I. Summary of Significant Accounting Policies

A. The Reporting Entity

The County of San Diego (the "County"), is a political subdivision of the State of California (the "State") charged with general governmental powers and governed by an elected five-member Board of Supervisors (the "Board"). The County provides a full range of general government services 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. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the County.

1. Blended Component Units

Blended component units governed by the Board of Supervisors include the County of San Diego In-Home Support Services Public Authority (IHHS), 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 County Board of Supervisors 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 a 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 Board of Supervisors 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 and the San Diego County Employee Retirement Association (SDCERA). Because of their relationship with the County and the nature of their operations, the first three of 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 County Board of Supervisors. Although SDCERA is legally separate from the County, it is reported as if it were part of the primary government because it benefits the County almost exclusively by providing services to the County's employees.

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 County Board of Supervisors. 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 the Board of Directors consisting of three members, two of which are employees of the County of

San Diego and one independent director who is not an employee of the County. 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 by and between the County of San Diego and the County of Sacramento pursuant to the Government Code of the State of California. The authority's purpose is to finance a loan via the sale of bonds to the San Diego County Tobacco Asset Securitization Corporation which in turn uses the loan proceeds to purchase the County's future tobacco settlement revenues under the Purchase and Sale Agreement. The Authority is administered by the Board of Directors consisting of three members, two members who are appointed by the County of San Diego Board of Supervisors and the third member is appointed by the Sacramento County Board of Supervisors. This fund is included as a *special revenue fund*.

The San Diego County Employee Retirement Association - SDCERA is a multiple-employer public retirement system organized under the 1937 Retirement Act and provides retirement, disability and death benefits for plan members and beneficiaries. The County is the major participant and contributes 93.4 percent of total employer contributions. SDCERA is governed by a nine-member board which includes the County Treasurer-Tax Collector, four members appointed by the Board of Supervisors and four members elected by the SDCERA membership. The activity of SDCERA is reported within the *pension trust fund* and included in the *fiduciary funds*.

2. Discretely Presented Component Unit

The following component unit is discretely presented because its Board is not substantively the same as the County's Board and it does not provide services entirely or almost entirely to the County.

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

3. Additional Detailed Financial Information and/ or Financial Reports

Additional detailed information and/or separately issued financial reports of the County's component units may be obtained from the County Auditor and Controller's Office located at 1600 Pacific Highway, Room 166, San Diego, California 92101. Also, complete financial statements for SDCERA may be obtained from the San Diego County Employees Retirement Association, 401 West A Street, San Diego, California 92101.

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. 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 and support services, public protection, public ways and facilities, public assistance, health and sanitation, recreational 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 and major individual enterprise funds are reported as separate columns in the fund financial statements. The focus of governmental and proprietary fund financial statements is on major funds. The financial information of each major fund is shown in a separate column in the fund financial statements, with the data for all nonmajor governmental funds aggregated into one single column on the Governmental Funds Balance Sheet, and with data for all nonmajor enterprise funds aggregated into one single column on the Statement of Net Assets Proprietary Funds.

The County reports the following major governmental funds:

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

The *Tobacco Securitization Special Revenue Fund* accounts for tobacco settlement payments allocated to the County from the State of California, pursuant to the Master Settlement

Agreement concluded on November 23, 1998 between the major tobacco companies and 46 states (including California), the District of Columbia and four U.S. Territories.

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); for start up services for new and existing county service districts; for the County's uninsured risk management activities; the financing of fleet services; for facilities management activities; for the financing of information technology services; and for the financing of clothing and personal sundry items for persons institutionalized at various county facilities. Additionally, mail services are included within the facilities function, and printing and record storage services are included in the purchasing function. The goods or services provided by one County department to other County departments are on a cost reimbursement basis.

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.

The *Pension Trust Fund* accounts for the activities of SDCERA. This fund is under the control of the Board of Retirement and is governed by the rules and regulations of the 1937 Retirement Act. The fund accumulates employer and employee contributions and earnings from the fund's investments. Disbursements are made from the fund for retirements, disability and death benefits and refunds and administrative costs. This fund includes all assets of the retirement system.

The *Investment Trust Fund* accounts for the external portion of the County Treasurer's investment pool. This fund consists of school districts, special districts and funds held for other governments.

Agency Funds are custodial in nature and 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, proprietary, pension and investment trust fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Agency Funds are reported using the accrual basis of accounting.

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes and sales taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from sales taxes is recognized when the underlying transactions take place. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligible requirements have been satisfied.

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 to not 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.

Fiduciary Funds include all *Trust and Agency Funds*, which account for assets held by the County as a trustee or as an agent for individuals or other government units.

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

1. Deposits and Investments

The County follows the practice of pooling cash and investments of all funds with the County Treasurer-Tax Collector's *Investment Pool (Pool)*, except for certain restricted funds which are generally held by outside custodians and classified as "cash with fiscal agent" or investments on the accompanying financial statements. The individual funds' portions of the Pool's fair value are presented as "equity in pooled cash and investments." For purposes of reporting cash flows, equity in pooled cash and investments, (which includes cash in banks and investments with original maturities of 90 days or less), collections in transit and imprest cash are considered cash equivalents. Pooled cash and investment carrying amounts are similar to demand deposits i.e. funds may be deposited and withdrawn any time without prior notice or penalty. Earnings on pooled funds are apportioned and paid or credited to the funds quarterly based on the average daily balance of each participating fund. A separately issued comprehensive annual financial report of the San Diego County Investment Pool can be accessed at http://www.sdtreastax.com/mcf_afreports.html.

The *Pool's* investments are reported at fair value at June 30, 2005 based on market prices. Securities that are traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

The County Employees Retirement Law of 1937 (Law) grants exclusive control to the Board of Retirement over the investment of SDCERA's investment portfolio. The Law allows for the Board to invest, or delegate the authority to invest, the investment portfolio through the purchase, holding, or sale of any form or type of investment, financial instrument or financial transaction when prudent in the informed opinion of the Board.

The *Pension Trust Fund's* cash and short-term investments consist of cash and securities with fiscal agents and deposits held in a pooled account with the County of San Diego. All participants in the pool proportionately share earnings and losses. Short-term investments consist of cash held in money market accounts and securities readily convertible to cash. Cash equivalents and securities for swaps and futures consist of money market securities and collective short-term investments with original maturities of three months or less.

Investments are reported at fair value at June 30, 2005 in the Pension Trust Fund based upon closing sale prices reported on recognized securities exchanges on the last business day of the period. For listed securities having no sales reported and for unlisted securities, fair value is based upon last reported bid prices. All purchases and sales of investments are accounted for on a trade-date basis, and dividends declared but not received are accrued on the ex-dividend date. Realized and unrealized gains or losses of securities are determined on the basis of average cost. Real estate investments are reported at estimated fair value, which has been determined by appraisals performed by independent real estate advisors approximately every three years.

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

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

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

As established by the *Teeter Plan*, the Auditor and Controller allocates to the County and other agencies 100% of the secured property taxes billed but not yet collected by the County; in return, as the delinquent property taxes and associated penalties and interest are collected, the County retains such amounts in a separate fund. To the extent that fund's tax loss reserves are higher than required, transfers may be made to benefit the County's General Fund. The tax loss reserve requirement for fiscal year 2004-2005 was $7.5 million. The fund balance of the tax loss reserve fund as of June 30, 2005 was $8.2 million, which is included in the General Fund for reporting purposes.

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, which consist of expendable supplies, are stated at average cost. They are accounted for as expenditures at the time of purchase and reported in the balance sheet of the General Fund and the 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 and SANCAL certificates of participation 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 defined as assets of a long-term character that are intended to be held or used in operations, such as land, buildings and improvements, equipment, and infrastructure. Infrastructure assets include roads, bridges, flood channels, street lights, signals, and sewers.

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

Table 1 (Note I - D-7)

Structures and improvements	$	50
Infrastructure (permanent road divisions, county service areas, sanitation and special districts)	$	25
Infrastructure (all others)	$	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. The estimated useful lives are shown in **Table 2** below:

Table 2 (Note I - D -7)

Structures and improvements	50 years
Infrastructure	10-50 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 *capital* lease agreements. In the government-wide and proprietary funds financial statements, capital lease and operating 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 types in the 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. Bond premiums and discounts, as well as issuance costs discussed above, are *deferred* and *amortized* over the life of the bonds using the *straight-line method*. Bonds payable are reported net of the applicable bond premium, discount, or deferred amount on refunding. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond 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 pay benefits. 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 pay any amounts 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 $76.7 million for the governmental activities as of June 30, 2005, 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. 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.

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

This amount is derived by subtracting the outstanding debts 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.

14. 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.

15. 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.

16. Indirect Costs

Expenditures and expenses for functional activities include County indirect costs that are allocated to benefiting departments under the County's Fiscal Year 2004-2005 *Countywide Cost Allocation Plan* which was prepared in accordance with the Federal Office of Management and Budget Circular A-87.

17. 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.

(Amounts Expressed in Thousands Unless Otherwise Noted)

II.Reconciliation of Government-Wide and Fund Financial Statements

A. Funds Balance Sheets/Statement of Net Assets

Explanations of certain differences between the governmental funds balance sheet and the government-wide statement of net assets are detailed in **Table 3** below:

Total fund balance of the County governmental funds, $1,517,955, differs from net assets of governmental activities, $2,023,643 reported in the statement of net assets. The difference primarily results from the *long-term economic resources measurement focus* and the accrual basis of accounting in the statement of net assets versus the *current financial resources measurement focus* and modified accrual basis of accounting in the governmental fund balance sheets.

Table 3 (Note II-A)
Balance Sheet/Statement of Net Assets- Reconciliation
PRIMARY GOVERNMENT

	Total Governmental Funds	Long-term Assets and Liabilities (1)	Internal Service Funds (2)	Reclassi-fications and Eliminations (3)	Statement of Net Assets Totals
ASSETS					
Cash and cash equivalents	$ 768,319		164,278		932,597
Cash with fiscal agent	216,016				216,016
Investments	801,572				801,572
Taxes receivables, net	105,784				105,784
Internal balances				(9,263)	(9,263)
Accounts and notes receivables, net	361,523		5,044		366,567
Due from other funds	179,700		16,315	(196,015)	
Advances to other funds	1,030		596	(1,626)	
Inventory of materials and supplies	10,572		598		11,170
Deferred charges and other assets	3,379	28,597			31,976
Capital assets		2,578,776	95,617		2,674,393
Total assets	2,447,895	2,607,373	282,448	(206,904)	5,130,812
LIABILITIES					
Accounts payable	126,924		16,041		142,965
Accrued payroll	58,809		1,565		60,374
Amount due for tax and revenue anticipation notes	369,280				369,280
Accrued interest		28,743			28,743
Due to other funds	143,735		52,470	(196,205)	
Advances from other funds	10,699			(10,699)	
Deferred credits and other liabilities	124,868	(49,878)			74,990
Unearned revenue	95,625				95,625
Long-term liabilities		2,225,724	109,468		2,335,192
Total liabilities	929,940	2,204,589	179,544	(206,904)	3,107,169
FUND BALANCE/NET ASSETS					
Total fund balances/net assets	1,517,955	402,784	102,904		2,023,643
Total liabilities and fund net assets	$ 2,447,895	2,607,373	282,448	(206,904)	5,130,812

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

(Amounts Expressed in Thousands Unless Otherwise Noted)

Net cost of issuance	$	28,597
Total deferred charges and other assets	$	28,597

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

Cost of capital assets	$	3,611,933
Accumulated depreciation		(1,033,157)
Net capital assets	$	2,578,776

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

Total accrued interest	$	(28,743)

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

Adjustment of deferred revenue	$	49,878
Total deferred credits and other liabilities	$	49,878

Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities; including bond premiums, discounts, and the cost of refunded debt that are recognized as revenue (premiums) and expenditures in governmental funds in the year of sale. However, all liabilities, current and long-term, are reported in the statement of net assets. Bond premiums, discounts and deferred costs on refunded debt are recorded as additions (premiums) and reductions of a liability respectively and amortized over the life of the corresponding bonds. Balances at June 30, 2005 were:

Bonds, notes and loans payable	$	(2,083,916)
Unamortized issuance Premium		(6,031)
Unamortized issuance Discount		9,054
Unamortized deferred amount on refunding		12,103
Capital leases		(34,614)
Compensated absences		(74,429)
Landfill closure and postclosure - San Marcos Landfill		(47,891)
Total long-term liabilities	$	(2,225,724)

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

Costs	$	102,904

(3) The government-wide financial statements are designed to minimize the duplicative effects of transactions between funds for internal activities. Therefore, due to/from and advances to/from balances have been eliminated on the government-wide financial statements. The net amount due between governmental and business-type activities after eliminations, are reported as internal balances in the government-wide statement of net assets. Due to/from and advances to/from transactions between governmental funds and fiduciary funds are reclassified as receivables and payables in the government-wide statement of net assets.

(Amounts Expressed in Thousands Unless Otherwise Noted)

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

The net change in fund balances for governmental funds $221,833 differs from the change in net assets for governmental activities $197,722 reported in the statement of activities. The differences arise primarily from the long-term economic resources measurement focus and the accrual basis of accounting in the statement of activities versus the current financial resources measurement focus and modified accrual basis of accounting in the governmental funds. The effect of the differences is illustrated in **Table 4** below.

Table 4 (Note II-B)

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

PRIMARY GOVERNMENT

	Total Governmental Funds	Long-term Revenues/ Expenses (4)	Capital Related Items (5)	Internal Service Funds (6)	Long-term Debt Transactions (7)	Statement of Activities Totals
Revenues:						
Taxes	$ 717,174	25,257				742,431
Licenses, permits and franchise fees	42,954					42,954
Fines, forfeitures and penalties	55,538					55,538
Revenue from use of money and property	50,811			726		51,537
Aid from other governmental agencies:						
State	1,080,663					1,080,663
Federal	729,725					729,725
Other	74,272					74,272
Charges for current services	286,631			19,493		306,124
Other revenue	84,410	(4,274)	23,236			103,372
Total revenues	3,122,178	20,983	23,236	20,219		3,186,616
Expenditures:						
Current:						
General	211,521	(1,855)	3,756	21,312	(1,908)	232,826
Public protection	939,070	(16)	15,469	5,373	331	960,227
Public ways and facilities	84,560	(67)	37,974	330		122,797
Health and sanitation	541,921	(26)	2,643	1,267		545,805
Public assistance	970,208		693	1,691		972,592
Education	27,119	5	78	192		27,394
Recreation and cultural	19,614		1,602	189		21,405
Capital outlay	54,157		(54,157)			
Debt service:						
Principal	60,849				(60,849)	
Interest and other fiscal charges	94,556			123	11,933	106,612
Bond issuance costs	1,915				(1,915)	
Total expenditures	$ 3,005,490	(1,959)	8,058	30,477	(52,408)	2,989,658

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 4 (Note II-B)(Continued)

Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities-Reconciliation
PRIMARY GOVERNMENT

	Total Governmental Funds	Long-term Revenues/ Expenses (4)	Capital Related Items (5)	Internal Service Funds (6)	Long-term Debt Transactions (7)	Statement of Activities Totals
Other financing sources (uses):						
Sale of capital assets	$ 18,400		(18,400)			
Issuance of bonds and loans						
Face value of bonds issued	83,510				(83,510)	
Face value of loans issued	160				(160)	
Bond premiums	5,960				(5,960)	
Refunding bonds issued	28,885				(28,885)	
Payment to refunded bond escrow agent	(31,633)				31,633	
Transfers (net)	(137)			901		764
Total other financing sources (uses)	105,145		(18,400)	901	(86,882)	764
Net change for the year	$ 221,833	22,942	(3,222)	(9,357)	(34,474)	197,722

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

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

Property taxes	$	25,257

Adjustment for reserve for inventory of materials and supplies.

Adjustment	$	1,959

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

Adjustment of deferred revenue	$	(4,274)

(5) The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds.

Proceeds from sale of capital assets	$	(18,400)

The book value of the sale of capital assets is removed from the capital assets account in the statement of net assets and offset against the sales proceeds resulting in a "loss on sale of capital assets" recorded as an expense in the statement of activities. Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which asset acquisition and donations exceeded depreciation in the current period.

Loss on disposal of assets	$	(1,100)
Capital outlay		77,182
Depreciation expense		(84,140)
Subtotal		(8,058)
Donated infrastructure - roads		23,236
Difference	$	15,178

(6) Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The adjustments for internal service funds "close" those funds by charging additional amounts to

(Amounts Expressed in Thousands Unless Otherwise Noted)

participating governmental activities to completely cover the internal service fund's costs for the year.

Adjustments	$	(9,357)

(7) Repayment of bond principal as well as refunding of bonds which are considered a repayment of principal and other costs of refunding, and other long-term obligations are reported as expenditures in governmental funds and thus has the effect of reducing fund balance because current financial resources have been used. For the County as a whole however, the principal and other payments for liabilities reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities. The County's long-term obligations include bonds, loans and notes payable, capital leases, accumulated unpaid employee leave balances, arbitrage rebate, and closure and postclosure costs for the San Marcos landfill. The County's long-term debt was reduced by these payments, principal payments to bondholders, and the adjustment to the San Marcos Landfill closure and postclosure liability.

Other miscellaneous debt reductions-general function	$	4,017
Other miscellaneous debt reductions - public protection function		650
Change in accounting estimate for closure and postclosure costs public Protection function - San Marcos Landfill		(981)
Principal payments made		60,849
Payment to refunded bond escrow agent - SANCAL		31,633
Total repayment of long-term obligations	$	96,168

Bond issuance costs are expensed in governmental funds when paid, and are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of activities.

Bond issuance costs	$	1,915
Amortization of bond issuance costs - general function		(2,109)
Difference	$	(194)

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

Accrued interest	$	(7,814)
Premium		(5,960)
Amortization of bond premium		484
Amortization of bond discounts		(511)
Amortization of deferred amount on refunding		(4,092)
Total reduction in interest	$	(17,893)

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

Proceeds of refunding bonds	$	(28,885)
Face Value of bonds issued		(83,510)
Face Value of loans issued		(160)
Total long-term debt proceeds	$	(112,555)

III. Stewardship, Compliance and Accountability

A. Fund Deficits

The following funds in **Table 5** below have an accumulated deficit at June 30, 2005. The deficit within the Redevelopment Agency Capital Projects fund is due to the construction of various capital projects including streets, utilities, sidewalks, traffic signals and other improvements. This deficit will be reduced in future years upon the receipt of the incremental tax revenues. The deficit in the Risk Financing Internal Service fund resulted from accrual of known and projected Workers' Compensation claim liabilities based on actuarial studies. The deficit has increased from the previous fiscal year due to mandated indemnity benefits and a trend of rising medical costs. The County intends to reduce the deficit by focusing resources on injury prevention and safety training programs, and by increasing charges to County departments to provide sufficient cash flow to the Risk Financing fund. The deficit within the Facilities Management Internal Service fund is due to the use of loan proceeds for expenses incurred for maintenance cost for energy conservation equipment. This deficit will be reduced as fees are collected in future years.

Table 5 (Note III-A)

Fund Deficits - Various Funds	
Capital Projects Fund:	
San Diego County Redevelopment Agency (SDCRA)	$ 4,964
Internal Service Funds:	
Risk Financing	$ 23,079
Facilities Management	$ 4,561

IV. Detailed Notes on all Funds

A. Deposits and Investments

1. San Diego County Investment Pool

The *San Diego County Investment Pool (the pool)* is a local government investment pool with approximately $4.1 billion in assets as of June 30, 2005, (consisting of the primary government, pension trust and other fiduciary funds and the First 5 Commission Component Unit). It is headed by the Treasurer-Tax Collector, an elective office that is responsible for tax collection, banking, investment, disbursement and accountability of public funds. The San Diego County Investment Pool is managed by the County Treasurer's Office on behalf of the Pool participants, which include the County, local school districts, local community colleges and other districts and agencies. The local school districts are required by State statutes to deposit their funds with the County of San Diego. *"Mandatory"* participants in the Pool comprise the majority of the Pool's assets, approximately *98%*. All participants comply with the same requirements per the Pool Investment Policy.

The San Diego County Investment Pool operates unde the prudent person standard. Specifically, California Government Code Sections 27000.1-27000.5, 27130-27137, and 53600-53686, authorize the Treasurer to invest funds in permissable types of investment or financial instruments. These include government obligation securities, commercial paper, medium-term notes, asset-backed securities, negotiable certificates of deposit, repurchase and reverse repurchase agreements, money market mutual funds, and collateralized certificates of deposit. The Pool's *investment objectives* are to safeguard principal, meet the liquidity needs of the participants, and achieve an investment return on the funds within the parameters of prudent risk managment.

Pursuant to Sections 27130-27137 of the California Government Code, the Board of Supervisors has established the Treasurer's Oversight Committee (TOC) that monitors and reviews the Pool's investment policy. The TOC consists of members appointed from the districts or offices that they represent, and up to five members of the public, having expertise in, or an academic background in public finance. This Committee requires a financial audit to be conducted annually on a fiscal year basis, which includes limited tests of compliance with laws and regulations. The San Diego County Investment Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company. The Pool does not have any legally binding guarantees of share values.

Each fund type's portion of the pool is displayed on the balance sheet as "Equity in pooled cash and investments." Interest earned on the pooled deposits is accrued in a pooled interest apportionment agency fund and is allocated based on the average daily cash balances of the participating funds. All participating funds share *earnings* and *losses proportionately*. State law permits interest income related to certain funds to be considered as income of the General Fund of the County. Such interest has been recorded as revenue in the General Fund.

2. Investments Outside of the Pool

a. Cash and Investments with Fiscal Agents

Cash with Fiscal Agents totaled $402.8 million on deposit with trustees for the General Fund, Tobacco Securitization Joint Special Revenue Fund, Air Pollution Special Revenue Fund, SANCAL Special Revenue Fund, Housing Authority Special Revenue Fund, Pension Obligation Bond Debt Service Fund, SANCAL Debt Service Fund, Redevelopment Agency Debt Service Fund, SANCAL Capital Projects Fund, and Other Agency Funds.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Investments with Fiscal Agents totaled approximately $801.6 million with Trustees. These amounts are accounted for in the General Fund, Tobacco Securitization Special Revenue Fund, Inactive Wastesites Fund, Pension Obligation Bonds Debt Service Fund and SANCAL Debt Service Fund.

b. Pension Trust Fund

SDCERA had *investments* of approximately $6.8 billion as of June 30, 2005. Investments are reported at fair value upon closing sale prices reported on recognized securities exchanges on the last business day of the period. For listed securities having no sales reported or for unlisted securities, fair value is based upon last reported bid prices. All purchases and sales of investments are accounted for on a trade-date basis, and dividends declared but not received are accrued on the ex-dividend date. Realized and unrealized gains or losses of securities are determined on the basis of average costs. Real estate investments consist of real estate equities primarily in office, industrial, retail and residential properties with 98% in the United States and 2% International.

In addition to the above, SDCERA utilizes derivative financial instruments, such as equity swap agreements and stock and bond futures contracts that allow SDCERA to build portfolios with performance characteristics very similar to benchmarks and to manage allocation of risk. As of June 30, 2005 SDCERA had two types of derivative financial instruments; equity swaps and financial futures.

Equity swaps allow SDCERA to exchange a money market return for the rights to the return on a specific index of equity securities. As of June 30, 2005 SDCERA entered into S&P 500 Swap contracts with a notional value of $1.185 billion and a fair value of $1.173 billion. Futures represent commitments to purchase or sell securities at a future date and at a specified price. Future contracts are traded on organized exchanges (exchange traded) thereby minimizing credit risk. The net change in the futures contracts value is settled daily in cash with the exchanges. As shown in **Table 6** below, as of June 30, 2005 SDCERA had the following futures balances:

Table 6 (Note IV-A-2-b)

Notional Amount		Long/(Short)
International Equity	$	253,720
Domestic Equity		(169,527)
International Fixed Income		36,550
Domestic Fixed Income		249,907
Commodities		225,000
Total	$	532,650

These financial instruments are intended to be equivalent to the asset they are designed to emulate. SDCERA's use of swaps and futures is structured such that market exposure is fundamentally equivalent to the direct cash investments. SDCERA will only execute a swap agreement with counterparties rated A or higher. The use of swap agreements exposes SDCERA to the risk of dealing with financial counterparties and their ability to meet the terms of the contracts. However, all swaps are fully collateralized by cash at least equal to the notional value of the most recent cash reset. Allowing insufficient collateral is strictly prohibited as a trading strategy by SDCERA's investment policies.

3. Deposits

(For Notes IV-A-3., Deposits through IV-A-11., Securities Lending Transactions, please refer to **Tables 7 through 18** on **pages 81** through **86)**.

County Investment Pool - At year-end the carrying amount of the County's demand deposits was $48.698 million. Of this balance $494 thousand was covered by federal deposit insurance and $48.204 million was considered a collateralized custodial credit risk.

Cash and Investments with Fiscal Agents - At year-end the carrying amount of the County's demand deposits was $227.425 million. Of this balance $1.666 million was covered by federal deposit insurance; $61.991 million was collateralized with securities held by the pledging agent but not in the County's name and the remaining $163.768 million was uncollateralized.

SDCERA Investment Portfolio - At year-end the carrying amount of SDCERA's demand deposits was $175.335 million. A deposits and investments reconciliation as reported in the basic financial statements is summarized on **Table 7** on page **81.**

4. Investments

As of June 30, 2005, investments in *the County Pool,* with *Fiscal Agents* and in the *Pension Trust Fund, (SDCERA) are shown on* **Tables 8 through 10** on **pages 82** and **83.**

5. Deposit and Investment Risk

In accordance with GASB Statement 40, Deposit and Investment Risk Disclosures, investment risk disclosure is required for; interest rate risk, credit risk (including custodial credit risk and concentrations of credit risk) and foreign currency risk.

As of June 30, 2005, the Pool had the following investments and maturities shown on **Table 8** on **page 82.**

6. Interest Rate Risk

County's Investment Pool - The Pool does not have a general policy to manage interest rate risk, however it is banned from purchasing Inverse Floaters, Range Notes, Interest only strips derived from a pool of mortgages, and any security that could result in zero interest accrual. It is limited on maturity levels, which in turn, allows the Pool to manage its exposure to fair value losses arising from increased rates.

Investments with Fiscal Agents - No general policies have been established to manage interest rate risk, however, moneys held by trustees on behalf of the County may generally only be invested in permitted investments specified in trustee or indenture agreements. As of June 30, 2005, the following investments and maturities with fiscal agents were as shown on **Table 11 on page 83.**

SDCERA Investment Portfolio - SDCERA does not have a general policy to manage interest rate risk, but requires investment managers to diversify by issue, maturity, sector, coupon and geography. As of June 30, 2005, SDCERA had the following investments and maturities as shown on **Table 12** on **page 83**.

7. Credit Risk

County's Investment Pool - As of June 30, 2005, the Investment Pool’s Security Ratings are shown on **Table 8** on **page 82.**

Investments with Fiscal Agents - No general policies have been established for credit risk, however, moneys held by trustees on behalf of the County may generally only be invested in permitted investments specified in trustee or indenture agreements. The security ratings for these investments are shown on **Table 13** on **page 84.**

SDCERA Investment Portfolio - SDCERA's Investment guidelines address fixed income quality requirements by investment category. The minimum investment grade held in domestic fixed income portfolios shall be no lower than "BBB" (as rated by Moody, Standard & Poor's, or Fitch's equivalent). Domestic high yield fixed income portfolios must have a weighted average quality of B/B+ or higher (Moody or Standard & Poor's equivalent). Not rated issues must be evaluated by the manager and determined that if rated they would not lower the weighted average below B/B+. SDCERA has no policy for Global and Emerging Market Fixed Income.

Tables 14 and 15 on **pages 84 and 85** illustrate SDCERA's Fixed Income securities ratings as of June 30, 2005, shown as a percentage of the total portfolio.

Domestic Fixed Income Portfolio

SDCERA's Domestic Fixed Income portfolio of government securities, collateralized mortgage obligations, corporate bonds, private placements, and other bonds include $456.296 million or 99.5% that are rated BBB or higher and $2.283 million or 0.5% currently rated BB.

Global Fixed Income Portfolio

SDCERA's Global Fixed Income portfolio includes corporate bonds and sovereign debt. The weighted average rating for Global Fixed Income portfolio was AA/AAA, excluding $652 thousand or 0.1% of unrated securities.

High Yield Fixed Income Portfolio

The weighted average quality of the High Yield Fixed Income Portfolio as of June 30, 2005 was B/BB, excluding $40.107 million or 10.3% of unrated securities in the portfolio.

Emerging Market Debt

SDCERA's Emerging Market Debt portfolio invests in sovereign debt of emerging countries. As of June 30, 2005, the weighted average rating for Emerging Market Debt portfolio was rated BB, excluding $74 million or 23.3% of unrated securities in the portfolio.

8. Concentration of Credit Risk

County's Investment Pool - The Pool Investment Policy limits the amount of exposure to any one single issuer. The Investment Policy is limited to 5% per issuer and cannot exceed this limit. 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 10% of total portfolio. The County of San Diego adheres to both State law and the County's Investment Policy for limits on investments.

Cash and Investments with Fiscal Agents - No general policies have been established to limit the amount of exposure to any one single issuer, however, moneys held by trustees on behalf of the County may generally only be invested in permitted investments specified in trustee or indenture agreements.

SDCERA Investment Portfolio - Fixed income managers are expected to adhere to the following guidelines as a means of limiting credit risk. Domestic Fixed Income managers are limited within their portfolios to no more than 5% exposure in any single security, with the exception of United States Treasury and government agencies. High Yield and International Fixed Income managers limit is 10% exposure in any single security, with the exception of United States Treasury and government agencies. As of June 30, 2005, SDCERA has no single issuer that exceeds 5% of total fixed income investments.

9. Custodial Credit Risk

County's Investment Pool - The County of San Diego does not invest in Category 3 type investments. The Investment policy does not permit investments in uninsured and unregistered securities not held by the County. However, the Policy does permit for securities lending transactions. The portfolio has not been exposed to these types of investments during the fiscal year.

Cash and Investments with Fiscal Agents - There are no general policies addressing custodial credit risk, however, moneys held by trustees on behalf of the County may generally only be invested in permitted investments specified in trustee or indenture agreements.

SDCERA Investment Portfolio - SDCERA does not have a general policy addressing custodial credit risk, but it is the practice of the Fund that all investments are insured, registered, or held by the plan or its agent in the Plan's name. Deposits are to be insured, registered or collateralized with securities held at fiscal agents in the Plan's name. SDCERA also retains investment managers that specialize in the use of a particular asset class. Investment managers are subject to the guidelines and controls established in the SDCERA Investment Policy and contracts executed with the Board. SDCERA utilizes a third party as custodian over the plan assets.

In March 2005 the Board of Retirement completed a comprehensive asset/liability study that resulted in a new asset allocation strategy. This strategy specified an asset allocation target of 24% Domestic Equity, 25% International Equity, 31% Fixed Income, 10% Real Estate, 5% Commodities and 5% Alternative Equity.

10. Foreign Currency Risk

County's Investment Pool - There are no general policies addressing foreign currency based securities, however the County does not invest in foreign currency based securities.

Cash and Investments with Fiscal Agents - There are no general policies addressing foreign currency based securities, however, moneys held by trustees on behalf of the County may generally only be invested in permitted investments specified in trustee or indenture agreements.

SDCERA Investment Portfolio - SDCERA's investment policy allows international managers to enter into foreign exchange contracts provided that the contracts have a maturity of one year or less and are limited to hedging currency exposure existing in the portfolio. SDCERA's exposure to foreign currency risk derives from its positions in foreign currency denominated international equity and fixed income investments.

SDCERA's net exposure to foreign currency risk is shown on **Table 16** on **page 85**.

11. Securities Lending Transactions

County's Investment Pool - Although the Pool's Policy permits securities lending transactions, the portfolio has not been exposed to these types of investments during the fiscal year.

Cash and Investments with Fiscal Agents - There are no general policies addressing securities lending transactions, however, moneys held by trustees on behalf of the County may generally only be invested in permitted investments specified in trustee or indenture agreements.

SDCERA Investment Portfolio - SDCERA lends U.S. government obligations, domestic and international bonds, and equities to various brokers with a simultaneous agreement to return collateral for the same securities plus a fee in the future. The securities lending agent manages the securities lending program and receives securities and cash as collateral. Collateral cash is pledged at 102% and 105% of the fair value of domestic securities and non-domestic securities lent, respectively. There are no restrictions on the amount of securities that can be lent at one time. The term to maturity of the loaned securities is generally not matched with the term to maturity of the investment of the cash collateral.

SDCERA's securities lending transactions as of June 30, 2005, are summarized on **Table 17** on **page 86.** The Fund lent $612.033 million in securities and received collateral of $123.832 million and $503.190 million in securities and cash, respectively from borrowers.

SDCERA receives a premium on all securities it holds as collateral. As of June 30, 2005, the cash collateral that was received from the borrowers was then invested in the investment types as shown on **Table 18** on **page 86**.

SDCERA's investment guidelines require that certificates of deposit, commercial paper, notes, bonds, and other debt obligations that are maturing within one year shall be no lower than A-I as rated by Standard & Poor's, or P-I by Moody's. Obligations may have fixed, floating, or variable rate interest payment provisions. Obligations maturing beyond one year shall be rated at least A/A2 (as rated by Standard & Poor's or Moody's equivalent). As of June 30, 2005, all of SDCERA's securities lending investment's maturing in less than one year were rated A-1/P-1 for US corporate and certificate of deposit floating rate, and AAA/Aaa for asset backed securities and bank notes as rated by Standard & Poor's and Moody's. For obligations maturing beyond one year, eleven percent of the investment in asset backed securities was rated AAA/Aaa by Standard & Poor's and Moody's. The remaining 89 percent of US corporate floating rate, bank notes, and certificates of deposit floating rate were rated AA/Aa3.

(Amounts Expressed in Thousands Unless Otherwise Noted)

SDCERA does not have the ability to pledge or sell collateral securities without a borrower default. At the end of the fiscal year, SDCERA has no credit risk exposure to borrowers because the amounts the system owes them exceed the amounts they owe the system. As with other extensions of credit, SDCERA may bear the risk of delay in recovery or of rights in the collateral should the borrower of the securities fail financially. In addition, the Bank of New York indemnifies SDCERA against all borrower default.

Table 7 (Note IV-A-3)

Deposits and Investments Reconciliation

		Primary Government	Fiduciary Funds	Sub-Total	Component Unit	Total
Equity in pooled cash and investments	$	994,505	2,963,897	3,958,402	172,983	4,131,385
Cash with fiscal agent		118,139	186,744	304,883		304,883
Restricted cash with fiscal agent		97,877		97,877		97,877
Collections in transit		6,725	10,076	16,801		16,801
Imprest cash		315	35	350		350
Investments		69,894	6,831,839	6,901,733		6,901,733
Restricted investments		731,678		731,678		731,678
Total		2,019,133	9,992,591	12,011,724	172,983	12,184,707
Less:						
Cash with fiscal agent						(304,883)
Restricted cash with fiscal agent						(97,877)
Collections in transit						(16,801)
Imprest cash						(350)
Deposits						(48,698)
Total investments	$					11,716,098
Investments in County Pool	$			4,082,687		
Deposits				48,698		
Equity in pooled cash and investments	$			4,131,385		
Investments in County Pool	$			4,082,687		
Investments with Fiscal Agent				801,572		
Investments in SDCERA				6,831,839		
Total Investment	$			11,716,098		

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 8 (Note IV-A-4)

Investments - County Pool

Investment Type	Moody's Rating	S&P Rating	Rate Range%	Maturity Date Range	Par value	Amortized Cost	Fair Value	Yield To Maturity	Weighted Average Maturity	Percent of Total
U.S. Government Agencies:										
Federal Home Mortgage Corporation	Aaa	AAA	2.25 - 4.00	06/06 - 08/07	$ 100,000	100,000	98,646	2.89%	541	2%
Federal Home Loan Bank	Aaa	AAA	1.8 - 4.15	10/05 - 07/07	721,295	720,305	711,538	2.73%	412	17%
Federal National Mortgage Association	Aaa	AAA	2.00 - 4.00	12/05 - 09/07	500,691	500,604	494,429	2.55%	439	12%
Federal Farm Credit Bank	Aaa	AAA	1.85 - 3.50	10/05 - 05/08	496,040	495,719	488,681	2.41%	414	12%
U.S Treasury Notes	Aaa	AAA	1.50	3/06	100,000	99,588	98,555	2.06%	274	2%
Short Term Notes:										
Commercial Paper	P-1	A-1+	2.67 - 3.40	7/05 - 10/05	1,138,714	1,135,359	1,135,940	3.14%	34	28%
Medium - Term Notes	Aa2	AA+	2.00 - 5.35	12/05 - 11/06	293,987	296,807	294,883	2.92%	298	7%
Repurchase Agreements	P-1	A-1	3.51	07/05	50,000	50,000	50,000	3.51%	1	1%
Negotiable Certificates of Deposit	Aaa	AAA	2.15 - 3.75	07/05 - 04/06	625,000	624,937	623,287	2.80%	146	17%
Open - End Institutional Money Market Funds	Aaa	AAA	2.97 - 3.00	07/05	27,600	27,600	27,600	2.99%	1	1%
Asset-Backed Notes	Aaa	AAA	2.50 - 2.55	04/06 - 01/07	60,000	59,699	59,128	2.90%	449	1%
Total Investments					$ 4,113,327	4,110,618	4,082,687	2.81%	259	100%

Table 9 (Note IV-A-4)

Investments - With Fiscal Agents

Investment Type	Moody's Rating	S&P Rating	Maturity Under 1 Month	Maturity 1 to 6 months	Maturity 6 to 12 Months	Maturity Greater than 12 Months	Market Value	Coupon Rate	Maturity Date
Tax and Revenue Anticipation Notes-Investment Agreement	Unrated	Unrated	$ 360,000				360,000	NA	7/22/2005
Fixed Income Tax Exempt Bonds	Various	Various		25,557		298,371	323,928	1.79%-5.625%	11/15/2006-02/01/2042
Commercial Paper	P-1	A-1	44,995				44,995	NA	7/7/2005
Federal Farm Credit Bank Notes	NA	AAA	24,897				24,897	NA	10/28/2005
AIG Investment Agreement	Unrated	Unrated		39,277			39,277	NA	7/3/2007
Bayerische Investment Agreements	Unrated	Unrated			8,473		8,473	NA	4/26/2006
Common Stock	Aa2	AA-				2	2	NA	NA
Total Investments			$ 429,892	64,834	8,473	298,373	801,572		

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 10 (Note IV-A-4)

Investments - Pension Trust Fund (SDCERA)	Fair Value
Domestic equity securities	$ 882,662
Cash, cash equivalents, and securities domestic equity swaps and futures	1,368,556
International equity securities	1,489,825
Securities lending collateral	503,102
United States government obligations	628,206
Domestic corporate bonds	557,566
International bonds	794,671
Cash and securities for overlay futures	58,557
Alternative equity and real estate	548,694
Total investments	$ 6,831,839

Table 11 (Note IV-A-6)

Investments and Maturities - With Fiscal Agents

Investment Type	Market Value	Maturity Under 1 month	Maturity 1 to 6 Months	Maturity 6 to 12 Months	Maturity Greater than 12 Months
Tax and Revenue Anticipation Notes- Investment Agreement	$ 360,000	360,000			
Fixed Income Tax Exempt Bonds	323,928		25,557		298,371
Commercial Paper	44,995	44,995			
Federal Farm Credit Bank Notes	24,897	24,897			
AIG Investment Agreement	39,277		39,277		
Bayerische Investment Agreements	8,473			8,473	
Common Stock	2				2
Total Investments	$ 801,572	429,892	64,834	8,473	298,373

Table 12 (Note IV-A-6)

Investments and Maturities - SDCERA Investment Portfolio

Investment Type	Fair Value	Maturity Less than 1 year	Maturity 1 to 5 years	Maturity 6 to 10 years	Maturity More than 10 years
Asset and mortgage backed securities	$ 169,055	4,182	6,005	2,065	156,803
Collateralized mortgage obligations	99,016		525		98,491
Convertible Bonds	191,442	7,133	101,021	5,530	77,758
Corporate bonds	281,555	9,300	89,217	126,633	56,405
Emerging market debt securities	317,911	1,975	33,993	39,256	242,687
International bonds	2,189			2,189	
International Governments	491,457	12,510	240,857	138,470	99,620
Managed Futures *	53,994	NA	NA	NA	NA
Municipals	7,922		219	3,533	4,170
Private placements	43,927		2,303	33,561	8,063
Treasury inflation protected securities	210,304		42,761	98,217	69,326
US Treasuries	111,671	28,438	33,496	21,753	27,984
Total Investments	$ 1,980,443	63,538	550,397	471,207	841,307

* Investment maturities for Managed Futures are not available and are therefore not included in the subtotals by maturity.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 13 (Note IV-A-7)

Securities Ratings - Investments With Fiscal Agents

Fixed Income Tax Exempt Bonds:	S&P Rating	Market Value	Percent of Total
ALASKA ST HSG FIN CORP	AAA/A-1+	$ 18,596	6%
ATLANTA GA ARPT PASSENGER FAC	AAA	15,225	5%
BARTON CNTY GA DEV AUTH POLLU	A	10,000	3%
BAY AREA TOLL AUTH CA TOLL BRG	AAA	9,975	3%
CALIFORNIA ST DEPT WTR RES PWR	AAA	5,628	2%
CALIFORNIA ST DEPT WTR RES PWR	AAA	1,124	0%
CALIFORNIA STATEWIDE CMNTYS	AAA	25,464	8%
CALIFORNIA STATEWIDE CMNTYS	A+/A-1	6,396	2%
CALIFORNIA STATEWIDE CMNTYS	A+/A-1	4,950	2%
DELAWARE VALLEY PA REGL FIN	AAA	10,000	3%
GRAND TRAVERSE CNTY MI HOSP	NR	19,700	6%
INDIANA HLTH FAC HOSP REV	AAA	8,500	3%
JEA FL ELEC SYS REV	AAA	15,000	5%
JEFFERSON CNTY AL SWR REV	AAA	20,000	6%
MEDFORD OR HOSP FACS AUTH REV	AAA	20,000	6%
METROPOLITAN TRANSN AUTH NY	AAA	20,000	6%
NEW YORK N Y	AAA	11,320	3%
PUTNAM CNTY GA DEV AUTH POLLUT	A/A-1	19,025	6%
SEATTLE WA NUM LT + PWR REV	AA+/A-1+	16,900	5%
SOUTH CAROLINA ST	AA+	9,849	3%
UNIVERSITY AL UNIV REVS	AAA	7,650	2%
WAKE CNTY NC INDL FACS + PLLTN	AAA	5,000	2%
WAKE CNTY NC INDL FACS + PLLTN	AAA	10,000	3%
WAKE CNTY NC INDL FACS + PLLTN	AAA	12,000	4%
WAYNE CNTY ARPT AUTH REV	AAA	16,000	5%
DAPHNE AL SPL CARE FACS	AAA	5,626	1%
Total		$ 323,928	100%

Table 14 (Note IV-A-7)

Fixed Income Securities Ratings - SDCERA Investment Portfolio

Credit Risk	Domestic Fixed Income	Global Fixed Income	High Yield Fixed Income	Emerging Market Debt Fixed Income	Total
AAA	$ 29,329	448,692	1,669		479,690
AA	222	28,944	1,691		30,857
A	304	70,323	11,679	7,248	89,554
BBB	2,997	77,920	34,731	87,076	202,724
BB	2,283	11,657	92,538	24,797	131,275
B		67	159,207	120,170	279,444
CCC			42,947	4,610	47,557
CC			3,184		3,184
D			2,984		2,984
NR		652	40,107	74,010	114,769
Govt	423,445	174,960			598,405
Total	$ 458,580	813,215	390,737	317,911	1,980,443

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 15 (Note IV-A-7)

Fixed Income Securities Ratings (Percent of Portfolio)		SDCERA Investment Portfolio		
Credit Risk	Domestic Fixed Income	Global Fixed Income	High Yield Fixed Income	Emerging Market Debt Fixed Income
AAA	6.4%	55.2%	0.4%	0.0%
AA	0.1%	3.6%	0.4%	0.0%
A	0.1%	8.6%	3.0%	2.3%
BBB	0.6%	9.6%	8.9%	27.4%
BB	0.5%	1.4%	23.7%	7.8%
B	0.0%	0.0%	40.7%	37.8%
CCC	0.0%	0.0%	11.0%	1.4%
CC	0.0%	0.0%	0.8%	0.0%
D	0.0%	0.0%	0.8%	0.0%
NR	0.0%	0.1%	10.3%	23.3%
Govt	92.3%	21.5%	0.0%	0.0%
	100%	100%	100%	100%

Table 16 (Note IV-A-10)

Foreign Currency Exposure - SDCERA Investment Portfolio	
Currency	Fair Value
JAPANESE YEN	$ 410,945
EURO CURRENCY	249,013
BRITISH PND STERLING	218,812
AUSTRALIAN DOLLAR	195,174
SOUTH KOREAN WON	112,655
SWISS FRANC	110,169
SINGAPORE DOLLAR	67,378
MEXICAN NUEVO PESO	56,228
HONG KONG DOLLAR	53,570
SOUTH AFRICAN RAND	47,802
SWEDISH KRONA	41,642
BRAZILIAN REAL	34,878
TAIWAN DOLLAR	31,161
THAI BAHT	21,718
INDIAN RUPEE	21,648
INDONESIAN RUPIAH	17,724
MALAYSIAN RINGGIT	14,567
TURKISH LIRA	14,444
EGYPTIAN POUND	12,741
NORWEGIAN KRONE	11,468
RUSSIAN NEW RUBLE	8,983
CHILEAN PESO	8,905
NEW ZEALAND DOLLAR	8,188
DANISH KRONE	8,082
HUNGARIAN FORINT	8,044
RENMINBI YUAN	7,986
POLISH ZLOTY	5,386
CANADIAN DOLLAR	(41,928)
Other (Less than $2 million holdings)	9,292
Total	$ 1,766,675

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 17 (Note IV-A-11)

Securities Lending Transactions - SDCERA Investment Portfolio

Investment Type		Fair Value	Maturity Less than 1 year	Maturity 1 to 5 years
U.S. Corporate Floating Rate	$	194,015	25,014	169,001
Asset Back Securities		52,918	8,506	44,412
Bank Notes		108,536	8,502	100,034
Certificates of Deposit Floating Rate		85,985	9,996	75,989
Repurchase Agreements		61,722	61,722	
Other (cash)		114	114	
Total	$	503,291	113,854	389,437

Table 18 (Note IV-A-11)

Securities Lent - SDCERA Investment Portfolio

Investment Type		SDCERA Securities Lent	Securities Received Value	Cash Received Value
Lent for cash collateral:				
U.S. government and agency securities	$	123,384		124,251
International governments securities		21,980		22,989
Domestic corporate fixed income securities		125,762		128,479
Domestic equities		178,859		184,285
International equities		41,314		43,187
Lent for securities collateral:				
Domestic Equity		2,808	2,905	
Domestic Government Securities		104,150	106,186	
International equities		6,311	6,874	
International governments securities		7,465	7,866	
Total	$	612,033	123,832	503,190

B. Receivables

Receivable balances not expected to be collected within the next fiscal year are as follows:

1. Community Development Block Grant - $14.176 million, Home Investment Partnership Program - $13.294 million, Mobile Home Opportunity Assistance Program - $5.178 million and various REHAB programs - $7.406 million. These are included in the General and Housing Special Revenue Funds and represent loans for the provision low-income housing development activities under these programs.

2. Metropolitan Transit Development Board (MTDB) - General Fund. The County leases the Metropolitan Transit System (MTS) Towers building from the San Diego Regional Building Authority. The County subleases a 27.61% share of the building to the Metropolitan Transit Development Board (MTDB). At June 30, 2005 the MTDB receivable balance was $12.684 million. Of this amount, $11.838 million will not be received in the next fiscal year.

3. Sale and Use of Surplus Land - Road Fund, Airport Enterprise Fund $842 thousand.

Table 19 below presents receivables at June 30, 2005 for the County's individual major funds, nonmajor internal service, governmental and business type activities' funds and the discrete component unit including the applicable allowances for uncollectible accounts.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 19 (Note IV-B)

Primary Government and Discretely Presented Component Unit

Receivables	Accounts	Interest	Due From Other Gov't Agencies	Notes	Loans	Other	Total Receiv-ables	Allowance For Doubtful Accounts	Receivables Net
Governmental activities:									
General Fund	$ 1,033	4,819	197,314		19,052	13,008	235,226	(10,699)	224,527
Tobacco Securitization Special Revenue Fund	1,187	42					1,229		1,229
Other governmental funds	7,451	1,979	91,061	1,590	33,686		135,767		135,767
Internal service funds	257	219	4,568				5,044		5,044
Total governmental activities	9,928	7,059	292,943	1,590	52,738	13,008	377,266	(10,699)	366,567
Business-type activities:									
Enterprise Funds	253	464	163				880		880
Total business-type activities	253	464	163				880		880
Component Unit:									
First 5 Commission		544	8,230				8,774		8,774
Total component unit	$	544	8,230				8,774		8,774

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 $4.3 million at June 30, 2005.

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 $2.4 million in land at June 30, 2005,

Lease revenues for both non-cancelable and cancelable leases for the year ended June 30, 2005 were approximately $22.81 million.

Future minimum *revenue* to be received under these noncancelable operating leases as of June 30, 2005 are noted below in **Table 20**. (One lease extends through 2091 for a two acre parcel leased to a non-profit public benefit corporation.)

Table 20 (Note IV-C)

Lease Revenue

County Property Leased To Others

Fiscal Year	Minimum Lease Revenue
2006	$ 12,252
2007	11,608
2008	11,070
2009	10,818
2010	10,363
2011-2091	161,764
Total	$ 217,875

D. Capital Assets

1. Primary Government

Capital asset activity for the year ended June 30, 2005 was as follows:

(Amounts Expressed in Thousands Unless Otherwise Noted)

Governmental Activities:

On **Table 21** below**,** building and infrastructure projects are recorded as construction in progress until completion. Intangible projects such as software acquisition and implementation are recorded as contracts in progress until implementation is completed.

Table 21 (Note IV-D)

Capital Assets Governmental Activities		Beginning Balance at July 1, 2004	Increases	Decreases	Ending Balance at June 30, 2005
Capital assets, not being depreciated:					
Land	$	262,110	5,323	(473)	266,960
Construction in progress		175,086	30,330	(64,795)	140,621
Total capital assets, not being depreciated		437,196	35,653	(65,268)	407,581
Capital assets, being depreciated:					
Buildings and improvements		969,977	17,751	(25,098)	962,630
Equipment		167,976	74,590	(11,117)	231,449
Road network		2,074,421	45,427		2,119,848
Bridge network		39,193	760		39,953
Total capital assets, being depreciated		3,251,567	138,528	(36,215)	3,353,880
Less accumulated depreciation for:					
Buildings and improvements		(280,611)	(18,625)	6,286	(292,950)
Equipment		(88,800)	(15,882)	9,295	(95,387)
Road network		(627,137)	(59,202)		(686,339)
Bridge network		(11,645)	(747)		(12,392)
Total accumulated depreciation		(1,008,193)	(94,456)	15,581	(1,087,068)
Total capital assets, being depreciated, net		2,243,374	44,072	(20,634)	2,266,812
Governmental activities capital assets, net	$	2,680,570	79,725	(85,902)	2,674,393

Depreciation expense was charged to functions of the primary government as shown in **Table 22** below:

Table 22 (Note IV-D)

Depreciation Expense - Governmental Activities		
General Government	$	3,708
Public Protection		15,269
Public Ways and Facilities		60,212
Health and Sanitation		2,609
Public Assistance		684
Education		77
Recreational and Cultural		1,581
Internal Service Funds		10,316
Total Depreciation Expense - Governmental Activities	$	94,456

(Amounts Expressed in Thousands Unless Otherwise Noted)

Business Type Activities:

On **Table 23** below, building and infrastructure projects are recorded as construction in progress until completion.

Table 23 (Note IV-D)

Capital Assets - Business Type Activities	Beginning Balance at July 1, 2004	Increases	Decreases	Ending Balance at June30, 2005
Capital assets, not being depreciated:				
Land	$ 10,677			10,677
Construction in progress	15,516	4,480	(3,184)	16,812
Total capital assets, not being depreciated	26,193	4,480	(3,184)	27,489
Capital assets, being depreciated:				
Buildings and improvements	37,291	5,441		42,732
Equipment	1,214		(8)	1,206
Infrastructure		139		139
Sewer network	63,746	1,036		64,782
Total capital assets, being depreciated	102,251	6,616	(8)	108,859
Less accumulated depreciation for:				
Buildings and improvements	(19,627)	(907)		(20,534)
Equipment	(848)	(55)	8	(895)
Sewer network	(26,031)	(1,307)		(27,338)
Total accumulated depreciation	(46,506)	(2,269)	8	(48,767)
Total capital assets, being depreciated, net	55,745	4,347		60,092
Enterprise fund capital assets, net	$ 81,938	8,827	(3,184)	87,581

Depreciation expense was charged to *business type activities* as shown on **Table 24** below:

Table 24 (Note IV-D)

Depreciation Expense - Business Type Activities	
Airport	$ 911
Wastewater	23
Sanitation	1,335
Total Depreciation Expense	$ 2,269

(Amounts Expressed in Thousands Unless Otherwise Noted)

2. Capital Commitments

At June 30, 2005, major contracts entered into for software development, construction in progress, buildings, equipment and infrastructure were as follow, listed by fund within *governmental and business-type activities* are shown below in **Table 25**:

Table 25 (Note IV-D)

Capital Commitments

	Project Title		Remaining Commitments
Governmental Activities:			
General Fund	Registrar of Voters-Integrated Voting System and Optional Items	$	29,779
	Integrated Property Tax System (PTS)		31,287
	Revenue Plus Collection System		1,379
	Automated Records MGMT & Field Reporting Cots Software Installation		1,705
	Regional Communications System Motorola Services and Equipment		3,739
	Service MGMT Access and Resource System (Smart)		2,416
	Creative Socio-Medics Corpublic Health Information System Acquisition		1,743
	Sub Total		72,048
Other Governmental Funds	Construction of Forester Creek Drainage		3,000
	Construction of Mission Road		3,008
	Construction of Valley Center Road South, Phase I		2,800
	Spring Valley Gym and Teen Center		1,744
	Construction of Edgemoor Skill Nursing Facility		61,891
	Construction of APCD Bldg in Scripps Ranch		7,508
	Sub Total		79,951
Business-type Activities:			
Enterprise Funds	Jamacha Blvd Sewer		2,000
	Construction of Gillespie Field Runway		2,424
	Sub Total		4,424
	Total	$	156,423

E. Payables

The County's payables at June 30, 2005 are shown on **Table 26** for the General Fund, nonmajor internal service funds, governmental funds, business type activities' funds and the discrete component unit:

Table 26 (Note IV-E)

Payables

		Vendors	Due to Other Gov't Agencies	Other	Total Payables
Governmental Activities:					
General Fund	$	46,862	48,431	6,473	101,766
Other governmental funds		15,917	9,166	75	25,158
Internal service funds		15,797	244		16,041
Total governmental activities		78,576	57,841	6,548	142,965
Business-type activities:					
Enterprise Funds		2,122	39		2,161
Total business-type activities		2,122	39		2,161
Component Unit:					
First 5 Commission		5,813			5,813
Total component unit	$	5,813			5,813

(Amounts Expressed in Thousands Unless Otherwise Noted)

F. Interfund Transactions

The composition of interfund balances as of June 30, 2005, is as follows:

1. Due To/Due From Other Funds

Due to/due from other funds shown in **Table 27** below arise due to the exchange of goods or services between funds that were pending the transfer of cash as of June 30, 2005. 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, 2005.

Table 27 (Note IV-F-1)

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Tobacco Securitization Special Revenue Fund	$ 2,779
	Nonmajor Governmental Funds	117,745
	Nonmajor Enterprise Funds	75
	Internal Service Funds	51,610
Total General Fund		172,209
Nonmajor Governmental Funds	General Fund	6,496
	Nonmajor Governmental Funds	745
	Nonmajor Enterprise Funds	171
	Internal Service Funds	79
Total Nonmajor Governmental Funds		7,491
Nonmajor Enterprise Funds	General Fund	28
	Nonmajor Governmental Funds	1
	Nonmajor Enterprise Funds	906
	Internal Service Funds	1
Total Nonmajor Enterprise Funds		936
Internal Service Funds	General Fund	14,818
	Nonmajor Governmental Funds	1,123
	Nonmajor Enterprise Funds	95
	Internal Service Funds	279
Total Internal Service Funds		16,315
Total		$ 196,951

2. Advances

Advances to/from at June 30, 2005 are noted on **Table 28** 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. These 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, 2005.

Table 28 (Note IV-F-2)

Advances

Funds	Advances To Other Funds	Advances From Other Funds
General Fund	$ 928	
Nonmajor Governmental Funds	102	10,699
Nonmajor Enterprise Funds	9,312	239
Internal Service Funds	596	
Total	$ 10,938	10,938

3. Prior-Year Advance

Prior to the issuance of Revenue Bonds in 1995 by the San Diego County Redevelopment Agency, the County Airport Enterprise Fund funded the initial expenditures of the Agency's two airport projects. The Redevelopment Agency is required to reimburse the Airport Enterprise Fund, which spent approximately $9.6 million on the projects consisting of $3.7 million for initial expenditures and $5.9 million for 2001. The Agency pays interest on advances, but is not responsible for payment until funds are available for this purpose. As of June 30, 2005, interest of approximately $4.3 million has accrued on these advances; however such amounts have not been recorded because the ultimate collection has not been determined.

(Amounts Expressed in Thousands Unless Otherwise Noted)

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, 2005 were as follows on **Table 29** below:

Table 29 (Note IV-F-4)

Transfers In/Transfers Out		
From	To	Amount
General Fund	Nonmajor Governmental Funds	$ 175,599
	Internal Service Funds	3,629
Total General Fund		179,228
Tobacco Securitization Special Revenue Fund	General Fund	23,278
Nonmajor Governmental Funds	General Fund	544,668
	Nonmajor Governmental Funds	71,963
	Internal Service Funds	490
Total Nonmajor Governmental Funds		617,121
Nonmajor Enterprise Funds	Nonmajor Governmental Funds	588
	Internal Service Funds	176
Total Nonmajor Enterprise Funds		764
Internal Service Funds	General Fund	731
	Nonmajor Governmental Funds	2,663
	Internal Service Funds	153
Total Internal Service Funds		3,547
Total		$ 823,938

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 1, 2004, the County of San Diego issued $360 million of Notes with an interest and principal maturity date of July 25, 2005. The Notes carry an interest rate of 3.25% and a yield of 1.59%. The amount outstanding at June 30, 2005 is $369.28 million, including accrued interest payable of $9.28 million.

In 1995 the County of San Diego Board of Supervisors approved the Master Teeter Resolution providing the terms and conditions of its teeter plan obligations. Pursuant to this resolution, the County is able to issue additional Series B Teeter Commercial Paper each fiscal year. On May 17, 2005, the Board of Supervisors adopted a resolution for the issuance of additional Series B borrowings to finance the uncollected property taxes and assessments attributable to the fiscal year ended June 30, 2005. The Teeter commercial paper shall mature not more than 270 days after date of issuance and is not subject to redemption prior to maturity. The payment of principal and interest on each series is supported by an irrevocable direct pay letter of credit that will expire on December 31, 2015.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Short-term obligation activity (**Table 30** below) for the year ended June 30, 2005 was as follow

Table 30 (Note IV-G)

Short-Term Obligations	Beginning Balance at July 1, 2004	Issued	Redeemed	Ending Balance at June 30, 2005
Tax and Revenue Anticipation Notes	$	369,280		369,280
Teeter B-1 Tax - Exempt Principal	49,100	46,000	32,110	62,990
Teeter B-2 Taxable Principal	12,001	12,000	12,001	12,000
Total Teeter	$ 61,101	427,280	44,111	444,270

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 2012 (**Table 31** 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, 2005, was approximately $26 million.

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

Table 31 (Note IV-H-1)

Lease Commitments - Real Property Fiscal Year	Minimum Lease Payments
2006	$ 7,645
2007	7,172
2008	3,666
2009	3,094
2010	2,499
2011-2012	3,311
Total	$ 27,387

2. Lease Commitments- Personal Property

The County has also entered into long-term operating leases for personal property, a large portion of which represents data processing and duplicating equipment. Many of these leases are subject to annual adjustment based upon negotiations. Management expects that in the normal course of business, leases that expire will be renewed or replaced by other leases. Total rental expense for these operating leases for the year ended June 30, 2005, was $7.7million.

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 32** below)under capital leases at June 30, 2005 were as follows:

Table 32 (Note IV-H-3-a)

Capital Leases-Future Minimum Lease Payments Fiscal Year	Amount
2006	$ 4,359
2007	3,785
2008	3,454
2009	3,068
2010	3,053
2011-2015	13,535
2016-2020	15,290
2021-2023	3,057
Total minimum lease payments	49,601
Less: amount representing interest	(14,976)
Net lease payments	$ 34,625

(Amounts Expressed in Thousands Unless Otherwise Noted)

b. Book Value

The book value of capital lease property (**Table 33**) at June 30, 2005 consisted of the following:

Table 33 (Note IV-H-3-b)

Capital Leases - Book Value

Capital Lease Property	Original Cost	Accumulated Depreciation	Net Book Value June 30, 2005
Land	$ 2,221		2,221
Buildings and Improvements	52,314	16,195	36,119
Total	$ 54,535	16,195	38,340

I. General Long-Term Obligations

Outstanding general long-term obligations at June 30, 2005 consist of certificates of participation, capital lease obligations, third party financing leases, and other long-term obligations. All obligations listed, carry a fixed interest rate with the exception of $505.125 million of the 2002 taxable pension obligation bonds and $147.8 million of the 2004 taxable pension obligation bonds which are variable rate and are subject to market fluctuations. The range listed in **Table 34** below represents the range of interest rates on the serial, term bonds or in the case of third party financing leases; it is the range of rates for the various leases. The variable interest rate used for the 2002 taxable pension obligation bonds Series B1 and for the 2004 taxable pension obligation bonds Series B1 - B2 is 3.34%, which represents the one-month London Interbank Offered Rate (LIBOR) at June 30, 2005. The variable rate used for the 2002 taxable pension obligation bonds Series B2 - B4 is 3.153%, which represents the average auction rate bond coupon for June 2005. The maximum interest rate on these bonds shall not exceed 17% per annum.

1. Outstanding long-term obligations

Outstanding long-term obligations at June 30, 2005 were as follows:

Governmental Activities:

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 from 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 obligation (e.g. certificates of participation of SANCAL) are reported as San Diego County's assets and debt, respectively.

Also, the County, in compliance with the Tax Reform Act of 1986 and subsequent U.S. Treasury Regulations, has performed arbitrage rebate calculations to determine probable amounts due to the Federal government. At June 30, 2005, the probable arbitrage rebate is zero.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Long-term obligations (**Table 34**) for *governmental activiteies* at June 30, 2005 were as follows:

Table 34 (Note IV-I-1)

Long-Term Obligations - Governmental Activities

	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding
San Diego County Capital Asset Leasing Corporation (SANCAL):				
1993 Master Refunding issued May, 1993	2.50 - 5.625%	2012	$ 203,400	72,545
1996 North & East County Courthouse issued December, 1996	4.00 - 6.00%	2019	37,690	30,595
1997 Central Jail Refunding issued July, 1997	4.00 - 5.42%	2025	80,675	67,635
1998 Downtown Courthouse Refunding issued January, 1999	4.00 - 4.94%	2023	73,115	54,875
1999 East Mesa Refunding issued September, 1999	3.60 - 4.75%	2009	15,010	8,295
2000 Information Technology issued May, 2000	4.50 - 5.125%	2010	51,620	28,970
2002 Motorola issued March 2002	2.00 - 5.00%	2011	26,060	18,085
2005 Edgemoor & RCS Refunding issued February, 2005	3.00 - 5.00%	2030	112,395	112,395
Total certificates of participation			599,965	393,395
Capitalized Leases:				
San Diego Regional Building Authority				
Lease beginning September 2001	2.15 - 5.25%	2019	36,960	32,380
Third party financing leases with various beginning dates from August, 1997 to the present	4.24 - 8.00%	2007-2008	8,705	2,245
Total capitalized leases			45,665	34,625
Other long-term obligations:				
Capital loans:				
1997 United States Department of Agriculture	1.00%	2028	4,486	3,351
2002-2004 California Bank & Trust	7.75 - 8.75%	2007-2009	663	317
2003-2004 California Energy Commission	3.95 - 4%	2014-2015	3,648	3,648
Total Capital Loans			8,797	7,316
Taxable Pension Obligation Bonds:				
1994 Series A	4.7 - 6.6%	2007	430,430	60,790
2002 Series A, B & C	3.88 - 6.125%	2032	737,340	737,340
2004 Series A, B & C	3.28 - 5.86%	2024	454,113	454,113
Total Taxable Pension Obligation Bonds			1,621,883	1,252,243
1995 Redevelopment Agency Revenue Bonds	4.75 - 6.75%	2020	5,100	4,260
2001 San Diego County Tobacco Asset Securitization Corporation	4.00 - 6.00%	2043	466,840	430,350
Unamortized issuance premium			6,725	6,031
Unamortized issuance discount			(11,244)	(9,054)
Unamortized deferred amount on refunding			(23,231)	(12,103)
Compensated absences				76,669
Claims and judgments				103,569
Landfill closure and postclosure				47,891
Total other long-term obligations			2,074,870	1,907,172
Total governmental activities			$ 2,720,500	2,335,192

(Amounts Expressed in Thousands Unless Otherwise Noted)

Business-Type Activities:

Long-term obligations (**Table 35**) for business-type activities at June 30, 2005 were as follows:

Table 35 (Note IV-I-1)

Long-Term Obligations - Business-Type Activities	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding
Enterprise funds				
Capital loans:				
Department of Transportation				
Beginning March 2001	5.63%	2019	$ 3,584	2,832
US Department of Agriculture				
Beginning December 2003	4.63%	2040	100	94
Compensated absences				324
Total business-type activities			$ 3,684	3,250

2. Debt Service Requirements to Maturity

Governmental Activities:

The following (**Table 36**) is a schedule of debt service requirements to maturity for *governmental activities'* long-term bond and note obligations outstanding at June 30, 2005. (The above table does not reflect the County's exposure to the interest rate swap on the 2002 Taxable Pension Obligation Bonds. See Interest Rate Swap disclosure below for further information.)

Table 36 (Note IV-I-2)

Governmental Activities - Debt Service Requirements To Maturity Fiscal year Ending June 30	Principal	Interest	Total
2006	$ 59,342	100,892	160,234
2007	72,543	89,134	161,677
2008	59,654	85,821	145,475
2009	57,926	83,085	141,011
2010	58,492	83,166	141,658
2011-2015	244,716	396,629	641,345
2016-2020	319,344	327,191	646,535
2021-2025	460,473	230,100	690,573
2026-2030	278,232	160,239	438,471
2031-2035	227,415	97,220	324,635
2036-2040	101,505	60,642	162,147
2041-2043	147,922	21,461	169,383
Subtotal	2,087,564	1,735,580	3,823,144
Add:			
Unamortized issuance premium	6,031		
Less:			
Unamortized issuance discount	(9,054)		
Unamortized deferred amount on refunding	(12,103)		
Total	$ 2,072,438		

(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, 2005 (**Table 37**) were the following:.

Table 37 (Note IV-I-2)

Business-Type Activities - Debt Service Requirements to Maturity

Fiscal Year Ending June 30	Principal	Interest	Total
2006	$ 181	163	344
2007	193	153	346
2008	206	142	348
2009	218	131	349
2010	231	119	350
2011-2015	1,342	385	1,727
2016-2020	487	53	540
2021-2025	13	14	27
2026-2030	17	11	28
2031-2035	21	7	28
2036-2040	17	2	19
Total	$ 2,926	1,180	4,106

3. Special Assessment Debt

In July of 1991, the County issued $28.804 million of bonds to finance the acquisition and construction of various public improvements required for the development of land located in north San Diego County west of Interstate 15 and the community of Rancho Bernardo. In July of 1997 the bonds were refunded. The County Treasurer-Tax Collector acts as an agent for property owners and bondholders in collecting and forwarding special assessment monies. The County is not obligated to pay for any special assessment bonds. Special assessment debt is solely the obligation of various separate governmental agencies. The amount of the 4-S Ranch special assessment debt outstanding for which the County is a fiduciary is $16.9 million at June 30, 2005.

4. Prior Year Defeasance of Long-Term Debt

In prior years, the County defeased certain certificates of participation (COPs) and taxable pension obligation 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, 2005, $86.4 million of bonds and COPs were legally defeased and remain outstanding.

5. Advance Refunding of Long-Term Debt Including New Long-Term Debt

In February 2005, the San Diego County Capital Asset Leasing Corporation issued $112.395 million of fixed rate serial Certificates of Participation titled, 2005 Edgemoor Project and 1996 Regional Communications System Refunding (the "Certificates")." These certificates have maturity dates beginning in February 2006 with a final maturity of February 2030. Each maturity date carries a different fixed interest rate beginning in February 2006 at a fixed rate of 3 percent with fixed rates ranging to 5 percent. The face value of the new certificates attributed to refunding debt is $28.885 million.

These certificates were issued with a premium of $5.960 million. The $118.355 million in proceeds of the Certificates along with approximately $5.36 million of funds held by the 1996 Regional Communication System trustee were distributed as follows: 1) approximately $77.486 million will be used to finance the construction of a skilled nursing facility to replace the existing County of San Diego skilled nursing facility located in the City of Santee; 2) approximately $31.633 million was transferred to the refunded bond escrow agent to advance refund the entire $29.51 million outstanding 1996 Regional Communications System Financing Certificates of Participation; 3) to fund a Reserve Fund in the amount of approximately $3.181 million; 4) to fund capitalized interest in the amount of approximately $9.5 million to fund a portion of the Certificates through July 1, 2007; and, 5) and to pay for certain costs of issuance of $1.915 million incurred in connection with the

(Amounts Expressed in Thousands Unless Otherwise Noted)

Series 2005 Certificates. The $31.633 million was used to purchase Treasuries and have been placed in an irrevocable trust with an escrow agent to provide for all future remaining debt service payments on the 1996 Regional Communications System Financing. As a result, the 1996 COPs are considered to be defeased and the liability for those bonds has been removed from the Government-wide Statement of Net Assets Governmental Activities Current and Non-Current. The advance refunding will result in reducing the County's debt service payments by $2.4 million over the next 14 years to obtain an economic gain (difference between the present values of the debt service payments on the refunded debt and refunding debt) of $1.2 million.

6. Changes in Long-Term Obligations

Long-term obligation activity (Governmental Activities) for the year ended June 30, 2005 was as follows in **Table 38** below:

Table 38 (Note IV-I-6)

Long-Term Obligations - Governmental Activities

	Beginning Balance at July 1, 2004	Additions		Reductions	Ending Balance at June 30, 2005	Amounts Due within One Year
Bonds and notes payable:						
Certificates of participation	$ 344,365	112,395		(63,365)	393,395	35,710
Redevelopment Agency	4,400			(140)	4,260	150
San Diego County Tobacco						
Securitization Corporation	440,305			(9,955)	430,350	2,015
Taxable pension obligation bonds	1,268,878			(16,635)	1,252,243	20,960
Capital and retrofit loans	5,750	1,945	*	(379)	7,316	428
Total Bonds and notes payable, before issuance discount and premiums and deferred amount on refunding	2,063,698	114,340		(90,474)	2,087,564	59,263
Unamortized issuance premium, discount and deferred amount on refunding:						
Unamortized issuance premium	555	5,960		(484)	6,031	1,052
Unamortized issuance discount	(9,565)			511	(9,054)	666
Unamortized deferred amount on refunding	(14,072)	(2,123)		4,092	(12,103)	(4,895)
Total bonds and notes payable	2,040,616	118,177		(86,355)	2,072,438	56,086
Other liabilities:						
Capitalized leases	37,346	11	*	(2,732)	34,625	2,732
Arbitrage rebate	979	17		(996)		
Claims and judgments	97,789	48,748		(42,968)	103,569	43,251
Compensated absences	77,537	58,036		(58,904)	76,669	7,666
Landfill closure and postclosure	46,910	2,550		(1,569)	47,891	7,390
Total other liabilities	260,561	109,362		(107,169)	262,754	61,039
Total governmental activities	$ 2,301,177	227,539		(193,524)	2,335,192	117,125

* This includes loan additions recorded in Internal Service Funds.

(Amounts Expressed in Thousands Unless Otherwise Noted)

The following funds presented in **Table 39** below have typically been used to liquidate other long-term liabilities in prior years:

Table 39 (Note IV-I-6)

Liquidated Liabilities	
Liability	Fund(s) Used to Liquidate in Prior Years
Arbitrage Rebate	Debt Service Fund- SANCAL
Claims and Judgments	Internal Service Fund - Risk Financing
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 and Inactive Wastesites Fund

Long-term obligation activity (Business Activities) for the year ended June 30, 2005 was as follows in **Table 40** below:

Table 40 (Note IV-I-6)

Long-Term Obligations - Business-Type Activities						
		Beginning Balance at July 1, 2004	Additions	Reductions	Ending Balance at June 30, 2005	Amounts Due within One Year
Enterprise Funds						
Capital loans	$	2,998	100	(172)	2,926	181
Compensated absences		345	258	(279)	324	32
Total business-type activities	$	3,343	358	(451)	3,250	213

J. Interest Rate Swap

To manage interest rate risk and lower the County's borrowing cost in 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 Confirmation. In fiscal year 2002-2003, 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.

Further details concerning this interest rate swap are the 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 2016-2017 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 therefore 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, 2005, the swap created a synthetic fixed rate for the bonds as noted in **Table 41** below:

Table 41 (Note IV-J-1)

Interest Rate Swap - Synthetic Fixed Rate	Terms	Rates
Fixed Rate to Counterparty	Fixed	5.30%
Variable Rate from Counterparty	1 month LIBOR	(3.340)%
Net Interest Rate Swap Payments		1.960%
Average Auction Rate Bond Coupon Payments		3.153%
Synthetic Interest Rate on Bonds		5.113%

2. Fair Value

As of June 30, 2005 the swaps had a mark to market fair value of $(39.3) 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, 2005 the County was not exposed to credit risk because the swap had a negative mark to market fair value of $39.3 million. However, should interest rates change and the fair value of the swap becomes positive the County would be exposed to credit risk in the amount of the swap's fair value. Citibank is rated Aa1/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, 2005 the fair value of the swap is a

(Amounts Expressed in Thousands Unless Otherwise Noted)

$(39.3) million. Value is predominantly tied to changes in the market for the fixed swap rate for the remaining swap term.

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 2004-2005, the differential was $(68) thousand.

6. Swap Payments and Associated Debt

As of June 30, 2005, 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 42**. As rates vary, variable rate bond interest payments and net swap payments will vary.

Table 42 (Note IV-J-5)

Swap Payments Associated with Debt

Fiscal Year Ending June 30	Principal	Interest (3.153%)	Interest Rates Swaps,Net (1.96%)	Total
2006		12,774	7,940	20,714
2007		12,774	7,940	20,714
2008		12,774	7,940	20,714
2009		12,774	7,940	20,714
2010		12,774	7,940	20,714
2011-2015		63,870	39,700	103,570
2016-2020	$ 79,625	59,021	36,688	175,334
2021-2025	128,100	41,671	25,904	195,675
2026-2030	169,500	18,359	11,412	199,271
2031-2033	27,900	440	273	28,613
Total	$ 405,125	247,231	153,677	806,033

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. The formal closure of this landfill is expected to span from July 2004 through February 2006. Once closure is complete, post closure maintenance will begin.

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, 2005 for the San Marcos Landfill was $47.891 million. This estimated amount is based on what it would cost to perform all closure and postclosure care in calendar year 2005 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

(Amounts Expressed in Thousands Unless Otherwise Noted)

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 exacted that the amount of pledged revenue shall be equal to $790 thousand per year for the 30 year period of postclosure maintenance commencing upon completion of the final closure of the San Marcos Landfill. The pledged amount is a promise of existing funds rather than future revenues and may increase or decrease to match any adjustment to identified cost estimates that are mutually agreed to by the County and the CIWMB.

As of June 30, 2005, $25.72 million of the Net Assets of the Government-Wide Statement of Net Assets has been restricted for 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, 2005, the fund balances reserved for other purposes (**Table 43**) were as follows:

Table 43 (Note IV-L)

Fund Balances Reserved For Other Purposes

General Fund		
General Government	$	70,259
Public Protection		31,880
Health and Sanitation		19,415
Public Assistance		4,491
Education		1,138
Recreational and Cultural		1,033
Total General Fund	$	128,216
Special Revenue Funds		
Road-Future Road Improvements	$	22,862
Lighting Maintenance		16
County Library		86
County Service Districts-Advances		1,365
Flood Control-Future Drainage Improvements		17,220
Housing Authority-Escrow payment		25
Tobacco Securitization		231
Total Special Revenue Funds	$	41,805
Capital Projects Funds		
Edgemoor capital projects	$	250
Redevelopment Agency-Advances		1,002
Total Capital Projects	$	1,252

(Amounts Expressed in Thousands Unless Otherwise Noted)

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 Internal Service Fund (ISF) is 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, 2005, the amount of these liabilities, including an estimate for claims incurred but not reported and allocated and unallocated loss adjustment expenses was estimated at $103.6 million, including $17.5 million in public liability and $86.1 million in workers' compensation. The County began allocating the cost of providing claims service to all its operating funds as a "premium" charge expressed as a percentage of payroll beginning fiscal year 1996-1997. Changes in the balances of claim liabilities for fiscal year 2003-2004 and 2004-2005 are shown in **Table 44** below:

Table 44 (Note V-A)

Risk Management - Changes in Claim Liabilities

Fiscal Year	Beginning Balance at June 30	Current- Year Claims and Changes in Estimates	Claim Payments	Ending Balance at June 30
2003-2004	$ 100,588	29,096	(31,895)	97,789
2004-2005	97,789	42,968	(37,188)	103,569

B. Subsequent Events

1. Tax and Revenue Anticipation Notes

In July 2005, the County issued tax and revenue anticipation notes (TRANS) totaling $250 million due July 14, 2006 at a coupon rate of 4.00% and net interest cost of 2.58%. Proceeds from the notes will be used to meet fiscal year 2005-2006 cash flow requirements. Fiscal year 2005-2006 unrestricted revenues collateralize the notes.

2. San Diego County Capital Asset Leasing Corporation

In August 2005, the San Diego County Capital Asset Leasing Corporation (SANCAL) issued $28.21 million of fixed rate serial Certificates of Participation titled, "North and East County Justice Facility Refunding (the "Certificates")." These certificates have maturity dates beginning in November 2006 with a final maturity of November 2019. Each maturity date carries a different fixed interest rate beginning in November 2006 at a fixed rate of 3.25 percent with fixed rates ranging to 5 percent. These certificates were issued with a premium of $1.3 million. The proceeds were applied to 1) advance refund all of the outstanding certificates of participation for the 1996 North County Regional Center Expansion and East County Courthouse Detention Facility Conversion, 2) fund a reserve fund; and, 3) pay certain costs of issuance incurred in connection with the refunding.

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 $34.9 million that could result if unfavorable final decisions were rendered in numerous lawsuits to which the County is a named defendant. Appropriations are budgeted annually for those portions of obligations coming due that fiscal year. Estimates of potential liabilities described above include estimates of claims incurred but not reported at June 30, 2005.

2. Unrecorded Leave Benefits

County employees have unrecorded accumulated benefits of approximately $129.5 million in sick leave 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 County also jointly governs the San Dieguito River Valley Authority, the Serra Cooperative Library System, Southern California Regional Training and Development Center, and the Van Horn Regional Treatment Facility. The governing boards of these entities consist of representatives from the County and/or other regional governments and other counties. The County does not appoint a voting majority to the above boards. Services provided by these entities include park land acquisition, coordination of library services, regional governmental training, and treatment of emotionally disturbed youth.

E. Joint Venture

The County is a participant with eighteen incorporated cities in a joint venture to operate an emergency services organization for the purpose of providing regional planning and mutual assistance in the event of an emergency or disaster in the region including accidents involving hazardous waste. The organization is governed by the Unified Disaster Council composed of one voting member from each represented jurisdiction. A contractual agreement requires that the cities provide one-half of the total required funding each year. The County, by agreement, also provides one-half of the required yearly funding. Any participant may terminate participation in the agreement by giving 120 days notice prior to the beginning of the next fiscal year. Total participant contributions for fiscal year 2004-2005 were $1.3 million. The organization had a cumulative surplus of $32 thousand at June 30, 2005. Separate financial statements for the joint venture may be obtained from the office of the Auditor and Controller.

F. San Diego County Employees Retirement System

1. Plan Description

The SDCERA administers a cost-sharing, multi-employer defined benefit plan, with County members representing 93.4% of covered employees, which provides retirement, disability, and death benefits for plan members and beneficiaries pursuant to the County Retirement Law of 1937, as enacted and amended by the State legislature. The plan is integrated with the Federal Social Security System. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the SDCERA Board of Retirement. SDCERA issues a publicly available financial report that includes financial statements and required supplementary information for the pension plan. The financial report may be obtained by writing to the San Diego County Employees Retirement Association, 401 West A Street, Suite 1300, San Diego, California 92101 or by calling (619) 515-0130.

2. Basis of Accounting, Estimates and Fair Value of Investments

a. Measurement Focus and Basis of Accounting

SDCERA's operations are accounted for on an economic resources measurement focus and the accrual basis of accounting. Employer and member contributions are recognized when due pursuant to formal commitments, as well as statutory or contractual requirements. Investment income is recognized as revenue when earned. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Other expenses are recognized when the corresponding liabilities are incurred. The net appreciation/(depreciation) in fair value of investments held by SDCERA is recorded as an increase/(decrease) to investment income based on the valuation of investments.

b. Estimates

A number of estimates and assumptions have been made relating to the reporting of assets and liabilities, the disclosure of reserves and designation of plan assets to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

c. Fair Value of Investments

Please refer to details contained in Note IV. A. 2. b. (IV Detailed Notes on all Funds; A. Deposits and Investments; 2. Investments Outside the Pool; b. Pension Trust Fund.)

3. Funding Policy

State statutes require member contributions to be actuarially determined to provide a specific statutory level of benefit. Member contribution rates, as a percentage of salary, vary according to age at entry, benefit tier level, and certain negotiated contracts which provide for the County to pay a portion of the employees' contribution. Member contribution rates (weighted average), in effect at June 30, 2005, expressed as a percentage of salary are 8.92%-9.49% for general members and 11.31% 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 2004-2005 rates, expressed as a percentage of covered payroll, are 25.59% for general members and 34.99% for safety members. Additionally, in accordance with various agreements with employee bargaining units, the County has contributed $20.3 million on behalf of employees.

(Amounts Expressed in Thousands Unless Otherwise Noted)

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 80.3% at June 30, 2005.

4. Annual Pension Cost

For the fiscal year ended June 30, 2005, the County's annual pension cost was $264.8 million. The County's actual contribution during the fiscal year ended June 30, 2005 totaled $264.8 million, resulting in a net pension obligation of zero as of June 30, 2005, compared to zero at the end of the prior year. Additionally, in Fiscal Year 2004-05, the County contributed $24.866 million to SDCERA to pay down the Unfunded Actuarial Accrued Liability, increase the funded ratio and reduce the County's future contributions. The required contribution rates, as adopted by the SDCERA Board, were determined as part of the June 30, 2003 interim actuarial valuation based on entry-age actuarial cost method. The actuarial assumptions included (a) an 8.25% investment rate-of-return, (b) projected salary increases of 5.0% per year, and (c) cost-of-living increases for retirees of 3%.

5. 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 in **Table 45** below:

Table 45 (Note V-F-5)

Three-Year Trend Information

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2003	$ 6,538	100.00%	$ 0
2004	194,580	100.00%	0
2005	264,816	100.00%	0

6. 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 $32.6 million for fiscal year 2004-2005.

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 each year. 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 $193.8 million at June 30, 2005, a $36.7 million decrease from the previous fiscal year.

(Amounts Expressed in Thousands Unless Otherwise Noted)

G. Restatement of Beginning Net Assets Balance

1. First 5 Commission

The beginning net asset balance of the First 5 Commission was restated as shown in **Table 46** below in the amount of $1.333 million resulting from 1.) An adjustment of prior year mark to market unrealized loss of $1.281 million and 2.) Unrecognized compensated absences of $52 thousand in the prior year.

Table 46 (Note V-G)

Restatement		
Net Asset balance as of June 30, 2004	$	169,522
Adjustment for restatement		1,333
Net Asset balance, restated June 30, 2004	$	170,855

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 $12.2 million were still outstanding as of June 30, 2005.

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, 2005 are as follows in **Table 47**:

Table 47 (Note V-H-5)

Certificates of Participation - Conduit Program	Date Issued		Original Amount Issued	Amount Outstanding at June 30, 2005
Sharp Hospital	April 1998	$	112,020	101,575
San Diego Natural History Museum	December 1998		15,000	13,800
Burnham Institute	September 1999		51,500	42,500
San Diego Museum of Art (principal due at maturity)	March 2000		6,000	6,000
Salk Institute	April 2000		15,000	14,305
University of San Diego	May 2001		36,870	34,500
San Diego-Imperial Counties Developmental Services	September 2002		10,750	10,250
Chabad Jewish Academy (principal due at maturity)	January 2003		11,700	11,410
San Diego Jewish Academy (principal due at maturity)	December 2003		13,325	13,325
Bishop School	June 2004		25,000	25,000
Museum of Contemporary Art	December 2004		13,000	13,000
Total		$	310,165	285,665

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 $16.9 million were still outstanding as of June 30, 2005.

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 the bond resolution. The amounts deposited belong to the specific agency which issued the bonds and are not assets of the County. The County has no liability with respect to these issues, the repayment of these bonds are from ad valorem taxes levied on the properties in the school district.

I. New Governmental Accounting Standards

1. Implemented

In March 2003, GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3.* This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risk identified in this statement also should be disclosed. In Fiscal Year 2004-2005, the County implemented these new reporting requirements.

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 November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. This statement is effective for the County's fiscal year ending June 30, 2006.

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 May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section-an amendment of NCGA Statement 1.* This statement amends the portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles* that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government. This statement adds new information that financial statement users have identified as important and eliminates certain previous requirements. This statement is effective for the County's fiscal year ending June 30, 2006.

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 December 2004, GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation - an amendment of GASB Statement No. 34*. This Statement requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. A legally enforceable enabling legislation restriction is one that a party external to the County - such as citizens, public interest groups, or the judiciary - can compel a government to honor. This Statement is effective for the County's fiscal year ending June 30, 2006.

In June 2005, GASB issued Statement 47, *Accounting for Termination Benefits*. This Statement establishes accounting standards for termination benefits. This Statement requires employers to disclose a description of the termination benefit arrangement, the cost of the termination benefits (required in the period in which the employer becomes obligated if that information is not otherwise identifiable from information displayed on the face of the financial statements), and significant methods and assumptions used to determine termination benefit liabilities. The requirements of this Statement are effective in two parts. For termination benefits other than those provided through an existing defined OPEB plan, this Statement is effective for the County's fiscal year ending June 30, 2006. 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.