NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
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(1) Summary of Significant Accounting Policies

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

(A) The Financial Reporting Entity

The County of San Diego is a political subdivision of the State of California (the "State") charged with general governmental powers and governed by an elected five-member Board of Supervisors (the "Board"). The County provides a full range of general government services. As required by generally accepted accounting principles, these financial statements present the County of San Diego (the primary government) and its component units, entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the County's operations, and the County Board of Supervisors is typically their governing body. They are reported as if they were part of the primary government, because they benefit the County exclusively. A discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the County. This unit is discretely presented because its Board is not substantively the same as the County's Board and it does not provide services entirely or almost entirely to the County. Management applied the criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," to determine whether the following component units should be reported as blended or discretely presented component units. Additionally, management researched the requirements under GASB Statement No. 39. "Determining Whether Certain Organizations Are Component Units" pertaining to legally separate, tax-exempt entities, and found that there are no legally separate, tax-exempt entities that meet the criteria of GASB 39. GASB 39 became effective for fiscal years beginning after June 15, 2003.

(B) Blended Component Units

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

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

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

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

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

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

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

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

San Diego County Employees' Retirement Association (SDCERA) - This association is a legally separate entity reported as if it were part of the primary government, because it's operations primarily benefit 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 authority was established to serve as the employer of record for the IHSS program which provides in-home assistance to low-income aged, blind, and disabled individuals enabling them to remain safely in their own homes and avoid institutionalization. The IHSS program is state-mandated. This fund is included in the special revenue funds.

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

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

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

(C) Discretely Presented Component Unit

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

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

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

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

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

Separate fund financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The focus of governmental and proprietary fund financial statements is on major funds. The financial information of each major fund is shown in a separate column in the fund financial statements, with the data for all nonmajor governmental funds aggregated into one single column on the Governmental Funds Balance Sheet, and with data for all nonmajor enterprise funds aggregated into one single column on the Statement of Net Assets Proprietary Funds.

The County reports the following major governmental funds:

> The General Fund is the County's primary operating fund. It accounts for all financial resources of the County except those required to be accounted for in another fund. Revenues are primarily derived from taxes; licenses, permits and franchises; fines, forfeitures and penalties; use of money and property; intergovernmental revenues; charges for services; and other revenues. Expenditures are expended for functions of general government, public protection, public ways and facilities, health and sanitation, public assistance, education, and recreational and cultural. They also include capital outlay, and debt service.
>
> The Tobacco Securitization Special Revenue Fund accounts for tobacco settlement payments allocated to the County from the State of California, pursuant to the Master Settlement Agreement concluded on November 23, 1998 between the major tobacco companies and 46 states (including California), the District of Columbia and four U.S. Territories. (See Note 5H for additional information regarding the sale by the County to the Corporation of all right, title and interest of the County to such monies)
>
> The Tobacco Securitization Joint Special Revenue Fund accounts for the transactions of the San Diego County Tobacco Asset Securitization Corporation and Tobacco Securitization Joint Powers Authority, two component units, that are blended into the County's financial statements.

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

> The Sanitation Districts Funds are used to account for the activities of all individual sanitation districts and sewer maintenance district governed by the County Board of Supervisors. Due to the quantitative nature of the Airport and the Wastewater Management Enterprise Funds, the county has elected to not report them as major funds beginning fiscal year 2003-04. Therefore, these funds have been included in the Other Enterprise Funds column in the basic financial statements.

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Additionally, the County reports the following fund types:

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

The 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 the Agency Funds' 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. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. 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 (e.g. interfund transfers and interfund reimbursements) have been eliminated from the government-wide statement of activities. Exceptions to the general rule are interfund services provided and used between functions, such as charges for auditing and accounting fees between the general government function and various other functions of the primary government. Elimination of these interfund activities would distort the direct costs and program revenues reported for the various functions concerned. Additionally, only the interfund transfers between governmental and business-type activities are reported in the statement of activities.

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 enterprise fund operations and business type activities.

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 include charges for providing goods and services; operating expenses include salaries and benefits, utilities, and payments to vendors and suppliers. In addition, nonoperating activities are used for any revenues or expenses that cannot be properly classified as components of operating income. Examples of nonoperating activities include interest revenue, and gain/loss on disposal of assets.

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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) 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; and, (3) claims and judgments.

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

(F) Property Taxes

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

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

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

As established by the Teeter Plan, the Auditor and Controller allocates to the County and other agencies 100% of the secured property taxes billed but not yet collected by the County; in return, as the delinquent property taxes and associated penalties and interest are collected, the County retains such amounts in an Agency Fund. To the extent the Agency Fund tax loss reserves are higher than required, transfers may be made to benefit the County's General Fund. The balance of the tax loss reserve as of June 30, 2004 was $7 million, which is included in the General Fund for reporting purposes.

(G) Indirect Costs

Expenditures and expenses for functional activities include County indirect costs that are allocated to benefiting departments under the County's Fiscal Year 2003-2004 Countywide Cost Allocation Plan which was prepared in accordance with the Federal Office of Management and Budget Circular A-87.

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(H) 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. Cash and short-term investments in the Pension Trust Fund consist of cash and securities with fiscal agents and deposits held in a pooled account with the County and are reported at cost, which approximates fair value. Short-term investments consist of cash held in money market accounts and securities readily convertible to cash. The fair value of Pension Trust Fund real estate investments has been determined by appraisals performed by independent real estate advisors approximately every three years. 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), with original maturities of three months or less. 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 Other Governmental 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 defined as assets of a long-term character that are intended to be held or used in operations, such as land, buildings and improvements, equipment, and infrastructure. Infrastructure assets include roads, bridges, flood channels, street lights, signals, and sewers.

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

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

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

Structures and improvements	50 years
Infrastructure	10-50 years
Equipment	5-20 years

Bond Issuance Costs, Premiums, Discounts and Deferred Amount On Refunding

In the government-wide financial statements and in the proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, issuance costs, as well as the deferred amount on refunding, are deferred

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and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium, discount or deferred amount on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts as other financing sources and uses, respectively, and bond issuance costs as debt service expenditures. Amounts on refunding are not deferred, but are recognized in the year of occurrence as other financing sources and uses. Issuance costs, whether or not withheld from the actual debt proceeds received are reported as debt service expenditures.

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 $77.5 million for the governmental fund types as of June 30, 2004, 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.

Net Assets Invested in Capital Assets, Net of Related Debt
This amount is derived by subtracting the outstanding debts incurred by the County to buy or construct capital assets shown in the statement of net assets. Capital assets cannot readily be sold and converted to cash.

Restricted of Net Assets
Restricted net assets arise when restrictions on the use of net assets are externally imposed by a creditor, (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

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

(2) Stewardship, Compliance and Accountability

(A) Fund Deficits
The following funds have an accumulated deficit at June 30, 2004:

Capital Projects Fund:		
San Diego County Redevelopment Agency (SDCRA)	$	5,210
Internal Service Funds:		
Risk Financing	$	17,530
Facilities Management	$	1,488

The deficit within the SDCRA fund is due to the construction of various capital projects including streets, utilities, sidewalks, traffic signals and other improvements. This deficit will be reduced in

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future years upon the receipt of the incremental tax revenues. The deficit in the Risk Financing fund is due to prior years' recognition of liabilities based on actuarial studies. This year's deficit represents a reduction of $6.4 million over that of the prior fiscal year. The County intends to reduce the deficit by continuing to focus resources on injury prevention via a Countywide education and safety training program. The County anticipates this program will reduce the growth in the liability for new injury claims, and therefore the deficit, by 5% to 10% per year. The deficit within the Facilities Management fund is due to the use of loan proceeds for expenses incurred for maintenance cost for energy conservation equipment. This deficit will be reduced as fees are collected in future years.

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

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

Total fund balance of the County governmental funds, $1,294,163, differs from net assets of governmental activities, $1,825,921 reported in the statement of net assets. The difference primarily results from the long-term economic resources measurement focus and the accrual basis of accounting in the statement of net assets versus the current financial resources measurement focus and modified accrual basis of accounting in the governmental fund balance sheets.

Balance Sheet/Statement of Net Assets

	Total Governmental Funds	Long-term Assets, Liabilities (1)	Internal Service Funds (2)	Reclassi-fications and Eliminations (3)	Statement of Net Assets Totals
ASSETS					
Cash and cash equivalents	$ 574,356		163,518		737,874
Cash with fiscal agent	76,520				76,520
Investments	410,893				410,893
Taxes receivable, net	34,488				34,488
Internal balances				(9,106)	(9,106)
Accounts and notes receivable	341,519		2,994	41,926	386,439
Due from other funds	191,795		19,731	(211,526)	
Advances to other funds	1,068		757	(1,825)	
Inventory of materials and supplies	8,613		863		9,476
Deferred charges and other assets	2,789	28,791			31,580
Capital assets		2,581,998	98,572		2,680,570
Total assets	1,642,041	2,610,789	286,435	(180,531)	4,358,734
LIABILITIES					
Accounts payable	72,331		16,373		88,704
Accrued payroll	60,165		1,523		61,688
Accrued interest		20,929	14		20,943
Due to other funds	115,116		54,302	(169,418)	
Advances from other funds	11,113			(11,113)	
Deferred credits and other liabilities	89,153	(28,895)	43		60,301
Long-term liabilities		2,199,258	101,919		2,301,177
Total liabilities	347,878	2,191,292	174,174	(180,531)	2,532,813
FUND BALANCE/NET ASSETS					
Total fund balance/net assets	1,294,163	419,497	112,261		1,825,921
Total liabilities and fund net assets	$ 1,642,041	2,610,789	286,435	(180,531)	4,358,734

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

Net cost of issuance	$	28,791
Total deferred charges and other assets	$	28,791

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

Cost of capital assets	$	3,538,279
Accumulated depreciation		(956,281)
Net capital assets	$	2,581,998

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

Total accrued interest	$	(20,929)

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	$	28,895
Total deferred credits and other liabilities	$	28,895

Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities; including bond premiums, discounts, and the cost of refunded debt that are recognized as revenue (premiums) and expenditures in governmental funds in the year of sale. However, all liabilities, current and long-term, are reported in the statement of net assets. Bond premiums, discounts and deferred costs on refunded debt are recorded as additions (premiums) and reductions of a liability respectively and amortized over the life of the corresponding bonds. Balances at June 30, 2004 were:

Bonds, notes and loans payable	$	(2,061,720)
Unamortized issuance Premium		(555)
Unamortized issuance Discount		9,565
Unamortized deferred amount on refunding		14,072
Capital leases		(37,346)
Arbitrage		(979)
Compensated absences		(75,385)
Landfill closure and postclosure - San Marcos Landfill		(46,910)
Total long-term liabilities	$	(2,199,258)

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

Costs	$	112,261

(3) The government-wide financial statements are designed to minimize the duplicative effects of transactions between funds for internal activities. Therefore, due to/from and advances to/from

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

(B) Explanation of certain differences between the governmental funds 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 $(56,745) differs from the change in net assets for governmental activities $(362,234) reported in the statement of activities. The differences arise primarily from the long-term economic resources measurement focus and the accrual basis of accounting in the statement of activities versus the current financial resources measurement focus and modified accrual basis of accounting in the governmental funds. The effect of the differences is illustrated in the following table.

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

	Total Governmental Funds	Long-Term Revenues/ Expenses (4)	Capital-Related Items (5)	Internal Service Funds (6)	Long-term Debt Transactions (7)	Statement of Activities Totals
Revenues:						
Taxes	$ 497,178	(261)				496,917
Licenses, permits and franchises	42,252					42,252
Fines, forfeitures and penalties	46,495					46,495
Revenue from use of money and property	25,867			157		26,024
Aid from other governmental agencies:						
State	1,201,278					1,201,278
Federal	701,057					701,057
Other	69,860					69,860
Charges for current services	277,637	121		15,535		293,293
Other revenue	65,913	(864)	31,322			96,371
Total revenues	2,927,537	(1,004)	31,322	15,692		2,973,547
Expenditures:						
Current:						
General	216,183		4,623	17,547	(3,594)	234,759
Public protection	1,216,276		12,594	1,727	(57,065)	1,173,532
Public ways and facilities	115,426		44,826	92		160,344
Health and sanitation	562,657		2,457	553	(871)	564,796
Public assistance	1,053,545		412	676	(1,722)	1,052,911
Education	31,308		230	184		31,722
Recreational and cultural	24,702		1,611	180		26,493
Capital outlay	54,958		(54,958)			
Debt service:						
Principal	69,839				(69,839)	
Interest	92,503			21	(627)	91,897
Bond issuance costs	4,095				(4,095)	
Total expenditures	3,441,492		11,795	20,980	(137,813)	3,336,454
Other financing sources (uses):						
Sale of capital assets	4,044		(4,044)			
Proceeds of long term debt	454,179				(454,179)	
Transfers (net)	(1,013)			1,686		673
Total other financing sources (uses)	457,210		(4,044)	1,686	(454,179)	673
Net change for the year	$ (56,745)	(1,004)	15,483	(3,602)	(316,366)	(362,234)

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

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

Property taxes	$	(261)

Adjustment for reserve for inventory of materials and supplies.

Adjustment	$	121

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

Adjustment of deferred revenue	$	(864)

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

Proceeds from sale of capital assets	$	(4,044)

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

Loss on Disposal of assets	$	(21,326)
Capital outlay		91,294
Depreciation expense		(81,763)
Subtotal		(11,795)
Donated infrastructure - roads		31,322
Difference	$	19,527

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

Adjustments	$	(3,602)

(7) Repayment of bond principal and other long-term obligations are reported as expenditures in governmental funds and thus has the effect of reducing fund balance because current financial resources have been used. For the County as a whole however, the principal and other payments for liabilities reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities. The County's long-term obligations include bonds, loans and notes payable, capital leases, accumulated unpaid employee leave balances, arbitrage rebate, and

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closure and postclosure costs for the San Marcos landfill. The County's long-term debt was reduced by these payments, principal payments to bondholders, and the adjustment to the San Marcos Landfill closure and postclosure liability.

Other miscellaneous debt additions- general function	$	(1,047)
Other miscellaneous debt additions - public protection function		(1,271)
Other miscellaneous debt reductions - general function		5,807
Change in accounting estimate for closure and postclosure costs public Protection function - San Marcos Landfill		54,090
Principal payments made		69,839
Total repayment of long-term obligations	$	127,418

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

Bond issuance costs	$	4,095
Amortization of bond issuance costs - general function		(2,013)
Difference	$	2,082

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

Accrued interest	$	4,549
Amortization of bond premium		78
Amortization of bond discounts		(4,000)
Total additional interest	$	627

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

Pension obligation bond proceeds	$	(454,113)
Singing hills capital loan proceeds		(66)
Total long-term debt proceeds	$	(454,179)

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

General function	$	847
Public protection function		4,246
Public assistance function		1,722
Health & sanitation function		871
Pension obligation liability	$	7,686

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(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. All participating funds share earnings and losses proportionately. State law permits interest income related to certain funds to be considered as income of the General Fund of the County. Such interest has been recorded as revenue in the General Fund.

SDCERA cash, cash equivalents and securities for swaps and futures consist of money market securities and collective short-term investments with original maturities of three months or less.

SDCERA utilizes various financial instruments, such as equity swap agreements and stock and bond futures contracts in order to synthetically create exposure to the equity and bond markets and allows SDCERA to build portfolios with performance characteristics very similar to benchmarks and to manage allocation of risk. The Board of Retirement has adopted a policy whereby cash, cash equivalents, and securities in amounts at least equal to the exposures resulting from these agreements are segregated and identified in the accounting records as "Cash, cash equivalents, and securities for domestic equity swaps and futures and cash, cash equivalents and securities for international futures". The amounts reported reflect the fair value of the swap and futures contracts, which include cash, cash equivalents, securities and any net unrealized gains and losses associated with the contracts.

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

"Cash with fiscal agent" represents amounts on deposit with trustees for the, Pension Trust Fund, Teeter Commercial Paper Notes, Tobacco Securitization Special Revenue Fund, Tobacco Securitization Joint Special Revenue Fund, Other Governmental Funds and other Fiduciary Funds. Cash with various financial institutions was $149.462 million including $59.134 million restricted cash as required by various trust agreements entered into by the County and other cash with fiscal agents totaling $90.328 million.

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Of the $149.462 million, $1.673 million was covered by federal deposit insurance, $147.789 million was considered a collateralized custodial credit risk. Collateralized custodial credit risk is defined by GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements" as bank balances collateralized with securities held in trust by the pledging financial institution in the entity's name, (the County and San Diego Employees' Retirement Association (SDCERA), a component unit of the County). The County is also in compliance with State statutes (as referred to in GASB Statement No. 3) that 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.

"Investments," represents the Tobacco Securitization Special Revenue Fund investments, Inactive Wastesite Fund investments, the Pension Trust Fund investments and stocks and bonds held for other agencies.

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

Deposits: At year-end the carrying amount of the County's demand deposits was $34.690 million. Of the balance $692 thousand was covered by federal deposit insurance and $33.998 million was considered a collateralized custodial credit risk as defined above.

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

Pension Trust Fund Investments are reported at fair value in the Pension Trust Fund based upon closing sale prices reported on recognized securities exchanges on the last business day of the period. For listed securities having no sales reported and for unlisted securities, fair value is based upon last reported bid prices. All purchases and sales of investments are accounted for on a trade-date basis, and dividends declared but not received are accrued on the ex-dividend date. Realized and unrealized gains or losses of securities are determined on the basis of average cost.

The County's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the County's name. There were no investments with a risk Category 3 at June 30, 2004.

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		Category 1	Category 2	Fair Value
Investments categorized				
Domestic equity securities	$	674,524		674,524
Cash, cash equivalents, and securities for domestic equity swaps and futures		1,304,716		1,304,716
International equity securities		1,131,939		1,131,939
Cash, cash equivalents, and securities for international futures		60,222		60,222
Domestic corporate bonds		344,059		344,059
Cash for bond futures		206,426		206,426
International bonds		515,942		515,942
Asset backed securities		49,313		49,313
Repurchase agreements		200,000		200,000
Commercial paper		1,049,756		1,049,756
US government obligations		1,893,638		1,893,638
Negotiable certificates of deposit		669,739		669,739
Short term and corporate notes		223,582		223,582
Fixed income municipal securities			352,910	352,910
Cash received for investments held by broker dealers under securities lent by SDCERA:				
U.S. corporate floating rate		122,514		122,514
Asset back securities		23,544		23,544
Commercial paper		7,997		7,997
Bank notes		63,559		63,559
Certificate of deposit floating rate		60,087		60,087
Time deposits		15,009		15,009
Repurchase agreements		82,775		82,775
Subtotal		8,699,341	352,910	9,052,251
Investments not categorized				
Securities loaned by SDCERA for cash collateral:				
U.S. government and agency securities				26,430
International governments securities				1,761
Domestic corporate bonds				98,611
Domestic equities				181,845
International equities				56,950
Mutual funds (Open-ended)				34,400
Real estate equity				501,238
Guaranteed Investment Contracts				14,312
Total investments	$			9,967,798

Reconciliation of the Statement of Net Assets to Total Investments at June 30, 2004:

	Primary Government	Fiduciary Funds	Sub-Total	Component Unit	Total
Equity in pooled cash and investments	$ 798,164	2,833,134	3,631,298	165,229	3,796,527
Cash with fiscal agent	17,386	72,942	90,328		90,328
Restricted cash with fiscal agent	59,134		59,134		59,134
Collections in transit	9,728	20,975	30,703		30,703
Imprest cash	520	34	554		554
Investments	43,671	5,795,068	5,838,739		5,838,739
Restricted investments	367,222		367,222		367,222
Total	1,295,825	8,722,153	10,017,978	165,229	10,183,207
Less:					
Cash with fiscal agent					(90,328)
Restricted cash with fiscal agent					(59,134)
Collections in transit					(30,703)
Imprest cash					(554)
Deposits					(34,690)
Total investments	$				9,967,798

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A total of $3.8 billion of investments is reported in the Equity in pooled cash and investments fund financial statements. Fair values and estimates of fair values are provided monthly by an independent pricing agency and such values are not supported by any guarantees on the part of the pool sponsor or the pricing agency. The County and certain school districts are mandated by state statues to participate in the County Treasurer's investment pool and represent 97 percent of the total pooled cash and investments on hand at June 30, 2004.

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 various brokers with a simultaneous agreement to return collateral for the same securities plus a fee 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. The securities lending agent manages the securities lending program and receives securities and cash as collateral. Collateral cash is pledged at 102% and 105% of the fair value of domestic securities and non-domestic securities lent, respectively. 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 are no restrictions on the amount of SDCERA securities that can 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 the loaned securities is generally not matched with the term to maturity of the investment of the cash collateral.

SDCERA's securities lending transactions as of June 30, 2004, are summarized in the following table. The Pension Trust Fund lent $385 million in securities and received collateral of $20 million and $375 million in securities and cash, respectively, from borrowers.

Securities Lent		SDCERA Securities Lent	Securities Received Value	Cash Received Value
Lent for cash collateral:				
U.S. government and agency securities	$	26,430		26,858
International governments securities		1,761		1,795
Domestic corporate fixed income securities		98,611		101,099
Domestic equities		181,845		185,850
International equities		56,950		59,883
Lent for securities collateral:				
International equities		5,378	5,905	
U.S. government securities		1,042	1,065	
International governments securities		12,953	13,228	
Total	$	384,970	20,198	375,485

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

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(B) Restricted Assets

Cash With Fiscal Agent

Restricted Cash with fiscal agent represents cash held in custodial accounts restricted for debt service in accordance with the provisions of bond indentures.

Investments

Restricted Investments consist of investments in the Tobacco Securitization Special Revenue Fund. The investments in the Tobacco Securitization Special Revenue Fund will be used over time to fund new and existing programs that would 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.

(C) Capital Assets

Primary Government

Capital asset activity for the year ended June 30, 2004 was as follows:

Governmental Activities:

	Beginning Balance at July 1, 2003	Increases	Decreases	Ending Balance at June 30, 2004
Capital assets, not being depreciated:				
Land	$ 265,956	20,470	(24,316)	262,110
Construction and contracts in progress	177,693	36,833	(39,440)	175,086
Total capital assets, not being depreciated	443,649	57,303	(63,756)	437,196
Capital assets, being depreciated:				
Buildings and improvements	931,422	38,919	(364)	969,977
Equipment	163,892	12,872	(8,788)	167,976
Road network	2,012,432	61,989		2,074,421
Bridge network	38,425	768		39,193
Total capital assets, being depreciated	3,146,171	114,548	(9,152)	3,251,567
Less accumulated depreciation for:				
Buildings and improvements	(262,782)	(17,868)	39	(280,611)
Equipment	(81,285)	(14,951)	7,436	(88,800)
Road network	(569,057)	(58,080)		(627,137)
Bridge network	(10,912)	(733)		(11,645)
Total accumulated depreciation	(924,036)	(91,632)	7,475	(1,008,193)
Total capital assets, being depreciated, net	2,222,135	22,916	(1,677)	2,243,374
Governmental activities capital assets, net	$ 2,665,784	80,219	(65,433)	2,680,570

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

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

General government	$	4,020
Public protection		14,384
Public ways and facilities		59,157
Health and sanitation		2,380
Public assistance		369
Education		197
Recreational and cultural		1,256
Internal service funds		9,869
Total depreciation expense - governmental activities	$	91,632

Business Type Activities:

Enterprise Funds	Beginning Balance at July 1, 2003	Increases	Decreases	Ending Balance at June 30, 2004
Capital assets, not being depreciated:				
Land	$ 7,490	3,187		10,677
Construction and contracts in progress	13,817	8,392	(6,693)	15,516
Total capital assets, not being depreciated	21,307	11,579	(6,693)	26,193
Capital assets, being depreciated:				
Buildings and improvements	30,598	6,693		37,291
Equipment	1,203	11		1,214
Sewer network	63,063	683		63,746
Total capital assets, being depreciated	94,864	7,387		102,251
Less accumulated depreciation for:				
Buildings and improvements	(18,830)	(797)		(19,627)
Equipment	(782)	(66)		(848)
Sewer network	(24,803)	(1,262)	34	(26,031)
Total accumulated depreciation	(44,415)	(2,125)	34	(46,506)
Total capital assets, being depreciated, net	50,449	5,262	34	55,745
Enterprise fund capital assets, net	$ 71,756	16,841	(6,659)	81,938

(D) Leases

(1) Lease Revenue

The County leases real property to the private sector and other governmental agencies. The lease revenues for both non-cancelable and cancelable leases for the year ended June 30, 2004 were approximately $15 million. One lease extends through 2091 for a two acre parcel leased to a non-profit public benefit corporation. The future minimum lease revenue from the non-cancelable leases is as follows:

Fiscal Year	Minimum Lease Revenue
2004-2005	$ 10,811
2005-2006	10,456
2006-2007	9,752
2007-2008	9,270
2008-2009	9,038
2009-2091	155,019
Total	$ 204,346

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(2) Lease Commitments
The County has commitments under long-term property operating lease agreements for facilities used for operations through fiscal year 2012. These leases do not meet the criteria for capitalization under FASB Statement 13. The County is the lessee under the terms of several non-cancelable operating leases for real property used to house certain County facilities. The combined rental cost for which the County is obligated under these leases is as follows:

Fiscal Year	Minimum Lease Payments
2005	$ 9,801
2006	8,338
2007	7,085
2008	3,553
2009	2,975
2010-2012	5,811
Total	$ 37,563

Total rental expense for all real property operating leases, including short-term cancelable leases for the year ended June 30, 2004, was approximately $26.2 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, 2004, was $7.4 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.

Future minimum lease payments under capital leases consisted of the following at June 30, 2004:

Fiscal Year	Minimum Lease Payments
2005	4,462
2006	4,348
2007	3,785
2008	3,454
2009	3,068
2010-2014	15,323
2015-2019	15,290
2020-2023	3,060
Total minimum lease payments	52,790
Less: amount representing interest	(15,444)
Net lease payments	$ 37,346

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The book value of capital lease property at June 30, 2004 consisted of the following:

Capital Lease Property	Net Book Value June 30, 2004
Land	$ 2,221
Buildings and Improvements	36,729
Total	$ 38,950

(E) Short-Term Obligations

The County's short-term borrowing program consists of its annual Tax and Revenue Anticipation Notes (Notes), which fund the County's annual operating cash flow needs, and the issuance of Teeter Commercial Paper, which fund payments to public agencies their full share of property taxes levied. The County bears the risk of loss on delinquent property taxes that go unpaid; however, it also benefits from the penalties associated with these delinquent property taxes when they are paid. Short-term borrowing activity during the year ended June 30, 2004 was as follows:

	Beginning Balance at July 1, 2003	Issued	Redeemed	Ending Balance at June 30, 2004
Tax and Revenue Anticipation Notes	$135,000	255,000	390,000	
Teeter B-1 Tax - Exempt Principal	39,200	34,100	24,200	49,100
Teeter B-2 Taxable Principal	22,536	12,001	22,536	12,001
Total Teeter	$ 61,736	46,101	46,736	61,101

On July 3, 2003, the County of San Diego issued $255 million of Notes with an interest and principal maturity date of June 30, 2004. The Notes carry an interest rate of 1.75% and a yield of 0.90%.

In 1995 the County of San Diego Board of Supervisors approved the Master Teeter Resolution providing the terms and conditions of its teeter plan obligations. Pursuant to this resolution, the County is able to issue additional Series B Teeter Commercial Paper each fiscal year. On May 18, 2004, the Board of Supervisors adopted a resolution for the additional Series B borrowings to finance the uncollected property taxes and assessments attributable to the fiscal year ended June 30, 2004. The Teeter commercial paper shall mature not more than 270 days after date of issuance and is not subject to redemption prior to maturity. The payment of principal and interest on each series is supported by an irrevocable direct pay letter of credit that will expire on June 22, 2007.

(F) General Long-Term Obligations

Outstanding general long-term obligations at June 30, 2004 consist of certificates of participation, capital lease obligations, third party financing leases, and other long-term obligations. All obligations listed carry a fixed interest rate. The range listed in the table below represents the interest rate on the serial, term bonds or in the case of third party financing leases it is the range of rates for the various leases. A component of the 2002 Taxable Pension Obligation Bonds, Series B1, and the 2004 Taxable Pension Obligation Bonds, Series B, carry variable interest rates and are subject to market fluctuations. The variable interest rate used for the 2002 Series B1 was 1.129% at June 30, 2004. The assumed variable rate used in the 2004 Taxable Pension Obligation Bonds is 1.369% which represents the one month London Interbank Offered Rate (LIBOR) at June 30, 2004. The maximum interest rate on these bonds shall not exceed 17% per annum. Outstanding long-term obligations at June 30, 2004 were as follows:

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(1) Governmental Activities

General Long-Term Obligations

Obligation	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding
San Diego County Capital Asset Leasing Corporation (SANCAL):				
1993 Certificates of participation issued May, 1993	2.50 - 5.625%	2012	$ 203,400	86,725
1996 Certificates of participation issued May, 1996	4.30 - 5.50%	2018	52,230	33,740
1996 Certificates of participation issued December, 1996	4.00 - 6.00%	2019	37,690	31,910
1997 Certificates of participation issued July, 1997	4.00 - 5.42%	2025	80,675	69,755
1998 Certificates of participation issued January, 1999	4.00 - 4.94%	2022	73,115	57,730
1999 Certificates of participation issued September, 1999	3.60 - 4.75%	2009	15,010	9,750
2000 Certificates of participation issued May, 2000	4.50 - 5.125%	2010	51,620	33,985
2002 Certificates of participation issued March 2002	2.00 - 5.00%	2011	26,060	20,770
Total certificates of participation			539,800	344,365
Capitalized Leases:				
San Diego Regional Building Authority Lease beginning September 2001	2.15 - 5.25%	2019	36,960	33,960
Third party financing leases with various beginning dates from August, 1997 to the present	4.24 - 8.00%	2004 - 2014	8,705	3,386
Total capitalized leases			45,665	37,346
Other long-term obligations:				
Capital loans:				
United States Department of Agriculture	1.00%	2028	4,486	3,483
California Bank & Trust	7.75 - 8.75%	2007-2008	502	289
California Energy Commission	4.00%	2014	1,978	1,978
Taxable Pension Obligation Bonds:				
1994 Series A	4.7 - 6.6%	2007	430,430	77,425
2002 Series A, B & C	3.88 - 6.125%	2032	737,340	737,340
2004 Series A, B & C	3.28 - 5.86%	2024	454,113	454,113
Redevelopment Agency Revenue Bonds	4.75 - 6.75%	2020	5,100	4,400
San Diego County Tobacco Asset Securitization Corporation	4.00 - 6.00%	2043	466,840	440,305
Unamortized issuance premium			765	555
Unamortized issuance discount			(11,244)	(9,565)
Unamortized deferred amount on refunding			(21,108)	(14,072)
Arbitrage rebate				979
Compensated absences				77,537
Claims and judgments				97,789
Landfill closure and postclosure				46,910
Total other long-term obligations			2,069,202	1,919,466
Total governmental activities			$ 2,654,667	2,301,177

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

Also, the County, in compliance with the Tax Reform Act of 1986 and subsequent U.S. Treasury Regulations, has performed arbitrage rebate calculations to determine probable amounts due to the Federal government. An estimate of the probable arbitrage rebate in the amount of $979 thousand has been included in the statement of net assets.

(2) Business-Type Activities

Obligation	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding
Sanitation Districts				
Long-term contract payable - Spring Valley			$ 5,639	195
Other enterprise funds				
Capital loan:				
Department of Transportation loan Beginning March 2001	5.63%	2019	3,584	2,998
Compensated absences				345
Total business-type activities			$ 9,223	3,538

In previous fiscal years, this capital loan was treated as a debt of the government-wide governmental activities statement of net assets, and the debt service payments were made from the Special Aviation Debt Service Fund. In fiscal year 2003-2004, this debt was determined to be a debt of the Airport Enterprise Fund (a non-major business-type activities fund), and is included in the table above as part of the Other enterprise funds. The debt service payments are now accounted for in the Airport Enterprise Fund.

(3) Long-term obligation activity for the year ended June 30, 2004 was as follows:

The following liabilities presented in the governmental activities table below, have been liquidated in prior years in the following governmental funds:

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

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Governmental Activities

Obligation	Beginning Balance at July 1, 2003	Additions		Reductions	Ending Balance at June 30, 2004	Amounts Due within One Year
Bonds and notes payable:						
Certificates of participation	$ 395,285			(50,920)	344,365	33,855
Redevelopment Agency	4,530			(130)	4,400	140
San Diego County Tobacco Securitization Corporation	449,235			(8,930)	440,305	2,155
Taxable pension obligation bonds	824,395	454,113		(9,630)	1,268,878	16,635
Capital and retrofit loans	7,088	2,044	*	(3,382)	5,750	345
Total bonds and notes payable, before issuance discount and premiums and deferred amount on refunding	1,680,533	456,157		(72,992)	2,063,698	53,130
Unamortized issuance premium, discount and deferred amount on refunding:						
Unamortized issuance premium	633			(78)	555	78
Unamortized issuance discount	(10,047)			482	(9,565)	(401)
Unamortized deferred amount on refunding	(17,590)			3,518	(14,072)	(3,518)
Total bonds and notes payable	1,653,529	456,157		(69,070)	2,040,616	49,289
Other liabilities:						
Capitalized leases	40,860	86	*	(3,600)	37,346	2,732
Arbitrage rebate	752	227			979	951
Claims and judgments	100,588	26,297		(29,096)	97,789	31,168
Compensated absences	75,370	2,409		(242)	77,537	7,754
Landfill closure and postclosure	101,000			(54,090)	46,910	17,925
Total other liabilities	318,570	29,019		(87,028)	260,561	60,530
Total governmental activities	$ 1,972,099	485,176		(156,098)	2,301,177	109,819

*This includes loan proceeds recorded in Internal Service Funds.

Business-Type Activities

Obligation	Beginning Balance at July 1, 2003	Additions		Reductions	Ending Balance at June 30, 2004	Amounts Due within One Year
Sanitation Districts						
Spring Valley sanitation	$ 195				195	
Other Enterprise Funds						
Capital loan		3,153		(155)	2,998	167
Compensated absences	299	46	*		345	34
Total business-type activities	$ 494	3,199		(155)	3,538	201

*Changes in compensated absences represent the net changes for fiscal year 2003-2004.

The following is a schedule of debt service requirements to maturity, for long-term bond and note obligations outstanding at June 30, 2004.

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Governmental Activities

Fiscal Year Ending June 30	Principal	Interest	Total
2005	$ 53,130	65,728	118,858
2006	59,037	85,190	144,227
2007	72,257	73,402	145,659
2008	57,195	70,057	127,252
2009	55,441	67,352	122,793
2010-2014	239,873	327,559	567,432
2015-2019	281,087	270,498	551,585
2020-2024	413,057	191,681	604,738
2025-2029	299,161	145,515	444,676
2030-2034	266,855	106.902	373,757
2035-2039	96,035	66,001	162,036
2040-2043	170,570	31,312	201,882
Subtotal	2,063,698	1,501,197	3,564,895
Add:			
Unamortized issuance Premium	555		
Less:			
Unamortized issuance discount	(9,565)		
Unamortized deferred amount on refunding	(14,072)		
Total	$ 2,040,616		

The above table does not reflect the County's exposure to the interest rate swap on the 2002 Taxable Pension Obligation Bonds. See Interest Rate Swap disclosure below for further information.

Business-Type Activities

Fiscal Year Ending June 30	Principal	Interest	Total
2005	$ 167	169	336
2006	180	159	339
2007	192	149	341
2008	205	138	343
2009	217	127	344
2010-2014	1,271	437	1,708
2015-2017	766	80	846
Total	$ 2,998	1,259	4,257

Interest Rate Swap

Objective of the Interest Rate Swap:
In order to manage interest rate risk and lower the County's borrowing cost in its 2002 Taxable Pension Obligation Bonds, the County entered into an interest rate swap on September 17, 2002 with two counterparties. The swap converts the variable interest rates on several subseries of the 2002 Taxable Pension Obligation Bonds to a single long-term fixed rate that was lower than the "natural" fixed rate available at the time of the swap. The interest rate swap with Citibank N.A. (Citibank) and Morgan Stanley Capital Services (Morgan Stanley), (together the "counterparties") is governed by the International Swaps and Derivatives Association, Inc. Master Agreement (the Agreement) and a

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Confirmation. In fiscal year 2002-2003, the County issued $737.340 million of Pension Obligation Bonds of which $505.125 million of the Series B Bonds are Auction Rate Securities. Within the Series B Auction Rate Securities there are the following subseries: $100 million of Series B-1, $135.025 million of Series B-2, $135.05 million Series of B-3 and $135.05 million of Series B-4 bonds. The County swapped Series B-2, B-3 and B-4 totaling $405.125 million of the Auction Rate Securities for a contractually agreed fixed interest rate of 5.30%. Of the $405.125 million our exposure with Citibank is $263 million and our exposure with Morgan Stanley is $142 million notional.

Terms:
County payments are due to bondholders semi-annually on August 15 and February 15, beginning February 15, 2003. The effective date of the swap was September 17, 2002 and the initial six-month calculation period began February 15, 2003. The Agreement and the Confirmation terminate on February 15, 2031 and the series B-2, B-3 and B-4 bonds mature on August 15, 2030. The County did not receive any upfront payments but pursuant to the terms of the Agreement, each August 15 and February 15 the County will receive an amount from each of the counterparties based on the notional amount of principal outstanding for the past six months at an interest rate of one month London Interbank Offered Rate (LIBOR) and each February 15 the County will pay the counterparties the scheduled 5.30% of the notional amount outstanding. The February 15 payment due from the counterparties will be netted against the 5.30% County payment. The notional amount of the swap will begin to decline in fiscal year 2016-2017 in direct proportion to the repayment of the bonds.

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

As of June 30, 2004, the swap created a synthetic fixed rate for the bonds as follows:

Interest Rate Swap:	Terms	Rates
Fixed Rate to Counterparty	Fixed	5.30%
Average Variable Rate from Counterparty (July 1, 2003 to June, 30, 2004)	1 month LIBOR	(1.122)%
Net Interest Rate Swap Payments		4.178%
Average Auction Rate bond coupon payments (July 1, 2003 to June, 30, 2004)		1.129%
Synthetic Interest Rate on Bonds		5.307%

Fair Value:
As of June 30, 2004 the swaps had a positive fair value of $8.5 million. The mid-market or indicative unwind valuation was derived from a proprietary model using the zero coupon method. This model takes into consideration estimates about relevant present and future market consideration as well as the size and liquidity of the position and any related actual or potential hedging transaction.

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

Credit risk:
The swap's fair value represented the County's credit exposure to the counterparties as of June 30, 2004. Should the counterparties to this transaction fail to perform according to the terms of the swap contract as of June 30, 2004, the County would be exposed to a possible loss equivalent to the swap's $8.5 million fair value. Citibank is rated Aa1/AA/AA+ by Moody's, Standard & Poors and Fitch, respectively and Morgan Stanley is rated Aa3/A+/AA- by Moody's, Standard & Poor's and Fitch, respectively. Pursuant to the Agreement if the rating issued by Standard & Poors or Moody's of the senior unsecured debt obligations of the counterparties is suspended or withdrawn or falls below "A-"

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in the case of Standard & Poors or below "A3" in the case of Moody's, collateral is to be delivered to a third party.

Termination risk:
The Agreement includes standard termination events such as failure to pay, bankruptcy and early termination. For this transaction, the swap and bond maturities match and carries an Interest Rate Swap Insurance Policy by MBIA Insurance Corporation (MBIA). If the Agreement is terminated for any of the conditions in the agreement, and at the time of the termination the swap has a negative fair value, the County would be liable to the counterparties for a payment equal to the swap's fair value. The swap can be terminated by the County for market value at any time. As of June 30, 2004 the fair value of the swap is a positive $8.5 million. Value is predominantly tied to changes in the market for the fixed swap rate for the remaining swap term.

Basis risk:
The County's exposure to basis risk arises when the one-month LIBOR rate index received from the counterparties may be less than the applicable auction rate that is being paid to the bondholders, that is the cash flow being received by the counterparty is not equal to the cash flow being paid to the variable rate bondholder. By using one month LIBOR, the County's objective is to mitigate the affect of the differential between the swap index and the bondholder variable rate. For fiscal year 2003-2004, the differential was $65 thousand.

Fiscal Year Ending June 30	Principal	Interest (1.129%)	Interest Rates Swaps, Net (4.178%)	Total
2005		4,574	16,926	21,500
2006		4,574	16,926	21,500
2007		4,574	16,926	21,500
2008		4,574	16,926	21,500
2009		4,574	16,926	21,500
2010-2014		22,870	84,630	107,500
2015-2019	$ 58,025	21,911	81,084	161,020
2020-2024	121,125	16,328	60,423	197,876
2025-2029	160,275	8,435	31,215	199,925
2030-2033	65,700	685	2,538	68,923
Total	$ 405,125	93,099	344,520	842,744

Prior Year Defeasance of Debt

In prior years, the County defeased certain lease revenue bonds, certificates of participation (COPs) or taxable pension obligation bonds by placing the proceeds of the original issue plus additional County contributions in an irrevocable trust to provide for all future debt service payments on the old obligations. Accordingly, the trust account assets and the liability for the defeased obligations are not included in the County's financial statements. At June 30, 2004, $178 million of bonds or COPs outstanding are considered defeased.

Landfill Site Closure and Postclosure Care Costs

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

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landfill is expected to span from July 2004 through December 2006. Once closure is complete, post closure maintenance will begin.

The County is required by GASB Statement No. 18, *"Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs"*, to report the projected closure and postclosure care costs as of each balance sheet date. The projected landfill closure and postclosure care liability at June 30, 2004 for the San Marcos Landfill was $46.91 million. This estimated amount is based on what it would cost to perform all closure and postclosure care in calendar year 2004 dollars and is subject to change as a result of such factors including but not limited to: inflation; deflation; advancements in technology; and amendments to laws and regulations.

The basis for the foregoing projection differs from the County's projected liability of $101 million at June 30, 2003, which included estimated maintenance costs applicable to waste and burn sites that stopped accepting solid waste prior to 1985 (pre-1985 inactive sites) and is reported as a change in accounting estimate. Accordingly, the government-wide statement of activities, public protection function expense reflects a reduction of $54.09 million.

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

As of June 30, 2004, $23.17 million of the Net Assets of the Government-Wide Statement of Net Assets has been restricted for closure costs of the San Marcos Landfill. Based on environmental site assessments and information currently available, County management believes it also has sufficient reserves available to fund costs associated with the previously discussed pre-1985 inactive sites.

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

(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 to pay any special assessment bonds. Special assessment debt is solely the obligation of various separate governmental agencies. The amount of the 4-S Ranch special assessment debt outstanding for which the County is a fiduciary is $15.2 million at June 30, 2004.

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(H) Receivables and Payables

(1) Receivables, net at June 30, 2004, were as follows:

Receivables	Accounts	Interest	Due From Other Gov't Agencies	Notes	Loans	Other *	Total Receivables	Allowance For Doubtful Accounts	Receivables Net
Governmental activities:									
General Fund	$ 1,202		196,200		21,301	38,994	257,697	(41)	257,656
Tobacco Securitization Special Revenue Fund		902				6	908		908
Tobacco Securitization Joint Special Revenue Fund		392					392		392
Other governmental funds	39,297	103	81,163	1,000		1,432	122,995		122,995
Internal service funds	417		2,577			1,494	4,488		4,488
Total governmental activities	40,916	1,397	279,940	1,000	21,301	41,926	386,480	(41)	386,439
Business-type activities:									
Sanitation Districts			15			270	285		285
Other Enterprise Funds	420		677			5	1,102		1,102
Total business-type activities	420		692			275	1,387		1,387
Component Unit:									
First 5 Commission		630	6,848				7,478		7,478
Total component unit	$	630	6,848				7,478		7,478

* Represents reclassifications of amounts due from fiduciary funds at government-wide level.

(2) Payables at June 30, 2004, were as follows:

Payables	Vendors	Due to Other Gov't Agencies	Other	Total Payables
Governmental Activities:				
General Fund	$ 42,478	14,717	105	57,300
Other governmental funds	9,433	1,254	4,344	15,031
Internal service funds	14,427	213	1,733	16,373
Total governmental activities	66,338	16,184	6,182	88,704
Business-type activities:				
Sanitation Districts	695			695
Other Enterprise Funds	343			343
Total business-type activities	1,038			1,038
Component Unit:				
First 5 Commission	3,211			3,211
Total component unit	$ 3,211			3,211

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(I) Interfund Receivables, Payables and Transfers

(1) Transfers in/transfers out at June 30, 2004 were as follows:

From	To	Amount
General Fund	Nonmajor Governmental Funds	$ 156,510
	Internal Service Funds	5,525
Total General Fund		162,035
Tobacco Securitization Special Revenue Fund	General Fund	24,083
Nonmajor Governmental Funds	General Fund	458,372
	Nonmajor Governmental Funds	132,666
	Nonmajor Enterprise Funds	24
Total Nonmajor Governmental Funds		591,062
Nonmajor Enterprise Funds	Nonmajor Governmental Funds	530
	Internal Service Funds	167
Total Nonmajor Enterprise Funds		697
Internal Service Funds	General Fund	878
	Nonmajor Governmental Funds	3,128
	Internal Service Funds	2,649
Total Internal Service Funds		6,655
Total		$ 784,532

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

(2) Advances to/from at June 30, 2004 were as follows:

	Advances To Other Funds	Advances From Other Funds
General Fund	$ 948	
Nonmajor Governmental Funds	120	11,113
Sanitation	135	259
Nonmajor Enterprise Funds	9,412	
Internal Service Funds	757	
Total	$ 11,372	11,372

The purpose of these advances was primarily for the establishment of loans that are not due within one year. These loans are for the planning, undertaking, construction or operation of redevelopment projects within the County. These advances to/from other funds have been eliminated in the government-wide financial statements, except for "internal balances" that are reflected between the governmental and business-type statements as of June 30, 2004.

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(3) Due to/due- from other funds at June 30, 2004 were as follows:

Receivable Fund	Payable Fund	Amount
General fund	Tobacco Securitization Special Revenue Fund	$ 7,336
	Nonmajor Governmental Funds	79,018
	Sanitation Districts	13
	Nonmajor Enterprise Funds	46
	Internal Service Funds	51,730
	Fiduciary Funds	40,178
Total General Fund		178,321
Tobacco Securitization Special Revenue Fund	Fiduciary Funds	6
Nonmajor Governmental Funds	General Fund	6,872
	Nonmajor Governmental Funds	2,001
	Sanitation Districts	204
	Nonmajor Enterprise Funds	1,118
	Internal Service Funds	707
	Fiduciary Funds	2,566
Total Nonmajor Governmental Funds		13,468
Sanitation Districts	Fiduciary Funds	280
Nonmajor Enterprise Funds	General Fund	188
	Nonmajor Governmental Funds	116
	Sanitation Districts	1,198
	Internal Service Funds	6
	Fiduciary Funds	29
Total Nonmajor Enterprise Funds		1,537
Internal Service Funds	General Fund	16,007
	Nonmajor Governmental Funds	1,177
	Sanitation Districts	47
	Nonmajor Enterprise Funds	66
	Internal Service Funds	603
	Fiduciary Funds	1,831
Total Internal Service Funds		19,731
Fiduciary Funds	General Fund	1,677
	Nonmajor Governmental Funds	724
	Nonmajor Enterprise Funds	33
	Internal Service Funds	255
	Fiduciary Funds	26,159
Total Fiduciary Funds		28,848
Total		$ 242,191

Due to/due from other funds shown in the table above arise due to the exchange of goods or services between funds that were pending the transfer of cash as of June 30, 2004. These due to/from other funds have been eliminated in the government-wide financial statements, except for "internal balances" that are reflected between the governmental and business-type statements as of June 30, 2004.

(J) Restatement of Beginning Net Assets Balance

Component Unit

The beginning net asset balance of the First 5 Commission was restated due to a $660 thousand liability that was not recorded in the prior year.

Net Asset balance as of June 30, 2003	$	158,228
Adjustment for restatement		(660)
Net Asset balance, restated June 30, 2003	$	157,568

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(5) Other Note Disclosures

(A) Commitments and Contingencies

(1) Litigation

In addition to the accrued liability for litigation and workers compensation claims described in Note 5B, the County has a potential liability of $25.3 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, 2004.

(2) Unrecorded Leave Benefits

County employees have unrecorded accumulated benefits of approximately $128.7 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) Third Party Debt

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

Mortgage Revenue Bonds

Mortgage Revenue Bonds are issued to provide construction and permanent financing to developers of multi-family residential rental projects located in the County to be partially occupied by persons of low or moderate income. Between 1995 and 2002, the County issued $14 million of Mortgage Revenue Bonds of which $13 million were still outstanding as of June 30, 2004.

Certificates of Participation

The County has implemented a conduit program whereby the County is the issuer of tax-exempt bonds and loans, where the proceeds are provided to a qualifying for profit or nonprofit organization. The original amounts of Certificates of Participation issued as well as the amounts outstanding per issue at June 30, 2004 are as follows:

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Certificates of Participation	Date Issued	Original Amount Issued	Amount Outstanding at June 30, 2004
Sharp Hospital	April 1998	$ 112,020	104,075
San Diego Natural History Museum	December 1998	15,000	14,100
Burnham Institute	September 1999	51,500	44,500
San Diego Museum of Art (principal due at maturity)	March 2000	6,000	6,000
Salk Institute	April 2000	15,000	14,545
University of San Diego	May 2001	36,870	35,710
San Diego-Imperial Counties Developmental Services	September 2002	10,750	10,500
Chabad Jewish Academy (principal due at maturity)	January 2003	11,700	11,700
San Diego Jewish Academy (principal due at maturity)	December 2003	13,325	13,325
Total		$ 272,165	254,455

Reassessment District Improvement Bonds

Reassessment District Improvement Bonds were issued to provide refunding an earlier issuance of improvement bonds for the 4-S Ranch assessment district. The District originally issued $28.8 million of Improvement Bonds in July 1991 to finance the acquisition of certain infrastructure improvements specially benefiting properties within an assessment district. In July 1997, the District issued $21.8 million of Reassessment Bonds to refund the original issuance, of which $15.2 million were still outstanding as of June 30, 2004.

(4) Federal and State Programs

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

(5) 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 $19 million and alternative equity for $123 million.

(6) Deposits for Other Agencies

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

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(7) Capital Commitments

At June 30, 2004, major contracts entered into for construction in progress, buildings, equipment and infrastructure were as follow, listed by fund within governmental or business-type activities:

	Project Title	Remaining Commitments
Governmental Activities:		
General Fund	Registrar of Voters-Integrated Voting System and Optional Items	$ 30,779
	Creative Socio-Medics Corpublic Health Information System Acquisition	1,891
	Sub Total	32,670
Other Governmental Funds	Construction of Valley Center Road South, Phase I	7,549
	Construction of Riverside Drive Improvements in Lakeside	2,642
	Construction of Camino Canada	1,550
	North County Animal Shelter	4,149
	Otay Valley Regional Park Phase II	2,611
	Spring Valley Gym and Teen Center	1,924
	Construction of Polinsky Nursery Addition	1,044
	Vista Detention Control Panels	1,104
	Information Technology - Enterprise Resource Planning System Financing	13,086
	Sub Total	35,659
Business-type Activities		
Sanitation Districts	Construction of Galloway Wastewater Pump Station Improvements and Sewer Force Main Replacement	1,880
	Jamacha Blvd Sewer	2,000
	Sub Total	3,880
	Total	$ 72,209

(8) Risk Management

The County operates a Risk Management Program, whereby it is self-insured for premises liability at medical facilities, medical malpractice, errors and omissions, false arrest, forgery, and general liability. The County purchases insurance for property damage, certain casualty claims, public officials bond, employee dishonesty, faithful performance, volunteers, excess workers' compensation (for losses greater than $1 million), airport comprehensive, and loss of money and securities based upon site locations. Settlements in the areas covered have not exceeded insurance coverage for each of the past three fiscal years. The County's Internal Service Fund (ISF) is used to report all of its uninsured risk management activities. Risk management liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. An actuarial evaluation was used to determine the public liability and workers compensation total risk liability at June 30, 2004. At June 30, 2004, the amount of these liabilities, including an estimate for claims incurred but not reported, was estimated at $97.8 million, including $15.2 million in public liability and $82.6 million in workers' compensation. The County began allocating the cost of providing claims service to all its operating funds as a "premium" charge expressed as a percentage of payroll beginning fiscal year 1996-1997. Changes in the balances of claim liabilities for fiscal year 2002-2003 and 2003-2004 were as follows:

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Fiscal Year	Beginning Balance at July 1, 2003	Current-Year Claims and Changes in Estimates	Claim Payments	Ending Balance at June 30, 2004
2002-2003	$ 97,794	32,578	(29,784)	$ 100,588
2003-2004	$ 100,588	29,096	(31,895)	$ 97,789

(C) Joint Venture

The County is a participant with eighteen incorporated cities in a joint venture to operate an emergency services organization for the purpose of providing regional planning and mutual assistance in the event of an emergency or disaster in the region including accidents involving hazardous waste. The organization is governed by the Unified Disaster Council composed of one voting member from each represented jurisdiction. A contractual agreement requires that the cities provide one-half of the total required funding each year. The County, by agreement, also provides one-half of the required yearly funding. Any participant may terminate participation in the agreement by giving 120 days notice prior to the beginning of the next fiscal year. Total participant contributions for fiscal year 2003-2004 were $1.3 million. The organization had a cumulative surplus of $31 thousand at June 30, 2004. Separate financial statements for the joint venture may be obtained from the office of the 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 (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.

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(E) San Diego County Employees' Retirement System

(1) Plan Description

The SDCERA administers a cost-sharing, multi-employer defined benefit plan, with County members representing 93.6% of covered employees, which provides retirement, disability, and death benefits for plan members and beneficiaries pursuant to the County Retirement Law of 1937, as enacted and amended by the State legislature. The plan is integrated with the Federal Social Security System. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the SDCERA Board of Retirement. SDCERA issues a publicly available financial report that includes financial statements and required supplementary information for the pension plan. The financial report may be obtained by writing to the San Diego County Employees Retirement Association, 401 West A Street, Suite 1300, San Diego, California 92101 or by calling (619) 515-0130.

(2) Basis of Accounting and Fair Value of Investments (See Notes 1E and 1H, 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), in effect at June 30, 2004, expressed as a percentage of salary are 8.39%-8.85% for general members and 9.27% for safety members. The County is also required by State statutes to contribute at an actuarially determined rate, expressed as a percentage of annual covered payroll. The fiscal year 2003-2004 rates, expressed as a percentage of covered payroll, are 19.72% for general members and 32.41% for safety members. Additionally, in accordance with various agreements with employee bargaining units, the County has contributed $55.6 million on behalf of employees.

In March 2002, the County implemented a new enhanced retirement package. In October 2002, the County issued taxable Pension Obligation Bonds to fund a portion of its statutory obligations arising from enhanced benefits. In June 2004, the County issued Pension Obligation Bonds and transferred $450 million of the issuance to the retirement fund. As a result, the retirement plan's funding status (the ratio of system assets to system liabilities) was 81.1% at June 30, 2004.

(4) Annual Pension Cost

For the fiscal year ended June 30, 2004, the County's annual pension cost was $195 million. The County's actual contribution during the fiscal year ended June 30, 2004 totaled $195 million, resulting in a net pension obligation of zero as of June 30, 2004, compared to zero at the end of the prior year. The required contribution rates, as adopted by the SDCERA Board, were determined as part of the October 3, 2002 interim actuarial valuation based on entry-age actuarial cost method. The actuarial assumptions included (a) an 8.25% investment rate-of-return, (b) projected salary increases of 4.5% per year, and (c) cost-of-living increases for retirees of 3%.

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

Fiscal Year Ended June 30	Annual Pension Cost (ARC)	Percentage of ARC Contributed	Net Pension Obligation
2002	$	100.0%	$ 7,686
2003	6,538	100.0%	
2004	194,580	100.0%	

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The Net Pension Obligation of $7.7 million at June 30, 2002 was eliminated when the County issued Pension Obligation Bonds in October 2002 and the County accounted for the reduction of the liability during fiscal year 2003-2004.

(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 thousand retirees or surviving spouses are eligible to receive these benefits. SDCERA recognizes the cost of providing those benefits by expending annual insurance premiums, which approximated $26.4 million for fiscal year 2003-2004. A reserve established by the SDCERA Board of Directors for the payment of postretirement health care benefits was approximately $230.5 million at June 30, 2004, a $38.7 million decrease from the previous fiscal year.

(F) Prior Year Advance

Prior to the issuance of Revenue Bonds in 1995 by the San Diego County Redevelopment Agency, the County Airport Enterprise Fund funded the initial expenditures of the Agency's two airport projects. The Redevelopment Agency is required to reimburse the Airport Enterprise Fund, which spent approximately $9.6 million on the projects consisting of $3.7 million for initial expenditures and $5.9 million for 2001. The Agency pays interest on advances, but is not responsible for payment until funds are available for this purpose. As of June 30, 2004, interest of approximately $4.1 million has accrued on these advances, however such amounts have not been recorded because the ultimate collection has not been determined.

(G) New Governmental Accounting Standards

In April 2004, the Governmental Accounting Standards Board (GASB) issued Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues.* This technical bulletin clarifies guidance on whether a Tobacco Settlement Authority that is created to obtain the rights to all or a portion of future tobacco settlement resources is a component unit of the government that created it. In addition, this Technical Bulletin clarifies recognition guidance for these transactions and for payments made to settling governments pursuant to the Master Settlement Agreement with the major tobacco companies. This technical bulletin has been adopted by the County and did not result in a change in accounting during fiscal year 2003-2004.

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

In March 2003, GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3.* This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risk identified in this statement also should be disclosed. The County will implement the new reporting requirements in its fiscal year 2004-05 financial statements.

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* This statement establishes accounting

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and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. This statement is effective for the County's fiscal year ending June 30, 2006.

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

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

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

(H) Securitization of Tobacco Settlement Revenues

The Tobacco Securitization Authority of Southern California (the "Authority") issued $466.8 million in aggregate principal amount of Tobacco Settlement Asset-Backed Bonds in January of 2002 (the "Bonds"), in order to fund the Authority's loan to San Diego Tobacco Asset Securitization Corporation, a California non-profit public benefit corporation (the "Borrower") pursuant to a loan agreement between the Authority and the Borrower. The Borrower in turn used the net proceeds of the financing, in the amount of $411 million, to pay to the County, in return for the County's transfer to the Corporation of all of the County's right, title and interest in and to and under a Master Settlement Agreement (the "MSA"), as agreed to by the State and participating jurisdiction, and a Memorandum of Understanding (the "MOU") and a supplemental agreement (the "ARIMOU") among the State of California, all California counties and four California cities, including the right of the County to receive Tobacco Settlement Payments. The MSA was entered into in November 1998, among the Attorney Generals of 46 states, the District of Columbia, The Commonwealth of Puerto Rico, Guam, U.S. Virgin

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

Prior to its sale of the Tobacco Settlement Payments, the County of San Diego had received approximately three years of annual payments. The County expects to use approximately $27.5 million annually from the proceeds from the sale (which were deposited in a special revenue fund and invested in municipal securities) for Board Policy E-14 purposes.

The bonds are limited obligations of the Authority payable solely from payments made by the Corporation, from Tobacco Settlement Payments purchased from the County, between the Corporation and the Authority. For the year ended June 30, 2004, $29.961 million of Tobacco Settlement Payments were recorded as other revenue in the Tobacco Securitization Joint Special Revenue Fund. The bonds do not constitute a charge against the general credit of the Authority or the County and neither will the Authority (except from loan payments by the Corporation) or the County be obligated to pay the interest on or principal of these bonds. These bonds do not constitute a debt, liability or obligation (legal, moral or otherwise) of the County. The bonds are recorded within the County's reporting entity in accordance with required accounting standards.

Future debt service requirements of the Authority as of June 30, 2004 are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total Debt Service
2005	$ 2,155	24,818	26,973
2006	2,015	24,732	26,747
2007	1,890	24,652	26,542
2008	2,065	24,557	26,622
2009	2,035	24,076	26,111
2010-2014	13,610	118,560	132,170
2015-2019	15,035	115,076	130,111
2020-2024	23,940	110,318	134,258
2025-2029	41,405	102,517	143,922
2030-2034	69,555	88,142	157,697
2035-2039	96,035	66,001	162,036
2040-2043	170,565	31,312	201,877
Total	$ 440,305	754,761	1,195,066

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(I) New Debt Issued in June 2004

The County issued $454.1 million of Taxable Pension Obligation Bonds (the "POBs") in June 2004. Of this amount $450.0 million was paid to the San Diego County Employees Retirement Association, thus reducing the unfunded accrued actuarial liability and the remaining proceeds were used to pay cost of issuance. The POBs have a 20-year amortization and were issued as a Series A, Series B and a Series C. The Series A bonds consist of $241.2 million of Current Interest Bonds and mature serially with an interest rate scale of 3.28% - 5.865%. The Series B bonds consist of $147.8 million of Auction Rate Securities and mature on 2024. These bonds carry a variable interest rate and are subject to market fluctuations. The maximum interest rate on such bonds shall not exceed 17% per annum. The Series C bonds consist of $64.9 million of Capital Appreciation Bonds and mature serially with an interest rate scale of 4.66% - 5.76%. The interest on the POBs is not excludable from gross income for federal income tax purposes but is exempt from State of California personal income taxes.

(J) Subsequent Event

On September 27, 2004, the County of San Diego (the "County") deposited with BNY Western Trust Company (the "Trustee") approximately $63.5 million (the "Deposit"), which was invested in an Investment Agreement (the "Investment Agreement") entered into by the Trustee and an obligor. The obligations of the obligor under the Investment Agreement are guaranteed by American International Group, Inc. ("AIG"), which has been assigned long-term credit ratings from Moody's Investors Service and Standard & Poor's Ratings Services of "Aaa" and "AAA," respectively. Under the Investment Agreement, the obligor will make payments to the Trustee in July of each of 2005, 2006 and 2007 in amounts which will be sufficient to meet the County's remaining annual payment obligations to a counterparty under a Debt Service Forward Sale Agreement (the "Forward Agreement") currently in effect for the County's Taxable Pension Obligation Bonds, Series A (the "1994 POB Bonds") until the final maturity of the 1994 POB Bonds on August 15, 2007. In exchange for the County's annual payments, the Forward Agreement requires the counterparty thereto to deposit securities (which must be non-callable obligations issued or guaranteed by the United States of America or certain instrumentalities or agencies of the United States of America) into the Bond Fund relating to the 1994 POB Bonds the cash flows of which are sufficient to pay each scheduled payment of principal of and interest on the 1994 POB Bonds during the applicable fiscal year.

The 1994 POB Bonds will remain outstanding until their regularly scheduled maturities; if the obligor under the Investment Agreement, and AIG under its related guaranty, or the counterparty to the Forward Agreement defaults in its respective obligations for any reason, the County remains obligated to make any affected payment of principal of and interest on the 1994 POB Bonds.