district and wastewater management activities, including operations and maintenance, sewage collection and treatment services.

Internal Service Funds account for the financing of public works and communications equipment; the financing of materials and supplies (purchasing); start up services for new and existing county service districts; the County's public liability and employee benefits activities; the financing of fleet services; facilities management activities; the financing of information technology services; and the financing of clothing and personal sundry items for persons institutionalized at various county facilities. Goods or services provided by servicing County departments are paid for on a cost reimbursement basis by receiving departments.

The following fiduciary funds account for resources that are held by the County as a trustee or agent for outside parties and cannot be used to support the County's programs.

Investment Trust Funds account for two types of investment activities on behalf of external entities and include: the portion of the County Treasurer's investment pool applicable to external entities (Pool Investments- Investment Trust Fund); and the total amount of individual investment accounts held on behalf of external entities by the Treasurer (Specific Investments - Investment Trust Fund). In general, external entities include school districts, independent special districts and various other governments. The Specific Investments - Investment Trust Fund was created in 2007 for the purpose of reporting individual investments which are offered as an alternative to a pooled position, (also, see Note V., G., 2. Restatements, Specific Investments-Investment Trust Fund.)

Agency Funds are custodial in nature, do not involve measurement of results of operations and account for assets held by the County as an agent for various local governments, organizations and individuals. Included are funds for child support payments; payroll taxes; public administrator and public guardian accounts; and apportioned taxes for other local governments.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Sales taxes, interest, state and federal grants, and charges for services are accrued when their receipt occurs within 180 days following the end of the fiscal year. Property taxes are accrued if they are collectible within 60 days after the end of the accounting period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims, and judgments, are recorded only when payment is due. General capital assets acquisitions and general principal payments are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's enterprise funds and internal service funds are charges to customers for services. Operating expenses for enterprise funds and internal service funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

For *business-type activities*, the County has elected to apply all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting

Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The County has elected not to apply the FASB standards issued subsequent to November 30, 1989. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental users.

When both *restricted and unrestricted resources* are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Fund Balance

1. Deposits and Investments

For purposes of reporting the statement of cash flows, the County considers all short-term highly liquid investments (including restricted assets) to be cash equivalents. Investments held in the County Treasury's Investment Pool are available on demand to individual participants and are considered highly liquid and cash equivalents for purposes of the statements of cash flows.

Investments are stated at fair value. Securities, which are traded on a national exchange are valued at the last reported sales price at current exchange rates. The fair value of investments is determined monthly and is provided by the custodial bank.

2. Receivables and Payables

Activity between funds that are representative of lending and borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All property taxes and accounts receivable are shown net of an allowance for uncollectibles.

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

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

Pursuant to State law, in fiscal year 1994 the County adopted the Teeter Plan, an alternative method of distributing secured property taxes to local agencies. Under this tax distribution method, the County General Fund annually advances to participating agencies the full amount of their share of current delinquent property taxes on the secured roll. In exchange, the General Fund receives all future delinquent tax payments, penalties and interest. While the County bears the risk of loss on delinquent taxes that go unpaid, it benefits from the penalties associated with these delinquent taxes when they are paid. In turn, participating local agencies receive a stable cash flow and eliminate collection risk. Under the Teeter Plan, the County is required to establish a tax loss reserve fund, equal to 25% of the current year delinquent secured tax levy at June 30th, to cover losses that may occur as a result of special sales of tax-defaulted property (i.e., if the sale price of the property is less than the amount owed). The tax loss reserve requirement for fiscal year 2007 was $16.7M.

3. County Leased Property

The County leases real property to the private sector and other governmental agencies. In the government-wide and proprietary funds financial statements, non-cancelable and cancelable leases are reported in the applicable governmental activities or proprietary funds' statement of net assets.

4. Inventories and Prepaid Items

Inventories consisting 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 other governmental funds as an asset with an offsetting reserve. Proprietary fund types are carried at average cost and are expended when consumed. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The inventories and prepaid items recorded in the governmental funds do not reflect current appropriable resources and thus, an equivalent portion of fund balance is reserved.

5. Deferred Charges

Bond issuance costs are deferred and amortized over the life of the bonds using the straight-line method. In the government-wide financial statements, deferred charges are reported as assets in the governmental activities.

6. Restricted Cash and Investments

Debt covenants require resources to be set aside to repay principal and interest thereon for tax and revenue anticipation notes, pension obligation bonds, SANCAL certificates of participation and Redevelopment Agency bonds as restricted assets. Additionally, Tobacco Securitization Special Revenue Fund resources have been restricted and set aside to fund new and existing programs.

7. Capital Assets

Capital assets are of a long-term character and include: land, buildings and improvements, construction in progress, equipment and infrastructure.

Infrastructure assets include roads, bridges, street lights, signals, flood channels and sewers.

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

Table 1

Capitalization Thresholds	
Buildings and improvements	$ 50
Infrastructure	25-50
Equipment	5

Depreciation is charged over the capital assets' estimated useful lives using the straight-line method for proprietary and governmental fund types. 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. Estimated useful lives are shown in **Table 2.**

Table 2

Estimated Useful Lives	
Buildings and improvements	50 years
Infrastructure	10-15 years
Equipment	5-20 years

8. Deferred and Unearned Revenue

Under both the accrual and modified accrual basis of accounting revenue may be recognized only when earned. Therefore, the government-wide statement of net assets as well as governmental and enterprise funds defer revenue recognition in connection with resources that have been received as of year-end, but not yet earned. In the government-wide statement of net assets deferred revenue represents unearned revenue. Assets recognized in connection with a transaction before the earnings process is complete are offset by a corresponding liability for both deferred and unearned revenue. Under the modified accrual basis it is not enough that revenue has been earned if it is to be recognized in the current period. Revenue must also be susceptible to accrual (i.e. measurable and available to finance expenditures of the current period). Governmental funds report deferred revenues in connection with receivables for revenues not considered available to liquidate liabilities of the current period.

9. Lease Obligations

The County leases various assets under both *operating* and *capita*l lease agreements. In the government-wide and proprietary funds financial statements, capital lease obligations are reported as liabilities in the applicable governmental activities or proprietary funds statement of net assets.

10. Long-Term Obligations

In the government-wide financial statements, and proprietary fund type fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Certificates of participation and bond premiums, discounts, deferred amounts on refunding and issuance costs are *deferred* and *amortized* over the life of the *straight-line method*. Bonds and certificates of participation payable are reported net of the applicable premium, discount, or deferred amount on refunding. In the fund financial statements, governmental fund types recognize bond and certificates of participation premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

11. Employee Compensated Absences

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

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 $82.8 million for the governmental activities as of June 30, 2007, 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.

12. Termination Benefits

Effective December 2000, County employees in the unclassified service may receive 50% of the cash value of all or a portion of their sick leave balances upon termination or retirement. The cash value of these benefits was $6.8 million at June 30, 2007. This liability has been recorded in the current and long-term portion of compensatable absences in the appropriate proprietary funds and the statement of net assets. All County employees who have completed at least five years of continuous service in the County retirement system, and have a sick leave balance of at least one hundred hours, may convert, at retirement, all or a portion of their sick leave balance to retirement service credits on a hour-for-hour basis. The impact of the conversion of sick leave balances to retirement service credits on the County's actuarial accrued liability, as part of its defined benefit pension plan, is not estimatable, however, contribution requirements as determined in the actuarial valuation as of June 30, 2007 include assumptions regarding employee terminations, retirement, death, etc.

13. Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

14. Net Assets Invested in Capital Assets, Net of Related Debt

This amount is derived by subtracting the outstanding debts, (adjusted by any unamortized deferred charges (costs of issuances), premiums, discounts, deferred amounts on refunding, and unspent proceeds related to debt), incurred by the County to buy or construct capital assets shown in the statement of net assets. Capital assets cannot readily be sold and converted to cash.

15. Restricted Net Assets

Restricted net assets arise when restrictions on the use of net assets are externally imposed by a creditor, (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports $208.665 million of restricted net assets, all of which was externally imposed.

16. Unrestricted Net Assets

These assets are resources of the County that can be used for any purpose, though they may not necessarily be liquid. In addition, assets in a restricted fund that exceed the amounts required to be restricted by external parties or enabling legislation are reported as unrestricted net assets.

(Amounts Expressed in Thousands Unless Otherwise Noted)

17. Indirect Costs

Expenditures and expenses for functional activities include County indirect costs that are allocated to benefiting departments. Cost allocations were based on the County's Fiscal Year 2007 *County-wide Cost Allocation Plan* which was prepared in accordance with Federal Office of Management and Budget Circular A-87.

18. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates. Where significant estimates have been made in preparing these financial statements, they are described in the applicable footnotes.

II. Reconciliation of Government-Wide and Fund Financial Statements

A. Balance Sheet/Net Assets

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

Table 3

Governmental Fund Balance Sheet / Government-Wide Statement of Net Assets Reconciliation	
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of this $2,246,288 difference are as follows:	
Bonds, notes and loans payable	$ 2,427,781
Less: Unaccreted appreciation - capital appreciation bonds	(253,171)
Less: Unamortized deferred amounts on refundings (to be amortized as interest expense)	(26,922)
Less: Unamortized issuance discounts (to be amortized as interest expense)	(21,362)
Less: Unamortized issuance costs (to be amortized over the life of the debt)	(21,175)
Unamortized issuance premiums	7,351
Capital lease obligations (excluding Internal Service Funds)	29,623
Arbitrage	2
Compensated absences (excluding Internal Service Funds)	80,545
Landfill closure and postclosure - San Marcos landfill	23,616
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	$ 2,246,288
Internal Service Funds (See description of Internal Service Funds in Note I. B. 2. Fund Financial Statements, *Internal Service Funds.*)The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets. The details of this $104,957 difference are as follows:	
Net assets of the internal service funds	$ 105,720
Less: Internal payable representing charges in excess of cost to business-type activities - prior years	(589)
Less: Internal payable representing charges in excess of cost to business-type activities - current year	(174)
Net adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities	$ 104,957

(Amounts Expressed in Thousands Unless Otherwise Noted)

B. Statement of Revenues, Expenditures and Changes in Fund Balance/Statement of Activities

Explanations of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities are detailed below:

Table 4

Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities Reconciliation	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this $50,152 difference are as follows:	
Capital outlay	$ 138,017
Depreciation expense	(87,865)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$ 50,152
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets. The details of this $6,131 difference are as follows:	
The proceeds from the sale of capital assets provide current financial resources but have no effect on net assets	$ (1,601)
The loss on the disposal of capital assets does not affect current financial resources but decreases net assets	(7,391)
Donations of assets to the County do not provide current financial resources but resources increase net assets	15,123
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$ 6,131
The issuance of long-term debt (e.g. bonds, notes, and loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of this $(33,512) difference are as follows:	
Debt issued or incurred:	
Face value of capital loans issued	$ 462
Face value of bonds issued	42,390
Plus: Premiums	606
Less: Costs of issuances	(885)
Principal repayments	(73,816)
Capital lease payments	(2,271)
Arbitrage	2
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$ (33,512)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. The details of this $36,643 difference are as follows:	
Compensated absences	$ 4,404
Accrued interest	1,055
Accretion of capital appreciation bonds	7,175
Amortization of premium	(512)
Amortization of deferred amounts on refundings	21,661
Amortization of issuance costs	1,620
Amortization of discounts	1,240
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$ 36,643
Internal Service Funds (See description of Internal Service Funds in Note I. B. 2. Fund Financial Statements, Internal Service Funds.) The net revenue of certain activities of internal service funds is reported with governmental activities." The details of this $22,445 difference are as follows:	
Change in net assets of the internal service funds	$ 22,619
Less: Loss from charges to business activities	(174)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$ 22,445

(Amounts Expressed in Thousands Unless Otherwise Noted)

III. Stewardship, Compliance and Accountability

A. Fund Deficits

The funds in **Table 5** below had accumulated deficits at June 30, 2007.

The deficit in the Employee Benefits fund resulted from the accrual of known and projected losses, allocated loss adjustment expenses and unallocated loss adjustment expenses based on actuarial studies. The deficit has decreased by $11 million from the previous year due to interest earned in the fund, an increase in the premium rate, and lower claims and other expenses. The County intends to reduce the deficit through increased premium rate charges to County departments by $4 million per year.

The deficit within the Facilities Management Internal Service fund decreased from $7 million at June 30, 2006 to $2.1 million. The decrease was primarily due to a contribution from the General Fund of $3.9 million. The remaining deficit is due to the use of two California Energy Commission loans for expenses incurred for maintenance cost and energy conservation equipment. The deficit will be reduced by including it in the utility rates calculation charged to the departments. The loans will be repaid by FY 2014/2015.

Table 5

Fund Deficits - Various Funds	
Internal Service Funds:	
Employee Benefits Fund	$ 26,363
Facilities Management	2,098

IV. Detailed Notes on all Funds

A. Deposits and Investments

The authority to conduct County investment activities is delegated to the Treasurer by the Board per Government Code 27000 et seq. Accordingly, the Treasurer's office is responsible for the Investment Pool (Pool) and various specific investment accounts outside of the Pool. Additionally, the Treasurer has oversight responsibilities regarding debt covenant investments held with fiscal agents and is responsible for authorizing the establishment of all County bank accounts.

The Pool is available for use by all funds. Each fund type's portion of the Pool is displayed on the statements of net assets/balance sheets as "pooled cash and investments." The share of each fund's pooled cash and investments account is separately accounted for and interest earned, net of related expenses, is apportioned quarterly based on the fund's average daily balance in proportion to the total pooled cash and investments. In accordance with Government Code 53647, apportionments applicable to certain agency funds accrue to the benefit of the General Fund.

Pool participants include the County, local school districts, local community colleges, and other districts and agencies. Local school districts are required by State statutes to deposit their funds with the County. Mandatory participants in the Pool comprise approximately 98% of the Pool's assets. Voluntary agencies are not required to place their funds in the Pool but do so only as an investment option. Voluntary agencies include cities, fire districts and various special districts. The Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company and does not have any binding guarantees of share values.

The Pool operates under the prudent person standard. The primary objective is to safeguard the principal of the funds. The secondary objective is to meet the liquidity needs of the participants. The third objective is to achieve an investment return on the funds with the parameters of prudent risk management.

Government Code 53601 governs the types of investments that may be purchased and makes certain restrictions on investment maturity, maximum portfolio percentages, term, value, and timing to minimize the risk of loss.

Permitted types of investments and financial instruments include: government obligations; banker's acceptances; commercial paper; negotiable certificates of deposit; repurchase agreements; reverse repurchase agreements; medium-term notes; collateralized certificates of deposit; money market mutual funds; and mortgage pass-through securities, mortgage backed securities, and mortgage collateralized securities.

In addition to the restrictions cited in the Government Code, the Board annually adopts an Annual Investment Policy for the Pool. The policy is prepared by the Treasurer and is based on the criteria in Government Code 53601 and adds further specificity and restrictions to permitted investments. A comparison of Pool investment restrictions to investments permitted by the Government Code is shown on **Table 7A.**

Pursuant to Government Code 27130 et seq., the Board established a Treasurer's Oversight Committee (TOC) that monitors the management of funds and compliance with the Pool's investment policy. The TOC consists of members from the districts or offices they represent and up to five members of the public, having expertise in, or an academic background in public finance. The TOC requires an annual financial audit. In this regard, the Treasurer issues a separate stand-alone financial report for the Pool which can be obtained from the Treasurer's Office which is located at 1600 Pacific Highway, Room 162, San Diego, California 92101 or at http://www.sdtreastax.com/mcf_afreports.html

The Treasurer also holds specific investments on behalf of units inside and outside of the primary government that are referred to as individual investment accounts. Earnings derived from these investments are credited separately to each fund.

Assets classified on the statements of net assets/balance sheets either as "cash with fiscal agent" or "investments with fiscal agents" (both restricted and unrestricted) include individual investment accounts held by the Treasurer on behalf of inside and outside units, amounts held by trustees as a result of primary government units' debt covenants and cash held in custodial banks separate from those that service the Treasurer's Pool.

Specifics regarding deposits and investments are discussed below. Please refer to **Table 7**, **Investments**, which provides details concerning the types of securities held by the Pool and fiscal agents at June 30, 2007 along with their; fair value; interest rate and maturity ranges; weighted average maturity (days); security rating; and percentage of portfolio. Also, refer to **Table 8, Deposits and Investments Reconciliation** which summarizes these balances by fund type.

1. Deposits

At June 30, 2007, the carrying amount of the Treasury's deposits were $23.541 million while the related bank balance with various financial institutions totaled $23.535 million. The bank balance amount with various financial institutions consisted of $21.844 million in demand deposits and $1.691 million in insured time deposits. Of the total bank balance amount, $1.891 million was covered by federal deposit insurance and $21.644 million was collateralized with securities held by the pledging financial institution in the County's name. The County is in compliance with State statutes that require depositories having public funds on deposit to maintain Pool 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.

(Amounts Expressed in Thousands Unless Otherwise Noted)

At June 30, 2007 the carrying amount of the Cash with Fiscal Agents was $10.117 million, while the related bank balance with various financial institutions was $11.742 million. Of this, $6.029 million was uncollateralized and held in escrow accounts related to third party contracts. The remaining $5.714 million was held in demand deposits, for which $.335 million was covered by federal deposit insurance and $5.379 million was collateralized with securities held by the pledging financial institution or their agents.

2. Investments

At June 30, 2007 the fair value of the Pool's investments was $4.55 billion and the fair value of investments with fiscal agents was $1.36 billion. Investments are stated at fair value. Securities, which are traded on a national exchange are valued at the last reported sales price at current exchange rates. The fair value of investments is determined monthly and is provided by the custodial bank.

The Pool's investments were in compliance with the Treasurer's more restrictive policy. Specific investments held by the Treasurer for units inside and outside of the primary government and trustee held investments complied with the aforementioned Government Code 53601. Accordingly, the County believes it is not at measurable risk with respect to the risk areas discussed below.

3. Investment Risks

a. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment.

Declines in the fair value of investments are managed by limiting the length of the maturity of securities. In general, the maximum maturity allowed is five years unless the Board has granted express authority either specifically or as part of an investment program. The policy related to the maturity structure of Pool requires that 50% of the portfolio include short-term instruments up to one year (25% maturing within 90 days and 25% maturing within 91to 365 days) and no more than 50% to mature in 1 to 5 years. In compliance with the policy, a weighted average of 74% of the Pool's investments had a maturity of 90 days or less at June 30, 2007.

Generally, investments with fiscal agents are structured in such a way that securities mature at the times and in the amounts that are necessary to meet scheduled expenditures and withdrawals.

b. Credit Risk

This is the risk that an issuer or other counterparty to *a* debt instrument will not fulfill its obligations.

The Pool investment policy and the Government Code set minimum credit ratings for each type of security. Asset allocations with respect to the credit quality are based on Standard and Poor's Fund Credit Quality Rating Matrix as noted below:

Table 6

S & P Investment Rating		
Investment Pool		
Rating	**Min. Fund%**	**Max. Fund %**
AAA	67	100
AA	0	33
A	0	1
Investments with Fiscal Agents		
Short Term	A-1	
Long Term	A-1	

c. Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

The Pool Investment policy limits the amount of exposure to any one single issuer to five percent. An exclusion to this limit is dependent upon the weighted average days to maturity for commercial paper. If the weighted average days is 5 days or less, the issuer limit can increase to ten percent of the total portfolio. The Government Code requires specific percentage limitations for a particular category of investment and limits the purchase of commercial paper to no more than ten percent of the outstanding commercial paper of any single issuer. Investments are in compliance with State law. At June 30, 2007 the Pool's exposure to Negotiable Certificates of Deposit issued by Fortis Bank New York was 5.8%. On the date of purchase, these investments were 4.97% of the pool. Government Code 53601 requires that when determining a percentage limitation, that percentage is only applicable at the date of purchase. A later increase or decrease in a percentage resulting from a change in values or assets shall not constitute a violation of that restriction. The Pool's investment policy is silent in this area, but was applied consistent with State code. Please refer to **Table 7**.

d. Custodial Credit Risk

This is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

The investment policy does not permit investments in uninsured and unregistered securities not held by the County. Although the policy does permit securities lending transactions, the pool portfolio has not been exposed to securities lending transactions.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 7

Investments

	Fair Value	Interest Rate Range	Maturity Range	Weighted Average Maturity (days)	S&P Rating	% of Portfolio
Pooled Investments						
US treasury notes	$ 319,459	4.54% - 5.08%	07/07 - 05/12	449	AAA	7.02%
Federal farm credit bank notes	49,150	3.50% - 4.96%	05/08 - 02/11	942	AAA	1.08%
Federal home loan bank notes (1)	259,247	2.50% - 5.71%	07/07 - 04/12	787	AAA	5.70%
Federal national mortgage assn. notes	49,915	3.80% - 4.00%	07/07 - 09/07	44	AAA	1.10%
Federal home loan mortgage corp. notes (1)	284,885	4.00% - 5.38%	08/07 - 03/12	539	AAA	6.26%
Medium-term notes	178,303	5.07% -5.70%	10/07 - 12/09	285	A+	3.92%
Medium-term notes	50,000	5.30%	09/07	66	A-1+	1.10%
Commercial paper	1,708,348	5.26% - 5.45%	07/07 - 11/07	35	A-1	37.53%
Asset-backed notes (semi-annual)	32,368	5.13% - 5.34%	03/08 - 05/09	590	AAA	0.71%
Asset-backed notes (monthly)	13,773	5.55%	05/09	685	AAA	0.30%
Repurchase agreements and sweep	302,494	3.88% - 5.43%	07/07	2	N/A	6.65%
Negotiable certificates of deposit	1,190,259	5.28% - 5.61%	07/07 - 06/08	58	A-1+	26.15%
Open-end institutional money market funds	56,950	5.18% - 5.24%	07/07	1	AAA	1.25%
Collateralized certificates of deposit	35,000	5.17%	01/08	214	N/A	0.77%
Collateralized certificates of deposit	20,000	5.12% - 5.14%	02/08 - 05/08	286	N/A	0.44%
Time deposits	496	4.94% - 5.10%	08/07 - 05/08	190	N/A	0.01%
Time deposits	1,195	4.85% - 5.27%	07/07 - 05/08	191	N/A	0.03%
Total pooled investments	$ 4,551,842					100%
County investments with fiscal agents						
Unrestricted:						
Federal home loan bank notes (1)	$ 9,911	4.40%	07/08	394	AAA	1.18%
Federal home loan mortgage corp. notes	3,980	5.25%	02/11	1335	AAA	0.47%
Commercial paper	4,970	5.20%	08/07	38	A-1+	0.59%
Medium term notes	14,744	3.50%-3.77%	5/08-10/08	366	AAA	1.75%
Negotiable certificates of deposit	19,991	5.33%	10/07-01/08	146	A-1+	2.38%
Subtotal	53,596					
Restricted:						
US treasury notes	2,210	4.05%	02/08	216	AAA	0.26%
Federal home loan bank discount notes (1)	33,284	5.27%	11/07	151	N/A	3.96%
Federal home loan mortgage corp. discount notes	74	4.50%	09/07	89	N/A	0.01%
Federal national mortgage assn. discount notes	551	4.50%	07/07-09/07	40	AAA	0.07%
Fixed income tax exempt bonds	11,315	2.63%-3.45%	04/34-04/35	9930	A-1	1.35%
Fixed income tax exempt bonds	10,395	5.75%	09/09	794	A-1+	1.24%
Fixed income tax exempt bonds	19,069	5.00%-5.50%	01/08-12/11	870	AA	2.27%
Fixed income tax exempt bonds	13,173	5.00%-5.25%	09/07-05/10	826	AA-	1.57%
Fixed income tax exempt bonds	43,518	3.50%-5.50%	02/08-01/15	1406	AA+	5.18%
Fixed income tax exempt bonds	284,604	0.00%-6.50%	09/07-05/34	1407	AAA	33.85%
Fixed income tax exempt bonds	8,104	4.50%	07/07	31	SP1-	0.96%
Fixed income tax exempt bonds	2,504	5.50%-5.90%	01/08-03/10	617	N/A	0.30%
Guaranteed investment contracts	321,154	2.70%-5.52%	07/07-08/09	152	NA	38.20%
Mutual funds	16,175	3.57%	07/07	1	N/A	1.92%
Money market funds	20,971	4.05%-4.96%	07/07	1	AAAm	2.49%
Subtotal	787,101					
Total County investments with fiscal agents	$ 840,697					100.00%

(Table 7 continued on next page)

(Amounts Expressed in Thousands Unless Otherwise Noted)

Investments

	Fair Value	Interest Rate Range	Maturity Range	Weighted Average Maturity (days)	S&P Rating	% of Portfolio
(Table 7 continued)						
External specific investments:						
Federal home loan bank notes	$ 3,467	3.88%-5.25%	09/07-06/12	847	AAA	1.01%
Federal home loan mortgage corp. notes	1,484	4.48%-4.75%	09/08-09/22	691	AAA	0.43%
Commercial paper	641	5.12%	01/08	199	A-1	0.19%
Guaranteed investment contracts	327,665	4.21%-5.15%	01/08-12/08	392	N/A	95.28%
Medium term notes	3,449	3.50%-4.88%	05/08-10/10	578	AAA	1.00%
Money market funds	4,686	4.51%-4.74%	07/07	1	AAAm	1.36%
Negotiable certificates of deposit	2,500	5.32%	08/07	46	N/A	0.73%
Total external specific investments	$ 343,892					100.00%
Total investments with fiscal agents	$ 1,184,589					

(1) More than 5% of the Pool's investments are with U.S. agencies whose debt is not guaranteed by the U.S. government .

Table 7A

Investment Pool Policy Restrictions versus Government Code 53601 Requirements

	Maximum Maturity		Maximum % of Portfolio		Maximum % with One Issuer		Minimum Rating	
Investment Type	Gov. Code	Pool Policy	Gov. Code	Pool Policy	Gov. Code	Pool Policy	Gov. Code	Pool Policy
US agency obligations	5 years	5 years	None	None	None	25%	None	None
Local agency obligations	5 years	5 years	None	15%	None	10%	None	A
Bankers' acceptances	180 days	180 days	40%	40%	30%	5%	None	A
Commercial paper	270 days	270 days	40%	40%	10%	(1)	A	A
Negotiable certificates	5 years	5 years	30%	30%	30%	5%	None	A
Repurchase agreements	1 year	1 year	None	40%	None	(2)	None	None
Reverse repurchase agreements	92 days	92 days	20%	20%	None	5%	None	None
Local agency investment fund of California	N/A	N/A	None	10%	None	10%	None	None
Medium term notes/bonds	5 years	5 years	30%	30%	30%	5%	A	A
Mutual funds	N/A	N/A	20%	15%	10%	10%	AAA	AAA
Pass -through securities (3)	5 years	5 years	20%	20%	None	5%	A	A

(1) Maximum exposure per issuer - The maximum exposure to a single issuer shall be 5% of the portfolio when the dollar weighted average maturity is greater than 5 days, 10% of the portfolio when the dollar weighted average maturity is 5 days or less.

(2) Maximum exposure per issue - The maximum exposure to a single RP issue shall be 10% of the portfolio value for RP's with maturities greater than 5 days, 15% of the portfolio for RP's maturing in 5 days or less.

(3) Limited to equipment leasebacked certificates, consumer receivable pass-through certificates or consumer receivable-backed bonds.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 8

Deposits and Investments Reconciliation

	Primary Government							
	Governmental Activities	Business-Type Activities	Total Primary	First 5 Commission	Specific Investments - Investment Trust	Pooled Investments - Investment Trust	Agency Funds	Total
Pooled cash and investments	$ 1,442,244	81,028	1,523,272	21,517		2,584,995	451,993	4,581,777
Cash with fiscal agents:								
Unrestricted	6,054		6,054		5		3,685	9,744
Restricted	373		373					373
Total cash with fiscal agents	$ 6,427		6,427		5		3,685	10,117
Investments with fiscal agents:								
Current - unrestricted	34,816		34,816					34,816
Current - restricted	356,258		356,258					356,258
Noncurrent - unrestricted	18,780		18,780					18,780
Noncurrent - restricted	430,843		430,843					430,843
Unrestricted External specific investments					343,892			343,892
Subtotal investments with fiscal agents	$ 840,697		840,697		343,892			1,184,589
Current - First 5 Commission				174,755				174,755
Total investments with fiscal agents	$ 840,697		840,697	174,755	343,892			1,359,344

Reconciliation of pooled cash and investments:	
Investments in county pool	$ 4,550,151
Add: Demand deposits	23,541
Collection in transit	7,660
Imprest cash	425
Total pooled cash and investments	$ 4,581,777
Reconciliation of pooled investments to Table 7:	
Investments in county pool	$ 4,550,151
Add: Time deposits included in demand deposits above	1,691
Investments in county pool - Table 7	$ 4,551,842

B. Receivables

GASB Statement No.38 requires identification of receivable balances not expected to be collected within one year. **Table 9** below presents receivables at June 30, 2007 for the County's individual major funds, nonmajor governmental and enterprise funds, internal service funds and the discrete component unit including the applicable allowances for uncollectible accounts. The details of the receivables reported in the government-wide statement of net assets that are not expected to be collected within the next fiscal year are identified below:

1. Due From Other Governmental Agencies

Of the $306,747 due from other governmental agencies for governmental activities, $42,867 is not expected to be received within the next fiscal year. This represents the amount the State of California owes to the County for Senate Bill (SB)90 mandated cost reimbursements for programs and services the State requires the County to provide. The State has deferred reimbursement to counties to future fiscal years, however, payment by the State began in Fiscal year 2007; hence this amount is expected to be received in the future.

(Amounts Expressed in Thousands Unless Otherwise Noted)

2. Loans Receivable

$47.422 million of loans receivable for governmental activities consist of loans for low-income housing programs such as down payments for closing costs, community development block grant loans, and various housing rehabilitation loan programs for low-income or special need residents. These loans are not expected to be repaid within the next fiscal year.

Table 9

Receivables
Primary Government and Discretely Presented Component Unit

		Accounts	Interest	Due From Other Gov't Agencies	Loans	Other	Total Receivables	Allowance For Doubtful Accounts	Receivables Net
Governmental activities:									
General Fund	$	3,702	14,264	244,009	6,130		268,105	(2,680)	265,425
Tobacco Securitization Special Revenue Fund			5,799				5,799		5,799
Other Governmental Funds		25,490	6,205	61,130	41,292		134,117	(2,745)	131,372
Internal Service Funds		372	1,671	1,608			3,651		3,651
Total governmental activities	$	29,564	27,939	306,747	47,422		411,672	(5,425)	406,247
Business-type activities:									
Enterprise Fund	$	1,715	1,071	432			3,218		3,218
Component Unit:									
First 5 Commission	$		3,067	6,502		306	9,875		9,875

C. County Property on Lease to Others

The County has *noncancelable* operating leases for certain properties which are not material to the County's governmental operations, except for the aforementioned sublease of a share of the Metropolitan Transit System (MTS) Towers. In this regard, the share of the County's property under this lease is an estimated $12.74 million in land and structures and improvements with accumulated depreciation of $4.7 million at June 30, 2007.

Additionally, the Airport Enterprise Fund derives a substantial portion of its revenues from noncancelable operating leases with air carriers and concessionaires. The Airport Enterprise Fund's property under operating leases includes an estimated $2.43 million in land at June 30, 2007.

Lease revenues for both non-cancelable and cancelable leases for the year ended June 30, 2007 were approximately $21.4 million.

Future minimum *revenue* to be received under these noncancelable operating leases as of June 30, 2007 are noted below in **Table 10**. (One lease extends through 2091 for a two acre parcel leased to a non-profit public benefit corporation.)

Table 10

Lease Revenue
County Property Leased To Others

Fiscal Year		Minimum Lease Revenue
2008	$	13,706
2009		13,246
2010		12,489
2011		12,082
2012		11,442
2013-2091		174,976
Total	$	237,941

(Amounts Expressed in Thousands Unless Otherwise Noted)

D. Capital Assets

1. Primary Government

Capital asset activity for the year ended June 30, 2007 was as follows:

Governmental Activities:

On **Table 11** below**,** building and infrastructure projects are recorded as construction in progress until completion.

Table 11

Capital Assets - Governmental Activities	Beginning Balance at July 1	Increases	Decreases	Ending Balance at June 30
Capital assets, not being depreciated:				
Land	$ 270,505	4,767	(5)	275,267
Construction and contracts in progress	174,517	54,727	(30,741)	198,503
Total capital assets, not being depreciated	445,022	59,494	(30,746)	473,770
Capital assets, being depreciated:				
Buildings and improvements	979,070	28,139	(34)	1,007,175
Equipment	260,312	26,787	(13,769)	273,330
Road infrastructure	2,167,666	76,420		2,244,086
Bridge infrastructure	41,050	2,246		43,296
Total capital assets, being depreciated	3,448,098	133,592	(13,803)	3,567,887
Less accumulated depreciation for:				
Buildings and improvements	(311,247)	(18,801)	23	(330,025)
Equipment	(111,481)	(30,370)	7,219	(134,632)
Road infrastructure	(746,445)	(61,113)		(807,558)
Bridge infrastructure	(13,154)	(782)		(13,936)
Total accumulated depreciation	(1,182,327)	(111,066)	7,242	(1,286,151)
Total capital assets, being depreciated, net	2,265,771	22,526	(6,561)	2,281,736
Governmental activities capital assets, net	$ 2,710,793	82,020	(37,307)	2,755,506

Depreciation expense was charged to governmental activities of the primary government as shown in **Table 12.**

Table 12

Depreciation Expense - Governmental Activities	
General government	$ 2,092
Public protection	19,035
Public ways and facilities	61,494
Health and sanitation	2,351
Public assistance	1,081
Education	125
Recreation and cultural	1,687
Internal Service Funds	23,201
Total Depreciation Expense - Governmental Activities	$ 111,066

Business Type Activities:

On **Table 13** below, building and infrastructure projects are recorded as construction in progress until completion.

Table 13

Capital Assets - Business Type Activities	Beginning Balance at July 1	Increases	Decreases	Ending Balance at June 30
Capital assets, not being depreciated:				
Land	$ 10,709	534		11,243
Construction and contracts in progress	27,656	16,398	(1,471)	42,583
Total capital assets, not being depreciated	38,365	16,932	(1,471)	53,826
Capital assets, being depreciated:				
Buildings and improvements	47,128	375		47,503
Equipment	1,252	89		1,341
Road infrastructure	139	96		235
Sewer infrastructure	64,251	1,375		65,626
Total capital assets, being depreciated	112,770	1,935		114,705
Less accumulated depreciation for:				
Buildings and improvements	(21,430)	(1,130)	2	(22,558)
Equipment	(949)	(55)		(1,004)
Road infrastructure	(3)	(3)		(6)
Sewer infrastructure	(28,579)	(1,284)		(29,863)
Total accumulated depreciation	(50,961)	(2,472)	2	(53,431)
Total capital assets, being depreciated, net	61,809	(537)	2	61,274
Enterprise fund capital assets, net	$ 100,174	16,395	(1,469)	115,100

(Amounts Expressed in Thousands Unless Otherwise Noted)

Depreciation expense was charged to *business type activities* as shown below:

Table 14

Depreciation Expense - Business Type Activities		
Airport Fund	$	1,115
Wastewater Management Fund		18
Sanitation Districts Fund		1,339
Total Depreciation expense - Business Type Activities	$	2,472

2. Capital Commitments

At June 30, 2007, outstanding major capital contract commitments existed for construction of buildings and infrastructure consisting of roads, flood channels, and sewer system improvements. They are listed by fund within *governmental and business-type activities* as shown below:

Table 15

Capital Commitments	Remaining Commitments
Governmental Activities	
Other Governmental Funds:	
Construction of Edgemoor Skilled Nursing Facility	$ 47,966
Construction of Valley Center Road, Phase II	23,946
Resurfacing and Culvert Replacement on Various County Roads	2,566
Construction of Route 54/94 Improvements	2,171
Construction of Central Avenue Flood Control Improvements	2,006
Construction of Wildcat Canyon Road Improvements	1,211
Subtotal	79,866
Business-type Activities	
Enterprise Funds:	
Flow Monitoring System in Alpine, Lakeside and Spring Valley	1,190
Jamacha Boulevard Sewer Improvements	1,052
Subtotal	2,242
Total	$ 82,108

E. Payables

The County's payables at June 30, 2007 are shown below for the General Fund, other governmental funds, internal service funds, business type activities' funds, and the discrete component unit:

Table 16

Payables	Vendors	Due to Other Gov't Agencies	Other	Total Payables
Governmental Activities:				
General Fund	$ 76,700	7,371	3,967	88,038
Other Governmental Funds	27,841	681	1,389	29,911
Internal Service Funds	39,620	165		39,785
Total governmental activities	$ 144,161	8,217	5,356	157,734
Business-type activities:				
Enterprise Funds	$ 1,804	19	2	1,825
Component Unit:				
First 5 Commission	$ 15,338	2,679	385	18,402

F. Interfund Transactions

The composition of interfund balances as of June 30, 2007, is as follows:

1. Due To/Due From Other Funds

Due to/due from other funds shown in **Table 17** arise due to the exchange of goods or services between funds that were pending the transfer of cash as of June 30, 2007. These due to/from other funds have been eliminated in the government-wide financial statements, except for “internal balances” that are reflected between the governmental and business-type statements as of June 30, 2007.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 17

Due To/From Other Funds		
Receivable Fund	Payable Fund	Amount
General Fund	Tobacco Securitization Special Revenue Fund	$ 1,292
	Nonmajor Governmental Funds	90,520
	Nonmajor Enterprise Funds	136
	Internal Service Funds	5,085
Total General Fund		97,033
Nonmajor Governmental Funds	General Fund	7,573
	Nonmajor Governmental Funds	1,737
	Nonmajor Enterprise Funds	688
	Internal Service Funds	113
Total Nonmajor Governmental Funds		10,111
Nonmajor Enterprise Funds	General Fund	68
	Nonmajor Governmental Funds	10
	Nonmajor Enterprise Funds	1,567
	Internal Service Funds	1
Total Nonmajor Enterprise Funds		1,646
Internal Service Funds	General Fund	20,248
	Nonmajor Governmental Funds	1,796
	Nonmajor Enterprise Funds	246
	Internal Service Funds	654
Total Internal Service Funds		22,944
Total		$ 131,734

2. Advances

Advances to/from other funds at June 30, 2007 are noted on **Table 18** below. The purpose of these advances was primarily for the establishment of loans that are not due within one year. These loans are for the planning, undertaking, construction or operation of redevelopment projects within the County. Advances to/from other funds have been eliminated in the government-wide financial statements, except for “internal balances” that are reflected between the governmental and business-type statements as of June 30, 2007.

Table 18

Advances	Advances To Other Funds	Advances From Other Funds
General Fund	$ 884	
Nonmajor Governmental Funds	64	4,390
Nonmajor Enterprise Funds	3,363	195
Internal Service Funds	274	
Total	$ 4,585	4,585

3. Prior-Year Advance

The County Airport Enterprise Fund funded the initial expenditures of the San Diego County Redevelopment Agency’s (Agency) two airport projects. The Agency is required to reimburse the Airport Enterprise Fund, which spent approximately $9.6 million on the projects. The Agency pays interest on advances, but is not responsible for payment until funds are available for this purpose. In December 2005, the Agency issued $16 million Revenue Refunding Bonds Series 2005A. A portion of the proceeds was used to pay $4.6 million of interest accrued on these advances and $5.7 million of principal to the County’s Airport Enterprise Fund. As of June 30, 2007, the remaining principal balance on the Airport Enterprise advances to the Redevelopment Agency is $3.4 million with $167 thousand of accrued interest.

4. Transfers In/Transfers Out

The purposes of these transfers were primarily for reimbursement of project costs, lease payments, initiation fees and replacement costs. Transfers in/transfers out at June 30, 2007 were as follows:

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 19

Transfers In/Transfers Out		
From	To	Amount
General Fund	Nonmajor Governmental Funds	$ 147,343
	Internal Service Funds	5,185
	Nonmajor Enterprise Funds	326
Total General Fund		152,854
Tobacco Securitization Special Revenue Fund	General Fund	24,200
Nonmajor Governmental Funds	General Fund	258,705
	Nonmajor Governmental Funds	78,796
	Internal Service Funds	125
Total Nonmajor Governmental Funds		337,626
Nonmajor Enterprise Funds	Nonmajor Governmental Funds	852
	Internal Service Funds	75
Total Nonmajor Enterprise Funds		927
Internal Service Funds	General Fund	630
	Nonmajor Governmental Funds	1,860
Total Internal Service Funds		2,490
Total		$ 518,097

G. 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 needs, and the issuance of Teeter Commercial Paper, which fund payments to public agencies their full share of property taxes levied. The County 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.

On July 3, 2006, the County of San Diego issued $220 million of Notes with an interest and principal maturity date of July 27, 2007. The Notes carry an interest rate of 4.50% and a yield of 3.70%. The amount outstanding at June 30, 2007 is $220 million.

Short-term obligation activity for the year ended June 30, 2007 was as follows:

Table 20

Short-Term Obligations	Beginning Balance at July 1	Issued	Redeemed	Ending Balance at June 30
Tax and revenue anticipation notes	$ 250,000	220,000	250,000	220,000

H. Lease Obligations

1. Lease Commitments- Real Property

The County has commitments under long-term property operating lease agreements for facilities used for operations through fiscal year 2014 (**Table 21** below). 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. Total rental expense for all real property operating leases, including short-term cancelable leases for the year ended June 30, 2007, was approximately $25.7 million.

The combined rental cost for which the County is obligated under these leases is as follows:

Table 21

Lease Commitments - Real Property	
Fiscal Year	Minimum Lease Payments
2008	$ 10,622
2009	10,241
2010	9,362
2011	8,788
2012	7,151
2013-2014	3,393
Total	$ 49,557

2. Lease Commitments- Personal Property

The County has also entered into long-term operating leases for personal property, a large portion of which represents security systems, duplicating equipment, and heavy duty construction equipment. Many of these leases are subject to annual adjustment based upon negotiations. Management expects that in the normal course of business, leases that expire will be renewed or replaced by other leases. Total rental expense for these operating leases for the year ended June 30, 2007, was $5.1million.

(Amounts Expressed in Thousands Unless Otherwise Noted)

3. Capital Leases

a. Minimum Lease Payments

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. Future minimum lease payments (**Table 22** below) under capital leases at June 30, 2007 were as follows:

Table 22

Capital Leases - Future Minimum Lease Payments

Fiscal Year	Amount
2008	$ 3,454
2009	3,068
2010	3,053
2011	3,130
2012	3,017
2013-2017	15,280
2018-2020	9,191
Total minimum lease payments	40,193
Less: Amount representing interest	(10,570)
Net lease payments	$ 29,623

b. Book Value

The book value of capital lease property at June 30, 2007 consisted of the following:

Table 23

Capital Leases - Book Value

Capital Lease Property	Original Cost	Accumulated Depreciation	Net Book Value June 30
Land	$ 2,221		2,221
Buildings and improvements	52,314	18,288	34,026
Total	$ 54,535	18,288	36,247

I. General Long-Term Obligations

Outstanding general long-term obligations at June 30, 2007 consist of certificates of participation, taxable pension obligation bonds, capital appreciation bonds (CABs), current Interest bonds, revenue bonds, capital loans, capital lease obligations, capital financing leases, and other long-term obligations.

As further explained below, CABs are bonds that are issued at a deep discount and are presented at their maturity value, less the unaccreted appreciation. Unaccreted appreciation represents the difference between the maturity value of the CABs and their face (par) value. The unaccreted appreciation is accreted as interest over the life of the CABs.

During prior fiscal years, the County refunded some of its existing debt. The difference between the reacquisition price and the net carrying amount of the refunded debt is the is the unamortized deferred amounts on refundings. The amortized amount is an adjustment to interest expense in the statement of activities over the remaining life of the refunded debt.

Premiums applicable to debt issued in excess of par value are amortized as a reduction of interest expense over the life of the debt issuance. Similarly, discounts applicable to debt issued at amounts less than the face (par) value are amortized as an increase to interest expense over the life of the debt issued.

All obligations listed, carry a fixed interest rate with the exception of $505.125 million of the 2002 taxable pension obligation bonds series B1 and B2-4 which are variable rate and are subject to market fluctuations. The interest rate range listed in **Table 24** below displays the range of interest rates on the serial, term bonds or in the case of capital leases, the range of rates for various leases. The variable rate used to calculate the interest due on the 2002 taxable pension obligation bonds Series B1 is 5.208% which represents the auction rate bond coupon for June 2007. The variable rate used for the 2002 taxable pension obligation bonds Series B2-4 is 5.205%, which represents the average auction rate bond coupon for June 2007. The maximum interest rate on these bonds shall not exceed 17% per annum.

1. Outstanding Long-Term Obligations

Governmental Activities:

Long-term obligations for *governmental activities* at June 30, 2007 are presented in **Table 24**.

The certificates of participation (COPs) of the SANCAL, a 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 with the proceeds. There are also encumbrances on the facilities constructed or purchased 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 obligations (e.g. certificates of participation of SANCAL) are reported as San Diego County's assets and debt, respectively.

The Pension Obligation 2004 Series C Capital Appreciation Bonds (CABs) and the San Diego County Tobacco Asset Securitization Corporation CABs represent bonds that were issued at stated interest rates significantly below their effective interest rates, resulting in a substantial discount. The implicit interest, i.e. discount (unaccreted appreciation), is not paid until the bonds begin to mature. Therefore, the net value of the bonds "accretes" each year. In **Table 24** below, the CABs are shown at their maturity value (original amount issued plus total amount to be accreted (appreciated) over the life of the debt), less the unaccreted appreciation (total amount to be accreted over the life of the debt, less the amount accreted to date).

At June 30, 2007, the 2004 Taxable Pension Obligation Series C CABs outstanding balance was $75.892 million which includes accreted interest of $3.842 million. The San Diego County Tobacco Asset Securitization Corporation (Corporation) Series 2006 B CABs outstanding balance was $21.139 million which includes accreted interest of $1.265 million. The Corporation Series 2006 C CABs outstanding balance was $9.302 million which includes accreted interest of $569 thousand. The Corporation Series D CABs outstanding balance was $22.186 million which includes accreted interest of $1.499 million.

In compliance with the Tax Reform Act of 1986 and subsequent U.S. Treasury Regulations, the County performed arbitrage rebate calculations via a third party to determine probable amounts due to the Federal government. At June 30, 2007, a $2 thousand estimate of probable arbitrage rebate liability has been included in the statement of net assets.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 24

Long-Term Obligations - Governmental Activities

	Original Amount	Interest Rate	Final Maturity Date	Beginning Balance at July 1, 2006	Additions	Reductions	Accreted Interest	Ending Balance at June 30, 2007	Amounts Due Within One Year
Certificates of Participation:									
1993 Master Refunding	$ 203,400	2.50 - 5.625%	2013	$ 57,600		$ (15,800)		$ 41,800	$ 12,400
1997 Central Jail	80,675	4.00 - 5.42%	2026	65,415		(2,320)		63,095	2,425
1998 Downtown Courthouse	73,115	4.00 - 5.25%	2023	51,905		(3,085)		48,820	3,210
1999 East Mesa	15,010	3.60 - 4.75%	2010	6,780		(1,580)		5,200	1,650
2000 ITS	51,620	4.50 - 5.125%	2010	23,715		(5,505)		18,210	5,775
2002 Motorola	26,060	2.00 - 5.00%	2011	15,320		(2,850)		12,470	2,940
2005 Edgemoor Facility Projects	83,510	3.00 - 5.00%	2030	83,510				83,510	2,210
2005 Refunding of Regional Communications System	28,885	3.00 - 5.00%	2019	24,235		(2,035)		22,200	2,090
2005 N&E Refunding	28,210	3.25 - 5.00%	2020	28,210		(1,550)		26,660	1,600
2006 Edgemoor Completion Project	42,390	4.00 - 5.00%	2030		42,390			42,390	
Total Certificates of Participation	$ 632,875			356,690	42,390	(34,725)		364,355	34,300
Taxable Pension Obligation Bonds:									
1994 Series A	430,430	6.38 - 6.59%	2008	39,830		(25,755)		14,075	14,075
2002 Series A	132,215	3.88 - 4.95%	2016	132,215				132,215	
2002 Series B1	100,000	variable	2033	100,000				100,000	
2002 Series B2-4	405,125	variable	2031	405,125				405,125	
2002 Series C	100,000	6.125%	2033	100,000				100,000	
2004 Series A	241,360	3.28 - 5.86%	2023	241,360		(9,605)		231,755	8,660
2004 Series B1-2 (1)	147,825	5.911%	2025	147,825				147,825	
2004 Series C CABs	64,928	4.66 - 5.76%	2016	100,170				100,170	
2004 Series C Unaccreted Appreciation CABs				(28,120)			3,842	(24,278)	(4,048)
Total Taxable Pension Obligation Bonds	$ 1,621,883			1,238,405		(35,360)	3,842	1,206,887	18,687
San Diego County Tobacco Asset Securitization Corporation:									
Series 2006A Senior Current Interest Bonds	534,610	4.75 - 5.125%	2016-2029	534,610		(3,100)		531,510	9,670
Series 2006B CABs	19,770	6.25%	2031	88,052	1,919			89,971	
2006B Unaccreted Appreciation CABs				(68,178)	(1,919)		1,265	(68,832)	(1,342)
Series 2006C CABs	8,686	6.40%	2032	43,893	1,097			44,990	
2006C Unaccreted Appreciation CABs				(35,160)	(1,097)		569	(35,688)	(605)
Series 2006D CABs	20,565	7.10%	2035	141,176	5,383			146,559	
2006D Unaccreted Appreciation CABs				(120,489)	(5,383)		1,499	(124,373)	(1,603)
Total San Diego County Tobacco Asset Securitization Corporation	$ 583,631			583,904		(3,100)	3,333	584,137	6,120

(1) The interest rate for the Taxable Pension Obligation Bonds 2004 Series B1-2004 Series B1-2 was converted from a variable to a fixed interest rate of 5.911% during fiscal year 2007.

(Table 24 continued on next page)

(Amounts Expressed in Thousands Unless Otherwise Noted)

Long-Term Obligations - Governmental Activities

	Original Amount	Interest Rate	Final Maturity Date	Beginning Balance at July 1, 2006	Additions	Reductions	Accreted Interest	Ending Balance at June 30, 2007	Amounts Due Within One Year
(Table 24 continued)									
Redevelopment Agency:									
Revenue Refunding Bonds Series 2005A	16,000	3.65 - 5.75%	2033	16,000		(360)		15,640	320
Total Redevelopment Agency:	$ 16,000			16,000		(360)		15,640	320
Capital Loans:									
Alpine Highlands Zone #1010	436	7.75%	2007	58		(58)			
Singing Trails Zone #1013	66	8.75%	2008	26		(13)		13	13
Pauma Heights PRD #21	160	7.75%	2009	96		(32)		64	32
Landavo Zone PRD #1015	344	8.25%	2016		344	(34)		310	34
El Sereno Way Zone PRD #1016	118	8.25%	2012		118			118	24
Firebird Manor	4,486	1.00%	2028	3,219		(133)		3,086	134
Total Capital Loans:	$ 5,610			3,399	462	(270)		3,591	237
California Energy Comm Loans:									
California Energy Comm Loan 1 (Facilities ISF)	1,977	4.00%	2015	1,698		(172)		1,526	178
California Energy Comm Loan 2 (Facilities ISF)	3,001	3.95%	2015	3,001		(198)		2,803	304
Total California Energy Comm Loans	$ 4,978			4,699		(370)		4,329	482
Total Bonds, Loans and Notes payable, before issuance discounts and premiums and deferred amounts on refundings:	2,864,977			2,203,097	42,852	(74,185)	7,175	2,178,939	60,146
Unamortized Issuance Premiums	8,639			7,257	606	(512)		7,351	472
Unamortized Issuance Discounts	(31,745)			(22,602)		1,240		(21,362)	(1,194)
Unamortized Deferred Amounts on Refundings	(52,990)			(48,583)		21,661		(26,922)	(8,016)
Total Bonds, Loans and Notes Payable, net	$ 2,788,881			2,139,169	43,458	(51,796)	7,175	2,138,006	51,408
Capitalized Leases:									
San Diego Regional Building Authority	36,960	2.15 - 5.25%	2020	30,845		(1,595)		29,250	1,660
S&L Development	1,056	8.00%	2008	283		(136)		147	147
Koch Lighting	7,649	4.245 - 5.91%	2008	766		(540)		226	226
Total Capitalized Leases	45,665			31,894		(2,271)		29,623	2,033
Arbitrage					2			2	
Claims and judgments - ISF				122,332	9,253	(20,403)		111,182	37,245
Non Internal Service Funds Compensated Absences				76,141	58,370	(53,966)		80,545	32,218
Internal Service Funds Compensated Absences				2,289	1,391	(1,466)		2,214	886
Landfill closure and postclosure				24,447		(831)		23,616	937
Total Other Liabilities				225,209	69,016	(76,666)		217,559	71,286
Total Governmental Activities	$ 2,834,546			$2,396,272	$ 112,474	$ (130,733)	$ 7,175	$ 2,385,188	$ 124,727

(Amounts Expressed in Thousands Unless Otherwise Noted)

Business-Type Activities:

Long-term obligations for business-type activities at June 30, 2007 were as follows:

Table 25

Long-Term Obligations - Business-Type Activities

	Original Amount	Interest Rate	Final Maturity Date	Beginning Balance at July 1, 2006	Additions	Reductions	Ending Balance at June 30, 2007	Amounts Due within One Year
Enterprise Funds:								
Capital loans:								
Department of Transportation Beginning March 2001	$ 3,584	5.63%	2019	$ 2,652		$ (192)	$ 2,460	$ 205
US Department of Agriculture Beginning December 2003	100	4.63%	2040	93		(2)	91	1
Compensated absences				389	217	(264)	342	137
Total business-type activities	$ 3,684			$ 3,134	$ 217	$ (458)	$ 2,893	$ 343

2. Debt Service Requirements to Maturity

Governmental Activities:

Debt service requirements to maturity for *governmental activities'* long-term bond and note obligations outstanding at June 30, 2007 are shown below. (Note: **Table 26** does not reflect the County's exposure to the interest rate swap on the 2002 Taxable Pension Obligation Bonds. See Note IV-J Interest Rate Swap for further information.)

Table 26

Debt Service Requirements To Maturity - Governmental Activities

Fiscal year	Principal	Unaccreted Appreciation	Interest	Total
2008	$ 67,744	7,598	103,931	179,273
2009	66,942	8,055	101,028	176,025
2010	69,205	8,057	98,375	175,637
2011	64,190	7,912	95,661	167,763
2012	57,777	7,666	93,326	158,769
2013-2017	320,066	33,515	428,980	782,561
2018-2022	488,138	39,163	326,840	854,141
2023-2027	549,721	54,400	179,152	783,273
2028-2032	404,343	66,893	59,085	530,321
2033-2036	76,243	19,912	423	96,578
Subtotal	2,164,369	253,171	1,486,801	3,904,341
Add:				
Accreted appreciation through June 30	14,570			14,570
Subtotal	2,178,939	253,171	1,486,801	3,918,911
Add:				
Unamortized issuance premium	7,351			
Less:				
Unamortized issuance discount	(21,362)			
Unamortized deferred amount on refunding	(26,922)			
Total	$ 2,138,006			

(Amounts Expressed in Thousands Unless Otherwise Noted)

Business-Type Activities:

Debt service requirements to maturity for *business-type activities'* capital loans obligations outstanding at June 30, 2007 were the following:

Table 27

Debt Service Requirements to Maturity -Business-Type Activities

Fiscal Year	Principal	Interest	Total
2008	$ 206	143	349
2009	218	131	349
2010	231	119	350
2011	243	106	349
2012	256	92	348
2013-2017	1,321	231	1,552
2018-2022	11	17	28
2023-2027	14	14	28
2028-2032	17	10	27
2033-2037	22	6	28
2038-2040	12	1	13
Total	$ 2,551	870	3,421

3. Prior Year Defeasance of Long-Term Debt

In prior years, the County defeased certain taxable pension obligation bonds and tobacco settlement asset-backed bonds 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, 2007, $433.3 million of bonds and COPs were legally defeased and remain outstanding.

4. New Long-Term Debt

- *San Diego County Asset Leasing Corporation 2006 Edgemoor Completion Project*

In December 2006, the San Diego County Capital Asset Leasing Corporation (SANCAL) issued $42.390 million of fixed rate serial and term certificates of participation titled, "2006 Edgemoor Completion Project" (the "Certificates"). These Certificates consist of $19.485 million Serial Certificates issued at fixed interest rates ranging form 4.00% to 5.00% with maturity dates ranging from February 1, 2010 through February 1, 2021; $11.645 million Term Certificates issued at a fixed rate of 4.25% with maturity dates ranging from February 1, 2022 through February 1, 2026; and, $11.260 Term Certificates issued at a fixed rate of 4.45% with maturity dates ranging from February 1, 2027 through February 1, 2030.

These Certificates were issued with a premium of $606 thousand. Certificate proceeds of $42.996 million along with County contributions of $6.996 million were distributed as follows: 1) $36.291 million to finance the completion of a skilled nursing facility to replace the existing skilled nursing facility in Santee California; 2) $10.582 million to pay interest during the construction period on a portion of these Certificates and a portion of the SANCAL 2005 Edgemoor Project and 1996 Regional Communications System Refunding - "Series 2005 Certificates" (issued in September 2005), through March 1, 2009; 3) $2.210 million to pay the principal portion of the base rental payment for the Series 2005 Certificates becoming due and payable in fiscal year 2007-08 (2008); 4) $887 thousand to pay certain costs of issuance incurred in connection with these Certificates; and, $22 thousand was set aside to be used for various ongoing debt related costs. The interest on these Certificates is excludable from gross income for federal income tax purposes and is exempt from State of California income taxes.

- *Landavo Permanent Road Division (PRD) Zone 1015 Loan Agreement*

In October 2006, the County of San Diego entered into a private bank loan agreement on its behalf and on behalf of the Landavo Permanent Road Division (PRD) Zone 1015 (Landavo), for $344 thousand to finance the improvement and maintenance of roads in the Escondido area. Equal principal payments of $17.2 thousand and fixed interest of 8.25% calculated on a 365-day year basis, are due semi-annually on June 30th and December 31st, until the loan matures on June 30, 2016.

(Amounts Expressed in Thousands Unless Otherwise Noted)

- *El Sereno PRD Zone 1016 Loan Agreement*

In October 2006, the County of San Diego entered into a private bank loan agreement on its behalf and on behalf of the El Sereno PRD Zone 1016 (El Sereno), for $118 thousand to finance the improvement and maintenance of roads in the Vista area. Equal principal payments of $11.8 thousand (beginning December 31st, 2007) and fixed interest of 8.25% calculated on a 365-day year basis, are due semi-annually on June 30th and December 31st until the loan matures on June 30, 2012.

5. Changes in Long-Term Obligations

Long-term obligation activity (Governmental Activities) for the year ended June 30, 2007 is presented in **Table 24.**

The following funds presented in **Table 28** below have typically been used to liquidate other long-term liabilities in prior years:

Table 28

Liquidated Liabilities

Liability	Fund(s) Used to Liquidate in Prior Years
Claims & Judgments	Internal Service Funds - Employee Benefits Fund and Public Liability Insurance Fund
Compensated Absences	General Fund; Special Revenue Funds - County Library, Road, Cable TV and Air Pollution; Internal Service Funds - Facilities Management, Fleet Services and Purchasing
Landfill Closure and Postclosure	General Fund

J. Interest Rate Swap

To manage interest rate risk and lower the County's borrowing cost for its 2002 Taxable Pension Obligation Bonds, the County entered into an interest rate swap on September 17, 2002 with two counterparties. The swap converts the variable interest rates on several subseries of the 2002 Taxable Pension Obligation Bonds to a single long-term fixed rate that was lower than the “natural” fixed rate available at the time of the swap. The interest rate swap with Citibank N.A. (Citibank) and Morgan Stanley Capital Services (Morgan Stanley), (together the “counterparties”) is governed by the International Swaps and Derivatives Association, Inc. Master Agreement (the Agreement) and a Swap Confirmation. In fiscal year 2003, the County issued $737.340 million of Pension Obligation Bonds of which $505.125 million of the Series B Bonds are Auction Rate Securities. Within the Series B Auction Rate Securities there are the following subseries: $100 million of Series B-1, $135.025 million of Series B-2, $135.05 million Series of B-3 and $135.05 million of Series B-4 bonds. The County swapped Series B-2, B-3 and B-4 totaling $405.125 million of the Auction Rate Securities for a contractually agreed fixed interest rate of 5.30%. Of the $405.125 million our exposure with Citibank is $263.325 million and our exposure with Morgan Stanley is $141.8 million notional amount.

Further details concerning this interest rate swap are discussed below:

1. Terms

County payments are due to bondholders semi-annually on August 15 and February 15, beginning February 15, 2003. The effective date of the swap was September 17, 2002 and the initial six-month calculation period began February 15, 2003. The Agreement and the Confirmation terminate on February 15, 2031 and the series B-2, B-3 and B-4 bonds mature on August 15, 2030. The County did not receive any upfront payments but pursuant to the terms of the Agreement, each August 15 and February 15 the County will receive an amount from each of the counterparties based on the notional amount of principal outstanding for the past six months at an interest rate of one month London Interbank Offered Rate (LIBOR) and each February 15 the County will pay the counterparties the scheduled 5.30% of the notional amount outstanding. The February 15 payment due from the counterparties will be netted against the 5.30% County payment. The notional amount of the swap will begin to decline in fiscal year 2017 in direct proportion to the repayment of the bonds.

(Amounts Expressed in Thousands Unless Otherwise Noted)

The obligations of the County to make payments to the counterparties under this Agreement constitute general obligations of the County, payable from taxes, income, revenue cash receipts and other moneys of the County legally available in the General Fund. The payments due to the counterparties and the obligations of the County under this Agreement do not constitute any kind of indebtedness of the County as defined under and/or proscribed by any constitution, charter, law, rule, regulation, government code, constituent or governing instrument, resolution, guideline, ordinance, order, writ, judgment decree, or ruling.

As of June 30, 2007, the swap created a synthetic interest rate for the bonds as noted below:

Table 29

Interest Rate Swap - Synthetic Interest Rate		
	Terms	Rates
Fixed Rate to Counterparty	Fixed	5.300%
Variable Rate from Counterparty	1 month LIBOR	-5.320%
Net Interest Rate Swap Payments		-0.020%
Average Auction Rate Bond Coupon Payments		5.205%
Synthetic Interest Rate on Bonds		5.185%

2. Fair Value

As of June 30, 2007 the swaps had a mark to market fair value of $21.1 million. The mid-market or indicative unwind valuation was derived from a proprietary model using the zero coupon method. This model takes into consideration estimates about relevant present and future market consideration as well as the size and liquidity of the position and any related actual or potential hedging transaction.

The primary risks associated with this transaction are: Credit Risk, Termination Risk, and Basis Risk.

3. Credit Risk

As of June 30, 2007 the County was exposed to credit risk because the swap had a positive mark to market fair value of $21.9 million. Citibank is rated Aaa/AA+/AA+ by Moody's, Standard & Poors and Fitch, respectively and Morgan Stanley is rated Aa3/A+/AA- by Moody's, Standard & Poor's and Fitch, respectively. Pursuant to the Agreement if the rating issued by Standard & Poors or Moody's of the senior unsecured debt obligations of the counterparties is suspended or withdrawn or falls below “A-” in the case of Standard & Poors or below “A3” in the case of Moody's, collateral is to be delivered to a third party.

4. Termination Risk

The Agreement includes standard termination events such as failure to pay, bankruptcy and early termination. For this transaction, the swap and bond maturities match and carries an Interest Rate Swap Insurance Policy by MBIA Insurance Corporation (MBIA). If the Agreement is terminated for any of the conditions in the agreement, and at the time of the termination the swap has a negative fair value, the County would be liable to the counterparties for a payment equal to the swap's fair value. The swap can be terminated by the County for market value at any time. As of June 30, 2007 the fair value of the swap is $21.1 million. Value is predominantly tied to changes in the market for the fixed swap rate for the remaining swap term.

(Amounts Expressed in Thousands Unless Otherwise Noted)

5. Basis Risk

The County's exposure to basis risk arises when the one-month LIBOR rate index received from the counterparties may be less than the applicable auction rate that is being paid to the bondholders, that is the cash flow being received by the counterparty is not equal to the cash flow being paid to the variable rate bondholder. By using one month LIBOR, the County's objective is to mitigate the effect of the differential between the swap index and the bondholder variable rate. For fiscal year 2007, the differential was $512 thousand.

6. Swap Payments and Associated Debt

As of June 30, 2007, debt service requirements of the variable-rate debt and net swap payments, *assuming current interest rates remain the same*, for their term are presented in **Table 30**. As rates vary, variable rate bond interest payments and net swap payments will vary.

Table 30

Interest Rate Swap - SWAP Payments and Associated Debt

Fiscal Year	Principal	Interest 5.205%	Interest Rates Swaps,Net (.020%)	Total
2008	$	21,028	(81)	$ 20,947
2009		21,087	(81)	21,006
2010		21,087	(81)	21,006
2011		21,087	(81)	21,006
2012		21,087	(81)	21,006
2013-2017	18,275	104,601	(403)	122,473
2018-2022	108,325	85,095	(335)	193,085
2023-2027	143,275	51,879	(210)	194,944
2028-2031	135,250	11,032	(53)	146,229
Total	$ 405,125	357,983	(1,406)	$ 761,702

K. Landfill Site Closure and Postclosure Care Costs

State laws and regulations require the placement of final covers on all landfill sites that stopped accepting solid waste after October 9, 1991 and the performance of certain maintenance and monitoring functions at these sites for a minimum of 30 years after closure. Closure and postclosure care costs are paid near or after the date a landfill stops accepting waste. The San Marcos Landfill is the sole waste disposal site owned by the County that is subject to these regulations. It was operational and accepted solid waste from 1979 until March 11, 1997. Formal closure of this landfill spanned from July 2004 through March 2006. Post closure maintenance began in September 2006.

The County is required by GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs", to report the projected closure and postclosure care costs as of each balance sheet date. The projected landfill closure and postclosure care liability at June 30, 2007 for the San Marcos Landfill was $23.616 million. This estimated amount is based on what it would cost to perform all closure and postclosure care in calendar year 2007 dollars and is subject to change as a result of such factors including but not limited to: inflation; deflation; advancements in technology; and amendments to laws and regulations.

In addition to the above, state regulations require that landfill closure and postclosure maintenance costs be fully funded at the time of closure, unless a landfill owner/operator can demonstrate financial responsibility towards these activities by using other approved financial assurance alternatives. A pledge of revenue is one of various alternatives allowed to fund estimated postclosure costs. Under this alternative, the Board of Supervisors, on February 3, 1998, approved Minute Order No. 5 "Postclosure Maintenance Funding for the San Marcos Landfill", wherein the County entered into a pledge of revenue agreement with the California Integrated Waste Management Board (CIWMB). Pursuant to Resolution No. 98-24, adopted under Minute Order No. 5, the Board directed that the amount of pledged revenue shall be equal to $790 thousand per year for the 30 year period of postclosure maintenance commencing upon completion of the final closure of the San Marcos Landfill.

(Amounts Expressed in Thousands Unless Otherwise Noted)

The pledged amount is a promise of existing funds rather than future revenues and may increase or decrease to match any adjustment to identified cost estimates that are mutually agreed to by the County and the CIWMB.

As of June 30, 2007, $24.274 million has been spent on closure costs and $1.446 of the net assets of the government-wide statement of net assets has been restricted for remaining closure costs of the San Marcos Landfill.

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

L. Fund Balances Reserved For Other Purposes

At June 30, 2007, the fund balances reserved for other purposes are presented in **Table 31** as follows:

Table 31

Fund Balances Reserved For Other Purposes		
General Fund		
Defray administrative costs, other general reserves	$	27,246
Improvement and maintenance of recorded document systems		18,561
Teeter tax losses		16,707
Emergency medical services, various construction costs		11,530
Mental health		66,887
Social programs		4,119
Vector control		8,014
Real estate fraud prosecution		1,172
Domestic violence and child abuse prevention		5,823
Sheriff vehicle maintenance and replacement		645
Fingerprinting equipment purchase and operation		5,986
Sheriff automated warrant system		3,922
Delinquency and juvenile crime prevention		2,624
Reserve for donations		3,901
Total General Fund	$	177,137
Special Revenue Funds		
Road-future road improvements	$	55,362
Lighting Maintenance		16
County Service Districts projects		1,271
Flood Control-future drainage improvements		19,095
Housing repairs and improvements		295
Total Special Revenue Funds	$	76,039
Capital Projects Funds		
Edgemoor capital projects	$	250
Total Capital Projects	$	250
Total Fund Balances Reserved for Other Purposes	$	253,426

M. Fund Balances Designated for Subsequent Years' Expenditures

At June 30, 2007, the fund balances designated for subsequent years' expenditures are presented in **Table 32** as follows:

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 32

Fund Balances Designated for Subsequent Years' Expenditures		
General Fund		
Sheriff Department's future capital expenditures	$	6,000
Assessor Department future expenditures		111
Clerk of the Board future expenditures		5
Planning and Land Use building services		1,505
Department of Environmental Health future expenditures		6,476
Unforeseen catastrophic events		55,500
Realignment health, mental health and social services		74,620
Housing Authority future lease payments		917
Registrar of Voters future expenditures		1,200
Management of the County's conduit financing program		319
Preventative health care for children		613
South County Shelter capital improvements		15
Senior Volunteer Patrols Program in the unincorporated communities		6
Regional communication system infrastructure enhancements		7,830
Replacement of Sheriff Department's helicopter		1,010
Edgemoor geriatric hospital reconstruction		2,674
Health based programs aimed at reducing adult and youth smoking		7,902
Equipment replacement/system enhancement-Call ID Remote Access Network		1,160
Future lease payments		2,624
FEMA and other agencies' reimbursement of costs to 2003 County fires		12,012
Total General Fund	$	182,499
Special Revenue Funds		
Equipment acquisition	$	626
Total Special Revenue Funds	$	626

V. Other Information

A. 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, general liability and workers' compensation. The County purchases insurance for property damage, certain casualty claims, public officials bond, employee dishonesty, faithful performance, volunteers, 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. The County's Employee Benefits and Public Liability Insurance Internal Service Funds (ISF) are used to report all of its uninsured risk management activities. Risk management liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Actuarial evaluations were obtained which determine estimates of known and projected public liability and workers compensation claim liabilities. At June 30, 2007, the amount of these liabilities, including an estimate for claims incurred but not reported and allocated and unallocated loss adjustment expenses was estimated at $111.2 million, including $16.5 million in public liability and $94.7 million in workers' compensation. Changes in the balances of claim liabilities for fiscal year 2006 and 2007 are shown below:

Table 33

Risk Management - Changes in Claim Liabilities			
Employee Benefits Fund		**2006**	**2007**
Unpaid claims, July 1	$	86,073	91,297
Incurred claims		38,233	20,374
Claim payments		(33,009)	(16,985)
Unpaid claims, June 30	$	91,297	94,686
Public Liability Insurance Fund		**2006**	**2007**
Unpaid claims, July 1	$	17,496	31,035
Incurred claims		14,675	(11,121)
Claim payments		(1,136)	(3,418)
Unpaid claims, June 30	$	31,035	16,496

B. Subsequent Events

1. Tax and Revenue Anticipation Notes

In July 2007, the County issued tax and revenue anticipation notes (TRANS) totaling $95.2 million due June 30, 2008 at a coupon rate of 4.50% and net interest cost of 3.60%. Proceeds from the notes will be used to meet fiscal year 2008 cash flow requirements. Fiscal year 2008 unrestricted revenues collateralize the notes.

C. Contingencies

1. Litigation

In addition to the accrued liability for litigation and workers compensation claims described in Note V-A, the County has a potential liability of $24.8 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 (in Note V-A) include estimates of claims incurred but not reported at June 30, 2007.

2. Unrecorded Leave Benefits

County employees have unrecorded accumulated benefits of approximately $147.5 million in sick leave, holiday and compensatory time. 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.

3. 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.

D. Jointly Governed Organizations

The County Board of Supervisors jointly governs the Service Authority for Freeway Emergencies (S.A.F.E.). San Diego S.A.F.E. is governed by a seven-member board, whose members are appointed by the County Board of Supervisors and the eighteen cities within the county. The purpose of the authority is to provide for freeway emergency call boxes on major freeways within the County. Funding for the authority is provided by a $1dollar yearly fee on vehicle registrations in San Diego County, which are collected by the State and deposited into the County Treasury. The County provides minimal administrative staff support for the S.A.F.E. authority.

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 San Diego Geographic Information Source (SanGIS) was created in July 1997 as a joint powers agreement between the City of San Diego and the County of San Diego. SanGIS objectives are to create and maintain a geographic information system, marketing and licensing compiled digital geographic data and software, providing technical services and publishing geographic and land-related information. The annual budget is $1.5 million. The City and the County have agreed to fund the budget equally.

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.

The County is a participant with eighteen incorporated cities to operate an emergency services organization for the purpose of providing regional planning and mutual assistance in the event of an emergency in the region including accidents involving hazardous waste. The region 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. Total participant contributions for fiscal year 2007 were $1.6 million. The organization had a cumulative surplus of $34 thousand at June 30, 2007.

E. Deferred Compensation Plans

County of San Diego Incentive Retirement Deferred Compensation Plan

The County of San Diego Incentive Retirement Deferred Compensation Plan is a defined contribution plan established and governed under the Internal Revenue Code Section 401(a). All permanent and part-time County employees are eligible to participate in the plan. Participants may elect to contribute between 2.5 and 25% of their federal taxable gross wages, up to $44,000 a year, whichever is less. Plan participation is voluntary, however, once enrolled, the election percentage is irrevocable except under certain unforeseeable financial hardship provisions in the plan.

Under Internal Revenue Code rules, the amount of contributions by participants to the plan are considered employer contributions not subject to federal or state tax at the time of contribution. Participants direct the investment of all amounts contributed through two plan providers. All amounts held on behalf of participants are fully vested and held in trust at all times. Plan benefits for a participant who separates from County service or retires will be dependent upon the accumulated value of individual contributions and investment return. The County does not perform the investing function and has no fiduciary accountability for the plan. Thus, plan assets and any related liability to plan participants have been excluded from the County's financial statements. The 401(a)actual contributions for the year ended June 30, 2007 were $24.3 million.

San Diego County Deferred Compensation Plan

The County offers to its employees an optional deferred compensation plan created in accordance with Section 457 (b) of the Internal Revenue Code. This plan is available to substantially all employees and allows participants to defer a portion of their current income until future years, up to a maximum of $15,000 (in whole dollars), so as to shelter such funds and earnings from state and federal taxation until withdrawal. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency. The actual contributions for the year ended June 30, 2007 were $23.7 million.

The County does not perform the investing function and has no fiduciary accountability for the plan. Thus, plan assets and any related liability to plan participants have been excluded from the County's financial statements.

F. San Diego County Employees Retirement Association

1. Plan Description

The SDCERA administers a cost-sharing, multi-employer defined benefit plan, with County employees representing 89.6% of active members. Participating employers include: the County; the Air Pollution Control District; the Superior Court; the San Diego River Valley Joint Power Authority; the Local Agency Formation Commission; and the San Diego County Office of Education.

The plan provides retirement, disability, and death benefits for members and beneficiaries pursuant to the County Employees Retirement Act 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. The SDCERA Board does not set the pension benefit amounts or establish/amend plan provisions. SDCERA administers benefits that are set by the County Board of Supervisors through the collective bargaining process with County employees in accordance with the Retirement law.

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, 2275 Rio Bonito Way Suite 200, San Diego, California 92108 or by calling (619) 515-0130.

2. Funding Policy

In accordance with Board of Supervisors' resolutions, the County's funding policy is to make contributions to SDCERA in amounts such that, when combined with employee contributions and invested income, will fully provide for member benefits at retirement. State statutes require that County and member contributions 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. Average member contribution rates, in effect at June 30, 2007, expressed as a percentage of salary are 9.19%-9.97% for general members and 11.94% for safety members. The County is also required by State statutes to contribute at an actuarially determined rate, expressed as a percentage of annual covered payroll. The fiscal year 2007 rates, expressed as a percentage of covered payroll, are 18.70% for general members and 27.55% for safety members. Additionally, in accordance with various agreements with employee bargaining units, the County has contributed $44.5 million on behalf of employees.

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. In June 2004, the County issued Pension Obligation Bonds and transferred $450 million of the issuance to the retirement fund. The retirement plan's funding status (the ratio of system assets to system liabilities) was 89.7% at June 30, 2007.

3. Actuarial Assumptions and Annual Pension Cost

For the fiscal year ended June 30, 2007, the County's annual pension cost was $231.3 million. The County's actual contribution during the fiscal year ended June 30, 2007 totaled $231.3 million, resulting in a net pension obligation of zero as of June 30, 2007, compared to zero at the end of the prior year. The required contribution rates, as adopted by the SDCERA Board of Retirement, were determined as part of the June 30, 2005 actuarial valuation based on entry-age actuarial cost method. The actuarial assumptions include: an inflation rate of 3.75%; an investment rate-of-return of 8.25%, projected salary increases of 5.25% per year; and cost-of-living increases for retirees of 3%.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Generally accepted actuarial methods and assumptions are used to evaluate SDCERA's assets, liabilities and future contribution requirements. Effective with the June 30, 2004 valuation, actuarial calculations reflect the Board of Retirement's funding policy to amortize the unfunded actuarial accrued liability as 20-year fixed/closed (i.e. decreasing) layered amortization periods.

4. Three-Year Trend Information

The following trend information concerning annual pension costs and the percentage of annual pension costs contributed for the last three fiscal years is included below:

Table 34

Three-Year Trend Information

Fiscal Year Ended June 30	Annual Required Contributions	Percentage of ARC Contributed	Net Pension Obligation
2005	$ 235,122	100.00%	$ 0
2006	203,700	100.00%	0
2007	231,300	100.00%	0

5. Retiree Health Benefits

Retiree health benefits may be available to eligible retirees to the extent that the Board of Retirement annually approves the payment of such benefits. SDCERA recognizes the cost of providing those benefits by expending annual insurance premiums, which approximated $35.3 million for fiscal year 2007.

The Board of Supervisors and the Board of Retirement adopted a funding mechanism under Section 401(h) of the Internal Revenue Code, which calls for a portion of the County's contributions to be deposited to a separate health benefits 401(h) account that is administered by SDCERA. Any investment income earned on the account balance increases the balance and any losses reduce it.

The reserve for health benefits, established by the SDCERA Board of Directors, designates funds that may be used for future payments under the retiree health benefits program and related administrative expenses. The reserve for health benefits was approximately $164.9 million at June 30, 2007, a $42.4 million decrease from the previous fiscal year.

G. Restatements

1. First 5 Commission

The beginning net asset balance of the First 5 Commission is restated as shown in **Table 35** below in the amount of $828 thousand resulting from an adjustment reflecting an unrealized loss of $768 thousand on investments that should not have been recorded in 2006 and a correction of an overstated vacation accrual of $60 thousand.

Table 35

Restatement - First 5 Commission		
Net asset balance as of June 30, 2006	$	188,018
Adjustment for restatement		828
Net asset balance, restated June 30, 2006	$	188,846

2. Specific Investments-Investment Trust Fund

The beginning net assets balance of the Specific Investments - Investment Trust Fund is restated as shown in **Table 36** below. Individual investments for School Districts and other agencies outside of the investment pool were not reported in the County's financial statements previously. Specifically, it was interpreted that these investments were not held by the Treasurer and as a result there was no fiduciary responsibility. Based on a reevaluation of Government Code 27000 et seq., and GASB Statement No. 31, it was determined that a fiduciary responsibility and a reporting requirement exists. Accordingly, this adjustment is reflected below in the restated beginning net assets balance of the Individual Investment Accounts - Investment Trust Fund.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 36

Restatement - Specific Investments - Investment Trust Fund		
Net asset balance as of June 30, 2006	$	0
Adjustment for restatement		856,820
Net asset balance, restated June 30, 2006	$	856,820

H. Commitments

1. 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 on behalf of qualified borrowers. The County of San Diego is not responsible for the repayment of the debt. Accordingly, no liability for these bonds has been recorded in the statement of net assets.

a. 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 2002, the County issued $14 million of Mortgage Revenue Bonds of which $8.6 million were still outstanding as of June 30, 2007.

b. Certificates of Participation

The County has implemented a conduit program whereby the County is the issuer of tax-exempt bonds and loans, where the proceeds are provided to a qualifying for profit or nonprofit organization. The County has no obligation to pay for the bonds and loans. The original amounts of Certificates of Participation issued as well as the amounts outstanding per issue at June 30, 2007 are as follows:

Table 37

Certificates of Participation - Conduit Program

	Date Issued		Original Amount Issued	Amount Outstanding at June 30
Sharp Hospital	April 1998	$	112,020	96,255
San Diego Natural History Museum	December 1998		15,000	13,200
San Diego Museum of Art (principal due at maturity)	March 2000		6,000	5,800
Salk Institute	April 2000		15,000	13,785
University of San Diego	May 2001		36,870	31,895
San Diego-Imperial Counties Developmental Services	September 2002		10,750	9,750
Chabad Jewish Academy (principal due at maturity)	January 2003		11,700	10,530
San Diego Jewish Academy (principal due at maturity)	December 2003		13,325	11,720
Bishop School	June 2004		25,000	25,000
Museum of Contemporary Art	December 2004		13,000	12,750
Sidney Kimmel Cancer Center (principal due at maturity)	October 2005		24,500	24,500
Burnham Institute for Medical Research	February 2006		59,405	58,450
San Diego Foundation	August 2006		13,500	13,500

c. Reassessment District Improvement Bonds

Reassessment District Improvement Bonds were issued to provide refunding an earlier issuance of improvement bonds for the 4-S Ranch assessment district. The District originally 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 $10.39 million were still outstanding as of June 30, 2007.

2. 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 bond resolutions. The amounts deposited belong to the specific agencies that 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 ad valorem taxes levied on the properties in the school districts.

I. New Governmental Accounting Standards

1. Implemented

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* This statement establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans. The approach followed in this statement generally is consistent with the approach adopted for defined benefit pension plans with modifications to reflect differences between pension plans and OPEB plans. The statement applies for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties, that administer them. This statement also provides requirements for reporting of OPEB funds by administrators of multiple-employer OPEB plans, when the fund used to accumulate assets and pay benefits or premiums when due is not a trust fund. This statement is effective for the County's fiscal year ending June 30, 2007

In Fiscal Year 2007, the County determined that these requirements do not affect the financial reporting for the County of San Diego. The County will implement the requirements of GASB Statement 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits; in the fiscal year ended June 30, 2008.

2. Under Analysis

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

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. This statement is effective for the County's fiscal year ending June 30, 2008.

In June 2005, GASB issued Statement 47, *Accounting for Termination Benefits*. This Statement establishes accounting standards for termination benefits. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement should be implemented simultaneously with the requirements of Statement 45, and are therefore effective for the County's fiscal year ended June 30, 2008.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. Governments sometimes exchange an interest in their expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments - generally, a single lump sum. The financial reporting question addressed by this Statement is whether that transaction should be regarded as a sale or as a collateralized borrowing resulting in a liability. This statement establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. This statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. Therefore, any assets (or future revenues) sold or donated within the same financial reporting entity should continue to be reported at their current carrying value when those assets or future revenues are transferred. Additionally, this statement also includes guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivables or future revenues, including residual interests and recourse provisions. This disclosures pertaining to future revenues that have been pledged or sold are intended to provide financial statement users with information about which revenues will be unavailable for other purposes and how long they will continue to be so. This statement is effective for the County's fiscal year ending June 30, 2008.

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.* This Statement identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation. Liabilities and expenses would be estimated using an “expected cash flows” measurement technique, which is used by environmental professionals but will be employed for the first time by governments. Statement 49 also will require governments to disclose information about their pollution obligations associated with clean up efforts in the notes to the financial statements. This statement is effective for the County's fiscal year ending June 30, 2009.

In May 2007, GASB issued Statement 50, Pension Disclosures-an amendment of GASB Statements No. 25 and No. 27. This Statement amends GASB Statement 25 Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans (GASB Statement 25) and GASB Statement 27 Accounting for Pensions by State and Local Governmental Employers (GASB Statement 27) to require defined benefit pension plans to present notes to financial statements that disclose the funded status of the plan as of the most recent actuarial valuation date. Defined benefit pension plans also should disclose actuarial methods and significant assumptions used in the most recent actuarial valuation in notes to financial statements instead of in notes to required supplementary information (RSI).

This Statement amends GASB Statement 25 to require defined benefit pension plans to disclose in the notes to financial statements the methods and assumptions used to determine the fair value of investments, if the fair value is based on other than quoted market prices. This Statement amends GASB Statement 27 to require cost-sharing employers to include, in the note disclosure of the required contribution rates of the employer(s) in dollars and the percentage of that amount contributed for the current year and each of the two preceding years, how the contractually required contribution rate is determined (for example, by statute or by contract, or on an actuarially determined basis) or that the cost-sharing plan is financed on a pay-as-you-go basis.

This Statement is effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which are effective for periods for which the financial statements and RSI contain information resulting from actuarial valuations as of June 15, 2007, or later. In the initial year of implementation, defined benefit pension plans that use the aggregate actuarial cost method to determine the ARC are required to present elements of information in the schedule of funding progress using the entry age actuarial cost method as of the most recent actuarial valuation date. In subsequent years, plans and employers should add to that schedule information as of subsequent actuarial valuation dates until the requirements of Statements 25 and 27, as amended, with regard to the minimum number of years or actuarial valuations to be included have been met. This statement is effective for the County's fiscal year ending June 30, 2008.

In June 2007, GASB issued Statement 51, Accounting and Financial Reporting for Intangible Assets. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. Additionally, this Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated. This Statement also provides guidance on recognizing internally generated computer software as an intangible asset. This guidance serves as an application of the specified-conditions approach described above to the development cycle of computer software.

This Statement also establishes guidance specific to intangible assets related to amortization. This Statement provides guidance on determining the useful life of intangible assets when the length of their life is limited by contractual or legal provisions. If there are no factors that limit the useful life of an intangible asset, the Statement provides that the intangible asset be considered to have an indefinite useful life.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively. Retroactive reporting is not required but is permitted for intangible assets considered to have indefinite useful lives as of the effective date of this Statement and those considered to be internally generated. This statement is effective for the County's fiscal year ending June 30, 2010.

In November 2007, GASB issued Statement 52, Land and Other Real Estate Held as Investments by Endowments. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. This statement is effective for the County's fiscal year ending June 30, 2009.