NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2002

(1) Summary of Significant Accounting Policies

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

(A) The Financial Reporting Entity

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

(B) Blended Component Units

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

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

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

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

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

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2002

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

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

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

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

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

(C) Discretely Presented Component Units

The Tobacco Securitization Joint Powers Authority of Southern California (TSJPA)– This is a separate legal public entity created by a Joint Exercise of Powers Agreement by and between the County of San Diego and the County of Sacramento pursuant to the Government Code of the State of California. The authority's purpose is to finance a loan via the sale of bonds to the San Diego County Tobacco Asset Securitization Corporation which in turn uses the loan proceeds to purchase the County's future tobacco settlement revenues under the Purchase and Sale Agreement. The Authority is administered by the Board of Directors consisting of three members, two members which are appointed by the County of San Diego Board of Supervisors and the third member is appointed by the Sacramento County Board of Supervisors. The TSJPA provides services to the bondholders.

San Diego County Children and Families Commission (SDCCFC) – This fund was established by the County as a separate legal entity to administer the County's share of tobacco taxes levied by the State pursuant to Proposition 10. Its purpose is to develop, adopt, promote and implement early childhood development programs in the County. In the previous fiscal year (2000-2001), the Commission was reported as a blended component unit and was included as a special revenue fund. However, for the year ended June 30, 2002, the County reevaluated the presentation basis of the Commission and determined that it meets the criteria for a discretely presented component unit in accordance with GASB Statement No. 14. The following criterion was met by the Commission: a) it is a separate legal entity, b) the County appoints a voting majority of the Commission's board, c) the County is able to impose its will on the Commission, due to its ability to change the appointees, d) the two boards (county and commission) are not substantively the same and e) The Commission does not provide services entirely or almost entirely to the County but to the citizens instead.

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2002

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

(D) Government-Wide and Fund Financial Statements

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (GASB Statement No. 34). It requires major changes in governmental financial reporting, including changes in the basic financial statements. GASB Statement No. 34 requires the presentation of government-wide financial statements and fund financial statements.

Under the new reporting model, GASB Statement No. 34 mandates the presentation of two basic government-wide financial statements: Statement of Net Assets and Statement of Activities. These statements report information on all of the non-fiduciary activities of the primary government and its component units. Whenever possible, the effect of interfund activity has been removed from these statements. The County adopted the provisions of GASB Statement No. 34 as of July 1, 2001. The impact of this implementation is further described in Note 5H.

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

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

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

The County reports the following major governmental funds:

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2002

The Tobacco Securitization Debt Service Fund accounts for the accumulation of resources for the payment of principal and interest on the long term debt owed by the Corporation to TSJPA.

The County reports the following major proprietary (enterprise) funds:

The Airport Fund is used to account for the maintenance, operations and development of County airports. A major objective of the airport program is to purchase and develop airport property in order to create tax revenues and create jobs in the private sector.

The Liquid Waste Fund accounts for operational services and support provided to sanitation districts governed by the County Board of Supervisors.

The Transit Fund accounts for the operations, maintenance and development of a rural transit system and transit related projects.

The Sanitation District Funds are used to account for the activities of all individual sanitation districts governed by the County Board of Supervisors.

Additionally, the County reports the following fund types:

Internal Service Funds account for the financing of goods or services provided by one County department to other County departments on a cost reimbursement basis.

The Pension Trust Fund is under the control of the Board of Retirement. The fund accumulates employer and employee contributions and earnings from the fund's investments. Disbursements are made from the fund for retirements, disability and death benefits and refunds. This fund includes all assets of the retirement system.

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

The Agency Funds maintain assets held in an agent capacity for other governments, organizations and individuals. These assets do not support the County's programs or services. Any portion of agency fund assets held at fiscal year end for other County funds, are reported in those funds rather than in the agency funds.

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

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2002

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

Governmental fund types are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when susceptible to accrual (i.e., both measurable and available). Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The County considers this to be one year for all items except property taxes, for which the County considers the period of availability to be sixty days. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. Revenues that are accrued include property taxes, sales tax, interest, and state and federal grants and subventions. Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include: (1) principal and interest on long-term debt which is recognized when due; (2) prepaid expenses which are reported as current period expenditures, rather than allocated; and (3) accumulated unpaid vacation, sick leave, and other employee benefits which are reported in the period due and payable rather than in the period earned by employees.

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

(F) Property Taxes

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

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2002

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

Cash and Investments

Investments in County funds are stated at fair value. Securities that are traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Short-

term investments in the Pension Trust Fund are reported at cost, which approximates fair value. The fair value of Pension Trust Fund real estate investments is based on independent appraisals. Investments of the Pension Trust Fund that do not have an established market are reported at estimated fair value.

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

Inventories

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

Capital Assets

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

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

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2002

Long-Term Liabilities

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

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 $70.4 million for the governmental fund types as of June 30, 2002, is recorded in the Statement of Net Assets. These amounts would not be expected to be liquidated from expendable available financial resources but would be expected to be liquidated in future years as employees elect to use these benefits as prescribed by Civil Service rules and regulations.

Reservation of Fund Balances

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

Data reclassifications/restatements

Certain amounts presented in the prior year data have been reclassified to conform with the current year financial statement presentations. See footnote 4C for additional details. See footnote 5H for amounts restated to conform with the current year financial statement presentations.

(2) Stewardship, Compliance and Accountability

(A) Fund Deficits

The following funds have an accumulated deficit at June 30, 2002 (In Thousands):

Capital Projects Funds:		
San Diego County Redevelopment Agency (SDCRA)	$	7,125
Internal Service Funds:		
Risk financing	$	33,770

The deficit within the SDCRA fund is due to the use of loan proceeds in advance of the receipt of benefit fees or incremental tax revenues. This deficit will be reduced in future years upon the receipt of the incremental tax revenues. The deficit in the Risk Financing fund is due to the prior years' recognition of liabilities based on actuarial studies. The County intends to reduce the deficit by increasing the reserves by $4 Million every year until it is eliminated.

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2002

Total fund balance of the County's governmental funds, $1,322,039 differs from net assets of governmental activities, $2,599,290 reported in the statement of net assets. The difference primarily results from the long-term economic focus in the statement of net assets versus the current financial resources focus in the governmental fund balance sheets.

Balance Sheet / Statement of Net Assets
(in thousands)

	Total Governmental Funds	Long-term Assets, Liabilities (1)	Service Funds (2)	Reclassi-fications and Eliminations	Statement of net assets totals
ASSETS					
Cash and cash equivalents	$ 594,320		148,445		742,765
Cash with fiscal agent	440,038		46,618		486,656
Investments	71,453				71,453
Taxes receivable	127	2,943			3,070
Internal balances				(7)	(7)
Accounts and notes receivable	281,267		3,724	50,214	335,205
Due from other funds	228,748		25,617	(254,365)	
Advances to other funds	1,239		259	(1,498)	
Inventory of materials and supplies	10,540		1,919		12,459
Deferred charges and other assets	200	3,991	13		4,204
Capital assets		2,529,805	88,474		2,618,279
Total Assets	1,627,932	2,536,739	315,069	(205,656)	4,274,084
LIABILITIES					
Accounts payable	57,808		57,981	(22)	115,767
Accrued payroll	35,478		971		36,449
Accrued interest		14,744	1		14,745
Due to other funds	144,115		60,021	(204,136)	
Advances from other funds	10,974			(1,498)	9,476
Deferred credits and other liabilities	57,518	(7,227)			50,291
Long-term liabilities		1,344,736	103,330		1,448,066
Total liabilities	305,893	1,352,253	222,304	(205,656)	1,674,794
FUND BALANCE / NET ASSETS					
Total fund balances/net assets	1,322,039	1,184,486	92,765		2,599,290
Total liabilities and fund balances/net assets	$ 1,627,932	2,536,739	315,069	(205,656)	4,274,084

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

Cost of capital assets	$ 3,331,902
Accumulated depreciation	(802,097)
Net capital assets	$ 2,529,805

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2002

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	$	15,557

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

Net bond discount	$	3,991

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

Pension obligation liability	$	(7,686)

Governmental funds accrue property tax revenue which is deemed collectible within sixty days. However, in the statement of activities the total amount should be accrued.

Property tax revenue	$	2,943

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

Total interest	$	(14,744)

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

Total bond premiums	$	(644)

Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, current and long-term, are reported in the statement of net assets. Also, during the year the County refunded some of its existing debt. The amount borrowed is received in the governmental funds and increases fund balance. Balances at June 30, 2002 were:

Bonds and notes payable	$ (725,622)
Capital lease	(43,050)
Arbitrage	(836)
Compensated absences	(70,360)
Landfill closure	(101,000)
Tobacco securitization corp debt service	(403,868)
Total long term debt	$(1,344,736)

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

Costs	$	92,765

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2002

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

The net change in fund balances for governmental funds $310,432 differs from the change in net assets for governmental activities, $(4,394) reported in the statement of activities. The differences arise primarily from the long-term economic focus in the statement of activities versus the current financial resources focus in the governmental funds. The effect of the differences is illustrated below.

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

	TOTAL GOVERNMENTAL FUNDS	LONG-TERM REVENUES/ EXPENSES (3)	CAPITAL-RELATED ITEMS (4)	INTERNAL SERVICE FUNDS (5)	LONG-TERM DEBT TRANSAC-TIONS (6)	STATEMENT OF ACTIVITIES TOTALS
Revenues:						
Taxes	$ 409,969	2,943				412,912
Licenses, Permits and Franchises	37,808					37,808
Fines, Forfeitures and Penalties	39,691					39,691
Revenue from Use of Money and Property	45,567			2,602		48,169
Aid from Other Governmental Agencies:						
State	1,139,344					1,139,344
Federal	574,002					574,002
Other	57,777					57,777
Charges for Current Services	251,018	(357)		12,387		263,048
Other Revenue	70,203	(2,992)				67,211
Total Revenues	2,625,379	(406)		14,989		2,639,962
Expenditures:						
Current:						
General	156,517		1,872	11,758	761	170,908
Public Protection	809,185		16,591	1,993	(4,249)	823,520
Public Ways and Facilities	95,936		70,093	2,683	(510)	168,202
Health and Sanitation	548,627		1,396	28	(2,851)	547,200
Public Assistance	827,229		1,990	95	(4,285)	825,028
Education	24,005		283	(42)	(127)	24,119
Recreational and Cultural	16,514		1,415	203	(112)	18,021
Capital Outlay	72,341		(72,341)			
Debt Service:						
Principal	101,538				(101,538)	
Interest	67,773			233	765	68,771
Total Expenditures	2,719,665		21,299	16,951	(112,146)	2,645,769
Other Financing Sources (Uses):						
Sale of capital Assets	2,230		(1,176)			1,054
Proceeds of long term debt	411,913	(411,913)				
Transfers	(8,490)			8,849		359
Refunding Bonds Issued	65,319				(65,319)	
Payment to Refunded Bond Escrow Agent	(66,254)				66,254	
Total Other Financing Sources (uses)	404,718	(411,913)	(1,176)	8,849	935	1,413
Net change for the year	$ 310,432	(412,319)	(22,475)	6,887	113,081	(4,394)

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2002

Explanation of Differences between Governmental Fund Operating Statements and the Statement of Activities:

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

Adjustment of deferred revenue	$	(2,992)

Governmental funds accrue property tax revenue, which is deemed collectible within sixty days. However, in the statement of activities the total amount should be accrued.

Property Taxes	$	2,943

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

Pension obligation liability	$	7,862

(4) The proceeds from the sale of land and structures are reported as revenue (as a special item) in the governmental funds. However, the cost of the land and structure sold is removed from the capital assets account in the statement of net assets and offset against the sales proceeds resulting in a "gain on sale of capital assets" in the statement of activities. Thus, more revenue is reported in the governmental funds than gain in the statement of activities.

Cost of capital assets sold	$	(1,176)

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year.

Loss on Disposal of assets	$	27,295
Capital outlay		83,505
Depreciation expense		(77,509)
Difference	$	(21,299)

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

Adjustments	$	6,887

(6) 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:

Tobacco Securitization Proceeds	$	(411,913)
Refunding capital lease		(65,319)
Total Bond Proceeds	$	(477,232)

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2002

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

Principal payments made	$	101,538

Repayment of long term obligations are reported as an expenditure in government funds and thus reduces fund balance because current financial resources have been used. For the County as a whole, however the principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities. The County's long term obligations include capital leases, claims and judgments, accumulated unpaid employee leave balances, loans and arbitrage rebate.

Repayment of loan		66,254
Other miscellaneous debt		5,067
	$	71,321

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 bond discounts, and premiums which are expended within the fund statements.

Accrued interest	$	(554)
Amortization of bond discounts		(211)
Total additional interest	$	(765)

Adjustment for reserve for inventory of materials and supplies

Adjustment	$	(357)

(4) Detailed Notes on all Funds

(A) Equity in Pooled Cash and Investments, cash, investments, and obligations under reverse repurchase agreements

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

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

"Cash with Fiscal Agent" represents amounts on deposit with trustees for the Air Pollution District, SANCAL, Pension Trust Fund (SDCERA), Pension Obligation Bonds, Redevelopment Agency, Teeter Commercial Paper Notes, and for repayment of the General Fund Tax and Revenue Anticipation Notes.

"Investments," represents the Inactive Wastesite Management Fund investments, the Pension Trust Fund (SDCERA) investments and stocks and bonds held for other agencies.

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2002

Deposits: At year-end the carrying amount of the County's deposits was $701,050 and the balance per various financial institutions was $701,030. Of the balance in financial institutions, $790 was covered by federal deposit insurance and $700,240 was collateralized according to State statutes which require depositories having public funds on deposit to maintain a pool of securities with the agent of the depository having a market value of at least 10% in excess of the total amount of all public funds on deposit. Of this amount, $95,987 was held by the County or its agent in the County's name and $604,253 was held by the depository's trust department or agent in the County's name.

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

Investments: State statutes authorize the County to invest in obligations of the U.S. Treasury, agencies and instrumentalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers acceptances, repurchase and reverse repurchase agreements, medium-term notes, and negotiable certificates of deposit issued by national and state licensed or chartered banks or federal or state savings and loan associations. Pension Trust Fund investments are authorized by the County Employees' Retirement Law of 1937. Statutes authorize "Prudent Expert" guidelines as to the form and types of investments which may be purchased. The County's investments are categorized below to give an indication of the level of risk assumed by the entity at year end (in thousands). Category 1 includes investments that are insured or registered or for which the securities are held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments for which the securities are held by counter party's trust department or agent in the County's name. There were no investments with a risk Category 2 at June 30, 2002. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party, or by its trust department or agent but not in the County's name.

(In Thousands)	Category 1	Category 3	Fair Value
Investments – Categorized			
Bankers Acceptances	$	17,495	17,495
Repurchase Agreements	450,000	13,553	463,553
Commercial Paper	1,080,636	1,990	1,082,626
U.S. Government Securities	1,176,329		1,176,329
Negotiable certificates of deposit	540,965		540,965
Corporate bonds	480,662		480,662
Common and preferred stock	2,000,733		2,000,733
Mutual Funds		22,748	22,748
U.S. Corporate Obligations		194,962	194,962
Investments held by the County for other agencies:			
U.S. Government Securities	108		108
Corporate bonds	6		6
Common Stock	2		2
Subtotal	$ 5,729,441	250,748	5,980,189
Investments – Not Categorized			
Investments held by broker dealers under			
Securities loans:			
U.S. Government securities			5,269
Corporate bonds			91,447
Common and preferred stock			163,579
Mutual Funds			260,000
Real Estate Equity			412,643
Total Investments			$ 6,913,127

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2002

A total of $3,193,962 of investments are reported in the equity in pooled cash and investments fund financial statements.

Fair values and estimates of fair values are provided monthly by an independent pricing agency and such values are not supported by any guarantees on the part of the pool sponsor or the pricing agency. The County and certain school districts are mandated by state statues to participate in the County Treasurer's investment pool and represent 97.6 percent of the total pooled cash and investments on hand at June 30, 2002.

Reverse Repurchase Agreements: State statutes permit the County to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The County had no reverse repurchase agreements outstanding at June 30, 2002.

Securities Lending Transactions: Under the provisions of State statutes, the County Treasurer lends U.S. government obligations and SDCERA lends U.S. government obligations, domestic and international bonds and equities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The County's custodial bank manages the securities lending programs for the County Treasurer and receives cash and securities as collateral pledged at 102 percent of the market value of securities lent. Fiscal agents for SDCERA manage the securities lending programs and receive cash securities pledged at 102 percent of fair value for domestic securities lent and 105 percent of the fair value of international securities lent. Additional collateral

has to be provided the next business day if its value falls to 100 percent or less of the market value of the securities lent. The collateral securities cannot be pledged or sold by the County Treasurer or SDCERA unless the borrower defaults. No more than 20 percent of the Treasurer's pooled investment portfolio may be lent at one time. There is no restriction on the amount of SDCERA securities that may be lent at one time. Securities on loan at year-end are presented as unclassified in the preceding schedule of custodial credit risk and represent transactions of the SDCERA pension trust fund. At year-end, the pension trust fund has no credit risk exposure to borrowers because the amounts SDCERA owes the borrowers exceeds the amounts the borrowers owe SDCERA. The term to maturity of securities loans is generally matched with the term to maturity of the cash collateral. Such matching existed at fiscal year end.

(B) Restricted Assets- Investments

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

(C) Capital Assets

Primary Government

Capital asset activity for the year ended June 30, 2002 was as follows (in thousands):

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2002

Governmental Activities:

	Beginning	Increases	Decreases	Ending
Capital assets, not being depreciated:				
Land	$ 221,578	71,477	(42,433)	250,622
Construction in progress	203,632	50,659	(11,146)	243,145
Total capital assets, not being depreciated	425,210	122,136	(53,579)	493,767
Capital assets, being depreciated:				
Buildings and improvements	806,225	11,514	(15,667)	802,072
Equipment	152,199	43,709	(39,893)	156,015
Road network	1,973,038	1,526		1,974,564
Bridge network	36,487			36,487
Total capital assets, being depreciated	2,967,949	56,749	(55,560)	2,969,138
Less accumulated depreciation for:				
Buildings and improvements	(228,727)	(15,355)	419	(243,663)
Equipment	(70,260)	(12,339)	5,767	(76,832)
Road network	(456,733)	(57,200)		(513,933)
Bridge network	(9,509)	(689)		(10,198)
Total accumulated depreciation	(765,229)	(85,583)	6,186	(844,626)
Total capital assets, being depreciated, net	2,202,720	(28,834)	(49,374)	2,124,512
Governmental activities capital assets, net	$2,627,930	93,302	(102,953)	2,618,279

GASB 34 requires the capitalization of infrastructure for governmental type funds. The beginning balances for "Road network" and "Bridge network" and their associated accumulated depreciation were restated to better reflect the actual increases and decreases during fiscal year 2001/02.

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

General government	$	1,549
Public Protection		13,687
Public Ways and Facilities		57,941
Health and Sanitation		1,235
Public Assistance		1,667
Education		122
Recreational and Cultural		1,308
Internal Service Funds		8,074
Total Depreciation Expense – Governmental Activities	$	85,583

Public protection and Public ways and facilities amounts include $348 and $57,541 of depreciation from infrastructure for 2001/02 respectively.

Business Type Activities:
Airport Enterprise Fund

	Beginning	Increases	Decreases	Ending
Capital assets, not being depreciated:				
Land and Improvements	$ 6,401			6,401
Construction in progress	3,790	4,490	(1,546)	6,734
Total capital assets, not being depreciated	10,191	4,490	(1,546)	13,135
Capital assets, being depreciated:				
Building and equipment	26,515	2,200		28,715
Total capital assets, being depreciated	26,515	2,200		28,715
Less accumulated depreciation for:				
Buildings & Equipment	(15,745)	(2,118)	438	(17,425)
Total accumulated depreciation	(15,745)	(2,118)	438	(17,425)
Total capital assets, being depreciated, net	10,770	82	438	11,290
Airport Enterprise Fund capital assets, net	$ 20,961	4,572	(1,108)	24,425

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2002

Liquid Waste Enterprise Fund

	Beginning	Increases	Decreases	Ending
Capital assets, not being depreciated:				
Land and Improvements	$	20		20
Total capital assets, not being depreciated		20		20
Capital assets, being depreciated:				
Building and equipment	184	714		898
Total capital assets, being depreciated	184	714		898
Less accumulated depreciation for:				
Buildings & Equipment	(111)	(319)		(430)
Total accumulated depreciation	(111)	(319)		(430)
Total capital assets, being depreciated, net	73	395		468
Liquid Waste Enterprise capital assets, net	$ 73	415		488

Transit Enterprise Fund

	Beginning	Increases	Decreases	Ending
Capital assets, being depreciated:				
Building and equipment	$ 10,503	1,284	(11,787)	
Total capital assets, being depreciated	10,503	1,284	(11,787)	
Less accumulated depreciation for:				
Buildings & Equipment	(6,191)	(1,059)	7,250	
Total accumulated depreciation	(6,191)	(1,059)	7,250	
Total capital assets, being depreciated, net	4,312	225	(4,537)	
Transit Enterprise Fund capital assets, net	4,312	225	(4,537)	

Sanitation Districts

	Beginning	Increases	Decreases	Ending
Capital assets, not being depreciated:				
Land and Improvements	$ 1,090		(21)	1,069
Construction in progress	138	602	(297)	443
Total capital assets, not being depreciated	1,228	602	(318)	1,512
Capital assets, being depreciated:				
Building and equipment	2,892	595	(1,306)	2,181
Infrastructure	62,181	57		62,238
Total capital assets, being depreciated	65,073	652	(1,306)	64,419
Less accumulated depreciation for:				
Buildings & Equipment	(2,064)	(105)	355	(1,814)
Infrastructure	(21,471)	(1,188)		(22,659)
Total accumulated depreciation	(23,535)	(1,293)	355	(24,473)
Total capital assets, being depreciated, net	41,538	(641)	(951)	39,946
Sanitation Districts capital assets, net	$ 42,766	(39)	(1,269)	41,458

The infrastructure of $62.2 million consists of sewer lines for the Sanitation Districts which were reported in previous years as buildings and equipment. The beginning balances for "Building and equipment" and "Infrastructure" and their associated accumulated depreciation were reclassified to better reflect the actual increases and decreases during fiscal year 2001/02. Capital assets of the Transit Enterprise Fund (equipment of $11.8 million and accumulated depreciation of $7.3 million) were transferred to the Metropolitan Transit Development Board (MTDB). This transfer is presented as a decrease in building and equipment capital assets and accumulated depreciation in the above schedule.

(D) Lease Commitments

The County has commitments under long-term property operating lease agreements for facilities used for operations. These leases do not meet the criteria for capitalization under FASB Statement 13. The

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2002

County is the lessee under the terms of several non-cancelable operating leases for real property used to house certain County facilities. The combined rental cost for which the County is obligated under these leases is as follows (in thousands):

Fiscal Year	Minimum Payments
2002/03	$ 9,419
2003/04	8,656
2004/05	7,246
2005/06	6,780
2006/07	5,646
2007/12	17,177
2012/14	7,503
Total	$ 62,427

Total rental expense for all real property operating leases for the year ended June 30, 2002, was approximately $22.8 million.

In addition to real property leases, the County has also entered into long-term operating leases for personal property, a large portion of which represents data processing and duplicating equipment. Many of these leases are subject to annual adjustment based upon negotiations. Management expects that in the normal course of business, leases that expire will be renewed or replaced by other leases. Total rental expense for these operating leases for the year ended June 30, 2002, was approximately $13.8 million.

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

Capital Lease Property Class	June 30, 2002 (In Thousands)
Structures and Improvements	$ 42,480
Equipment	4,124
Total	$ 46,604

Future minimum lease payments under capital leases consisted of the following at June 30, 2002 (in thousands):

Fiscal Year	Minimum Lease Payment
2002/03	$ 7,762
2003/04	5,368
2004/05	4,464
2005/06	4,348
2006/07	3,785
2007/12	15,722
2012/17	15,280
2017/20	9,191
Total Minimum Lease Payments	65,920
Less: Amount Representing Interest	(19,316)
Net Lease Payments	$ 46,604

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2002

(E) General Long-Term Debt

General Long-Term Debt outstanding at June 30, 2002, consists of certificates of participation, capital lease obligations (See Note 3E), pension obligation bonds, contracts/loans payable, revenue bonds, arbitrage rebate, accumulated unpaid employee leave benefits (See Note 1F) and landfill closure costs as follows (in thousands):

Obligation	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding
San Diego County Capital Asset Leasing Corporation (SANCAL):				
1993 Certificates of Participation issued March, 1993	3.00-5.75%	2013	$ 7,640	$ 5,415
1993 Certificates of Participation issued March, 1993	3.25-5.10%	2007	26,085	12,295
1993 Certificates of Participation issued May, 1993	2.50-5.625%	2012	203,400	112,945
1996 Certificates of Participation issued May, 1996	4.30-5.50%	2018	52,230	41,630
1996 Certificates of Participation issued December, 1996	4.00-6.00%	2019	37,690	34,375
1997 Certificates of Participation issued June, 1997	4.00-4.80%	2004	28,035	8,385
1997 Certificates of Participation issued July, 1997	4.00-5.00%	2025	80,675	73,745
1998 Certificates of Participation issued January, 1999	4.00-4.94%	2022	73,115	63,115
1999 Certificates of Participation issued September, 1999	3.60-4.75%	2009	15,010	12,475
2000 Certificates of Participation issued May, 2000	4.50-5.125%	2010	51,620	43,350
2002 Certificates of Participation issued March, 2002	2.00-3.30%	2011	26,060	26,060
Total Certificates of Participation			$ 601,560	$ 433,790

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2002

Obligation	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding
Capitalized Leases:				
San Diego Regional Building Authority Lease beginning September 2001	2.15-5.25%	2019	$ 36,960	$ 36,960
Others:				
Various beginning dates from August, 1997 to the present	4.24-8.00%	2002-2008	28,653	9,644
Total Capitalized Leases			65,613	46,604
Other Long-Term Obligations:				
Calif. Integrated Waste Mgmt Board Loans beginning December, 1995	5.83-5.87%	2016	1,260	980
Dept. of Transportation Loans Beginning March, 2001	5.63%	2017	3,584	3,297
Taxable Pension Obligation Bonds Series A	4.7-6.60%	2007	430,430	282,900
Revenue Bonds				
Redevelopment Agency Series 1995	4.75-6.75%	2020	5,100	4,655
San Diego County Tobacco Asset Securitization Corporation			411,913	403,868
Total Other Long-Term Obligations			852,287	695,700
Arbitrage Rebate				836
Accumulated Unpaid Employee Leave Benefits				72,342
Claims and Judgments				97,794
Landfill Closure				101,000
Total Long-Term Debt				$ 1,448,066

The certificates of participation (COP) of the SANCAL non-profit corporation listed above 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 debt proceeds. There are also encumbrances on the facilities constructed with the proceeds of the SANCAL COP and the San Diego Regional Building Authority Bonds. The capital leases between the County and SANCAL have been eliminated for financial reporting purposes and the related assets and debt (e.g. certificates of participation of SANCAL) are reported as San Diego County's assets and debt, respectively.

Also, the County, in compliance with the Tax Reform Act of 1986 and subsequent U.S. Treasury Regulations, has performed arbitrage rebate calculations to determine probable amounts due to the Federal government. An estimate of probable arbitrage rebate in the amount of $836 has been included in the Statement of Net Assets.

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2002

Long-term liability activity for the year ended June 30, 2002 was as follows (in thousands):

Governmental Activities

Obligation	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds and Notes Payable:					
Certificates of Participation	$466,450	26,060	(58,720)	433,790	38,505
Redevelopment Agency Bonds	4,770		(115)	4,655	125
San Diego County Tobacco Asset Securitization Corporation		411,913	(8,045)	403,868	
Taxable pension Obligation Bonds	317,345		(34,445)	282,900	39,420
Capital Loans	4,490		(213)	4,277	213
Total Bonds and Notes Payable	793,055	437,973	(101,538)	1,129,490	78,263
Other Liabilities:					
Capitalized leases	83,012	37,069	(73,476)	46,604	5,744
Arbitrage Rebate	64	791	(19)	836	135
Claims and Judgments	84,210	13,584		97,794	32,760
Compensated Absences	70,759	1,631	(49)	72,342	7,234
Landfill Closure	101,000			101,000	
Total Other Liabilities	339,045	53,075	(73,544)	318,576	45,873
Total	$1,132,100	491,048	(175,082)	1,448,066	124,136

Business-Type Activities:

Sanitation Districts

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds and Notes Payable:					
Sanitation Debt	$225		(25)	200	5
Total Sanitation Districts Long-Term Liabilities	$225		(25)	200	5

The Bonds and Notes Payable ending balance of $200 consists of $5 and $195 for the Julian Sanitation and Spring Valley Sanitation, respectively.

Airport Fund

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Compensated absences	$110		(8)	102	
Total Airport Fund Long-Term Liabilities	$110		(8)	102	

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2002

Liquid Waste Fund

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Compensated absences	$168	7		175	
Total Liquid Waste Fund Long-Term Liabilities	$168	7		175	

The loan payable by the San Diego County Tobacco Asset Securitization Corporation to the Tobacco Securitization Authority of Southern California is due and payable, along with accrued interest, on December and June, as payments from the State of California are received by the County for the County's share of the Tobacco Settlement Payments (See Note 5I). Although this loan payable is not an obligation of the County, Governmental Accounting Standards Board Statement No. 14 (GASB 14) requires the County to record the transactions of the Corporation, including the loan payable on the County's financial statements, as the Corporation meets the criterion to be treated as a blended component unit.

The following is a schedule of debt service requirements to maturity, for Long-Term Debt outstanding at June 30, 2002 (in thousands) excluding capital leases. Accumulated unpaid employee leave benefits and Landfill Closure are excluded since they are not estimable due to the timing of payments.

Fiscal Years Ending June 30	Principal	Interest	Total
2003	$78,263,360	38,306,071	116,569,431
2004	83,720,017	33,925,349	117,645,366
2005	87,997,419	29,006,169	117,003,588
2006	96,439,820	23,673,445	120,113,265
2007	102,832,221	17,832,992	120,665,213
2008-2012	154,292,128	47,701,605	201,993,733
2013-2017	57,697,315	23,114,240	80,811,555
2018-2022	43,615,000	10,218,338	53,833,338
2023-2027	20,765,000	2,008,975	22,773,975
Total	$725,622,280	225,787,184	951,409,464

Prior Year Defeasance of Debt

In prior years, the County defeased certain lease revenue bonds/certificates of participation (COPs) 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, 2002, $64.2 million of bonds/COPs outstanding are considered defeased.

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2002

Advance Refunding of Long-Term Debt
San Diego Regional Building Authority (SDRBA)

On September 27, 2001, the SDRBA (Authority) issued approximately $37 million of fixed rate certificates of participation (COP), to defease the 1991 Metropolitan Transit System Tower (MTS) refunding COP. The Authority has entered into a lease with the County of San Diego for the occupancy and use of the property. The County makes base rental payments to the Authority as per the Base rental schedule (debt service schedule). The County has entered into a sublease with the Metropolitan Transit Development Board (MTDB) to lease the 9th, 10th, and certain portions of the first floor. Therefore, MTDB pays to the County 27.61% of the principal and interest payment due on the COP. The Authority issued the COP's to take advantage of the low interest rate market thereby reducing total debt service requirements by $8.4 million, resulting in an economic gain of approximately $5 million.

San Diego County Capital Asset Leasing Corporation (SANCAL)

On February 27, 2002 SANCAL issued $26.1 million of fixed rate Certificates of Participation (COP) for the prepayment in full of the Motorola equipment lease to achieve cost savings as a result of the low interest rate market. This fixed rate debt has a minimum rate of 2% and a maximum rate of 5%. The net proceeds were used to current refund a 1996 third party lease of $39.8 million for equipment as part of a regional public safety/public services wireless radio communication system. The COP issued by the Corporation were secured by a long-term capital lease between the County and the Corporation. The net proceeds of $25.4 million (less underwriting fees and issuance costs of $601) and a County contribution of $2.4 million were used to defease the third party debt. The liability for

the COP issued by SANCAL and long-term capital lease between the County and the Corporation are reported on the Statement of Net Assets. Annual budgetary savings of approximately $425,000 over the next nine years was achieved with an economic gain (difference between the present value on the old and new debt) of an estimated amount of $1.3 million.

Inactive Landfill Closure Costs

The County maintains 17 waste disposal sites that were closed prior to 1985. Consistent with State and Federal regulations pertaining to closed landfills, post-closure costs for these landfills, including facilities maintenance and groundwater monitoring over a 30-year period, are estimated at $101 million in current year costs. This amount has been recorded in the Statement of Net Assets. Actual costs may be higher due to inflation, changes in technology or changes in regulations. The County has funded this liability from cash reserves realized in prior years.

(F) Business Type Long-Term Debt
Business type long-term debt consists of loans payable, contracts payable, and unpaid accumulated employee leave benefits. A schedule of business type long-term debt is as follows (in thousands):

Obligation	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding 6/30/2001
Julian Sanitation Loan	5.3%	2003	61	5
Contract Payable Spring Valley				195
Unpaid Accumulated Employee Leave Benefits				277
Total Business Type Long-Term Debt				$477

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2002

The following is a schedule of debt service requirements to maturity, including interest, for proprietary fund types loans outstanding at June 30, 2002. Accumulated unpaid employee leave benefits are excluded because they are not estimable due to timing of payments. Long-term claims payable are also excluded since they are based on estimates, which are uncertain as to the probable date of payment (in thousands):

Year Ending June 30	Loans
2003	5

(G) Special Assessment Debt

The County Treasurer/Tax Collector acts as an agent for property owners and bondholders in collecting and forwarding special assessment monies. The County is not obligated for repayment of any special assessment bonds and all special assessment debt is solely the obligation of various separate governmental agencies. The amount of special assessment debt outstanding for which the County is a fiduciary is $17.6 million at June 30, 2002.

(H) Component Unit Information

Following is a summary of all component units' financial position and results of operations as of and for the year ended June 30, 2002 (in thousands):

Condensed Statement of Net Assets

	Children & Families Commission	Tobacco Authority	Total Component Units
Assets:			
Equity in pooled cash and investments	$ 133,176		133,176
Cash with fiscal agents		51,889	51,889
Accounts receivable	7,687		7,687
Internal balances	233		233
Long-term receivables		403,868	403,868
Deferred charges		16,387	16,387
Total Assets	141,096	472,144	613,240
Liabilities			
Accounts payable	889		889
Accrued interest		2,113	2,113
Long-term liabilities:			
Due within one year		3,385	3,385
Due in more than one year		455,410	455,410
Total Liabilities	889	460,908	461,797
Net Assets:			
Restricted			
Unrestricted	140,207	11,236	151,443
Total Net Assets	$ 140,207	11,236	151,443

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2002

Condensed Statement of Activities

		Program	Revenues	Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants & Contributions	Children and Families Commission	Tobacco Joint Authority	**Total**
Children and Families Commission						
Health & Sanitation	$ 18,974	123	1,668	(17,183)		(17,183)
Tobacco Authority						
General	366		5,408		5,042	5,042
Debt Service	12,842				(12,842)	(12,842)
Total Tobacco Authority	13,208		5,408		(7,800)	(7,800)
Tobacco Corporation						
Debt Service	18,160		18,160			
Total Component Units	49,523					(24,983)
	General Revenues					
	Taxes			40,940		40,940
	Interest			4,636	19,036	23,672
	Total general revenues and transfers			45,576	19,036	64,612
	Change in net assets			28,393	11,236	39,629
	Net assets - beginning			111,814		111,814
	Net assets - ending			$ 140,207	11,236	151,443

(I) Interfund Receivables, Payables and Transfers

Transfers In/Transfers Out at June 30:

From	To	Amount
General	Nonmajor Governmental Funds	$ 147,397
	Enterprise Funds	198
	Internal Service Funds	12,230
Tobacco Securitization	General Fund	27,261
Tobacco Securitization Corporation	Tobacco Securitization	411,913
Nonmajor Governmental Fund	General Fund	437,864
	Nonmajor Governmental Funds	159,582
	Enterprise Funds	503
	Internal Service Funds	47
Enterprise Funds	Nonmajor Governmental Funds	1,060
Internal Service Funds	General Fund	785
	Nonmajor Governmental Funds	2,643
	Internal Service Funds	37
Total		$1,201,520

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

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2002

Due To/Due From other Funds at June 30:

Receivable Fund	Payable Fund	Amount
General	Tobacco Securitization	$ 4,802
	Nonmajor Governmental Funds	101,885
	Enterprise Funds	58
	Internal Service Funds	58,122
	Trust & Agency Funds	33,829
Tobacco Securitization Corporation	Trust & Agency Funds	20
Nonmajor Governmental Fund	General Fund	5,656
	Nonmajor Governmental Funds	2,964
	Enterprise Funds	446
	Internal Service Funds	706
	Trust & Agency Funds	20,260
Enterprise Funds	General Fund	45
	Nonmajor Governmental Funds	554
	Enterprise	420
	Internal Service Funds	189
	Trust & Agency Funds	543
Internal Service Funds	General Fund	12,467
	Nonmajor Governmental Funds	1,662
	Enterprise Funds	152
	Internal Service Funds	750
	Trust & Agency Funds	10,461
Trust & Agency Funds	General Fund	4,984
	Nonmajor Governmental Funds	9,096
	Enterprise Funds	1
	Internal Service Funds	254
	Trust & Agency Funds	43,740
Total		$ 314,066

Advances To/From at June 30:

	Advances To Other Funds	Advances From Other Funds
General Fund	$ 689	
Nonmajor Governmental Funds		
Flood Control District	103	
County Service Districts		410
Nonprofit Corporation – Debt Service	447	
Redevelopment Agency – Debt Service		287
Redevelopment Agency – Capital Projects		10,277
Enterprise Funds		
Airport	9,637	
Sanitation Districts	135	296
Internal Service Funds		
Special District Loans	259	
Total Advances To - Advances From Other Funds	$ 11,270	11,270

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2002

(J) Divestiture of the County Transit System

On February 13, 2002, the Board of Supervisors approved divestiture of the County Transit System to the Metropolitan Transit Development Board (MTDB) to be effective on June 28, 2002. The County accounted for the transit system in the Transit Enterprise Fund. Capital assets valued at $4.5 million ($11.8 million less accumulated depreciation of $7.3 million) were removed from the books and transferred to MTDB. All outstanding contracts were assigned to MTDB. At June 30, 2002, a liability of $3.8 million was established to reflect cash and equivalents held in the Transit Fund pending disposition instructions from San Diego Association of Governments.

(5) Other Note Disclosures

(A) Commitments and Contingencies

(1) Litigation

In addition to the accrued liability for litigation and Workers Compensation claims described in Note 4B, the County has a potential liability of $56 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, 2002.

(2) Unrecorded Leave Benefits

County employees have unrecorded accumulated benefits of approximately $115.8 million in sick leave. These benefits are not payable to employees upon termination and are normally liquidated in future years as employees elect to use their benefits as prescribed by Civil Service rules and regulations. Accumulated vacation, sick leave, and compensatory time-off for which employees are eligible for payment upon separation have been recorded as current or long-term liabilities in the appropriate proprietary funds and the Statement of Net Assets as described in Note 1G.

(3) Tax and Revenue Anticipation Notes

On July 3, 2002, the County issued $135 million of Tax and Revenue Anticipation Notes to finance fiscal year 2002/03 General Fund cash flow requirements. The notes are scheduled to mature on July 31, 2003.

(4) Teeter Obligation Commercial Paper Notes

From November 1995 through June 2002, the County issued $96.1 million in taxable and $242.4 million in tax-exempt commercial paper notes (CP) to provide ongoing financing for tax apportionments to taxing jurisdictions within the County in the amount of delinquent secured property taxes due these districts. The notes are secured by delinquent secured property tax collections. No CP can be issued for a period longer than 270 days. At June 30, 2002, the outstanding balances of CP were $9.9 and $50.2 million for taxable and tax-exempt notes, respectively.

(5) Third Party Debt

Mortgage Revenue Bonds, Certificates of Participation, Industrial Development Revenue Bonds and Reassessment District Improvement Bonds as described below, together with interest thereon, are

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2002

limited obligations of the County payable solely from bond proceeds, revenues and other amounts derived solely from home mortgage and health institutions, developer loans secured by first deeds of trust, irrevocable letters of credit, irrevocable surety bonds and tax assessments. In the opinion of County officials, these bonds and certificates are not payable from any revenues or assets of the County, and neither the full faith and credit nor the taxing authority of the County, the State or any political subdivision thereof is obligated to the payment of the principal or interest on the bonds. Accordingly, no liability for these bonds have been recorded in the Statement of Net Assets.

Mortgage Revenue Bonds

Multi-family Housing 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 December 1985 and June 2002, the County issued $49.7 million of Mortgage Revenue Bonds of which $40.2 million were still outstanding as of June 30, 2002.

Certificates of Participation

The County has implemented a conduit program whereby the County is the issuer of tax-exempt bonds and loans the proceeds to a qualifying for profit or nonprofit organization. These organizations make payments to the County equal to the debt service on the bonds. Beginning in April 1998, $112 million in Certificates of Participation have been issued to provide funding for construction of capital improvements and refunding of prior obligations for a hospital and medical center located within the County. In December 1998, the County entered into a lease agreement with the San Diego Natural History Museum to issue $15 million of COPs to finance certain museum improvements. In September 1999, the County entered into a lease agreement with the Burnham Institute to issue $51.5 million of COPs to finance the purchase of real property. In March 2000, the County entered into a lease agreement with the San Diego Museum of Art to issue $6 million of COPs to finance certain museum improvements. In April 2000, the County entered into a lease with the Salk Institute to issue $15 million of COPs to finance the acquisition, construction and equipping of certain research facilities. In May 2001, the County entered into a lease agreement with the University of San Diego to issue $36.9 million of COPs to finance certain capital improvements for the University. As of June 30, 2002, $231.3 million of such COPs are still outstanding.

Reassessment District Improvement Bonds

Reassessment District Improvement Bonds were issued to provide for refunding an earlier issuance of Improvement Bonds for an assessment district. The district issued $28.8 million of Improvement Bonds in July 1991 to finance the acquisition of certain infrastructure improvements specially benefiting properties within an assessment district. In July 1997, the district issued $21.8 million of Reassessment Bonds to refund the original issuance, of which $17.7 million were still outstanding as of June 30, 2002.

(6) Federal Programs

The County participates in a number of federal financial assistance programs. Although these programs have been audited through June 30, 2000, in accordance with the provisions of the Single Audit Act of 1996, the resolution of previously identified questioned costs has not occurred. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the County expects such amounts, to be immaterial.

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2002

(7) SDCERA

SDCERA is party to financial instruments with off-balance sheet risk to generate earnings and stabilize excess earnings from active management of fixed income securities and common stocks. Managed futures contracts include, but are not limited to, contracts for delayed delivery of securities, commodities, or currencies in which the seller agrees to make delivery at a specified future date of a specified instrument at a specified price or yield. Risks arise from the possible inability of counter-parties to meet the terms of their contract. The risks of loss from these off-balance sheet financial instruments include minimal credit risks, but include the possibility that future changes in market prices may make such financial instruments less valuable (market risk). Not reflected in the pension trust fund financial statements are commitments to acquire real estate for investment totaling $63.5 million and alternative equity for $108.6 million.

(8) 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 with financial institutions as guaranteed investment contracts in accordance with the provisions of the bond resolution and contractual relationships between the Treasurer and these financial institutions. The amounts deposited belong to the specific agency which issued the bonds and are not assets of the County reporting entity and are not held in the County's external investment pool. The County has no liability with respect to these issues.

(B) Risk Management

The County operates a Risk Management Program, whereby it is self-insured for premises liability at medical facilities, medical malpractice, errors and omissions, false arrest, forgery, and general liability. The County purchases insurance for property damage, certain casualty claims, public officials bond, employee dishonesty, faithful performance, volunteers, excess workers' compensation (for losses greater than $1 million), airport comprehensive, and loss of money and securities based upon site locations. Earthquake insurance coverage decreased from $75 million to $50 million. Settlements in the areas covered have not exceeded insurance coverage for each of the past three fiscal years. During fiscal year 1994/95, the County established an Internal Service Fund (ISF) to report all of its uninsured risk management activities. Risk management liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. An actuarial evaluation was used to determine the public liability and workers compensation total risk liability at June 30, 2002. At June 30, 2002, the amount of these liabilities, including an estimate for claims incurred but not reported, was estimated at $97.8 million, including $16.1 million in public liability and $81.7 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 1996/97. Changes in the balances of claim liabilities for fiscal year 2000/01 and 2001/02 were as follows (in thousands):

Fiscal Year	Beginning-of-Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2000/01	$ 59,523	51,593	(26,906)	84,210
2001/02	84,210	46,344	(32,760)	97,794

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2002

(C) Joint Venture

The County is a participant with 16 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 the 2001/02 fiscal year were $403,840. The organization had a cumulative surplus of $223,902 at June 30, 2002. Separate financial statements for the joint venture may be obtained from the County Chief Financial Officer/Auditor and Controller.

(D) Jointly Governed Organizations

The County Board of Supervisors jointly governs two service authorities, the Service Authority for Abandoned Vehicles and the Service Authority for Freeway Emergencies (S.A.F.E.). These Authorities are governed by two seven-member boards, consisting of representatives from the city councils of the incorporated cities within the County and two members of the County Board of Supervisors. The purpose of the authorities is to provide for the removal of abandoned vehicles on streets and highways and to provide for freeway emergency call boxes on major freeways within the County, respectively. Funding for the authorities is derived from vehicle license fee surcharges, which are collected by the State and deposited into the County Treasury. The County provides minimal administrative staff support for these authorities.

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

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

(E) San Diego County Employees' Retirement System

(1) Plan Description

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

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2002

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

(3) Funding Policy

State statutes require member contributions to be actuarially determined to provide a specific statutory level of benefit. Member contribution rates, as a percentage of salary, vary according to age at entry, benefit tier level, and certain negotiated contracts which provide for the County to pay a portion of the employees' contribution. Member contribution rates (weighted average) expressed as a percentage of salary are 8.399%-8.85% for general members and 9.27% for safety members. The County is also required by State statutes to contribute at an actuarially determined rate; the 2001/02 rates, expressed as a percentage of covered payroll, are – 0% for general members and 2.96% for safety members.

(4) Annual Pension Cost

For the fiscal year ended June 30, 2002, the County's annual pension cost was zero. The County's actual contributio n during the fiscal year ended June 30, 2002, totaled 5.3 million, resulting in a net pension obligation of 7.7 million as of June 30, 2002, compared to 15.5 million at the end of the prior year. The required contribution rates, as adopted by the SDCERA Board, were determined as part of the June 30, 2000 actuarial valuation based on entry-age actuarial cost method. The actuarial assumptions included (a) an 8.25% investment rate -of-return, (b) projected salary increases of 4.5% per year, and (c) cost-of-living increases for retirees of 3.0%.

(5) Three-Year Trend Information (In Thousands):

Fiscal Year Ending	Annual Pension Cost (ARC)	Percentage of ARC Contributed	Net Pension Obligation
06/30/2000	14,341	0%	14,341
06/30/2001	4,927	41.3%	15,548
06/30/2002	0	100%	7,686

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

(6) Retiree Health Benefits:

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

Approximately 9,600 retirees or surviving spouses are eligible to receive these benefits. SDCERA recognizes the cost of providing those benefits by expending annual insurance premiums, which approximated $14.3 million for fiscal year 2001/02. A reserve established by the SDCERA Board of Directors for the payment of postretirement health care benefits was approximately $285.6 million at June 30, 2002, a $104.1 million increase from the previous fiscal year.

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2002

(7) Equity and Bond Swaps and Futures Contracts

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

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

(F) New Special Revenue Funds

During the fiscal year, the County formed one new Special Revenue Fund entitled San Diego County In House Supporting Services Authority (IHSS). The Board of Supervisors is the governing body of the authority. The mandated functions of this authority include the establishment and administration of an IHSS registry, Investigation of the qualifications and background of potential registry personnel, referral of registry personnel to IHSS recipients and the provision for training of providers and recipients. Financing is provided by the Social Services Realignment fund, federal and state programs. An initial budget of $2.9 million was approved.

(G) 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, 2002, interest of approximately $3.7 million has accrued on these advances.

(H) New Governmental Accounting Standards

In prior years, many nonexchange dollars were collected and maintained in agency funds until such time as they reimbursed expenditures incurred in the general fund and other funds of the County. Thus, revenues were not earned when received, but when expenditures were incurred. Under GASB Statement No. 33, the accounting method changed to require most nonexchange dollars to be recognized as revenues in the general fund or other appropriate fund when received. Due to time restrictions, revenue recognition was deferred. Purpose restrictions did not affect revenue recognition,
but do require a reservation of fund balance. The County analyzed hundreds of its trust and agency funds to determine the proper revenue recognition under the new standard. Many agency funds were found to hold assets for county purposes. These funds were reclassified. The agency column now reports only assets held in an agent capacity for other governments, organizations and individuals.

In June 1999, the GASB issued Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments". This is a landmark statement that requires government agencies nationwide to report both on a fund basis and also on a government-wide full accrual basis, including infrastructure assets. A comprehensive management's discussion and analysis section is also presented. In June 2001, the GASB issued Statement No. 37, "Basic

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2002

Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus". This statement will help governments to better implement GASB Statement No. 34 as it clarifies and modifies certain provisions of that statement. It also provides for a more consistent application to meet changing requirements. In June 2001, the GASB also issued Statement No. 38, "Certain Financial Statement Note Disclosures". This statement will provide users with new information while eliminating some disclosures no longer needed. Some requirements addressed are revenue recognition, debt service, receivables, payables, interfund transfers and short term debt. The County has adopted the new standards in Statement Nos. 34, 37 and 38 for the current year.

The adoption of GASB No. 34 has resulted in a restatement of fund balances as follows:

	Governmental Activities
Net assets:	
Fund balances at June 30, 2001 as previously reported governmental fund types:	
General	$ 618,284
Special revenue	444,459
Debt Service	38,500
Capital projects	22,535
Total fund balances at June 30, 2001, as previously reported	1,123,778
Discretely presented component unit previously reported as a special revenue fund	(111,814)
GASB Statement No. 34 adjustments:	
Addition of:	
Beginning residual balances from internal activities accounted for as internal service funds	85,878
Net capital assets	2,552,280
Long term liabilities	(1,039,451)
Net bond discount	4,202
Interest on long term debt	(14,190)
Pension Benefit Obligation	(15,548)
Adjustment for deferred revenue	18,549
Net assets as of July 1, 2001	$ 2,603,684

(I) Securitization of Tobacco Settlement Revenues

The Tobacco Securitization Authority of Southern California (the "Authority") issued $446,860 in aggregate principal amount of Tobacco Settlement Asset-Backed Bonds in January of 2002 (the "Bonds"), in order to fund the Authority's loan to San Diego Tobacco Asset Securitization Corporation, a California non-profit public benefit corporation (the "Borrower") pursuant to a loan agreement between the Authority and the Borrower. The Borrower in turn used the net proceeds of the financing, in the amount of $411 million, to pay to the County, in return for the County's transfer to the Corporation of all of the County's right, title and interest in and to and under a Master Settlement Agreement (the "MSA"), as agreed to by the State and participating jurisdiction, and a Memorandum of Understanding (the "MOU") and a supplemental agreement (the "ARIMOU") among the State of California, all California counties and four California cities, including the right of the County to receive Tobacco Settlement Payments. The MSA was entered into in November 1998, among the Attorney Generals of 46 states, the District of Columbia, The Commonwealth of Puerto Rico, Guam, U.S. Virgin Islands, American Samoa and the Commonwealth of Northern Mariana Islands and collectively, the "Settling States" and the four largest tobacco manufacturers. Under the terms of the MSA, the settling tobacco companies agreed, among other things, to make periodic payments in perpetuity

NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2002

("Tobacco Settlement Payments") in exchange for being released from claims related to the use of tobacco products. Under the MOU and the ARIMOU, the State of California agreed to distribute 50% of the Tobacco Settlement Payments it received to California counties (including the County) and four cities; the relative amounts to be received by the counties is based upon population, with adjustments being made in response to each decennial U.S. census. When the Tobacco Settlement Payments became available to the County, the County Board of Supervisors adopted Board Policy E-14, which establishes guidelines for the allocation of these revenues to new and expanded programs that would serve these targeted populations and also promote healthy lifestyles. The emphasis is on prevention and education, and is intended to reduce the abuse of alcohol, tobacco and other addictive substances, improve mental health services, significantly reduce violence and abuse, reduce the incidence of chronic and infectious diseases, and provide education regarding the effects of tobacco.

Prior to its sale of the Tobacco Settlement Payments, the County of San Diego had received approximately three years of annual payments. The County expects to use approximately $27.3 million annually from the proceeds from the sale (which were deposited in an endowment fund and invested in municipal securities) for Board Policy E-14 purposes.

The bonds are limited obligations of the Authority payable solely from payments made by the Corporation, from Tobacco Settlement Payments purchased from the County, to the Authority under the loan agreement between the Corporation and the Authority. The bonds do not constitute a charge against the general credit of the Authority or the County and neither will the Authority (except from loan payments by the Corporation) or the County be obligated to pay the interest on or principal of these bonds. These bonds do not constitute a debt, liability or obligation (legal, moral or otherwise) of the County.

Future debt service requirements of the Authority as of June 30, 2002 are as follows: (in thousands)

Fiscal Years Ending June 30	Principal	Interest	Total Debt Service
2003	$ 3,385	25,351	28,736
2004	1,830	25,216	27,046
2005	2,155	25,143	27,298
2006	2,015	25,056	27,071
2007	1,890	24,976	26,866
2008-2013	14,815	147,552	162,367
2014-2019	20,725	142,519	163,244
2020-2025	37,390	134,061	171,451
2026-2031	62,710	118,962	181,672
2032-2037	99,515	93,471	192,986
2038-2043	212,365	54,552	266,917
Total	$ 458,795	816,859	1,275,654

(J) Subsequent Event Disclosure

On February 12, 2002, The Board of Supervisors of the County adopted enhanced retirement benefits for members of the County's Employees' Retirement Association. As a result of these benefits, the County incurred an increased obligation pursuant to the Retirement Law as an unfunded accrued actuarial liability to the Association. In September 2002, the County of San Diego issued $737.3 million of fixed and variable rate taxable Pension Obligation Bonds to finance a portion of the County's statutory obligations resulting from the County implementing in March of 2002 a new enhanced retirement package. The issue consisted of $10.4 million for cost of issuance, $176.9 million to refund a portion of the 1994 Taxable Pension Obligation Bonds and $550.2 million to the retirement Association.