I. Summary of Significant Accounting Policies

A. The Reporting Entity

The County of San Diego (the "County" or "CoSD"), is a political subdivision of the State of California (the "State") and as such can exercise the powers specified by the Constitution and laws of the State of California. The County operates under a charter and is governed by an elected five-member Board of Supervisors (the "Board").

The County provides a full range of general government services including police protection, detention and correction, public assistance, health and sanitation, recreation, library, flood control, public ways and facilities, inactive waste management, airport management and general financial and administrative support.

The County reporting entity includes all significant organizations, departments, and agencies over which the County is considered to be financially accountable. The component units discussed below are included in the County's reporting entity because of the significance of their operational and financial relationships with the County. As required by generally accepted accounting principles in the United States of America (GAAP), the financial statements present the financial position of the County and its component units (entities for which the County is considered to be financially responsible).

Blended component units, although legally separate entities are, in substance, part of the County's operations and data from these component units are combined with the data from the primary government.

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.

1. Blended Component Units

The blended component units listed below are agencies and special districts whose governing board is the County Board of Supervisors. These component units are fiscally dependent on the County and as such financial actions including the setting of rates, issuance of debt and the adoption of the annual budget remain with the County.

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

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

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

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

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

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

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

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

Blended component units governed by boards other than the CoSD Board of Supervisors are listed below. These component units are, in substance, part of the County's operations due to their relationship with the County and the nature of their operations. Specifically, the CoSD Board appoints either all or a majority of their board members and the services they provide solely benefit the County.

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

The San Diego County Tobacco Asset Securitization Corporation (Corporation) - This is a separate legal nonprofit public benefit corporation created under the California Nonprofit Public Benefit Corporation Law. It was established to purchase tobacco settlement payments allocated to the County from the State of California, pursuant to a Tobacco Master Settlement Agreement (see Note IV, I-3. Tobacco Settlement Asset Backed Bonds).

The Corporation is governed by a Board of Directors consisting of three members, two of which are employees of the County of San Diego and one independent director who is not an employee of the County. This fund is included as a *special revenue fund*.

The Tobacco Securitization Joint Powers Authority of Southern California (TSJPA) - This is a separate legal public entity created by a Joint Exercise of Powers Agreement between the County of San Diego and the County of Sacramento pursuant to Government Code Sections 6500 et seq. The Authority's purpose is to finance a loan to the San Diego County Tobacco Asset Securitization Corporation (the Corporation) via the sale of tobacco asset backed bonds. The Corporation in turn uses the loan proceeds to purchase the County's future tobacco settlement revenues under a purchase and sale agreement. The Authority is administered by a Board of Directors consisting of three members, two members who are appointed by the CoSD Board and the third member is appointed by the Sacramento County Board of Supervisors. This fund is included as a *Special Revenue Fund*.

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

2. Discrete Component Unit

The *First 5 Commission of San Diego (Commission)* was established by the Board as a separate legal entity under the authority of the California Children and Families First Act and Sections 130100 et seq. of the Health and Safety Code. It administers the County's share of tobacco taxes levied by the State for the purpose of implementing early childhood development programs. The County appoints all of the Commission's board and can remove appointed members at will.

The Commission is discretely presented because its Board is not substantively the same as the County's and it does not provide services entirely or almost entirely to the County. A separately financial report can be obtained by writing to The First 5 Commission, 1495 Pacific Highway, Suite 202, (MS-A211), San Diego, CA, 92101-6466.

B. Government-Wide and Fund Financial Statements

1. Government-Wide Financial Statements

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

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

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

2. Fund Financial Statements

Separate fund financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The County reports the following major governmental funds:

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

The *Tobacco Securitization Special Revenue Fund* accounts for tobacco settlement payments allocated to the County from the State of California, pursuant to the Master Settlement Agreement concluded on November 23, 1998 between the major tobacco companies and 46 states (including California), the District of Columbia and four U.S. Territories.

The *Public Safety Special Revenue Fund* accounts for Proposition 172 half-cent sales taxes collected and apportioned to the County by the State Board of Equalization to fund public safety activities. Per Government Code 30052, a "maintenance of effort" (pre-Proposition 172 public safety funding level) must be maintained by the County to comply with the statute's spending requirements. In accordance with the Code, funds are allocated to the Sheriff, District Attorney and Probation departments. Transfers-out of this fund subsidize the following types of public safety activities: juvenile detention services; facilities maintenance and support; capital projects, equipment and other one-time expenditures; on-going technology initiatives; and various region-wide services.

The County reports the following additional funds and fund types:

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

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

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

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

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

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

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

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

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

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

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

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

1. Cash and Investments

The County's cash and cash equivalents for cash flow reporting purposes are considered to be cash on hand, demand deposits, restricted cash, and investments held in the County's Pool.

Investments are stated at fair value. The fair value of investments is determined monthly and is based on quoted market prices.

2. Receivables and Payables

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

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

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

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

(Amounts Expressed in Thousands Unless Otherwise Noted)

Pursuant to State law, in fiscal year 1994 the County adopted the Teeter Plan, an alternative method of distributing secured property taxes to local agencies. Under this tax distribution method, the County General Fund annually advances to participating agencies the full amount of their share of current delinquent property taxes on the secured roll. In exchange, the General Fund receives all future delinquent tax payments, penalties and interest. While the County bears the risk of loss on delinquent taxes that go unpaid, it benefits from the penalties associated with these delinquent taxes when they are paid. In turn, participating local agencies receive a stable cash flow and eliminate collection risk. Under the Teeter Plan, the County is required to establish a tax loss reserve fund, equal to 25% of the current year delinquent secured tax levy at June 30, 2008, to cover losses that may occur as a result of special sales of tax-defaulted property (i.e., if the sale price of the property is less than the amount owed). The tax loss reserve requirement for fiscal year 2008 was $23.8M.

3. County Leased Property

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

4. Inventories and Prepaid Items

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

5. Deferred Charges

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

6. Restricted Cash and Investments

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

7. Capital Assets

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

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

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

Table 1

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

Depreciation is charged over the capital assets' estimated useful lives using the straight-line method for proprietary and governmental fund types. Governmental fund type depreciation is only shown in the statement of activities. Proprietary fund type depreciation is shown both in the fund statements and the statement of activities. Estimated useful lives are shown in **Table 2.**

Table 2

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

8. Deferred and Unearned Revenue

Under both the accrual and the modified accrual basis of accounting, revenue may be recognized only when it is earned. If assets are recognized in connection with a transaction before the earnings process is complete, those assets must be offset by a corresponding liability for unearned revenue. Unearned revenue can be found in government-wide financial reporting as well as in governmental fund, proprietary fund, and fiduciary fund financial statements.

Under the modified accrual basis of accounting, it is not enough that revenue has been earned if it is to be recognized as revenue of the current period. Revenue must also be susceptible to accrual (it must be both measurable and available to finance expenditures of the current fiscal period, see Note I.C above). If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding liability for deferred revenue. This type of deferred revenue is unique to governmental funds, since it is tied to the modified accrual basis of accounting, which is used only in connection with governmental funds.

9. Lease Obligations

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

10. Long-Term Obligations

In the government-wide financial statements, and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Debt may be issued at par (face) value, with a premium (applicable to debt issued in excess of face value) or at a discount (applicable to debt issued at amounts less than the face value). On occasion, the County refunds some of its existing debt. When such an event occurs, the difference between the funds required to retire (reacquisition price of) the refunded debt and the net carrying amount of refunded debt results in a Deferred Amount on Refunding.

Capital Appreciation Bonds (CABs) issued by the County represent bonds that are issued at a deep discount, pay no current interest but accrete or compound in value from the date of issuance to the date of maturity. CABs are presented at their maturity value less the unaccreted appreciation. Unaccreted appreciation represents the difference between the maturity value of the debt and their par (face) value. The unaccreted appreciation is accreted as interest over the life of the CABs.

Bonds and certificates of participation payable are reported net of the applicable premium, discount, or deferred amount on refunding. In the fund financial statements, governmental fund types recognize bond and certificates of participation premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Debt premiums, discounts, deferred amounts on refundings and issuance costs are deferred and amortized over the life of the debt using the straight-line method. Premiums are amortized as a reduction of interest expense over the life of the debt issuance. Similarly, discounts and deferred amounts on refundings are amortized as an increase to interest expense over the life of the debt issued. Issuance costs are amortized as an increase to the general function expense over the life of the debt issuance.

11. Employee Compensated Absences

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

Accumulated leave benefits including vacation, sick leave, and compensatory time worked, in the amount of approximately $98.4 million for the governmental activities as of June 30, 2008, is recorded in the government-wide statement of net assets. Amounts recorded as accumulated leave benefits include the employer's share of Social Security and Medicare taxes. 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.

County employees in the unclassified service and certain employees hired prior to 1979 may receive up to 50% and 25%, respectively, of the cash value of all or a portion of their sick leave balances upon termination or retirement. The cash value of these benefits is included in the accumulated leave benefits above and totaled $10.9 million at June 30, 2008. This liability has been recorded in the current and long-term portion of compensated absences in the appropriate proprietary funds and government-wide statement of net assets.

California Labor Code 4850 entitles safety officers who meet certain criteria to receive full salary in lieu of temporary disability payments for the period of disability, not exceeding 365 days, or until such earlier date as he or she is retired on permanent disability pension. The Labor Code 4850 liability at June 30, 2008 amounting to $11.3 million is accrued in the current and long-term portion of compensated absences.

All County employees who have completed at least five years of continuous service in the County retirement system, and have a sick leave balance of at least one hundred hours, may convert, at retirement, all or a portion of their sick leave balance to retirement service credits on a hour-for-hour basis. The impact of the conversion of sick leave balances to retirement service credits on the County's actuarial accrued liability, as part of its defined benefit pension plan, is not estimable, however, contribution requirements as determined in the actuarial valuation as of June 30, 2007 include assumptions regarding employee terminations, retirement, death, etc.

12. Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. As the *lapse period* for encumbrance liquidation is not employed, encumbered amounts that are reappropriated as part of the following year's budget are presented as unreserved fund balance designated for encumbrances. Previously, these encumbrances were reported as reservations of fund balance.

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

This amount represents capital assets net of accumulated depreciation less the outstanding principal of capital related debt (adjusted by any unamortized premiums, discounts, deferred amounts on refundings, and unspent proceeds related to debt), incurred by the County to buy or construct capital assets shown in the statement of net assets. Capital assets cannot readily be sold and converted to cash.

14. Restricted Net Assets

Restricted net assets arise when restrictions on the use of net assets are externally imposed by a creditor, (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports $181.198 million of restricted net assets. Of this amount $49.069 million is restricted by grantors (Housing Assistance), $2.061 million is restricted by donors, $1.259 million is restricted for landfill closure costs, and the remaining $128.809 million is restricted by laws or regulations of other governments.

15. Unrestricted Net Assets

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

16. Indirect Costs

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

17. Use of Estimates

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

(Amounts Expressed in Thousands Unless Otherwise Noted)

II. Reconciliation of Government-Wide and Fund Financial Statements

A. Balance Sheet/Net Assets

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

Table 3

Governmental Fund Balance Sheet / Government-Wide Statement of Net Assets Reconciliation At June 30, 2008	
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of this $2,094,842 difference are as follows:	
Bonds, notes and loans payable	$ 2,250,777
Less: Unaccreted appreciation - capital appreciation bonds	(253,186)
Less: Unamortized deferred amounts on refundings (to be amortized as interest expense)	(18,906)
Less: Unamortized issuance discounts (to be amortized as interest expense)	(20,168)
Less: Unamortized issuance costs (to be amortized over the life of the debt)	(16,868)
Add: Unamortized issuance premiums	6,879
Capital lease obligations (excluding Internal Service Funds)	27,590
Arbitrage	498
Compensated absences (excluding Internal Service Funds)	96,027
Landfill closure and postclosure - San Marcos landfill	22,199
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	$ 2,094,842
Internal Service Funds (See description of Internal Service Funds in Note I. B. 2. Fund Financial Statements, Internal Service Funds.) The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets. The details of this $103,286 difference are as follows:	
Net assets of the internal service funds	$ 103,960
Less: Internal payable representing charges in excess of cost to business-type activities - prior years	(763)
Less: Internal payable representing charges in excess of cost to business-type activities - current year	89
Net adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities	$ 103,286

(Amounts Expressed in Thousands Unless Otherwise Noted)

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

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

Table 4

Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities Reconciliation For the Year Ended June 30, 2008		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this $66,635 difference are as follows:		
Capital outlay	$	157,818
Depreciation expense		(91,183)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	66,635
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets. The details of this $14,805 difference are as follows:		
The proceeds from the sale of capital assets provide current financial resources but have no effect on net assets	$	(68)
The loss on the disposal of capital assets does not affect current financial resources but decreases net assets		(1,686)
Donations of assets to the County do not provide current financial resources but resources increase net assets		16,559
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	14,805
The issuance of long-term debt (e.g. bonds, notes, and loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of this $(186,152) difference are as follows:		
Debt issued or incurred:		
Principal repayments	$	(184,615)
Capital lease payments		(2,033)
Arbitrage		496
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	(186,152)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. The details of this($30,630) difference are as follows:		
Compensated absences	$	(15,482)
Accrued interest		5,494
Accretion of capital appreciation bonds		(7,596)
Amortization of premium		472
Amortization of deferred amounts on refundings		(8,016)
Amortization of issuance costs		(4,308)
Amortization of discounts		(1,194)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	(30,630)
Internal Service Funds (See description of Internal Service Funds in Note I. B. 2. Fund Financial Statements, Internal Service Funds.) The net revenue of certain activities of internal service funds is reported with governmental activities." The details of this $(1,671) difference are as follows:		
Change in net assets of the internal service funds	$	(1,760)
Less: Loss from charges to business activities		89
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	(1,671)

(Amounts Expressed in Thousands Unless Otherwise Noted)

III. Stewardship, Compliance and Accountability

A. Fund Deficits

Funds with accumulated deficits at June 30, 2008 are noted below:

Table 5

Fund Deficits - Various Funds At June 30, 2008		
Internal Service Funds:		
Employee Benefits Fund	$	7,002
Facilities Management		1,007

The deficit in the Employee Benefits fund resulted from the accrual of known and projected losses, allocated loss adjustment expenses and unallocated loss adjustment expenses based on actuarial studies. The deficit has decreased by $19 million from the previous year due to investment income earned in the fund, an increase in the premium rate, and lower claims and other expenses. The County intends to reduce the deficit through increased premium rate charges to County departments by $4 million per year.

The deficit within the Facilities Management Internal Service fund decreased from $2.1 million at June 30, 2007 to $1 million at June 30. 2008. The deficit is due to the use of California Energy Commission loans for expenses incurred for maintenance cost and energy conservation. The deficit will decrease annually as it is included in the utility rates calculation charged to the departments. The loans will be repaid by fiscal year 2016.

IV. Detailed Notes on all Funds

A. Deposits and Investments

The Treasurer is responsible for authorizing all County bank accounts and pursuant to Government Code Sections 27000.1 - 27000.5, 27130 - 27137, and 53600 - 53686 is responsible for conducting County investment activities of the County's investment pool (the Pool) as well as various individual investment accounts outside of the Pool. Additionally, the Treasurer has oversight responsibilities for investments with fiscal agents.

The Pool is a County sponsored "external investment pool" wherein moneys of the County and other legally separate external entities, which are not part of the County Reporting Entity, are commingled (pooled) and invested on the participants' behalf. A separately issued annual financial report for the Pool can be obtained from the Treasurer-Tax Collector at 1600 Pacific Highway, Room 162, San Diego, California, 92101 and can also be accessed at http:// www.sdtreastax.com.

1. Deposits

Government Code 53652 et. seq. and the Treasurer's Pool Investment Policy (Pool Policy) prescribe the amount of collateral that is required to secure the deposit of public funds.

Federal Depository Insurance (FDIC) is available for funds deposited at any one financial institution up to a maximum of $100,000 for demand deposits, time and savings deposits. The aforementioned Government Code and Pool Policy require that depositories collateralize public funds with securities having a market value of at least 10% in excess of the total amount of the deposits, reduced by the amount of FDIC insurance available. These securities shall be placed in the institution's pooled collateral account and monitored by a third party custodian bank.

a. Custodial Credit Risk - Deposits

The custodial credit risk for deposits is the risk that the County will not be able to recover deposits that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not insured or collateralized.

The Investment Pool does not have a formal policy regarding sweep (deposit) accounts, but the practice is to utilize national or state chartered banks where the excess over FDIC insurance is invested in repurchase agreements that are collateralized by U.S. Treasury and Federal Agency securities equal to or greater than the deposit amount in accordance with California Government Code.

At June 30, 2008 the carrying amount of the County's demand and time deposits was $54.705 million and the bank balance per various financial institutions was $55.463 million.

Except as noted below, the County's deposits were not exposed to custodial credit risk as these deposits were either covered by FDIC insurance or collateralized with securities in accordance with the noted requirements:

$19.933 million in the County's demand and time deposits was exposed to custodial credit risk as follows:

a. $.474 million in escrow retainage payments was not collateralized; and

b. $19.459 million collateralized by pledging bank's trust department was held in a named agent depository.

Future escrow contracts with financial institutions covering construction retainage payments will include requirements consistent with the aforementioned legal and policy provisions governing deposits.

2. Investments

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

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

In addition to the above, the Board annually adopts a Pooled Money Fund Investment Policy. This policy is based on the criteria in Government Code 53601 but adds further specificity and restrictions to permitted investments.

In conjunction with the discussion below regarding investment risks, please refer to **Table 8** which details the types of securities held at fiscal year-end along with their fair value; interest rate and maturity ranges; weighted average maturity (days); security rating; and percentage of portfolio and **Table 9** which provides a comparison of Pool investment restrictions to investments permitted by the Government Code**.** Also please refer to **Table 10**, Deposits and Investments Reconciliation which summarizes these balances by fund type.

a. Interest Rate Risk - Investments

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

Declines in the fair value of investments are managed by limiting the length of the maturity of securities. In general, the maximum maturity allowed is five years unless the Board has granted express authority either specifically or as part of an investment program. The policy related to the maturity structure of Pool requires that 50% of the portfolio include short-term instruments up to one year (25% maturing within 90 days and 25% maturing within 91to 365 days) and no more than 50% to mature in 1 to 5 years. In addition, the Investment Pool limits the maximum effective duration of the portfolio to 18 months. In compliance with the policy, a weighted average of 56% of the Pool's investments had a maturity of 90 days or less at June 30, 2008.

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

b. Credit Risk - Investments

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

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

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 6

S & P Investment Rating		
Investment Pool		
Rating	Min. Fund%	Max. Fund%
AAA	67	100
AA	0	33
A	0	13
Investments with fiscal agents		
Short Term	A-1	
Long Term	A	

c. Concentration of Credit Risk - Investments

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

The Pool Investment policy limits the amount of exposure to any one single issuer to five percent. An exclusion to this limit is dependent upon the weighted average days to maturity for commercial paper. If the weighted average days is 5 days or less, the issuer limit can increase to ten percent of the total portfolio. Additionally, the maximum exposure to a single repurchase agreement (RP) is 10% of the portfolio value for RP's with maturities greater than 5 days and 15% of the portfolio for RP's maturing in 5 days or less. The Government Code requires specific percentage limitations for a particular category of investment and limits the purchase of commercial paper to no more than ten percent of the outstanding commercial paper of any single issuer. Investments are in compliance with State law and the Pooled Money Fund Investment Policy. Please refer to **Table 8**.

Instruments in any one issuer that represent 5% or more of the external investment pool or individual fund holdings as of June 30, 2008 are as follows:

Table 7

Concentration of Credit Risk		
Issuer	External Investment Pool	Inactive Wastesites Fund
Federal home loan bank	$ 1,047,146	$ 32,534
Federal home loan mortgage Corporation	1,036,044	4,050
Federal national mortgage association (Fannie Mae)	841,707	5,317
MTNA General electric capital corporation	$	4,992

d. Custodial Credit Risk - Investments

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

The County of San Diego utilizes third party delivery versus payment custodian which mitigates any custodial credit risk. No level three investments were held during the fiscal year ended June 30, 2008, and there was no securities lending.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 8

Investments At June 30, 2008	Fair Value	Interest Rate Range	Maturity Range	Weighted Average Maturity (days)	S&P Rating	% of Portfolio
Pooled Investments						
US treasury notes	$ 377,359	3.13% - 4.88%	09/08 - 04/13	857	N/A	7.45%
Federal farm credit bank notes	90,053	3.05% - 5.05%	10/09 - 10/11	720	AAA	1.78%
Federal home loan bank notes (1)	1,047,146	1.95% - 6.63%	07/08 - 01/13	651	AAA	20.68%
Federal national mortgage assn. notes (1)	841,707	1.90% - 5.00%	07/08 - 10/11	285	AAA	16.62%
Federal home loan mortgage corp. notes (1)	1,036,044	3.00% - 6.00%	07/08 - 02/13	706	AAA	20.46%
Medium-term notes	98,270	3.60% - 5.88%	10/08 - 03/12	740	AAA	1.94%
Commercial paper	619,295	2.36% - 2.66%	07/08 - 08/08	15	A-1/A-1+	12.23%
Bond funds	34,895	2.50%	07/08	1	AA	0.69%
Asset-backed notes (semi-annual)	25,410	5.30%	05/09	324	AAA	0.50%
Asset-backed notes (monthly)	14,113	4.35%	05/09	319	AAA	0.28%
Repurchase agreements	360,677	1.83% - 2.57%	07/08	1	N/A	7.12%
Negotiable certificates of deposit	375,035	2.40% - 5.36%	07/08 - 08/08	20	A-1/A-1+	7.41%
Open-end institutional money market funds	43,270	1.82% - 2.27%	07/08	1	AAA	0.85%
Collateralized certificates of deposit	35,000	2.60% - 2.85%	01/09	213	N/A	0.69%
Collateralized certificates of deposit	30,000	2.32% - 3.57%	11/08 - 05/09	236	N/A	0.59%
Time deposits	396	2.90% - 4.38%	08/07 - 05/08	194	N/A	0.01%
Time deposits	34,604	1.95% - 4.89%	07/08 - 05/09	100	N/A	0.68%
Total pooled investments	$ 5,063,274			427		100.00%
County investments with fiscal agents						
Unrestricted:						
Federal home loan bank notes	$ 32,536	3.00% - 6.79%	07/08 - 09/09	298	AAA	5.82%
Federal home loan mortgage corp. notes	4,050	5.25%	02/11	969	AAA	0.72%
Federal national mortgage assn. notes	5,317	7.25%	01/10	564	AAA	0.95%
Medium term notes	4,992	3.77%	10/08	122	AAA	0.89%
US treasury bills	2,829	1.85% - 1.95%	07/08 - 12/08	80	N/A	0.51%
Negotiable certificates of deposit	1,678	2.19% - 2.57%	09/08 - 11/08	108	A-1+	0.30%
Subtotal	51,402					
Restricted:						
Federal home loan bank discount notes	33,805	5.16%	8/08 - 11/08	151	N/A	6.04%
Fixed income tax exempt bonds	4,980	3.45%	04/35	9771	A-1	0.89%
Fixed income tax exempt bonds	10,382	5.75%	09/09	428	A-1+	1.86%
Fixed income tax exempt bonds	7,539	0% - 5.25%	07/11 - 09/12	1141	A+	1.35%
Fixed income tax exempt bonds	115,871	0% - 5.63%	10/08 - 08/15	1046	AA	20.71%
Fixed income tax exempt bonds	22,557	5.00% - 5.25%	05/10 - 5/12	969	AA-	4.03%
Fixed income tax exempt bonds	65,023	3.50% - 6.00%	07/08 - 01/15	1092	AA+	11.62%
Fixed income tax exempt bonds	163,758	0% - 8.95%	08/08 - 11/13	888	AAA	29.28%
Fixed income tax exempt bonds	1,372	5.90%	03/10	609	N/A	0.25%
Guaranteed investment contracts	32,521	4.11% - 5.27%	08/08 - 05/09	251	N/A	5.81%
Mutual funds	30,000	1.64%	07/08	1	N/A	5.36%
Money market funds	19,913	1.23% - 1.75%	07/08	1	AAAm	3.56%
Negotiable certificates of deposit	253	2.7% - 3.05%	08/08 - 11/08	102	N/A	0.05%
Subtotal	507,974					
Total County investments with fiscal agents	$ 559,376					100.00%

Table continued on next page

(Amounts Expressed in Thousands Unless Otherwise Noted)

Investments At June 30, 2008		Fair Value	Interest Rate Range	Maturity Range	Weighted Average Maturity (days)	S&P Rating	% of Portfolio
Table continued from previous page							
External specific investments:							
Federal home loan bank notes	$	4,286	4.20% - 5.25%	10/09 - 1/13	1159	AAA	0.91%
Federal national mortgage assn. notes		2,015	4.90%	11/08	126	AAA	0.43%
Federal home loan mortgage corp. notes		1,517	4.48% - 4.75%	09/08 - 09/10	329	AAA	0.32%
Guaranteed investment contracts		454,628	4.26% - 5.20%	07/08 - 09/10	413	N/A	97.02%
Medium term notes		1,516	4.63% - 4.88%	09/09 - 10/10	576	AAA	0.32%
Money market funds		4,626	1.52% - 1.75%	07/08	1	AAAm	0.99%
Total external specific investments	$	468,588					100.00%
Total investments with fiscal agents	$	1,027,964					
(1) More than 5% of the Pool's investments are with U.S. agencies whose debt is not guaranteed by the U.S. government.							

Table 9

Investment Pool Policy Restrictions versus Government Code 53601 Requirements	Maximum Maturity		Maximum% of Portfolio		Maximum% with One Issuer		Minimum Rating	
Investment Type	Gov. Code	Pool Policy	Gov. Code	Pool Policy	Gov. Code	Pool Policy	Gov. Code	Pool Policy
US Treasury and agency obligations	5 years	5 years	None	None	None	25%	None	None
Local agency obligations	5 years	5 years	None	15%	None	10%	None	A
Bankers' acceptances	180 days	180 days	40%	40%	30%	5%	None	A
Commercial paper	270 days	270 days	40%	40%	10%	(1)	A-1	A-1
Negotiable certificates	5 years	5 years	30%	30%	30%	5%	None	A
Repurchase agreements	1 year	1 year	None	40%	None	(2)	None	None
Reverse repurchase agreements	92 days	92 days	20%	20%	None	5%	None	None
Local agency investment fund of California	N/A	N/A	None	10%	None	10%	None	None
Medium term notes/bonds	5 years	5 years	30%	30%	30%	5%	A	A
Mutual funds	N/A	N/A	20%	15%	10%	10%	AAA	AAA
Pass -through securities (3)	5 years	5 years	20%	20%	None	5%	A	A
(1) Maximum exposure per issuer - The maximum exposure to a single issuer shall be 5% of the portfolio when the dollar weighted average maturity is greater than 5 days, 10% of the portfolio when the dollar weighted average maturity is 5 days or less.								
(2) Maximum exposure per issue - The maximum exposure to a single RP issue shall be 10% of the portfolio value for RP's with maturities greater than 5 days, 15% of the portfolio for RP's maturing in 5 days or less.								
(3) Limited to equipment leasebacked certificates, consumer receivable pass-through certificates or consumer receivable-backed bonds.								

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 10

Deposits and Investments Reconciliation
At June 30, 2008

	Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Total Primary	First 5 Commission	Investment Trust	Agency Funds	Total
Pooled cash and investments	$ 1,448,834	85,446	1,534,280	21,450	3,119,116	406,676	5,081,522
Cash with fiscal agents:							
Unrestricted	494		494		18	3,723	4,235
Restricted	560		560				560
Total cash with fiscal agents	$ 1,054		1,054		18	3,723	4,795
Investments with fiscal agents:							
Unrestricted	$ 51,402		51,402				51,402
Restricted	507,974		507,974				507,974
Unrestricted Investment Trust					468,588		468,588
Subtotal investments with fiscal agents	559,376		559,376		468,588		1,027,964
First 5 Commission				177,475			177,475
Total investments with fiscal agents	$ 559,376		559,376	177,475	468,588		1,205,439
Reconciliation of pooled cash and investments:							
Investments in county pool	$ 5,028,274						
Add: Demand deposits	49,911						
Collection in transit	2,806						
Imprest cash	531						
Total pooled cash and investments	$ 5,081,522						
Reconciliation of pooled investments to Table 8:							
Investments in county pool	$ 5,028,274						
Add: Time deposits included in demand deposits above	35,000						
Investments in county pool - Table 8	$ 5,063,274						

B. Receivables

Details of receivables reported in the government-wide Statement of Net Assets are presented on **Table 11**. Amounts that are not expected to be collected within the next fiscal year are identified below:

Due from Other Governmental Agencies - Governmental activities - $39.247 million

This amount represents Senate Bill (SB) 90 cost reimbursements due the County for the provision of State mandated programs and services for fiscal years prior to 2004. The State Constitution requires reimbursement for these program costs and interest will accrue on the reimbursement claims until they are paid according to Government Code 17617 over a period not more than 15 years beginning in FY 2007. The State began to reimburse the County for these programs and services in FY 2007, but has not budgeted appropriations in the current year.

Loans - Governmental activities- $50.069 million

This amount includes: $23.768 million in housing rehabilitation loan programs for low-income or special need residents; $22.215 million in community development block grant loans; and $4.086 million in loans for low income housing down payments such as closing costs.

Loans- Business-type activities- $4.262 million

This amount represents Airport Enterprise Fund (AEF) loans to Airport lessees for the purchase of AEF reversionary interests in leasehold improvements existing at the expiration of previous operating leases.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 11

Receivables
Primary Government and Discretely Presented Component Unit
At June 30, 2008

	Accounts	Investment Income	Due From Other Government Agencies	Loans	Other	Total Receivables	Allowance For Doubtful Accounts	Receivables Net
Governmental activities:								
General Fund	$ 2,522	9,391	255,710	6,074		273,697	(2,797)	270,900
Public Safety Special Revenue Fund			39,561			39,561		39,561
Tobacco Securitization Special Revenue Fund		5,789				5,789		5,789
Other Governmental Funds	24,353	4,191	38,430	43,995	9	110,978	(2,745)	108,233
Internal Service Funds	717	1,151	1,089			2,957	(173)	2,784
Total governmental activities	$ 27,592	20,522	334,790	50,069	9	432,982	(5,715)	427,267
Business-type activities:								
Enterprise Fund	$ 502	734	3,757	4,262		9,255		9,255
Component Unit:								
First 5 Commission	$ 6,316	2,263				8,579		8,579

C. County Property on Lease to Others

The County has *noncancelable* operating leases for certain properties which are not material to the County's governmental operations, with the exception of a sublease of a share of the Metropolitan Transit System (MTS) Towers. In this regard, the share of the County's property under this lease is an estimated $12.74 million in land and structures and improvements with accumulated depreciation of $5.0 million at June 30, 2008.

Additionally, the Airport Enterprise Fund derives a substantial portion of its revenues from noncancelable operating leases with air carriers and concessionaires. The Airport Enterprise Fund's property under operating leases includes an estimated $2.48 million in land at June 30, 2008.

Lease revenue from noncancelable operating leases for the year ended June 30, 2008 was approximately $15.6 million.

Future minimum *revenue* to be received under these noncancelable operating leases are noted below in **Table 12**.

Table 12

Lease Revenue
County Property Leased To Others

Fiscal Year	Minimum Lease Revenue
2009	$ 15,994
2010	15,070
2011	13,869
2012	12,716
2013	12,348
2014-2077	173,533
Total	$ 243,530

(Amounts Expressed in Thousands Unless Otherwise Noted)

D. Capital Assets

1. Changes in Capital Assets

Increases and decreases in the County's capital assets for governmental and business-type activities during the fiscal year were as follows:

Table 13

Capital Assets - Governmental Activities

	Beginning Balance at July 1, 2007	Increases	Decreases	Ending Balance at June 30, 2008
Capital assets, not being depreciated:				
Land	$ 275,267	11,461	(1,087)	285,641
Construction and contracts in progress	198,503	99,459	(30,469)	267,493
Total capital assets, not being depreciated	473,770	110,920	(31,556)	553,134
Capital assets, being depreciated:				
Buildings and improvements	1,007,175	17,543	(437)	1,024,281
Equipment	273,330	29,684	(11,439)	291,575
Road infrastructure	2,244,086	60,722		2,304,808
Bridge infrastructure	43,296	1,226		44,522
Total capital assets, being depreciated	3,567,887	109,175	(11,876)	3,665,186
Less accumulated depreciation for:				
Buildings and improvements	(330,025)	(19,378)	125	(349,278)
Equipment	(134,632)	(37,745)	9,990	(162,387)
Road infrastructure	(807,558)	(62,783)		(870,341)
Bridge infrastructure	(13,936)	(825)		(14,761)
Total accumulated depreciation	(1,286,151)	(120,731)	10,115	(1,396,767)
Total capital assets, being depreciated, net	2,281,736	(11,556)	(1,761)	2,268,419
Governmental activities capital assets, net	$ 2,755,506	99,364	(33,317)	2,821,553

Table 14

Capital Assets - Business-type Activities

	Beginning Balance at July 1, 2007	Increases	Decreases	Ending Balance at June 30, 2008
Capital assets, not being depreciated:				
Land	$ 11,243	95		11,338
Construction and contracts in progress	42,583	15,889	(8,618)	49,854
Total capital assets, not being depreciated	53,826	15,984	(8,618)	61,192
Capital assets, being depreciated:				
Buildings and improvements	47,503	5,052		52,555
Equipment	1,341			1,341
Road infrastructure	235	100		335
Sewer infrastructure	65,626	3,368		68,994
Total capital assets, being depreciated	114,705	8,520		123,225
Less accumulated depreciation for:				
Buildings and improvements	(22,558)	(1,324)		(23,882)
Equipment	(1,004)	(58)		(1,062)
Road infrastructure	(6)	(5)		(11)
Sewer infrastructure	(29,863)	(1,107)		(30,970)
Total accumulated depreciation	(53,431)	(2,494)		(55,925)
Total capital assets, being depreciated, net	61,274	6,026		67,300
Business-type activities capital assets, net	$ 115,100	22,010	(8,618)	128,492

2. Depreciation

Depreciation expense was charged to governmental activities and business-type activities as shown below.

Table 15

Depreciation Expense - Governmental Activities	
General government	$ 2,120
Public protection	20,528
Public ways and facilities	63,078
Health and sanitation	2,332
Public assistance	1,097
Education	257
Recreation and cultural	1,771
Internal Service Funds	29,548
Total	$ 120,731

Table 16

Depreciation Expense - Business-type Activities	
Airport Fund	$ 1,111
Wastewater Management Fund	19
Sanitation Districts Fund	1,364
Total	$ 2,494

(Amounts Expressed in Thousands Unless Otherwise Noted)

3. Capital Commitments

At June 30, 2008, major contracts entered into for equipment, land, structures and improvements and other commitments listed by fund within governmental and business-type activities were as follows:

Table 17

Capital Commitments At June 30, 2008	Remaining Commitments
Governmental Activities	
Other Governmental Funds:	
Construction of Medical Examiner/Forensics Center	$ 34,985
Construction of Valley Center Road, Phase II	16,869
Acquisition of 2,837 Acres for Multi Species Conservation Program	6,174
Construction of Edgemoor Skilled Nursing Facility	4,963
Construction of Lakeside Sports Complex	4,500
Construction of San Elijo Lagoon Nature Center	2,767
Subtotal	70,258
Business-type Activities	
Enterprise Funds:	
Palomar Airport Terminal Redevelopment	13,676
Sanitation District Sewer and Flow Monitoring System Improvements	2,065
Subtotal	15,741
Total	$ 85,999

E. Interfund Transactions

The composition of interfund balances at fiscal year-end, was as follows:

1. Due To/Due From Other Funds

Due To/Due from Other Funds at year-end consisted of the following amounts on **Table 18** below.

Table 18

Due To/From Other Funds
At June 30, 2008

DUE TO \ DUE FROM	General Fund	Public Safety Special Revenue	Tobacco Securitization Special Revenue	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Total
General Fund	$	$ 62,104	$ 1,117	$ 11,911	$ 228	$ 4,555	$ 79,915
Nonmajor Governmental	22,413	15		1,100	297	122	23,947
Nonmajor Enterprise	42			31	2,000		2,073
Internal Service	19,714			1,333	165	486	21,698
Total	$ 42,169	$ 62,119	$ 1,117	$ 14,375	$ 2,690	$ 5,163	$ 127,633

Balances resulted from the time lag between the dates that: 1) interfund goods and services are provided or reimbursable expenditures occur; 2) transactions are recorded in the accounting system; and 3) payments between funds are made.

(Amounts Expressed in Thousands Unless Otherwise Noted)

2. Advances

Advances to/advances from other funds at year-end are noted on **Table 19** below.

Table 19

Advances To/From
At June 30, 2008

ADVANCES FROM		ADVANCES TO			
		Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Total
	General Fund	$ 5,189	$ 14	$ 2,000	$ 7,203
	Nonmajor Governmental	43			43
	Nonmajor Enterprise	3,363			3,363
	Internal Service	148			148
	Total	$ 8,743	$ 14	$ 2,000	$ 10,757

Outstanding balances on loans from the General Fund and the Airport Enterprise Fund to the funds listed below were made for the following purposes:

General Fund loans:

$4.5 million to the Housing and Community Development Special Revenue Fund and $2 million to the Facilities Management Internal Service Fund (Major Maintenance) for working capital; and

$689 to the Redevelopment Agency Fund (Upper San Diego River Project) to provide funding for project improvements. Loan repayments are to be made out of tax increment.

Airport Enterprise loan:

$3.363 million to the Redevelopment Agency Fund to fund airport projects. Loan repayments are based on the condition that the collection of property tax revenues per H.S. Code 33670 is sufficient to allow the payment of the loan.

3. Transfers In/Transfers Out

Transfers in/transfers out at fiscal year-end are noted in **Table 20** below.

Table 20

Transfers In/Transfers Out
At June 30, 2008

TRANSFERS IN		TRANSFERS OUT						
		General Fund	Public Safety Special Revenue	Tobacco Securitization Special Revenue	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Total
	General Fund	$	$ 230,519	$ 24,200	$ 2,549	$	$ 622	$ 257,890
	Nonmajor Governmental	232,453	15		101,176	425	2,553	336,622
	Nonmajor Enterprise	321			23	2,689		3,033
	Internal Service	3,626						3,626
	Total	$ 236,400	$ 230,534	$ 24,200	$ 103,748	$ 3,114	$ 3,175	$ 601,171

In general, transfers are used to: (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the General Fund to finance programs accounted for in other funds in accordance with budgetary authorizations.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Transfers made in FY 2008 for purposes other than those described above include a one-time transfer of $95 million from the General Fund to the Pension Obligation Bond Debt Service Fund to prepay the 2002 Series C Pension Obligation Bonds.

F. Payables

The County's payables at fiscal year-end are shown below for the General Fund, other governmental funds, internal service funds, business type activities' funds, and the discrete component unit:

Table 21

Payables
At June 30, 2008

	Vendors	Due to Other Government Agencies	Other	Total Payables
Governmental Activities:				
General Fund	$ 71,651	10,643	3,014	85,308
Other Governmental Funds	29,656	2,958	1,105	33,719
Internal Service Funds	32,595	274	21	32,890
Total governmental activities	$ 133,902	13,875	4,140	151,917
Business-type activities:				
Enterprise Funds	$ 4,712	101	22	4,835
Component Unit:				
First 5 Commission	$ 10,068	155	624	10,847

G. Short-Term Obligations

The County issues tax anticipation notes in advance of property tax collections, depositing the proceeds in the General Fund. These notes are necessary to fund the County's annual cash flow needs. The majority of property tax collections are received in December and April.

Short-term debt activity for the fiscal year was as follows:

Table 22

Short-Term Obligations

	Beginning Balance at July 1, 2007	Issued	Redeemed	Ending Balance at June 30, 2008
Tax and revenue anticipation notes	$ 220,000	95,200	(315,200)	$ 0

H. Lease Obligations

1. Operating Leases

a. Real Property

The County has obligations under long-term operating lease agreements through fiscal year 2017 (**Table 23** below). The County is the lessee under the terms of several non-cancelable operating leases for real property used to house certain County operations. The total rental expense for all real property leases for the year ended June 30, 2008 was approximately $29.9 million, including $12.8 million for non-cancelable leases.

The future minimum lease payments for these non-cancelable leases are as follows:

Table 23

Lease Commitments - Real Property

Fiscal Year	Minimum Lease Payments
2009	$ 12,379
2010	11,458
2011	10,726
2012	9,298
2013	4,309
2014-2017	7,065
Total	$ 55,235

b. Personal Property

The County has also entered into operating leases for personal property, a large portion of which represents duplicating and heavy duty construction equipment. Many of these leases are subject to annual adjustment based upon negotiations. Management expects that in the normal course of business, leases that expire will be renewed or replaced by other leases. Total rental expense for these operating leases for the year ended June 30, 2008, was approximately $4.5 million.

2. Capital Lease

a. Minimum Lease Payments

Land and a building have been leased from the San Diego Regional Building Authority. 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 agreement. Future minimum lease payments (**Table 24** below) under this capital lease were as follows:

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 24

Capital Leases - Future Minimum Lease Payments		
Fiscal Year		Amount
2009	$	3,068
2010		3,053
2011		3,130
2012		3,017
2013		3,083
2014-2018		15,263
2019-2020		6,126
Total minimum lease payments		36,740
Less: Amount representing interest		(9,150)
Net lease payments	$	27,590

b. Book Value

The book value of capital lease property consisted of the following:

Table 25

Capital Leases - Book Value At June 30, 2008				
Capital Lease Property		Original Cost	Accumulated Depreciation	Net Book Value
Land	$	2,221		2,221
Buildings and improvements		43,909	18,076	25,833
Total	$	46,130	18,076	28,054

I. Long-Term Debt

Governmental Activities:

1. Certificates of Participation (COPs)

Certificates of Participation (COPs) provide funds for the acquisition and construction of major capital facilities and equipment. The County's COPs are backed by a lease structure where the County leases certain properties to another entity, a lessor, which in turn leases the properties back to the County. At the County, this lessor is the San Diego Capital Asset Leasing Corporation (SANCAL), (see Note I. A. 1. "Blended Component Units.") COPs are secured by: a) annual base rental lease payments for the use of facilities constructed or equipment purchased with COPs proceeds made by the County primarily from the County General Fund to the lessor; and b) encumbrances on the facilities. Under lease terms, the County is required to make the necessary annual appropriations for lease payments, except to the extent those payments are abated in accordance with the terms of the leases. COPs, which are executed and delivered by the trustee upon receipt of the proceeds generated by their sale, evidence a pro rata share in a specific pledged revenue stream and the certificates entitle the owners to receive a share, or participation, in the lease payments from a particular project. Lease payments are passed through the lessor to the certificate holders. The lessor assigns the lease and lease payments to a trustee, which distributes the lease payments to the certificate holders.

Details of COPs outstanding at June 30, 2008 are as follows:

Table 26

Certificates of Participation						
Issuance		Original Amount	Interest Rate	Final Maturity Date		Ending Balance at June 30, 2008
1993 Master Refunding	$	203,400	2.50 - 5.625%	2013	$	29,400
1997 Central Jail Refunding		80,675	4.00 - 5.42%	2026		60,670
1998 Downtown Courthouse Refunding		73,115	4.00 - 5.25%	2023		45,610
1999 East Mesa Refunding		15,010	3.60 - 4.75%	2010		3,550
2000 Information Technology Service Financing		51,620	4.50 - 5.125%	2010		12,435
2002 Motorola		26,060	2.00 - 5.00%	2011		9,530
2005 Edgemoor Project		83,510	3.00 - 5.00%	2030		81,300
2005 Regional Communications System Refunding		28,885	3.00 - 5.00%	2019		20,110
2005 North & East Justice Facilities Refunding		28,210	3.25 - 5.00%	2020		25,060
2006 Edgemoor Completion Project		42,390	4.00 - 5.00%	2030		42,390
Total	$	632,875			$	330,055

(Amounts Expressed in Thousands Unless Otherwise Noted)

Annual debt service requirements to maturity for COPs are as follows:

Table 27

Certificates of Participation - Debt Service Requirements to Maturity			
Fiscal Year	Principal	Interest	Total
2009	$ 30,400	15,015	$ 45,415
2010	32,065	13,588	45,653
2011	24,950	12,151	37,101
2012	18,400	11,210	29,610
2013	19,205	10,321	29,526
2014-2018	69,935	41,272	111,207
2019-2023	67,185	24,231	91,416
2024-2028	50,625	9,784	60,409
2029-2030	17,290	911	18,201
Subtotal	$ 330,055	138,483	$ 468,538
Add:			
Arbitrage	498		
Unamortized issuance premium	6,879		
Less:			
Unamortized issuance discount	(1,900)		
Total	$ 335,532		

2. Taxable Pension Obligation Bonds (POBs)

POBs are issued by the County to reduce its pension unfunded actuarial liability and to achieve interest rate savings by issuing bonds at interest rates which are less than the assumed rate of return earned on proceeds placed in the San Diego County Employees Retirement Association's (SDCERA) pension plan. POBs also have been issued to refund previously issued POB debt. Because current federal tax law restricts the investment of the proceeds of tax-exempt bonds in higher-yielding taxable securities, POBs are issued on a taxable basis.

During fiscal year 2008, the County prepaid, in full, $100 million 2002 Series C Pension Obligation Bonds; and $20 million of its Series 2002 B1 Pension Obligation Bonds.

Details of POBs outstanding at June 30, 2008 are as follows:

Table 28

Taxable Pension Obligation Bonds				
Issuance	Original Amount	Interest Rate	Final Maturity Date	Ending Balance at June 30, 2008
1994 Series A	$ 430,430	6.38 - 6.59%	2008	$ -
2002 Series A	132,215	3.88 - 4.95%	2016	132,215
2002 Series B1	100,000	variable	2031	80,000
2002 Series B2-4	405,125	variable	2031	405,125
2002 Series C	100,000	6.13%	2033	
2004 Series A	241,360	3.28 - 5.86%	2023	223,095
2004 Series B1-2	147,825	5.91%	2025	147,825
2004 Series C CABs	64,928	4.66 - 5.76%	2016	100,170
2004 Series C Unaccreted Appreciation CABs				(20,230)
Total	$1,621,883			$1,068,200

Annual debt service requirements to maturity for POBs are shown below in **Table 29**. The variable rate used to calculate the interest due on the 2002 taxable pension obligation bonds Series B1 was 3.98% which represents the auction rate bond coupon for June 2008. The variable rate used for the 2002 taxable pension obligation bonds Series B2-4 was 3.97%, which represents the average auction rate bond coupon for June 2008. The maximum interest rate on these bonds shall not exceed 17% per annum.

Table 29

Taxable Pension Obligation Bonds - Debt Service Requirements to Maturity				
Fiscal Year	Principal	Unaccreted Appreciation	Interest	Total
2009	$ 24,900	4,265	45,096	$ 74,261
2010	24,583	4,011	45,067	73,661
2011	25,662	3,591	44,381	73,634
2012	26,746	3,053	43,621	73,420
2013	27,820	2,386	42,813	73,019
2014-2018	190,012	2,924	194,291	387,227
2019-2023	324,915		129,742	454,657
2024-2028	288,750		43,962	332,712
2029-2033	119,800		4,947	124,747
Subtotal	$1,053,188	20,230	593,920	$ 1,667,338
Add:				
Accreted appreciation through June 30, 2008	15,012			
Total	$1,068,200			

(Amounts Expressed in Thousands Unless Otherwise Noted)

POB Interest Rate Swap

To manage interest rate risk and lower the County's borrowing cost for its 2002 Taxable Pension Obligation Bonds, the County entered into an interest rate swap on September 17, 2002 with two counterparties. The swap converts the variable interest rates on several subseries of the 2002 Taxable Pension Obligation Bonds to a single long-term fixed rate that was lower than the "natural" fixed rate available at the time of the swap. The interest rate swap with Citibank N.A. (Citibank) and Morgan Stanley Capital Services (Morgan Stanley), (together the "counterparties") is governed by the International Swaps and Derivatives Association, Inc. Master Agreement (the Agreement) and a Swap Confirmation. In fiscal year 2003, the County issued $737.340 million of Pension Obligation Bonds including $505.125 million of Series B Bonds Auction Rate Securities of which $485.125 million are outstanding as of June 30, 2008 (see also Note V. F. "Subsequent Event, 2. Taxable Pension Obligation Bonds Series 2008 A and Series 2008 B"). Within the Series B Auction Rate Securities there are the following subseries: $80 million of Series B-1, $135.025 million of Series B-2, $135.05 million Series of B-3 and $135.05 million of Series B-4 bonds. The County swapped Series B-2, B-3 and B-4 totaling $405.125 million of the Auction Rate Securities for a contractually agreed fixed interest rate of 5.30%. Of the $405.125 million our exposure with Citibank is $263.325 million and our exposure with Morgan Stanley is $141.8 million notional amount.

Further details concerning this interest rate swap are discussed below. (See also Note V. F. "Subsequent Event, 2. Taxable Pension Obligation Bonds Series 2008 A and Series 2008 B").

i. Terms

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

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 monies of the County legally available in the General Fund. The payments due to the counterparties and the obligations of the County under this Agreement do not constitute any kind of indebtedness of the County as defined under and/or proscribed by any constitution, charter, law, rule, regulation, government code, constituent or governing instrument, resolution, guideline, ordinance, order, writ, judgement decree, or ruling.

As of June 30, 2008, the swap created a synthetic interest rate for the bonds as noted below:

Table 30

Interest Rate Swap - Synthetic Interest Rate		
	Terms	Rates
Fixed rate to counterparty	Fixed	5.300%
Variable rate from counterparty	1 month LIBOR	-2.460%
Net interest rate swap payments		2.840%
Average auction rate bond coupon payments		3.970%
Synthetic interest rate on bonds		6.810%

ii. Fair Value

As of June 30, 2008 the swaps had a mark to market fair value of $(23.383) 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.

(Amounts Expressed in Thousands Unless Otherwise Noted)

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

iii. Credit Risk

As of June 30, 2008 the County was not exposed to credit risk because the swap had a negative mark to market fair value of $23.383 million. However, should interest rates change and the fair value of the swap becomes positive the County would be exposed to credit risk in the amount of the swap's fair value. Citibank is rated Aa1/AA/AA- by Moody's, Standard & Poors and Fitch, respectively and Morgan Stanley is rated Aa3/A+/AA- by Moody's, Standard & Poor's and Fitch, respectively. Pursuant to the Agreement if the rating issued by Standard & Poors or Moody's of the senior unsecured debt obligations of the counterparties is suspended or withdrawn or falls below "A-" in the case of Standard & Poors or below "A3" in the case of Moody's, collateral is to be delivered to a third party.

iv. 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, 2008 the fair value of the swap is $(23.383) million. Value is predominantly tied to changes in the market for the fixed swap rate for the remaining swap term.

v. Basis Risk

The County's exposure to basis risk arises when the one-month LIBOR rate index received from the counterparties may be less than the applicable auction rate that is being paid to the bondholders, that is the cash flow being received by the counterparty is not equal to the cash flow being paid to the variable rate bondholder. By using one month LIBOR, the County's objective is to mitigate the effect of the differential between the swap index and the bondholder variable rate. For fiscal year 2008, the differential was $(123).

vi. Swap Payments and Associated Debt

Scheduled debt service requirements applicable to variable-rate debt and net swap payments presented in **Table 31** are based on current rates at June 30, 2008. (See also Note V. F. "Subsequent Event, 2. Taxable Pension Obligation Bonds Series 2008 A and Series 2008 B").

Table 31

Interest Rate Swap - SWAP Payments and Associated Debt

Fiscal Year	Principal	Interest 3.97%	Interest Rates Swaps, Net 2.84%	Total
2009	$	15,566	11,506	$ 27,072
2010		16,082	11,506	27,588
2011		16,082	11,506	27,588
2012		16,082	11,506	27,588
2013		16,082	11,506	27,588
2014-2018	37,600	78,379	56,474	172,453
2019-2023	114,550	60,383	44,419	219,352
2024-2028	151,525	33,592	25,646	210,763
2029-2031	101,450	4,219	4,098	109,767
Total	$ 405,125	256,467	188,167	$ 849,759

3. Tobacco Settlement Asset-Backed Bonds (TSAB)

TSAB are issued by the Tobacco Securitization Joint Powers Authority of Southern California (Authority) to securitize future revenue streams available to the County pursuant to the agreements described below.

A 1998 Master Settlement Agreement (MSA) was originally entered into by the four major cigarette manufacturers, 46 states and six other U.S. jurisdictions (the "Settling States") to provide state governments (including California) with compensation for smoking related medical costs and to help reduce smoking in the United States. There is no limit to the yearly settlement payments, they are perpetual. Also, a Memorandum of Understanding (the "MOU") and a supplemental agreement (the "ARIMOU") was agreed to by the State of California and all California counties and four California cities, granting those California municipalities the right to receive tobacco settlement allocation payments (also known as Tobacco Settlement Revenues - TSRs).

(Amounts Expressed in Thousands Unless Otherwise Noted)

In fiscal year 2002, the Authority issued $446.86 million 2001 Tobacco Settlement Asset-Backed Bonds (Bonds), to fund the Authority's loan to the San Diego Tobacco Asset Securitization Corporation (Corporation), pursuant to a loan agreement between the Authority and the Corporation. (Both entities are blended component units of the County, See Note I.A.1. *Blended Component Units*). According to the loan agreement, the Corporation has pledged, assigned and granted to the Authority, a first priority perfected security interest in all rights, title and interest of the Corporation, to the TSRs the Corporation purchased from the County, and future TSRs. The Corporation used the net proceeds of the loan, $411.913 million, to pay the County, in exchange for the County's transfer to the Corporation of all the County's rights, title and interest in the TSRs. Net proceeds have been placed in an endowment fund to fund healthcare-based programs pursuant to Board Policy E-14 and IRS regulations.

In May 2006, the Authority issued Series 2006 TSAB in the amount of $583.631 million to refund the outstanding principal of the original 2001 bonds, noted above and to loan an additional $123.515 million to the Corporation. The Series 2006 Bonds are limited obligations of the Authority, maturing in fiscal year 2035-36. The proceeds were placed into the endowment fund for the aforementioned purposes.

Under the terms of bond indentures, TSRs are pledged to the repayment of the bonds. Accordingly, the bonds are payable solely from certain funds held under the indenture, including payments of TSRs, and earnings on such funds (co1lections).

Details of TSAB outstanding at June 30, 2008 are as follows:

Table 32

Tobacco Settlement Asset-Backed Bonds

Issuance	Original Amount	Interest Rate	Final Maturity Date	Ending Balance at June 30, 2008
Series 2006A Senior Current Interest Bonds	$ 534,610	4.75 - 5.125%	2016-2030	$ 524,645
Series 2006B CABs	19,770	6.25%	2032	92,241
2006B unaccreted appreciation CABs				(69,761)
Series 2006C CABs	8,686	6.40%	2033	46,186
2006C unaccreted appreciation CABs				(36,280)
Series 2006D CABs	20,565	7.10%	2036	150,704
2006D unaccreted appreciation CABs				(126,915)
Total	$ 583,631			$ 580,820

Annual debt service requirements to maturity for TSAB are as follows:

Table 33

Tobacco Settlement Asset-Backed Bonds - Debt Service Requirements to Maturity

Fiscal Year	Principal	Unaccreted Appreciation	Interest	Total
2009	$ 9,670	3,790	26,235	$ 39,695
2010	10,345	4,047	25,773	40,165
2011	11,265	4,321	25,278	40,864
2012	10,780	4,613	24,744	40,137
2013	11,685	4,926	24,229	40,840
2014-2018	76,325	30,118	111,785	218,228
2019-2023	122,445	41,822	88,295	252,562
2024-2028	173,775	58,099	52,316	284,190
2029-2033	130,308	66,480	7,500	204,288
2034-2036	17,068	14,740		31,808
Subtotal	$ 573,666	232,956	386,155	$ 1,192,777
Add:				
Accreted appreciation through June 30, 2008	7,154			
Subtotal	$ 580,820			
Less:				
Unamortized issuance discount	(18,227)			
Unamortized deferred amounts on refundings	(18,906)			
Total	$ 543,687			

(Amounts Expressed in Thousands Unless Otherwise Noted)

TSAB pledged revenue for the year ended June 30, 2008 was as follows:

Table 34

Pledged Revenues - Tobacco Settlement Asset-Backed Bonds				
Debt Pledged	Final Maturity Date	Pledged Revenue To Maturity	Debt Principal & Interest Paid	Pledged Revenue Received
Series 2006 Tobacco Settlement Asset-Backed Bonds	2036	$ 1,202,120	$ 33,464	$ 30,959

4. San Diego County Redevelopment Agency (CRA) Revenue Refunding Bonds

In December 2005, the San Diego County Redevelopment Agency (CRA) issued $16 million Revenue Refunding Bonds Series 2005A that mature in fiscal year 2032-33. The CRA has pledged property tax increment revenues generated within the Gillespie Field Project Area to pay for the bonds. Gillespie Field Airport revenues may also be used to fund debt service payments if there are insufficient property tax increment revenues to cover a particular fiscal year's debt service requirement. Bonds are also payable from funds held under the indenture, including earnings on such funds.

CRA revenue refunding bonds outstanding at June 30, 2008 were the following:

Table 35

CRA Revenue Refunding Bonds				
Issuance	Original Amount	Interest Rate	Final Maturity Date	Ending Balance at June 30, 2008
Revenue Refunding Bonds Series 2005A	$ 16,000	3.65 - 5.75%	2033	$ 15,320
Total	$ 16,000			$ 15,320

Annual debt service requirements to maturity for CRA bonds are as follows:

Table 36

CRA Revenue Refunding Bonds - Debt Service Requirements to Maturity			
Fiscal Year	Principal	Interest	Total
2009	$ 335	811	$ 1,146
2010	345	797	1,142
2011	360	782	1,142
2012	375	766	1,141
2013	395	748	1,143
2014-2018	2,275	3,420	5,695
2019-2023	2,915	2,756	5,671
2024-2028	3,790	1,847	5,637
2029-2033	4,530	621	5,151
Total	$ 15,320	12,548	$ 27,868
Less:			
Unamortized issuance discount	(41)		
Total	$ 15,279		

CRA pledged revenue for the year ended June 30, 2008 was as follows:

Table 37

Pledged Revenues - CRA Revenue Refunding Bonds				
Debt Pledged	Final Maturity Date	Pledged Revenue To Maturity	Debt Principal & Interest Paid	Pledged Revenue Received
Series 2005A Revenue Refunding Bonds	2033	$ 27,868	$ 1,145	$ 1,057

5. Loans - Governmental Activities

Loans for various governmental activities included: Permanent Road Division bank loans for road improvements and maintenance; a United States Department of Agriculture Farmers Home Administration loan for the construction of low income housing; and California Energy Commission loans to fund various projects in County facilities to increase energy efficiency.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Details of loans outstanding at June 30, 2008 for governmental activities are as follows:

Table 38

Loans - Governmental Activities				
Loans	Original Amount	Interest Rate	Final Maturity Date	Ending Balance at June 30, 2008
Singing Trails Zone #1013	$ 66	8.75%	2008	$ 0
Pauma Heights PRD #21	160	7.75%	2009	32
Landavo Zone PRD #1015	344	8.25%	2016	118
El Sereno Way Zone PRD #1016	118	8.25%	2012	94
Firebird Manor	4,486	1.00%	2028	2,952
California Energy Comm Loan 1 (Facilities ISF)	1,977	4.00%	2015	1,348
California Energy Comm Loan 2 (Facilities ISF)	3,001	3.95%	2016	2,499
Total	$ 10,152			$ 7,043

Annual debt service requirements to maturity for loans - governmental activities are as follows:

Table 39

Loans - Governmental Activities Debt Service Requirements to Maturity			
Fiscal Year	Principal	Interest	Total
2009	$ 727	195	$ 922
2010	716	167	883
2011	739	140	879
2012	742	112	854
2013	728	86	814
2014-2018	1,852	151	2,003
2019-2023	761	62	823
2024-2028	778	23	801
Total	$ 7,043	936	$ 7,979

Business-Type Activities:

6. Loans - Business-Type Activities

Loans for business-type activities included California Department of Transportation loans for the construction of a sewer line and the installation of a control tower at the Ramona Airport.

Details of loans outstanding at June 30, 2008 for business-type activities are as follows:

Table 40

Loans - Business-type Activities				
Loan	Original Amount	Interest Rate	Final Maturity Date	Ending Balance at June 30, 2008
2001 Airport Development Loan - Ramona Sewer Line	$ 2,388	5.63%	2017	$ 1,502
2001 Airport Development Loan - Ramona Control Tower	1,196	5.63%	2017	753
2003 US Department of Agriculture	100	4.63%	2040	0
Total	$ 3,684			$ 2,255

Annual debt service requirements to maturity for loans - business-type activities are as follows:

Table 41

Loans - Business-type Activities Debt Service Requirements to Maturity			
Fiscal Year	Principal	Interest	Total
2009	$ 217	127	$ 344
2010	230	114	344
2011	242	102	344
2012	254	88	342
2013	267	74	341
2014 - 2017	1,045	139	1,184
Total	$ 2,255	644	$ 2,899

7. Prior Year Defeasance of Long-Term Debt

In prior years, the County defeased TSAB 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 obligation. Accordingly, the trust account assets and the liability for the defeased obligation are not included in the County's financial statements. At June 30, 2008, $420.050 million of bonds were legally defeased and remain outstanding.

8. Arbitrage

In compliance with the Tax Reform Act of 1986 and subsequent U.S. Treasury Regulations, the County performed arbitrage rebate calculations via a third party to determine probable amounts due to the Federal government. At June 30, 2008, a $498 estimate of probable arbitrage rebate liability has been included in the statement of net assets.

(Amounts Expressed in Thousands Unless Otherwise Noted)

J. Changes in Long-Term Liabilities

Long-term liability activities for the year ended June 30, 2008 were as follows:

Table 42

Changes in Long-Term Liabilities	Beginning Balance at July 1, 2007	Additions	Reductions	Accreted Interest	Ending Balance at June 30, 2008	Amounts Due Within One Year
Governmental Activities:						
COPs, bonds & loans						
Certificates of participation	$ 364,355		(34,300)		330,055	$ 30,400
Taxable pension obligation bonds	1,206,887		(142,735)	4,048	1,068,200	24,900
Tobacco settlement asset-backed bonds	584,137		(6,865)	3,548	580,820	9,670
CRA revenue refunding bonds	15,640		(320)		15,320	335
Loans - non-internal service funds	3,591		(395)		3,196	225
Loans - internal service funds (ISF)	4,329		(482)		3,847	502
Arbitrage	2	496			498	
Unamortized issuance premiums	7,351		(472)		6,879	472
Unamortized issuance discounts	(21,362)		1,194		(20,168)	(1,194)
Unamortized deferred amounts on refundings	(26,922)		8,016		(18,906)	(4,827)
Total COPs, bonds & loans	2,138,008	496	(176,359)	7,596	1,969,741	60,483
Other long-term liabilities:						
Capital Leases	29,623		(2,033)		27,590	1,725
Claims and judgments - ISF	111,182	15,167	(20,105)		106,244	29,471
Compensated absences - non-ISF	80,545	77,532	(62,050)		96,027	36,713
Compensated absences - ISF	2,214	1,617	(1,438)		2,393	957
Landfill closure and postclosure	23,617		(1,418)		22,199	919
Total Other long-term liabilities	247,181	94,316	(87,044)		254,453	69,785
Total Governmental Activities	$ 2,385,189	94,812	(263,403)	7,596	2,224,194	$ 130,268
Business-type activities:						
Loans	$ 2,551		(296)		2,255	$ 217
Compensated absences	342	306	(258)		390	156
Total Business-type activities	$ 2,893	306	(554)		2,645	$ 373

K. Conduit Debt Obligations

From time to time, the County has issued tax-exempt conduit debt under the authority of Chapter 7 of Part 5 of Division 3 of the Health and Safety Code of the State of California on behalf of qualified borrowers to provide financial assistance for projects deemed to be of public interest.

Conduit debt consisted of the following: a) fourteen certificates of participation (COPs) for the acquisition, construction, capital improvement and equipping of various facilities; b) three mortgage revenue bonds for the construction and permanent financing of multi-family residential rental projects located in the County to be partially occupied by persons of low or moderate income; and c) one reassessment bond for infrastructure improvements. Conduit debt is secured by the property that is financed and is payable from the respective COPs base rentals; underlying payments on mortgage loans; and the related property tax assessments. Upon repayment of the debt, ownership of the acquired facilities transfers to the private-sector entity served by the debt issuance.

The County is not obligated in any manner for repayment of this debt. Accordingly, the debt is not reported as liabilities in the accompanying financial statements.

As of June 30, 2008, the aggregate conduit debt principal amount outstanding was $344.503 million.

L. Landfill Site Closure and Postclosure Care Costs

State laws and regulations require the placement of final covers on all landfill sites that stopped accepting solid waste after October 9, 1991 and the performance of certain maintenance and monitoring functions at these sites for a minimum of 30 years after closure. Closure and postclosure care costs are paid near or after the date a landfill stops accepting waste. The San Marcos Landfill is the sole waste disposal site owned by the County that is subject to these regulations. It was operational and accepted solid waste from 1979 until March 11, 1997. Formal closure of this landfill spanned from July 2004 through March 2007. Post closure maintenance began in April 2007.

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, 2008 for the San Marcos Landfill was $22.199 million. This estimated amount is based on what it would cost to perform all closure and postclosure care in calendar year 2008 dollars and is subject to change as a result of such factors including but not limited to: inflation; deflation; advancements in technology; and amendments to laws and regulations.

In addition to the above, state regulations require that landfill closure and postclosure maintenance costs be fully funded at the time of closure, unless a landfill owner/operator can demonstrate financial responsibility towards these activities by using other approved financial assurance alternatives. A pledge of revenue is one of various alternatives allowed to fund estimated postclosure costs. Under this alternative, the Board of Supervisors, on February 3, 1998, approved Minute Order No. 5 "Postclosure Maintenance Funding for the San Marcos Landfill", wherein the County entered into a pledge of revenue agreement with the California Integrated Waste Management Board (CIWMB). Pursuant to Resolution No. 98-24, adopted under Minute Order No. 5, the Board directed that the amount of pledged revenue shall be equal to $790 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, 2008, $24.460 million has been spent on closure costs and $1.259 of the net assets of the government-wide statement of net assets has been restricted for remaining closure costs of the San Marcos Landfill.

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

(Amounts Expressed in Thousands Unless Otherwise Noted)

M. Fund Balances Reserved For Other Purposes

At June 30, 2008, the fund balances reserved for other purposes are presented in **Table 43** as follows:

Table 43

Fund Balances Reserved For Other Purposes At June 30, 2008	
General Fund	
Unforeseen catastrophic events	$ 55,500
Defray administrative costs, other general reserves	32,176
Improvement and maintenance of recorded document systems	12,688
Teeter tax losses	23,749
Emergency medical services, various construction costs	16,514
Mental health	69,233
Social programs	5,939
Vector control	10,652
Real estate fraud prosecution	773
Domestic violence and child abuse prevention	5,254
Sheriff vehicle maintenance and replacement	304
Fingerprinting equipment purchase and operation	7,130
Sheriff automated warrant system	4,609
Delinquency and juvenile crime prevention	2,670
Reserve for donations	4,161
Total General Fund	251,352
Special revenue funds	
Road-future road improvements	44,232
County service districts projects	1,271
Flood control-future drainage improvements	14,940
Housing repairs and improvements	408
Total Special revenue funds	60,851
Capital projects funds	
Edgemoor capital projects	250
Total Capital projects funds	250
Total Fund Balances Reserved for Other Purposes	$ 312,453

N. Fund Balances Designated for Subsequent Years' Expenditures

At June 30, 2008, the fund balances designated for subsequent years' expenditures are presented in **Table 44** as follows:

Table 44

Fund Balances Designated for Subsequent Years' Expenditures At June 30, 2008	
General Fund	
Sheriff's department future capital expenditures	$ 4,000
Assessor's department future expenditures	111
Clerk of the Board future expenditures	5
Department of Environmental Health future expenditures	7,049
Realignment health, mental health and social services	74,620
Housing Authority future lease payments	597
Management of conduit financing program	399
Preventative health care for children	847
South County Shelter capital improvements	37
Senior Volunteer Patrols Program in the unincorporated communities	74
Regional Communication System infrastructure enhancements	9,642
Replacement of Sheriff 's department helicopter	2,011
Edgemoor geriatric hospital reconstruction	2,799
Health based programs aimed at reducing adult and youth smoking	8,130
Equipment replacement/system enhancement-Caller ID Remote Access Network	1,160
Future lease payments	2,355
FEMA/other agencies' cost reimbursement for 2003/2007 County fires	24,893
Total General Fund	$ 138,729
Special revenue funds	
Equipment acquisition	$ 175
Building Maintenance	450
Total Special revenue funds	$ 625

V. Other Information

A. Risk Management

The County operates a Risk Management Program, whereby it is self-insured for general liability (per Gov. Code 990), medical malpractice (per Gov. Code 990.9), automobile liability (per CA. DMV Code 16020(b)(4)) and workers' compensation (per Title 8 CCR 15203.4). The County purchases insurance coverage for all risk property losses, government crime insurance, including employee dishonesty and faithful performance, airport comprehensive liability, and aircraft hull and liability insurance. Settlements in the areas covered have not exceeded insurance coverage for each of the past three fiscal years. The County's Employee Benefits and Public Liability Insurance Internal Service Funds (ISF) are used to report all of its uninsured risk management activities. Risk management liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Actuarial evaluations were obtained which determine estimates of known and projected public liability and workers compensation claim liabilities.

(Amounts Expressed in Thousands Unless Otherwise Noted)

At June 30, 2008, the amount of these liabilities, including an estimate for claims incurred but not reported and allocated and unallocated loss adjustment expenses was estimated at $106.2 million, including $19.4 million in public liability and $86.8 million in workers' compensation. Changes in the balances of claim liabilities for fiscal year 2008 and 2007 are shown below:

Table 45

Risk Management - Changes in Claim Liabilities

	2008	2007
Employee Benefits Fund		
Unpaid claims, July 1	$ 94,686	$ 91,297
Incurred claims	10,128	20,374
Claim payments	(18,012)	(16,985)
Unpaid claims, June 30	$ 86,802	$ 94,686
Public Liability Insurance Fund		
Unpaid claims, July 1	$ 16,496	$ 31,035
Incurred claims	5,039	(11,121)
Claim payments	(2,093)	(3,418)
Unpaid claims, June 30	$ 19,442	$ 16,496

B. Contingencies

1. Litigation

In addition to the accrued liability for litigation and workers compensation claims described in Note V-A, the County has a potential liability of $25.6 million that could result if unfavorable final decisions were rendered in numerous lawsuits to which the County is a named defendant. Appropriations are budgeted annually for those portions of obligations coming due that fiscal year. Estimates of potential liabilities described above (in Note V-A) include estimates of claims incurred but not reported at June 30, 2008.

2. Unrecorded Leave Benefits

County employees have unrecorded accumulated benefits of approximately $157.5 million in sick leave, holiday and compensatory time. These benefits are not payable to employees upon termination and are normally liquidated in future years as employees elect to use their benefits as prescribed by Civil Service rules and regulations. Accumulated vacation, sick leave, and compensatory time-off for which employees are eligible for payment upon separation have been recorded as current or long-term liabilities in the appropriate proprietary funds and the statement of net assets.

3. Federal and State Programs

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

C. Joint Ventures

The San Diego Geographic Information Source (SanGIS) was created in July 1997 as a joint powers agreement between the City of San Diego and the County of San Diego. SanGIS objectives are to create and maintain a geographic information system; marketing and licensing compiled digital geographic data and software; providing technical services; and publishing geographic and land related information for the City and the County, other public agencies, and the private sector. It is governed by a Board of Directors consisting of the City Manager and the Chief Administrative Officer. SanGIS relies mostly on an annual budget of $1.5 million shared equally by the City and the County to supplement its operating revenues. In its latest report, SanGIS reported an increase in net assets of $47.596 and ending net assets of $82.089 for the fiscal year ending June

30, 2007. The financial report may be obtained by writing to SanGIS at 5469 Kearny Villa Rd. Suite 102, San Diego CA 92123 or by calling (858) 574-7000 or by E-mail at webmaster@sangis.org.

The County is a participant with eighteen incorporated cities to operate the Unified San Diego County Emergency Services Organization for the purpose of providing regional planning and mutual assistance in the event of an emergency in the region including accidents involving hazardous waste. The organization is governed by the Unified Disaster Council (UDC) with one voting member from San Diego County Board of Supervisors who serves as Chair of the Council, and a representative from each of the 18 incorporated cities. The County of San Diego Office of Emergency Services (OES) serves as staff to the UDC. OES is a liaison between the incorporated cities, the State Office of Emergency Services, the Federal Emergency Management Agency, and the American Red Cross. A contractual agreement requires that the cities and the County provide the total required funding each year; one half from the cities and the other half from the County. In its latest report, the organization reported an increase in net assets of $1.2 million and ending net assets of $3.2 million for the fiscal year ending June 30, 2007. Separate financial statements may be obtained from the Operational Area Emergency Operations Center, 5555 Overland Ave., Suite 1911, San Diego CA 92123 or by calling (858) 565-3490.

The City of San Diego and the County of San Diego jointly formed a Consortium under the Workforce Investment Act of 1998 to provide regional employment and training services. The Consortium is governed by a five member board consisting of two members designated from the County Board of Supervisors, two members designated from the San Diego City Council and one member from the Board of Directors of United Way, a charitable organization. The board assigned the San Diego Workforce Partnership, Inc. as grant recipient and the administrative entity to operate the San Diego Consortium. The City and the County agreed to share equally any debt or liability incurred with respect to State and Federal grants. In its latest report, the Partnership reported a decrease in net assets of $589.166 and ending net assets of $457.942 for the fiscal year ending June 30, 2007. Complete financial reports may be obtained by writing to the San Diego Workforce Partnership, 3910 University Ave., Suite 400, San Diego CA 92105-1326 or by calling (619) 228-2900.

D. Pension and Retiree Health Plans

1. Pension Plan

a. Plan Description

The County contributes to the San Diego County Employees Retirement Association pension plan, (SDCERA-PP), a cost-sharing multiple-employer defined benefit pension plan that is administered by SDCERA. The SDCERA-PP has three Tiers and provides retirement, disability, death and survivor benefits to its General and Safety members. Tier A is the current open system. Tier I is closed to new entrants but has active members and Tier II was eliminated for active members. The Retirement Act, (also referred to as the Retirement Law of 1937 and Government Code Section 31450 et.seq.) assigns the County Board of Supervisors, the authority to establish and amend benefit provisions and assigns the SDCERA Board of Retirement the authority to approve retiree members and beneficiaries cost-of-living increases. (See Note V.D.3. concerning SDCERA Financial Report information.)

b. Funding Policy

The Retirement Act requires that County and member contributions be actuarially determined to provide a specific level of benefit. Contribution rates are expressed as a percentage of covered payroll and member rates vary according to age at entry, benefit tier level and certain negotiated contracts that provide for the County to pay a portion of members' contributions.

The average member contribution rate was 10.23% for all categories combined (General Tier I, General Tier A and Safety members). The employer contribution rate for all categories combined was 23.28%. CoSD employer contributions to SDCERA-PP for the three years ended June 30, 2008 were the following:

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 46

CoSD Employer Contributions - SDCERA-PP			
Fiscal Year Ended June 30	Contractually Required Contributions (CRC)	Contributions Made	Percentage of CRC Contributed
2008	$ 214,665	$ 214,665	100.0%
2007	213,119	233,314	109.5%
2006	189,257	217,667	115.0%

2. Retiree Health Plan

a. Plan Description

Effective July 1, 2007, the County commenced contributing to the SDCERA retiree health plan, (SDCERA-RHP) a cost-sharing multiple-employer defined benefit health plan administered by SDCERA. The Retirement Act assigns the authority to establish and amend health allowance benefits to the SDCERA Board of Retirement. The retiree health plan provides a non-taxable health insurance allowance to Tier I and Tier II retirees. Health insurance allowances range from $200 per month to $400 per month based on members' service credits. (See Note V.D.3. below concerning SDCERA Financial Report information.)

b. Funding Policy

The SDCERA-RHP was established and is administered as an Internal Revenue Code Section 401(h) account within the defined benefit pension plan under the authority granted by the Retirement Act to the SDCERA Board of Retirement. The SDCERA-RHP is funded by employer contributions that are based on an actuarially determined 20 year level dollar amortization schedule and equaled approximately 2.25% of the fiscal year's covered payroll. The health insurance allowance is not a vested benefit and may be reduced or discontinued at any time by the SDCERA Board of Retirement. Additionally, the total amount of employer contributions are limited by the provisions of 401(h).

CoSD's employer contribution to SDCERA-RHP for the year ended June 30, 2008 was $21.3 million, equal to the required contribution for 2008.

3. SDCERA Financial Report

SDCERA issues a publicly available financial report that includes financial statements and required supplementary information for the SDCERA-PP and the SDCERA-RHP. The financial report may be obtained by writing to San Diego County Employees Retirement Association, 2275 Rio Bonito Way Suite 200, San Diego, California 92108 or by calling (619) 515-0130.

E. Restatement

1. First 5 Commission

The beginning net asset balance of the First 5 Commission is restated as shown in **Table 47** below in the amount of $971 resulting from 1) an adjustment to pooled cash and investments reflecting a year-end fair market value unrealized loss of $888 and 2) a vacation accrual of $83.

Table 47

Restatement - First 5 Commission		
Net asset balance as of June 30, 2007	$	187,664
Adjustment for restatement		971
Net asset balance, restated June 30, 2007	$	188,635

F. Subsequent Events

1. Tax and Revenue Anticipation Notes

In July 2008, the County issued tax and revenue anticipation notes (TRANS) totaling $75.0 million due June 30, 2009 at a coupon rate of 3.50% and a yield of 1.57%. Proceeds from the notes will be used to meet fiscal year 2009 cash flow requirements. Fiscal year 2009 unrestricted revenues collateralize the notes.

2. Taxable Pension Obligation Bonds Series 2008 A and Series 2008 B

In August 2008, the County issued $443.515 million of Taxable Pension Obligation Bonds as follows: 1) $343.515 million fixed rate Series 2008A Taxable Pension Obligation Bonds consisting of $240.100 million of Term Bonds that carry fixed interest rate of 6.029% with a maturity date of August 15, 2026; and $103.415 million Serial Bonds that carry a fixed coupon minimum rate of 3.331% and a maximum coupon rate of 5.748% and final maturity dates ranging from August 15, 2009 through August 15, 2018; and 2)

$100 million variable rate demand obligation Taxable Pension Obligation Bonds with a maturity date of August 15, 2007; $50 million Series 2008B-1; and, $50 million Series B-2.

Series 2008A Bond proceeds of $343.515 and Series 2008B Bond proceeds of $100 million along with along with approximately $16.159 from funds held in the 2002 Series B2-4 indenture accounts and approximately $61.195 of County monies were distributed as follows: 1) $495.77 million (consisting of $443.515 of new bond proceeds; $16.159 from funds held in the 2002 Series B2-4 indenture accounts; and, $36.096 of County monies) was transferred to the escrow bank for the bond refunding to advance refund the outstanding $485.125 million 2002 Series B2-4 Taxable Pension Obligation Bonds (Refunded Bonds) and future interest payments. 2) $21.991 was paid to two counterparties as follows: $17.195 to terminate the two interest rate swap agreements relating to the hedged portion of the Refunded Bonds; and $4.796 million for the accrued interest on the swap; and, 3) $3.108 million to pay certain costs of issuance.

G. New Governmental Accounting Standards

1. Implementation Status

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.

Please refer to Note V. D. 2 "Retiree Health Plan."

In June 2005, GASB issued Statement 47, *Accounting for Termination Benefits*. This Statement establishes accounting standards for termination benefits. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement should be implemented simultaneously with the requirements of Statement 45.

The County does not provide termination benefits, consequently this is not applicable.

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

Please refer to Note IV. I. 3. "Tobacco Settlement Asset-Backed Bonds, and 4. San Diego County Redevelopment Agency Revenue Refunding Bonds."

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

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

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

Please refer to Note V. D. 1 "Pension Plan," only the Cost-Sharing Multiple Employer Defined Benefit Pension Plan disclosure requirements of this Statement apply to the County.

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

The Statement does not apply to the County.

2. Under Analysis

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

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

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

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

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

In June 2008, the GASB issued Statement 53, Accounting and Financial Reporting for Derivative Instruments. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, also can expose governments to significant risks and liabilities.

Governments enter into derivative instruments as investments; as hedges of identified financial risks associated with assets or liabilities, or expected transactions (that is, hedgeable items); or to lower the costs of borrowings. Governments often enter into derivative instruments with the intention of effectively fixing cash flows or synthetically fixing prices.

A key provision in this Statement is that derivative instruments covered in its scope, with the exception of synthetic guaranteed investment contracts (SGICs) that are fully benefit-responsive, are reported at fair value. For many derivative instruments, historical prices are zero because their terms are developed so that the instruments may be entered into without a payment being received or made. The changes in fair value of derivative instruments that are used for investment purposes or that are reported as investment derivative instruments because of ineffectiveness are reported within the investment revenue classification. Alternatively, the changes in fair value of derivative instruments that are classified as hedging derivative instruments are reported in the statement of net assets as deferrals.

Derivative instruments associated with hedgeable items that are determined to be effective in reducing exposures to identified financial risks are considered hedging derivative instruments. Effectiveness is determined by considering whether the changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item. In these instances, hedge accounting should be applied. Under hedge accounting, the changes in fair values of the hedging derivative instrument are reported as either deferred inflows or deferred outflows in a government's statement of net assets.

Much of this Statement describes the methods of evaluating effectiveness. The consistent critical terms method considers the terms of the potential hedging derivative instrument and the hedgeable item. If relevant terms match or in certain instances are similar, a potential hedging derivative instrument is determined to be effective. The other methods are based on quantitative analyses. The synthetic instrument method considers whether a fixed rate or price has been established within a prescribed range. The dollar-offset method evaluates changes in expected cash flows or fair values over time between the potential hedging derivative instrument and the hedgeable item. The regression analysis method considers the relationship between changes in the cash flows or fair values of the potential hedging derivative instrument and the hedgeable item. In these methods, critical and quantitative values are evaluated to determine whether a potential hedging derivative instrument is effective. Quantitative methods other than those specified in the Statement are permitted, provided that they address whether the changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item.

The disclosures required by Technical Bulletin No. 2003-1, Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets, have been incorporated into this Statement. The objectives, terms, and risks of hedging derivative instruments are required disclosures. Disclosures also include a summary of derivative instrument activity that provides an indication of the location of fair value amounts reported on the financial statements. The disclosures for investment derivative instruments are similar to the disclosures of other investments. This statement is effective for the County's fiscal year ending June 30, 2010.