08-0853

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

NEW ISSUE - FULL BOOK-ENTRY ***RATINGS: (See "RATINGS" herein)***

$32,855,000
MONTEREY COUNTY FINANCING AUTHORITY
REVENUE BONDS, SERIES A
(SALINAS VALLEY WATER PROJECT)

Dated: Date of Delivery ***Due: September 1, as shown below***

This cover page contains information for reference only. Investors must read the entire Official Statement to obtain information essential in making an informed investment decision. Capitalized terms used in this cover page shall have the meanings given such terms herein.

The Monterey County Financing Authority Revenue Bonds, Series A (Salinas Valley Water Project) (the "Bonds") are special obligations of the Monterey County Financing Authority (the "Authority") payable solely from (i) Authority Revenues, which consist of the Installment Payments (the "Installment Payments") to be made by the Monterey County Water Resources Agency (the "Agency") pursuant to an Installment Purchase Agreement, dated as of July 1, 2008 (the "Installment Purchase Agreement"), by and between the Authority and the Agency, and (ii) amounts on deposit in certain funds and accounts held under the Indenture, dated as of July 1, 2008, by and between the Authority and Union Bank of California, N.A., as trustee (the "Trustee"), pursuant to which the Bonds are being issued. The Installment Payments and other payments required to be made by the Agency pursuant to the Installment Purchase Agreement are payable solely from (i) certain specified revenues of the Agency (the "Revenues"), which, for any period, primarily consist of (a) certain specified assessments levied and received by the Agency during such period, (b) certain income and revenues generated by the hydroelectric facility located at the Nacimiento Dam (the "Hydroelectric Facility") and received by the Agency during such period less certain maintenance and operations costs related to the Hydroelectric Facility, and (c) certain specified ad valorem taxes allocated to the Agency and received by the Agency during such period, and (ii) other assets pledged therefor under the Installment Purchase Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein.

The Bonds are being issued in fully registered book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Interest on the Bonds is payable semiannually on March 1 and September 1 of each year, commencing on March 1, 2009. Purchasers will not receive certificates representing their interest in the Bonds. Individual purchases will be in principal amounts of $5,000 and any integral multiple of $5,000. Principal of and interest and premium, if any, on the Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who are obligated to remit such payments to the beneficial owners of the Bonds. See "THE BONDS — General" and "—Book-Entry Only System" herein.

The Bonds are being issued to (i) finance for the Agency a portion of the cost of the acquisition, construction and installation of a Salinas River diversion facility and certain spillway modifications at Nacimiento Dam, (ii) fund capitalized interest for the Bonds through September 1, 2009, (iii) fund a debt service reserve fund for the Bonds, and (iv) pay the costs incurred in connection with the issuance of the Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" and "THE PROJECT" herein.

The Bonds are subject to optional and mandatory redemption prior to maturity as described herein. See "THE BONDS — Redemption" herein.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the Bonds by ASSURED GUARANTY CORP.

ASSURED GUARANTY

The Bonds are special obligations of the Authority, payable solely from the Authority Revenues and the other assets pledged therefor under the Indenture. Neither the faith and credit nor the taxing power of the Authority, the Agency or the State of California (the "State"), or any political subdivision thereof, is pledged to the payment of the Bonds.

The obligation of the Agency to make the Installment Payments and other payments required to be made by it under the Installment Purchase Agreement is a special obligation of the Agency, payable in the manner provided in the Installment Purchase Agreement solely from the Revenues and other assets pledged therefor under the Installment Purchase Agreement. Neither the faith and credit nor the taxing power of the Agency or the State, or any political subdivision thereof, is pledged to the payment of the Installment Payments or other payments required to be made by the Agency under the Installment Purchase Agreement.

MATURITY SCHEDULE

$5,840,000 Serial Bonds

Maturity Date (September 1)	Principal Amount	Interest Rate	Yield	CUSIP No.+	Maturity Date (September 1)	Principal Amount	Interest Rate	Yield	CUSIP No.+
2010	$550,000	4.000%	2.350%	612454AB4	2015	$670,000	5.000%	3.490%	612454AG3
2011	570,000	4.000	2.780	612454AC2	2016	700,000	5.000	3.620	612454AH1
2012	595,000	3.000	3.040	612454AD0	2017	735,000	3.750	3.740	612454AJ7
2013	615,000	4.000	3.230	612454AE8	2018	765,000	5.000	3.870	612454AK4
2014	640,000	4.000	3.360	612454AF5					

$4,460,000 5.000% Term Bonds due September 1, 2023 – Yield: 4.440%† CUSIP No.+ 612454AL2
$5,735,000 5.000% Term Bonds due September 1, 2028 – Yield: 4.680%† CUSIP No.+ 612454AM0
$16,820,000 5.000% Term Bonds due September 1, 2038 – Yield: 4.900%† CUSIP No.+ 612454AN8

See "RISK FACTORS" for a discussion of factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Bonds.

The Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval as to their validity by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Agency and the Authority by the County of Monterey Office of County Counsel, Salinas, California, and by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel; and for the Underwriter by Jones Hall, A Professional Law Corporation, San Francisco, California. It is anticipated that the Bonds in definitive form will be available for delivery to DTC in New York, New York on or about July 30, 2008.

MORGAN STANLEY

Dated: July 16, 2008

† *Yield to the par call date of September 1, 2018.*

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representation other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

The information set forth herein has been obtained from the Authority and the Agency and from other sources and is believed to be reliable but is not guaranteed as to accuracy or completeness. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the Agency since the date hereof. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the Authority and the Agency. All summaries of the documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

Assured Guaranty Corp. (the "Insurer") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, the Insurer has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Insurer supplied by the Insurer and presented under the heading "BOND INSURANCE" and in Appendix G — "SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY."

The Underwriter has provided the following sentence for inclusion in this Official Statement:

> The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

MONTEREY COUNTY FINANCING AUTHORITY
BOARD OF DIRECTORS

Simon Salinas, *Chair*
Richard Morgantini, *Vice Chair*
Fernando Armenta, *Member*
Louis R. Calcagno, *Member*
David Hart, *Member*

MONTEREY COUNTY BOARD OF SUPERVISORS
AND
MONTEREY COUNTY WATER RESOURCES AGENCY
BOARD OF SUPERVISORS

Fernando Armenta, *District One (Chair)*
Louis R. Calcagno, *District Two (Vice Chair)*
Simon Salinas, *District Three*
Ila Mettee-McCutchon, *District Four*
Dave Potter, *District Five*

MONTEREY COUNTY WATER RESOURCES AGENCY
BOARD OF DIRECTORS

Richard Morgantini, *Chair*
David Hart, *Vice Chair*

Silvio Bernardi
David Bunn
Steve Collins
Jose Mendez
Roger Moitoso
Richard Ortiz
Leo Poppoff

MONTEREY COUNTY WATER RESOURCES AGENCY

Curtis Weeks, *General Manager*

MONTEREY COUNTY COUNSEL'S OFFICE

Charles J. McKee, *County Counsel*

SPECIAL SERVICES

Bond Counsel and Disclosure Counsel
Orrick, Herrington & Sutcliffe LLP
Los Angeles, California

Trustee
Union Bank of California, N.A.
San Francisco, California

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OFFICIAL STATEMENT

$32,855,000
MONTEREY COUNTY FINANCING AUTHORITY
REVENUE BONDS, SERIES A
(SALINAS VALLEY WATER PROJECT)

INTRODUCTION

This Official Statement (which includes the cover page and Appendices hereto) (this "Official Statement"), provides certain information concerning the sale and delivery of Monterey County Financing Authority Revenue Bonds, Series A (Salinas Valley Water Project) in the aggregate principal amount of $32,855,000 (the "Bonds"). The Bonds are being issued pursuant to the Marks-Roos Local Bond Pooling Act of 1985, constituting Section 6584 *et seq.* of the California Government Code (the "Bond Law"), and the Indenture, dated as of July 1, 2008 (the "Indenture"), by and between the Monterey County Financing Authority (the "Authority") and Union Bank of California, N.A., as trustee (the "Trustee"). Capitalized undefined terms used herein shall have the meanings ascribed thereto in the Indenture. See Appendix C — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The sale and delivery of Bonds to potential investors is made only by means of this Official Statement.

The Bonds are being issued to (i) finance for the Monterey County Water Resources Agency (the "Agency") a portion of the cost of the acquisition, construction and installation of a Salinas River diversion facility (the "Salinas River Diversion Facility Project") and certain spillway modifications at Nacimiento Dam (the "Nacimiento Dam Spillway Modifications Project" and together with the Salinas River Diversion Facility Project, the "Project"), (ii) fund capitalized interest for the Bonds through September 1, 2009, (iii) fund a debt service reserve fund for the Bonds, and (iv) pay the costs incurred in connection with the issuance of the Bonds. See "THE PROJECT."

The Bonds are special obligations of the Authority payable solely from (i) Authority Revenues, which consist of the Installment Payments (the "Installment Payments") to be made by the Agency pursuant to an Installment Purchase Agreement, dated as of July 1, 2008 (the "Installment Purchase Agreement"), by and between the Authority and the Agency (the "Authority Revenues"), and (ii) amounts on deposit in certain funds and accounts held under the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Special Obligations; Pledge of Authority Revenues." The Installment Payments and other payments required to be made by the Agency pursuant to the Installment Purchase Agreement are payable, in the manner provided in the Installment Purchase Agreement, solely from (i) certain specified revenues of the Agency (the "Revenues"), which, for any period, primarily consist of (a) certain specified assessments levied and received by the Agency during such period, (b) certain income and revenues generated by the hydroelectric facility located at the Nacimiento Dam (the "Hydroelectric Facility") and received by the Agency during such period less certain maintenance and operations costs related to the Hydroelectric Facility, and (c) certain specified *ad valorem* taxes allocated to the Agency and received by the Agency during such period, and (ii) other assets pledged therefor under the Installment Purchase Agreement. Neither the faith and credit nor the taxing power of the Agency or the State of California (the "State"), or any political subdivision thereof, is pledged to the payment of the Installment Payments or other payments required to be made by the Agency under the Installment

Purchase Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – The Installment Purchase Agreement – Pledge of Revenues to Secure Payment of Installment Payments."

The Agency is a flood control and water agency formed in 1990 pursuant to the Monterey County Water Resources Agency (the "Act") as a successor to the Monterey County Flood Control and Water Conservation District (formed in 1947) (the "Flood Control and Water Conservation District"). The Agency was formed to provide for the control of the flood and storm waters of the County of Monterey (the "County"), to conserve those waters for beneficial and useful purposes by spreading, storing and retaining them, to prevent and deter the loss of usable groundwater through intrusion of seawater and to obtain, retain and reclaim drainage, storm, flood and other waters for beneficial use within the County. For more complete information concerning the Agency, see "THE AGENCY." For County economic and demographic information, see Appendix B — "COUNTY ECONOMIC AND DEMOGRAPHIC INFORMATION."

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a financial guaranty insurance policy (the "Insurance Policy") to be issued concurrently with the delivery of the Bonds by Assured Guaranty Corp. (the "Insurer"). See "BOND INSURANCE." **On July 21, 2008, Moody's Investors Service, Inc. ("Moody's") issued a press release stating that it had placed the "Aaa" insurance financial strength rating of the Insurer under review for possible downgrade. Any downgrade of such rating may have an adverse effect on the market price of the Bonds. See "BOND INSURANCE — The Insurer — Recent Developments" and "RATINGS."**

Brief descriptions of the Bonds, the Indenture, Installment Purchase Agreement, the Continuing Disclosure Agreement, the security for the Bonds, the Authority, the Agency and certain other information are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive and are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the Bonds, the Indenture, the Installment Purchase Agreement, the Continuing Disclosure Agreement and other documents. Copies of such documents may be obtained from the Authority, 893 Blanco Circle, Salinas, California 93901-4455, Attention: Executive Director of the Monterey County Financing Authority.

THE BONDS

Authority for Issuance

The Bonds are authorized to be issued by the Authority under and subject to the terms of the Bond Law and the Indenture.

General

The Bonds will be dated the date of delivery and will bear interest at the rates per annum and will mature on the dates and in the principal amounts, all as set forth on the front cover page hereof. The Bonds will be issued in fully registered form only, and when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only, in denominations of $5,000 and any integral multiple of $5,000 within a single maturity ("Authorized Denominations"). So long as DTC is acting as securities depository for the Bonds, principal of and interest and premium, if any, on the Bonds will be made directly to DTC. See – "Book-Entry Only System" below and Appendix F — "DTC BOOK-ENTRY ONLY SYSTEM."

Interest on the Bonds is payable semiannually on March 1 and September 1 of each year, commencing March 1, 2009 (each, an "Interest Payment Date"), to the persons in whose names ownership of the Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as otherwise provided in the Indenture. Such interest will be paid by check mailed by the Trustee on such Interest Payment Date, by first class mail, postage prepaid, to such registered Owners at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date. Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

The principal of and premium, if any, on the Bonds will be payable upon presentation and surrender thereof upon maturity or earlier redemption at the principal corporate trust office of the Trustee in San Francisco, California or such other or additional offices as may be specified to the Authority by the Trustee in writing (the "Office of the Trustee"). Principal of and premium, if any, and interest on the Bonds will be paid in lawful money of the United States of America; provided, however, that so long as DTC or its nominee is the registered owner of the Bonds, interest payments will be made as described in Appendix F — "DTC BOOK-ENTRY ONLY SYSTEM."

Redemption

Optional Redemption

The Bonds are subject to redemption prior to their respective stated maturities, on or after September 1, 2018, in whole on any date or in part, in Authorized Denominations, on any Interest Payment Date, upon the exercise by the Agency of its right to cause the redemption of Bonds in accordance with the Installment Purchase Agreement, from and to the extent of any source of available funds, at a redemption price equal to the sum of the principal amount of each Bond or the portion thereof so redeemed, without premium, plus accrued interest to the date of redemption.

Mandatory Sinking Fund Redemption

The Bonds maturing September 1, 2023 are subject to mandatory sinking fund redemption prior to their fixed maturity date, on September 1 of each year, commencing on September 1, 2019, at a redemption price equal to the principal amount thereof so redeemed, together with accrued interest to the date of redemption, without premium, as follows:

Sinking Fund Redemption Date (September 1)	Principal Amount to be Redeemed
2019	$805,000
2020	845,000
2021	890,000
2022	935,000
2023 (Maturity)	985,000

If some but not all of the Bonds maturing on September 1, 2023 are optionally redeemed, the principal amount of Bonds maturing on September 1, 2023 to be redeemed from mandatory sinking fund payments on any subsequent September 1 shall be reduced, by $5,000 or an integral multiple thereof, as designated by the Agency in a Written Certificate of the Agency filed with the Trustee; provided, however, that the aggregate amount of such reductions shall not exceed the aggregate amount of Bonds maturing on September 1, 2023 so optionally redeemed.

The Bonds maturing September 1, 2028 are subject to mandatory sinking fund redemption prior to their fixed maturity date, on September 1 of each year, commencing on September 1, 2024, at a redemption price equal to the principal amount thereof so redeemed, together with accrued interest to the date of redemption, without premium, as follows:

Sinking Fund Redemption Date (September 1)	Principal Amount to be Redeemed
2024	$1,035,000
2025	1,090,000
2026	1,145,000
2027	1,200,000
2028 (Maturity)	1,265,000

If some but not all of the Bonds maturing on September 1, 2028 are optionally redeemed, the principal amount of Bonds maturing on September 1, 2028 to be redeemed from mandatory sinking fund payments on any subsequent September 1 shall be reduced, by $5,000 or an integral multiple thereof, as designated by the Agency in a Written Certificate of the Agency filed with the Trustee; provided, however, that the aggregate amount of such reductions shall not exceed the aggregate amount of Bonds maturing on September 1, 2028 so optionally redeemed.

The Bonds maturing September 1, 2038 are subject to mandatory sinking fund redemption prior to their fixed maturity date, on September 1 of each year, commencing on September 1, 2029, at a redemption price equal to the principal amount thereof so redeemed, together with accrued interest to the date of redemption, without premium, as follows:

Sinking Fund Redemption Date (September 1)	Principal Amount to be Redeemed
2029	$1,330,000
2030	1,395,000
2031	1,470,000
2032	1,545,000
2033	1,625,000
2034	1,705,000
2035	1,795,000
2036	1,885,000
2037	1,985,000
2038 (Maturity)	2,085,000

If some but not all of the Bonds maturing on September 1, 2038 are optionally redeemed, the principal amount of Bonds maturing on September 1, 2038 to be redeemed from mandatory sinking fund payments on any subsequent September 1 shall be reduced, by $5,000 or an integral multiple thereof, as designated by the Agency in a Written Certificate of the Agency filed with the Trustee; provided, however, that the aggregate amount of such reductions shall not exceed the aggregate amount of Bonds maturing on September 1, 2038 so optionally redeemed.

Selection of Bonds for Redemption

Whenever provision is made in the Indenture for the redemption of less than all of the Bonds, the Trustee shall select the Bonds to be redeemed from all Bonds not previously called for redemption (i) with respect to any optional redemption of Bonds, among maturities of Bonds as directed in a Written Request of the Agency, and (ii) by lot among Bonds with the same maturity in any manner which the Trustee in its sole discretion shall deem appropriate and fair. For purposes of such selection, all Bonds shall be deemed to be comprised of separate $5,000 denominations and such separate denominations shall be treated as separate Bonds which may be separately redeemed.

Notice of Redemption

So long as DTC is acting as securities depository for the Bonds, notice of redemption, containing the information required by the Indenture, will be mailed by first class mail, postage prepaid, by the Trustee to DTC (not to the beneficial owners of any Bonds designated for redemption) at least 30 days but not more than 60 days prior to the redemption date. The Trustee must give notice of redemption to each of certain specified securities depositories and information services designated in the Indenture. The actual receipt by DTC (or any Owner of a Bond in the event that the book-entry only system is discontinued) of such notice of redemption is not a condition precedent to redemption, and neither the failure to receive such notice nor any defect in such notice will affect the validity of the proceedings for redemption of the Bonds or the cessation of accrual of interest thereon from and after the date fixed for redemption.

With respect to any notice of any optional redemption of Bonds, unless at the time such notice is given the Bonds to be redeemed shall be deemed to have been paid within the meaning of the Indenture, such notice shall state that such redemption is conditional upon receipt by the Trustee, on or prior to the date fixed for such redemption, of moneys that, together with other available amounts held by the Trustee, are sufficient to pay the redemption price of, and accrued interest on, the Bonds to be redeemed, and that if such moneys shall not have been so received said notice shall be of no force and effect and the Authority shall not be required to redeem such Bonds. In the event a notice of redemption of Bonds contains such a condition and such moneys are not so received, the redemption of Bonds as described in the conditional notice of redemption shall not be made and the Trustee shall, within a reasonable time after the date on which such redemption was to occur, give notice to the Persons and in the manner in which the notice of redemption was given, that such moneys were not so received and that there shall be no redemption of Bonds pursuant to such notice of redemption.

Partial Redemption of Bonds

Upon surrender of any Bonds redeemed in part only, the Authority shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Authority, a new Bond or Bonds of the same maturity in Authorized Denominations equal in aggregate principal amount representing the unredeemed portion of the Bonds surrendered.

Effect of Notice of Redemption

Notice of redemption having been mailed as described above, and moneys for the redemption price, and the interest to the applicable date fixed for redemption having been set aside, the Bonds shall become due and payable on said date and, upon presentation and surrender thereof at the Office of the Trustee, said Bonds shall be paid at the redemption price thereof, together with interest accrued and unpaid to said date. If, on said date fixed for redemption, moneys for the redemption price of all the Bonds to be redeemed, together with interest to said date, shall be held by the Trustee so as to be available therefor on such date and, if notice of redemption thereof shall have been mailed as described above, then, from and after said date, interest on said Bonds shall cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the redemption of Bonds shall be held in trust for the account of the Owners of the Bonds so to be redeemed without liability to such Owners for interest thereon.

Transfers and Exchanges

So long as the Bonds remain in book-entry form, the Bonds may be transferred or exchanged only as described in Appendix F — "DTC BOOK-ENTRY ONLY SYSTEM." However, should the Bonds cease to be in book-entry form, then they may be transferred or exchanged as provided in the Indenture. See Appendix C — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – THE INDENTURE."

Book-Entry Only System

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See Appendix F — "DTC BOOK-ENTRY ONLY SYSTEM."

Debt Service Schedule

The debt service schedule for the Bonds (including mandatory sinking fund redemption on their respective September 1 redemption dates) is set forth below:

Year Ending September 1	Principal	Interest	Total Debt Service
2009	--	$1,735,511	$1,735,511
2010	$ 550,000	1,597,913	2,147,913
2011	570,000	1,575,913	2,145,913
2012	595,000	1,553,113	2,148,113
2013	615,000	1,535,263	2,150,263
2014	640,000	1,510,663	2,150,663
2015	670,000	1,485,063	2,155,063
2016	700,000	1,451,563	2,151,563
2017	735,000	1,416,563	2,151,563
2018	765,000	1,389,000	2,154,000
2019	805,000	1,350,750	2,155,750
2020	845,000	1,310,500	2,155,500
2021	890,000	1,268,250	2,158,250
2022	935,000	1,223,750	2,158,750
2023	985,000	1,177,000	2,162,000
2024	1,035,000	1,127,750	2,162,750
2025	1,090,000	1,076,000	2,166,000
2026	1,145,000	1,021,500	2,166,500
2027	1,200,000	964,250	2,164,250
2028	1,265,000	904,250	2,169,250
2029	1,330,000	841,000	2,171,000
2030	1,395,000	774,500	2,169,500
2031	1,470,000	704,750	2,174,750
2032	1,545,000	631,250	2,176,250
2033	1,625,000	554,000	2,179,000
2034	1,705,000	472,750	2,177,750
2035	1,795,000	387,500	2,182,500
2036	1,885,000	297,750	2,182,750
2037	1,985,000	203,500	2,188,500
2038	2,085,000	104,250	2,189,250
TOTAL[(1)]	$32,855,000	$31,645,811	$64,500,811

(1) Totals may not foot due to rounding.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Special Obligations; Pledge of Authority Revenues

The Bonds are special obligations of the Authority, payable solely from the Authority Revenues and the other assets pledged therefor under the Indenture. Neither the faith and credit nor the taxing power of the Authority, the Agency or the State, or any political subdivision thereof, is pledged to the payment of the Bonds. The Indenture provides that, notwithstanding anything contained in the Indenture, the Authority shall not be required to advance any money derived from any source of income other than the Authority Revenues as provided in the Indenture for the payment of the interest on or principal of or redemption premiums, if any, on the Bonds or for the performance of any agreements or covenants contained in the Indenture. The term "Authority Revenues" is defined in the Indenture to mean all Installment Payments to be made by the Agency pursuant to the Installment Purchase Agreement.

The Indenture provides that, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, all of the Authority Revenues and any other amounts held in the Debt Service Fund, the Reserve Fund and the Redemption Fund are pledged to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms and the provisions of the Indenture. The Indenture provides that said pledge shall constitute a first lien on such assets.

In order to secure the pledge of the Authority Revenues contained in the Indenture, the Authority, in the Indenture, transfers, conveys and assigns to the Trustee, for the benefit of the Owners, all of the Authority's rights, title and interest under the Installment Purchase Agreement (excepting its right to indemnification and its right to receive notices thereunder), including the right to receive Installment Payments and the right to exercise any remedies provided therein in the event of a default by the Agency thereunder, and the Trustee accepts said assignment for the benefit of the Owners under and subject to the provisions of the Indenture. The Indenture provides that the Trustee is entitled to and shall receive all of the Authority Revenues, and any Authority Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as agent of the Trustee and shall forthwith be paid by the Authority to the Trustee.

Debt Service Fund

The Indenture provides that the Trustee shall establish and maintain the Debt Service Fund as a special trust fund to be held by the Trustee, and provides that, within the Debt Service Fund the Trustee shall establish and maintain an Interest Account (the "Interest Account") and a Principal Account (the "Principal Account"). The Indenture provides further that all Authority Revenues shall, upon receipt thereof by the Trustee, be deposited by the Trustee in the Debt Service Fund, and provides that all money in the Debt Service Fund, and the accounts therein, shall be applied by the Trustee as follows:

(i) On each Interest Payment Date, the Indenture provides that the Trustee shall (a) transfer from the Debt Service Fund and deposit in the Interest Account the amount, if any, necessary to cause the amount on deposit therein to be equal to the aggregate amount of interest becoming due and payable on all Outstanding Bonds on such Interest Payment Date, and (b) withdraw from the Interest Account for payment to the Owners of the Bonds the interest on the Outstanding Bonds then due and payable.

(ii) On each Interest Payment Date on which principal of the Bonds is due and payable, including principal due and payable by reason of mandatory sinking fund redemption of Term Bonds, the Indenture provides that the Trustee shall (a) transfer from the Debt Service Fund and deposit in the Principal Account the amount, if any, necessary to cause the amount on deposit therein to be equal to the aggregate amount of principal becoming due and payable on all Outstanding Bonds on such Interest Payment Date, including principal due and payable by reason of mandatory sinking fund redemption of Term Bonds, and (b) withdraw from the Principal Account for payment to the Owners of the Bonds the principal of the Outstanding Bonds then due and payable, including principal due and payable by reason of mandatory sinking fund redemption of Term Bonds.

Reserve Fund

The Indenture provides that a Reserve Fund must be maintained in an amount equal to the Reserve Requirement. Upon the issuance of the Bonds, $2,189,250, an amount equal to the initial Reserve Requirement, will be deposited in the Reserve Fund. The Indenture provides that the Reserve Requirement means, as of the date of any calculation, the least of (i) 10% of the original aggregate principal amount of the Bonds, (ii) Maximum Annual Debt Service, and (iii) 125% of Average Annual Debt Service. The Indenture provides that the Trustee shall promptly notify the Agency if the amount on deposit in the Reserve Fund is less than the Reserve Requirement. The Installment Purchase Agreement provides that the Agency must pay to the Trustee such amounts as are required to make available in the Reserve Fund an amount equal to the Reserve Requirement; provided, however, that such payments shall be payable solely from Revenues. In the event that the Trustee notifies the Agency that the amount on deposit in the Reserve Fund is less than the Reserve Requirement, the Installment Purchase Agreement provides that the Agency shall, as provided in the Installment Purchase Agreement, on or before the Business Day immediately preceding the Payment Date (defined below) following such notice, withdraw from the Revenue Fund and transfer to the Trustee, for deposit in the Reserve Fund, the amount, if any, necessary to cause the amount on deposit in the Reserve Fund to be equal to the Reserve Requirement. See "–The Installment Purchase Agreement – Revenue Fund; Allocation of Revenues" below.

If, on any Interest Payment Date, the amount on deposit in the Debt Service Fund is not sufficient to make the transfers required to be made therefrom pursuant to the Indenture, the Indenture provides that the Trustee shall, to the extent that amounts are available therein, transfer from the Reserve Fund and deposit in the Debt Service Fund an amount sufficient to eliminate such deficiency.

If, as a result of the payment of principal of or interest on the Bonds, the Reserve Requirement is reduced, the Indenture provides that the Trustee shall transfer from the Reserve Fund to the Debt Service Fund an amount equal to the amount by which the amount on deposit in the Reserve Fund exceeds the Reserve Requirement. Whenever the balance in the Reserve Fund exceeds the amount required to redeem or pay the Outstanding Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Indenture provides that the Trustee shall, upon receipt of a Written Request of the Authority, transfer the amount in the Reserve Fund to the Debt Service Fund or Redemption Fund, as applicable, to be applied, on the next succeeding Interest Payment Date to the payment and redemption of all of the Outstanding Bonds.

The Indenture provides that whenever Bonds are to be optionally redeemed pursuant to the Indenture, a proportionate share, determined as provided below, of the amount on deposit in the Reserve Fund shall, on the date on which amounts to redeem such Bonds are deposited in the Redemption Fund or otherwise deposited with the Trustee pursuant to the Indenture, be transferred by the Trustee from the Reserve Fund to the Redemption Fund or to such deposit held by the Trustee and shall be applied to the redemption of said Bonds; provided, however, that such amount shall be so transferred only if and to the extent that the amount remaining on deposit in the Reserve Fund will be at least equal to the Reserve Requirement (excluding from the calculation thereof said Bonds to be redeemed). Such proportionate share shall be equal to the largest integral multiple of $5,000 that is not larger than the amount equal to the product of (i) the amount on deposit in the Reserve Fund on the date of such transfer, times (ii) a fraction, the numerator of which is the principal amount of Bonds to be so redeemed and the denominator of which is the principal amount of Bonds to be Outstanding on the day prior to the date on which such Bonds are to be so redeemed.

The Installment Purchase Agreement

Obligation of Agency to Make Installment Payments

Pursuant to the Installment Purchase Agreement, the Agency is obligated to pay to the Authority, from Revenues, on February 25 and August 25 of each year, commencing February 25, 2009 (each a "Payment Date"), the Installment Payments equal to the interest on, or the principal of (including mandatory sinking fund redemptions) and interest on, as applicable, the Bonds due on the immediately following Interest Payment Date. The Installment Purchase Agreement provides that if and to the extent that, on any Payment Date, there are amounts on deposit in the Debt Service Fund held by the Trustee under the Indenture, said amounts shall be credited against the Installment Payment due on such date. The Installment Purchase Agreement provides that each Installment Payment shall be paid to the Trustee, as assignee of the Authority, no later than the applicable Payment Date, in lawful money of the United States of America, in funds which will be available not later than the Business Day following payment.

The Installment Purchase Agreement provides that the obligation of the Agency to make the Installment Payments and other payments required to be made by it under the Installment Purchase Agreement, from Revenues, is absolute and unconditional, and provides that, until such time as the Installment Payments and such other payments shall have been paid in full (or all agreements, covenants and other obligations of the Agency under the Installment Purchase Agreement shall have ceased, terminated and become void and been discharged and satisfied as provided in the Installment Purchase Agreement), the Agency shall not discontinue or suspend any Installment Payments or other payments required to be made by it under the Installment Purchase Agreement when due, whether or not the Project or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part. The Installment Purchase Agreement also provides that such Installment Payments and other payments shall not be subject to reduction whether by offset or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

The obligation of the Agency to make the Installment Payments and other payments required to be made by it under the Installment Purchase Agreement is a special obligation of the Agency, payable in the manner provided in the Installment Purchase Agreement solely from the Revenues and other assets pledged therefor under the Installment Purchase Agreement. Neither the faith and credit nor the taxing power of the Agency or the State, or any political subdivision thereof, is pledged to the payment of the Installment Payments or other payments required to be made by the Agency under the Installment Purchase Agreement.

Pledge of Revenues to Secure Payment of Installment Payments

The Installment Purchase Agreement provides that, subject only to the provisions of the Installment Purchase Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Installment Purchase Agreement, all of the Revenues and any other amounts held in the Revenue Fund are pledged to secure the payment of the Installment Payments in accordance with the provisions of the Installment Purchase Agreement. The Installment Purchase Agreement provides that said pledge shall constitute a first lien on such assets.

The Installment Purchase Agreement defines "Revenues," for any period, as (i) all Assessments received by the Agency during such period, (ii) all Hydroelectric Facility Net Revenues for such period, (iii) all Ad Valorem Taxes received by the Agency during such period, and (iv) all Annexation Fees received by the Agency during such period.

The Installment Purchase Agreement defines "Assessments" as the components of the assessments levied pursuant to the Assessment Ordinance designated therein as the Spillway component and the Diversion component. "Assessment Ordinance" is defined in the Installment Purchase Agreement to mean Ordinance No. 04203, adopted by the Board of Supervisors on July 22, 2003, enacted pursuant to Sections 6, 9, 20, 24 and 24.1 of the Act, as originally adopted, as modified by the stipulated judgment in *Salinas Valley Property Owners for Lawful Assessments, et al. v. County of Monterey, et al.* (Case No. M66890) and as it may from time to time be amended or supplemented. The Assessments are levied on property located in a special benefit zone established by the Agency designated as Zone No. 2C. See "– Sources of Revenues – Assessments" below.

The Installment Purchase Agreement defines "Hydroelectric Facility Net Revenues," for any period, as the *Hydroelectric Facility Revenues for such period, less the Hydroelectric Facility* Maintenance and Operations Costs for such period. Under the Installment Purchase Agreement, "Hydroelectric Facility Revenues," for any period, means all income and revenue received by the Agency during such period from the operation or ownership of the Hydroelectric Facility, determined in accordance with generally accepted accounting principles, including all payments received by the Agency from the sale of electrical energy generated by the Hydroelectric Facility, whether pursuant to the Power Purchase Agreement or otherwise. The Installment Purchase Agreement defines "Hydroelectric Facility Maintenance and Operations Costs," for any period, as the reasonable and necessary costs spent or incurred by the Agency for maintaining, operating, repairing, insuring and administering the Hydroelectric Facility and providing the services of the Hydroelectric Facility, calculated in accordance with generally accepted accounting principles, including, but not limited to (i) all expenses necessary to maintain and preserve the Hydroelectric Facility in good repair and working order, and (ii) all administrative costs allocable to the operation of the Hydroelectric Facility, such as salaries and wages of employees, payments to employee retirement systems, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys or engineers and insurance premiums, but excluding in all cases (a) depreciation, replacement and obsolescence charges or reserves therefor, (b) amortization of intangibles or other bookkeeping entries of a similar nature, and (c) costs of capital additions, replacements, betterments, extensions or improvements to the System, which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation.

The Installment Purchase Agreement defines "Hydroelectric Facility" as the facility for the generation of electrical energy located at Nacimiento Dam, owned and operated by the Agency. The Installment Purchase Agreement defines "Power Purchase Agreement" as (i) the Power Purchase Agreement, dated April 15, 1985, by and between Pacific Gas and Electric Company ("PG&E") and the Flood Control and Water Conservation District (predecessor to the Agency), as amended by the Amendment to the Power Purchase Agreement, dated as of July 16, 2007, by and between PG&E and the Agency, and as it may from time to time be further amended or supplemented in accordance with the terms thereof, and (ii) any other agreement or contract for the sale of electrical energy generated by the Hydroelectric Facility to, and the purchase of such energy by, a Person, as any such agreement or contract may from time to time be amended or supplemented in accordance with the terms thereof. See "–Sources of Revenues – Hydroelectric Facility Revenues" below.

The Installment Purchase Agreement defines "Ad Valorem Taxes," for any period, as the *ad valorem* property taxes received by the Agency during such period pursuant to Article XIIIA of the Constitution of the State and Section 95 *et seq.* of the California Revenue and Taxation Code, excluding any such taxes levied to pay any voter approved general obligation indebtedness of the Agency. See "– Sources of Revenues – Ad Valorem Taxes" below.

The Installment Purchase Agreement defines "Annexation Fees" as annexation fees imposed in connection with one or more parcels of property being annexed into a zone or zones, the parcels of property in which are subject to Assessments. The Act and the Assessment Ordinance authorize the Agency to annex territory within the Agency's boundaries into Zone No. 2C, the special benefit zone established by the Agency, the parcels of property in which are subject to Assessments, and provide for the payment of a fee by the owners of the territory to be annexed for the acquisition, transfer, use or right of use of all or any part of the existing property of the benefit zone. Whenever any new territory is annexed into a zone, such territory thereupon becomes subject to all the liabilities and entitled to all the benefits of the zone. The Agency cannot predict when or if any additional territory will be annexed into Zone No. 2C and, therefore, whether it will collect any Annexation Fees.

Revenue Fund; Allocation of Revenues

In order to carry out and effectuate the pledge and lien in the Installment Purchase Agreement, the Agency has agreed and covenanted that all Revenues received by the Agency shall be deposited as and when received in a special fund designated as the Revenue Fund, which fund the Agency has agreed and covenanted to establish and maintain within its treasury. The Installment Purchase Agreement provides that moneys in the Revenue Fund shall be applied by the Agency as follows:

(i). On or before the Business Day immediately preceding each Payment Date, the Agency shall withdraw from the Revenue Fund and transfer to the Trustee the amounts set forth below in the following order of priority:

(a) the Agency shall transfer to the Trustee, for deposit in the Debt Service Fund, an amount equal to the Installment Payment due and payable on such Payment Date; and

(b) the Agency shall transfer to the Trustee, for deposit in the Reserve Fund, the amount, if any, necessary to cause the amount on deposit in the Reserve Fund to be equal to the Reserve Requirement.

(ii) In each Bond Year, on the Business Day immediately following the date in such Bond Year on which the amount previously transferred by the Agency to the Trustee pursuant to paragraph (i), above is at least equal to the sum of (a) the aggregate amount of the Installment Payments payable in such Bond Year, plus (b) the amount, if any, necessary to cause the amount on deposit in the Reserve Fund to be equal to the Reserve Requirement (A) the Agency shall withdraw from the Revenue Fund and transfer to such funds or accounts of the Agency as the Agency shall determine, any amount then remaining on deposit in the Revenue Fund, and (B) from and including such date to and including the September 1 that constitutes the last day of such Bond Year, the Agency shall not be required to deposit Revenues received by the Agency in the Revenue Fund.

The Installment Purchase Agreement provides that moneys in the Revenue Fund may be invested by the Agency in Permitted Investments. The Installment Purchase Agreement provides that the obligations in which moneys in the Revenue Fund are invested shall mature prior to the date on which such moneys are estimated to be required to be paid out under the Installment Purchase Agreement and that any interest, income or profits from the investment of moneys in the Revenue Fund shall be retained in the Revenue Fund.

The Agency covenants in the Installment Purchase Agreement not to encumber, pledge or place any charge upon the Revenues that would impair the Agency's ability to comply with its obligations under the Installment Purchase Agreement, and covenants to pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on Revenues or any part thereof or on any funds in the hands of the Agency or the Trustee which might impair the security of the Installment Payments; provided, however, that the Installment Purchase Agreement does not require the Agency to pay such claims if the validity thereof is contested in good faith (if such nonpayment will not materially adversely affect the Agency's ability to perform its obligations under the Installment Purchase Agreement).

Special Obligation of the Agency

The obligation of the Agency to make the Installment Payments and other payments required to be made by it under the Installment Purchase Agreement is a special obligation of the Agency, payable in the manner provided in the Installment Purchase Agreement solely from the Revenues and other assets pledged therefor under the Installment Purchase Agreement. Neither the faith and credit nor the taxing power of the Agency or the State, or any political subdivision thereof, is pledged to the payment of the Installment Payments or other payments required to be made by the Agency under the Installment Purchase Agreement.

Additional Obligations of the Agency

The Installment Purchase Agreement provides that the Agency shall not incur any obligations payable from Revenues on a basis senior to or on a parity with the payment of the Installment Payments and payments to replenish the Reserve Fund as provided in the Installment Purchase Agreement. The Installment Purchase Agreement provides that the Agency may from time to time incur obligations payable from Revenues on a basis subordinate to the payment therefrom of the Installment Payments and payments to replenish the Reserve Fund as provided in the Installment Purchase Agreement.

Principal Sources of Revenues

The principal sources of Revenues for the Agency available to pay the Installment Payments are (i) Assessments on real property located in the Agency's Zone No. 2C received by the Agency, (ii) Hydroelectric Facility Net Revenues received by the Agency, and (iii) Ad Valorem Taxes received by the Agency. These sources of Revenue are discussed below. Additional sources of Revenues consist of Annexation Fees imposed by the Agency in connection with one or more parcels of property being annexed into a zone or zones, the parcels of property in which are subject to Assessments. See also "– The Installment Purchase Agreement – Pledge of Revenues to Secure Payment of Installment Payments" above.

Assessments

Under the Act, the Agency is empowered to levy assessments on real property within specified zones of the Agency to pay the costs and expenses of constructing and operating works or improvements established within or on behalf of such zones according to the benefits derived or to be derived by such zones. Pursuant to the Act, assessments are levied and collected together with taxes for County purposes.

On July 22, 2003, pursuant to the Assessment Ordinance, and in accordance with the Act, Article XIIID of the Constitution of the State of California and the Proposition 218 Omnibus Implementation Act (Statutes of 1997, Chapter 38), the Agency created a benefit zone ("Zone No. 2C") and established certain assessments within such zone for purposes of funding the operation and maintenance costs of the Nacimiento and San Antonio dams and reservoirs and the cost of the acquisition, construction and installation of the Salinas River Diversion Facility Project and the Nacimiento Dam Spillway Modifications Project (collectively, the "Salinas Valley Water Project"). The area covered by Zone No. 2C, consisting of approximately 436,000 assessable acres, lies generally in the Salinas River basin from Monterey Bay to just south of San Ardo. Most of this land is agricultural, with the principal exception of the City of Salinas, which has a population of approximately 150,000.

The assessments consists of four separate components for (i) the operation and maintenance of the Nacimiento and San Antonio dams and reservoirs, (ii) the acquisition, construction and installation of the Salinas River Diversion Facility Project, (iii) the acquisition, construction and installation of the Nacimiento Dam Spillway Modifications Project, and (iv) the cost of administering the assessments. The Assessments pledged to the payment of the Installment Payments due under the Installment Purchase Agreement consist solely of two of these components: (i) those levied to fund the acquisition, construction and installation of the Salinas River Diversion Facility Project and (ii) those levied to fund the acquisition, construction and installation of the Nacimiento Dam Spillway Modifications Project. The Agency has not pledged the component related to the operation and maintenance of the Nacimiento and San Antonio dams and reservoirs or the component related to the cost of administering the assessments.

The Act and Article XIIID of the State Constitution require that individual assessments assigned to the property within Zone No. 2C be based on the special benefit such properties receive from the Salinas Valley Water Project. As a result, Zone No. 2C is divided into seven hydrologic sub-areas according to the benefits each sub-area derives from the Salinas Valley Water Project. The seven sub-areas are: (i) Extended Upper Valley Above Dam; (ii) Extended Upper Valley Below Dam; (iii) Upper Valley; (iv) Forebay; (v) Pressure; (vi) East Side; and (vii) Arroyo Seco. In addition, to further refine the benefits derived, the types of parcels found in each of the sub-areas are separated into four categories: (i) Type "A" parcels consist of irrigated agriculture, residential properties (with 1-4 units), apartment buildings (with over 4 units), commercial properties, institutional land and industrial land; (ii) Type "C" parcels consist of dry farming land, grazing land and vacant lots; (iii) Type "D" parcels consist of river channels and lands with frequent flooding; and (iv) Type "I" parcels consist of land receiving no charge and are not subject to assessments.

Raines, Melton & Carella, Inc., San Jose, California (the "Assessment Engineer") prepared a written report (the "Engineer's Report") which contains, among other things, the assessment methodology and proposed assessment rates for each of the four parcel categories within each of the seven sub-areas within Zone No. 2C. The Engineer's Report was filed and approved by the Agency on January 14, 2003, and was the basis for the establishment of the Zone No. 2C assessments under the Assessment Ordinance on July 22, 2003. Subsequent to the adoption of the Assessment Ordinance, several property owners owning parcels within Zone No. 2C, in *Salinas Valley Property Owners for Lawful Assessments, et al. v. County of Monterey, et al.* (Case No. M66890), challenged the assessments levied under the Assessment Ordinance and, on March 9, 2006, a stipulated judgment was agreed to by the plaintiffs and defendants, including the Agency, and entered by the court, eliminating assessments on certain parcels within Zone No. 2C, reducing assessments on certain categories of property within certain sub-areas within Zone No. 2C, and validating the Assessment Ordinance in all other respects, including the imposition of assessments under the Assessment Ordinance on all other lands within Zone No. 2C.

<u>Fiscal Year 2007-08 Assessments</u>. The Assessments for fiscal year 2007-08 are listed in the following table on a charge per acre basis. As shown below, not all sub-areas are benefited by the Salinas River Diversion Facility Project and, therefore, not all sub-areas are subject to the assessments to fund such project. Although the assessment rates are fixed for each type of property within each sub-area, a parcel's use may change from time to time.

Table 1
Monterey County Water Resources Agency
Fiscal Year 2007-08
Zone No. 2C Assessments

Sub-Area	Property Category[1]	Spillway Modification Project[2][3]	Diversion Facility Project[2][3]	No. of Acres in Sub-area	No. of Parcels in Sub-area[4]	Total Assessments
Extended Upper Valley Above Dam	A	$1.82	$ -	-	-	$ -
	C	0.18	-	300	1	54.00
	D	0.01	-	-	-	-
	I	-	-	-	5	-
			Subtotal	**300**	**6**	**54.00**
Extended Upper Valley Below Dam	A	1.28	-	691	54	884.48
	C	0.12	-	6,048	57	725.76
	D	0.01	-	192	7	1.92
	I	-	-	0	12	-
			Subtotal	**6,931**	**130**	**1,612.16**
Upper Valley	A	1.05	-	62,340	3,375	65,457.00
	C	0.10	-	30,180	1,001	3,018.00
	D	0.01	-	6,073	66	60.73
	I	-	-	0	15	-
			Subtotal	**98,593**	**4,457**	**68,535.73**
Forebay	A	1.14	-	43,313	6,770	49,376.82
	C	0.11	-	9,983	629	1,098.13
	D	0.01	-	2,838	34	28.38
	I	-	-	-	26	-
			Subtotal	**56,134**	**7,459**	**50,503.33**
Pressure	A	2.88	6.19	59,886	24,957	543,166.02
	C	0.29	0.61	20,181	1,363	18,162.90
	D	0.02	0.06	1,915	53	153.20
	I	-	-	-	228	-
			Subtotal	**81,982**	**26,601**	**561,482.12**
East Side	A	2.19	5.16	51,681	22,598	376,982.37
	C	0.21	0.52	24,663	3,478	13,318.02
	D	0.02	0.05	257	15	12.85
	I	-	-	-	43	-
			Subtotal	**76,601**	**26,134**	**390,313.24**
Arroyo Seco	A	0.05	-	19,904	872	969.80
	C	0.04	-	4,748	204	189.92
	D	0.01	-	874	17	8.74
	I	-	-	-	2	-
			Subtotal	**25,526**	**1,095**	**1,168.46**
Adjusted Assessments[5]				**14,950**	**131**	**25,898.00**
			TOTAL	**361,017**	**66,013**	**$1,099,567.04**

[1] The types of parcels found in each of the sub-areas are separated into four categories: (i) type "A" parcels consist of irrigated agriculture, residential properties (with 1-4 units), apartment buildings (with over 4 units), commercial properties, institutional land, and industrial land; (ii) type "C" parcels consist of dry farming land, grazing land, and vacant lots; (iii) type "D" parcels consist of river channels and lands with frequent flooding; and (iv) type "I" parcels consist of land receiving no charge and are not subject to assessments.

[2] Excludes assessments for operations and maintenance of the Nacimiento and San Antonio dams and reservoirs and the costs of administering the assessments which are not pledged to the payment of the Installment Payments due under the Installment Purchase Agreement.

[3] Assessments are levied on a per acre basis. Parcels less that one-eighth acre in size in each are assessed at the rate for one-eighth acre.

[4] Parcels with more than one property category are counted more than once. There are a total of 65,936 parcels within Zone No. 2C.

[5] Subsequent to the adoption of the Assessment Ordinance, several property owners owning parcels within Zone No. 2C, in *Salinas Valley Property Owners for Lawful Assessments, et al. v. County of Monterey, et al.* (Case No. M66890), challenged the assessments levied under the Assessment Ordinance and, on March 9, 2006, a stipulated judgment was agreed to by the plaintiffs and defendants, including the Agency, and entered by the court, eliminating assessments on certain parcels within Zone No. 2C, reducing assessments on certain categories of property within certain sub-areas within Zone No. 2C, and validating the Assessment Ordinance in all other respects, including the imposition of assessments under the Assessment Ordinance on all other lands within Zone No. 2C. The amount indicated reflects the adjusted Assessments as a result of the stipulated judgment.

Source: The Agency.

Historical Assessment Revenue. The following table provides a summary of total Assessments levied and the amount of Assessments collected through June 30 for fiscal years 2003-04 through fiscal year 2007-08.

Table 2
Monterey County Water Resources Agency
Zone 2C
Historical Assessment Revenues
Fiscal Year 2003-04 through Fiscal Year 2007-08

Fiscal Year	Total Assessment Levy(1)(2)	Assessments Collected Through June 30(3)(4)
2003-04	$1,198,708.00	$1,156,992
2004-05	1,258,763.00	1,199,361
2005-06	1,186,828.00	1,164,893
2006-07	1,102,120.00	1,090,468
2007-08	1,099,633.00	1,088,770(4)

(1) Assessments were fist approved and collected in fiscal year 2003-04.
(2) Includes the components levied to fund the acquisition, construction and installation of the Salinas River Diversion Facility Project and the acquisition, construction and installation of the Nacimiento Dam Spillway Modifications Project. Excludes assessments for operations and maintenance of the Nacimiento and San Antonio dams and reservoirs and the costs of administering the assessments which are not pledged to the payment of the Installment Payments due under the Installment Purchase Agreement.
(3) The Agency accounts for the collection of Assessments on a cash basis. Therefore, collected Assessments include any receipts of previously delinquent Assessments actually collected and any penalties in the fiscal year indicated.
(4) Fiscal year 2007-08 amount constitutes estimated year end results.
Source: The Agency.

Largest Assessees. The ten property owners paying the most Assessments within Zone No. 2C in fiscal year 2007-08 are shown in the table below.

Table 3
Monterey County Water Resources Agency
Fiscal Year 2007-08
Zone No. 2C Top Ten Assessees

Property Owner	2007-08 Assessments(1)
1. Garcia Family Partnership	$ 8,670.57
2. Imperial Council Mystic Shrine	7,963.12
3. Broome John S Tr	7,562.48
4. Pedersen Alan G. & Jean R. Peders	7,362.33
5. Merrill Farms	7,333.49
6. M & E Partnership LP The	6,359.41
7. San Bernabe Vineyards LLC	5,783.50
8. Yuki Thomas M, et al.	5,707.89
9. Secondo Mateo Tr, et al.	4,492.32
10. Romie Family Limited Partnership	4,152.92
Total	**$65,388.03**

(1) Excludes assessments for operations and maintenance of the Nacimiento and San Antonio dams and reservoirs and the costs of administering the assessments which are not pledged to the payment of the Installment Payments due under the Installment Purchase Agreement.
Source: The Agency.

Under the Installment Purchase Agreement, the Agency covenants to, in accordance with the Act and the Assessment Ordinance, levy the annual Assessments and collect and enforce, or cause the collection and enforcement of, such Assessments. The Installment Purchase Agreement provides that, prior to August 1 of each year, the Agency shall ascertain from the Monterey County Assessor the relevant parcels on which the Assessments are to be levied, taking into account any parcel splits during the preceding and then current year. The Installment Purchase Agreement provides further that the Agency shall effect the levy of the Assessments each fiscal year in accordance with the Assessment Ordinance by each August 10, or otherwise such that the computation of the levy is complete before the final date on which the Monterey County Auditor will accept the transmission of the Assessment amounts for inclusion on the next real property tax roll. Upon the completion of the computation of the amounts of the levy, the Installment Purchase Agreement provides that the Agency shall prepare or cause to be prepared, and shall transmit to the Monterey County Auditor, such data as said Auditor requires to include the levy of the Assessments on the next real property tax roll.

The Agency agrees in the Installment Purchase Agreement that it will not rescind the Assessment Ordinance and that it will not amend or supplement the Assessment Ordinance so as to reduce the amount of the Assessments levied thereunder or to reduce the amount of land subject thereto, and covenants not to amend or supplement the Assessment Ordinance for any other purpose unless the Board of Supervisors of the Agency determines by resolution that such amendment or supplement would not materially adversely affect the ability of the Agency to pay the Installment Payments or other payments required to be made by it under the Installment Purchase Agreement, or to perform and observe all of its covenants under the Installment Purchase Agreement.

Hydroelectric Facility Net Revenues

The Installment Purchase Agreement defines "Hydroelectric Facility Net Revenues," for any period, as the Hydroelectric Facility Revenues for such period, less the Hydroelectric Facility Maintenance and Operations Costs for such period. Under the Installment Purchase Agreement, "Hydroelectric Facility Revenues," for any period, means all income and revenue received by the Agency during such period from the operation or ownership of the Hydroelectric Facility, determined in accordance with generally accepted accounting principles, including all payments received by the Agency from the sale of electrical energy generated by the Hydroelectric Facility, whether pursuant to the Power Purchase Agreement or otherwise. The Installment Purchase Agreement defines "Hydroelectric Facility Maintenance and Operations Costs," for any period, as the reasonable and necessary costs spent or incurred by the Agency for maintaining, operating, repairing, insuring and administering the Hydroelectric Facility and providing the services of the Hydroelectric Facility, calculated in accordance with generally accepted accounting principles, including, but not limited to (i) all expenses necessary to maintain and preserve the Hydroelectric Facility in good repair and working order, and (ii) all administrative costs allocable to the operation of the Hydroelectric Facility, such as salaries and wages of employees, payments to employee retirement systems, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys or engineers and insurance premiums, but excluding in all cases (a) depreciation, replacement and obsolescence charges or reserves therefor, (b) amortization of intangibles or other bookkeeping entries of a similar nature, and (c) costs of capital additions, replacements, betterments, extensions or improvements to the System, which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation

The Hydroelectric Facility. The Hydroelectric Facility is physically part of the Nacimiento Dam facility and its design purpose is to generate 4.351 megawatts (MW) of power. The Hydroelectric Facility includes two turbine driven generators (the capacity of the larger unit is 3.976 MW and the capacity of the smaller unit is 0.375 MW), a 4.16 kilovolt (kV) switchgear, a control and protection system, a main power transformer, switchyard equipment, other appurtenant equipment and the powerhouse. Construction of the Hydroelectric Facility was completed in 1987. The remaining useful life of the Hydroelectric Facility is estimated by the Agency to be approximately 50 years.

PG&E Agreement. On April 15, 1985, PG&E and the Flood Control and Water Conservation District (predecessor to the Agency) entered into a power purchase agreement (the "PG&E Agreement") for the purchase and sale of electric energy generated by the Hydroelectric Facility. The PG&E Agreement was set to expire on July 13, 2007.

On January 26, 2004, the California Public Utilities Commission (the "CPUC") issued Decision 04-01-050 (the "Decision"), in which it ordered investor owned utilities (the "IOU"s), of which PG&E was one, to offer five-year Standard Offer 1 (the "SO1") contracts at short-run avoided cost prices to qualifying facilities (the "QFs") with expiring power purchase agreements, of which the Hydroelectric Facility was one. QFs generally consist of cogeneration facilities or certain small power production facilities. The Decision provides that the "five-year SO1 contracts must include a 'provision that the pricing terms may change if the Commission subsequently modifies its policy on QF pricing methodology.'" On December 5, 2005, the CPUC, in Decision 05-12-009, directed the IOUs to continue purchasing power pursuant to a five-year SO1 contract from any QF with a contract set to expire after January 1, 2006, and before the CPUC's issuance of a final decision in the combined dockets. The pricing terms of these SO1 contracts must be modified to reflect the CPUC's revised QF pricing policy.

Due to these decisions by the CPUC, PG&E and the Agency entered into an Agreement to modify the PG&E Agreement effective July 14, 2007 through July 13, 2012 (the "Amendment"). Under the Amendment, PG&E will purchase and accept delivery of the Agency's net energy output from the Hydroelectric Facility and PG&E shall pay the Agency for energy deliveries at prices equal to PG&E's short-run avoided cost (the "SRAC"), according to the methodology that is approved and may be revised from time to time by the CPUC for payments to QFs. SRACs generally consist of costs approved by the CPUC which are the basis of PG&E's published energy prices. Under the Amendment, the Agency has the right to terminate the PG&E Agreement, upon providing PG&E with 30 days prior written notice, without any penalties or remaining obligations for either PG&E or the Agency, other than any payment obligations under the Amendment.

Under the Amendment, PG&E reserves its right to seek reimbursement of payments made under the PG&E Agreement to the extent that such payments are determined by the CPUC, a court, or other governmental entity to exceed PG&E's avoided costs (as defined in the Public Utility Regulatory Policies Act of 1978, 16 U.S.C. § 824a-3, and following). The Agency reserves any right that it may have to challenge and oppose PG&E's efforts to seek reimbursement of payments made under this Amendment.

The PG&E Agreement, as modified by the Amendment, is set to expire on July 13, 2012. However, given the current demand for renewable energy sources, the Agency expects to be able to extend the PG&E Agreement or enter into a new agreement for the purchase and sale of electric energy generated by the Hydroelectric Facility. The Agency cannot predict whether the terms of any such extension or new agreement will be more or less favorable to the Agency.

Historical Hydroelectric Facility Net Revenues. The Hydroelectric Facility Net Revenues for the period from fiscal year 1997-98 through fiscal year 2007-08 are set forth in the following table. The variability in kilowatt hours and Hydroelectric Facility Net Revenues is primarily due to changing hydrologic conditions from year to year.

Table 4
Monterey County Water Resources Agency
Historical Hydroelectric Facility Net Revenues
Fiscal Year 1997-98 through Fiscal Year 2007-08

Fiscal Year	Kilowatt Hours[1]	Hydroelectric Facility Revenues[1]	Hydroelectric Facility Maintenance and Operations Costs[1]	Hydroelectric Facility Net Revenues[1]
1997-98	9,767,572	$ 645,190	$155,998	$ 489,192
1998-99	16,363,774	831,813	119,948	711,865
1999-00	15,725,553	905,289	135,944	769,345
2000-01	15,547,917	1,539,019	179,306	1,359,713
2001-02	15,423,731	928,983	175,072	753,911
2002-03	12,025,022	866,644	244,163	622,481
2003-04	11,747,282	913,405	258,902	654,503
2004-05	14,203,640	1,224,641	179,694	1,044,947
2005-06	16,941,948	1,790,886	341,286	1,449,600
2006-07	17,863,341	1,653,476	308,203	1,345,273
2007-08[2]	13,138,366	1,180,157	223,477	956,680

(1) Prior to fiscal year 2006-07 the Agency accounted for operations of the Hydroelectric Facility based on a year ending May 31 even though the Agency's fiscal year ended June 30. The Agency changed this practice in fiscal year 2006-07. All amounts for fiscal year 2006-07 and prior fiscal years have been restated to reflect twelve month periods ending June 30.
(2) Fiscal year 2007-2008 amounts constitute estimated year end results.
Source: The Agency.

Covenants with respect to Hydroelectric Facility. The Agency covenants in the Installment Purchase Agreement that it will maintain and preserve the Hydroelectric Facility in good repair and working order at all times and will operate the Hydroelectric Facility in an efficient and economical manner and will pay all operation and maintenance costs of the Hydroelectric Facility as they become due and payable, but the Installment Purchase Agreement provides that the Agency will not be required to pay such operation and maintenance costs if the validity thereof shall be contested in good faith (so long as such nonpayment will not materially adversely affect the Agency's ability to perform its obligations under the Installment Purchase Agreement).

The Agency covenants in the Installment Purchase Agreement that it will procure and maintain or cause to be procured and maintained casualty insurance on the Hydroelectric Facility with responsible insurers, or provide self insurance (which may be provided in the form of risk-sharing pools), in such amounts and against such risks (including accident to or destruction of the Hydroelectric Facility) as are usually covered in connection with hydroelectric generation facilities similar to the Hydroelectric Facility. Under the Installment Purchase Agreement, in the event of any damage to or destruction of the Hydroelectric Facility caused by the perils covered by such insurance or self insurance, the net proceeds thereof must be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Hydroelectric Facility. The Installment Purchase Agreement provides that the Agency must begin such reconstruction, repair or replacement promptly after such damage or destruction occurs, and must continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and must pay out of such net proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same shall be completed and the Hydroelectric Facility shall be free and clear of all claims and liens, unless the Agency determines that such property or facility is not necessary to the efficient or proper operation of the Hydroelectric Facility and that the failure to reconstruct, repair or replace such portion of the Hydroelectric Facility will not have a material adverse effect on the amount of Hydroelectric Facility Net Revenues. The Agency is not required under the Installment Purchase Agreement to, and it does not currently, maintain earthquake or flood insurance.

The Agency covenants in the Installment Purchase Agreement that it will not sell, lease or otherwise dispose of the Hydroelectric Facility or any part thereof essential to the proper operation of the Hydroelectric Facility or to the maintenance of Hydroelectric Facility Revenues; provided, however, that the Installment Purchase Agreement provides that any real or personal property which has become non-operative or which is not needed for the efficient and proper operation of the Hydroelectric Facility, or any material or equipment which has become worn out, may be sold if such sale will not materially reduce Hydroelectric Facility Revenues.

The Agency covenants in the Installment Purchase Agreement to receive and collect the Hydroelectric Facility Revenues as provided in the Installment Purchase Agreement and to apply the Hydroelectric Facility Net Revenues as provided in the Installment Purchase Agreement. See "–The Installment Purchase Agreement–Revenue Fund; Allocation of Revenues" above. The Agency covenants in the Installment Purchase Agreement that it will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in a Power Purchase Agreement and all other contracts affecting or involving the Hydroelectric Facility Revenues to the extent that the Agency is a party thereto. The Agency covenants in the Installment Purchase Agreement not to (i) rescind or terminate, or consent to the rescission or termination of, a Power Purchase Agreement, (ii) enter into an amendment or supplement to a Power Purchase Agreement, or consent to any such amendment or supplement, or (iii) waive any material term of a Power Purchase Agreement unless the Board of Supervisors determines by resolution that such rescission, termination, amendment, supplement or waiver would not materially adversely affect the ability of the Agency to pay the Installment Payments or other payments required to be made by it under the Installment Purchase Agreement, or to perform and observe all of its covenants under the Installment Purchase Agreement. The Agency also covenants in the Installment Purchase Agreement that it will cause each other party to a Power Purchase Agreement to comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by such person in such Power Purchase Agreement.

Ad Valorem Taxes

General. Article XIIIA of the California Constitution, approved by voters in 1978 as Proposition 13 ("Proposition 13"), altered the method by which *ad valorem* taxes are levied and collected in the territory of the Agency (and throughout California), mandating that the *ad valorem* taxes are "to be collected by the counties and apportioned according to law to the districts within the counties." Prior to the enactment of Article XIIIA, the Agency's predecessor itself levied and collected separate *ad valorem* taxes in the territory of the Agency as a whole and in various zones under the authority of the Monterey County Flood Control and Water Conservation District Act. However, as a result of the enactment of Article XIIIA, the Agency's predecessor no longer had, and the Agency does not have, the power to levy and collect *ad valorem* taxes in the territory of the Agency. Rather, California Revenue and Taxation Code Section 93 and Section 95 *et seq.* provide the statutory scheme by which the County levies, collects and allocates *ad valorem* taxes to the Agency and each zone thereof. As a result, each of such zones receives a share of the 1% countywide tax levied in such zone based on the actual allocation of property tax revenues to each taxing jurisdiction in the county with territory in such zone in fiscal year 1978-79, as adjusted according to Section 95 *et seq.* of the California Revenue and Taxation Code. Revenues derived from special *ad valorem* taxes for voter-approved indebtedness are reserved to the taxing jurisdiction that approved and issued the debt, and may only be used to repay that debt. See also "LIMITATIONS ON TAXES AND APPROPRIATIONS – Article XIIIA of the California Constitution."

Prior to the enactment of Article XIIIA, the Agency's predecessor established a County-Wide Zone, Zone No. 1, Zone No. 2, Zone No. 2A, Zone No. 3, Zone No. 5, Zone No. 6, Zone No. 7, Zone No. 8, Zone No. 9, Zone No. 11, Zone No. 12, Zone No. 14, Zone No. 15 and Storm Maintenance District No. 2, and levied and collected separate *ad valorem* taxes in such zones. As discussed above, each of such zones receives a share of the 1% countywide tax based on the actual allocation of property tax revenues to each taxing jurisdiction in the county in fiscal year 1978-79, as adjusted according to Section 95 *et seq.* of the California Revenue and Taxation Code. Future assessed valuation growth allowed under Article XIIIA (as a result of new construction, certain changes of ownership, and increases in the cost of living of up to 2% per year) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies will share the growth of "base" revenues from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year. The availability of revenue from growth in an agency tax base is affected by the existence or establishment of redevelopment agencies which, under certain circumstances, may be entitled to such revenues.

Assessed Valuations. All property (real, personal and intangible) is taxable unless an exemption is granted by the California Constitution or United States law. Under the State Constitution, exempt classes of property include household and personal effects, intangible personal property (such as bank accounts, stocks and bonds), business inventories, and property used for religious, hospital, scientific and charitable purposes. The State Legislature may create additional exemptions for personal property, but not for real property. Most taxable property is assessed by the assessor of the county in which the property is located. Some special classes of property are assessed by the State Board of Equalization, as described below.

Taxes are levied for each fiscal year on taxable real and personal property assessed as of the preceding January 1, at which time the lien attaches. The assessed value is required to be adjusted during the course of the year when property changes ownership or new construction is completed. State law also affords an appeal procedure to taxpayers who disagree with the assessed value of any property. When necessitated by changes in assessed value during the course of a year, a supplemental assessment is prepared so that taxes can be levied on the new assessed value before the next regular assessment roll is completed.

Under the Constitution, the State Board of Equalization assesses property of State-regulated transportation and communications utilities, including railways, telephone and telegraph companies, and companies transmitting or selling gas or electricity. The Board of Equalization also is required to assess pipelines, flumes, canals and aqueducts lying within two or more counties. The value of property assessed by the Board of Equalization is allocated by a formula to local jurisdictions in the county, and taxed by the local county tax officials in the same manner as for locally assessed property. Taxes on privately owned railway cars, however, are levied and collected directly by the Board of Equalization. Property used in the generation of electricity by a company that does not also transmit or sell that electricity is taxed locally instead of by the Board of Equalization. Thus, the reorganization of regulated utilities and the transfer of electricity-generating property to non-utility companies, as often occurred under electric power deregulation in California, affects how those assets are assessed, and which local agencies benefit from the property taxes derived. In general, the transfer of State-assessed property located in one of the Agency's zones to non-utility companies will increase the assessed value of property in such zone, since the property's value will no longer be divided among all taxing jurisdictions in the

County. The transfer of property located and taxed in one of the Agency's zones to a State-assessed utility will have the opposite effect: generally reducing the assessed value in such zone, as the value is shared among the other jurisdictions in the County. The Agency is unable to predict future transfers of State-assessed property in the Agency's zones and the County, the impact of such transfers on its utility property tax revenues, or whether future legislation or litigation may affect ownership of utility assets, the State's methods of assessing utility property, or the method by which tax revenues of utility property is allocated to local taxing agencies.

Locally taxed property is classified either as "secured" or "unsecured," and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed property and property (real or personal) for which there is a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. All other property is "unsecured," and is assessed on the "unsecured roll." Secured property assessed by the State Board of Equalization is commonly identified for taxation purposes as "utility" property.

Under California law, a city or the County can create a redevelopment agency in territory of the Agency. Upon formation of a "project area" of a redevelopment agency, all property tax revenues attributable to the growth in assessed value of taxable property within the project area (known as "tax increment") belong to the redevelopment agency, causing a loss of tax revenues to other local taxing agencies from that time forward.

Shown in the following tables is the assessed valuation of the various classes of property within the territory of the Agency in recent years.

Table 5
Monterey County Water Resources Agency
Assessed Valuations
Fiscal Years 1998-99 through 2007-08

Fiscal Year	Local Secured	Non-Unitary Utility	Unsecured	Total Before Rdv. Increment	Total After Rdv. Increment	Unitary Utility Valuation
1998-99	$21,783,788,852	$ 33,230,178	$1,174,092,534	$22,991,111,564	$21,385,367,530	$898,606,018
1999-00	23,771,276,804	24,646,658	1,250,051,410	25,045,974,872	23,337,282,694	597,842,063
2000-01	25,998,658,964	28,474,752	1,326,643,719	27,353,777,435	25,539,458,118	562,000,880
2001-02	28,993,637,984	29,995,785	1,382,973,705	30,406,607,474	28,389,083,758	549,991,098
2002-03	31,829,779,226	30,138,927	1,571,613,376	33,431,531,529	31,203,649,071	576,323,707
2003-04	33,135,162,580	1,023,187,728	1,600,427,015	35,758,777,323	33,264,690,671	496,287,116
2004-05	35,979,699,283	802,068,666	1,638,775,976	38,420,543,925	35,648,157,741	491,306,128
2005-06	40,019,487,123	766,071,015	1,766,099,389	42,551,657,527	39,264,990,431	517,783,272
2006-07	44,791,304,920	723,160,918	1,900,450,107	47,414,915,945	43,507,598,541	501,712,888
2007-08	48,646,781,445	693,671,435	1,943,801,446	51,284,254,326	46,813,372,451	559,940,483

Source: California Municipal Statistics, Inc.

Assessed Valuation and Parcels by Land Use. The following table gives a distribution of taxable property located within the territory of the Agency on the 2007-08 tax roll by principal purpose for which the land is used, and the assessed valuation and number of parcels for each use.

Table 6
Monterey County Water Resources Agency
Assessed Valuation and Parcels by Land Use

Non-Residential:	2007-08 Assessed Valuation[1]	% of Total	No. of Parcels	% of Total
Agricultural/Vineyards/Rural	$ 3,006,929,724	6.09%	6,822	5.39%
Commercial	5,636,221,626	11.42	4,611	3.64
Vacant Commercial	169,971,217	0.34	859	0.68
Professional/Office	132,604,374	0.27	201	0.16
Industrial/Food Processing	1,998,187,564	4.05	866	0.68
Vacant Industrial	79,988,523	0.16	369	0.29
Recreational/Golf Course	747,784,477	1.52	248	0.20
Government/Social/Institutional	182,923,424	0.37	544	0.43
Power Plant/Utility Roll	693,671,435	1.41	54	0.04
Miscellaneous/Water Companies	413,655,642	0.84	4,777	3.78
Subtotal Non-Residential	$13,061,938,006	26.47%	19,351	15.29%
Residential:				
Single Family Residence	$30,289,188,705	61.39%	74,271	58.69%
Condominium/Townhouse	1,923,527,805	3.90	6,816	5.39
Timeshare Use	35,631,341	0.07	6,347	5.02
Mobile Home	78,447,836	0.16	610	0.48
Mobile Home Park	54,851,160	0.11	32	0.03
2-4 Residential Units/Apartments	878,932,915	1.78	3,501	2.77
5+ Residential Units/Apartments	1,679,694,865	3.40	1,761	1.39
Vacant Residential	1,338,240,247	2.71	13,853	10.95
Subtotal Residential	$49,340,452,880	73.53%	107,191	84.71%
TOTAL	$49,340,452,880	100.00%	126,542	100.00%

(1) Local Secured and Utility Assessed Valuation; excluding tax-exempt property.
Source: California Municipal Statistics, Inc.

Largest Taxpayers. The ten taxpayers with the greatest combined ownership of taxable property within the territory of the Agency on the 2007-08 tax roll, and the assessed valuation of all property owned by those taxpayers within the entire territory of the Agency, are shown in the table below.

Table 7
Monterey County Water Resources Agency
Ten Largest
Fiscal Year 2007-08 Local Secured Taxpayers

	Property Owner	Primary Land Use	2007-08 Assessed Value	Percent of Total[1]
1.	LSP Moss Landing LLC	Power Plant	$ 680,100,000	1.38%
2.	Pebble Beach Company	Hotel & Golf	737,756,528	1.50
3.	Texaco Inc.	Oil & Gas Production	197,198,380	0.40
4.	Northridge Fashion Center LLC	Shopping Center	140,302,305	0.28
5.	California-American Water Co.	Water Company	110,231,498	0.22
6.	Monterey Kimberly Place LLLP	Apartments	103,929,000	0.21
7.	Aera Energy LLC	Oil & Gas Production	99,195,335	0.20
8.	Pacific Oceanside Holdings LP	Shopping Center	97,529,761	0.20
9.	Canada Woods LLC	Golf Course	96,047,531	0.19
10.	D'Arrigo Bros. Co.	Agricultural/Food Processing	88,854,006	0.18
			$2,351,144,344	4.76%

[1] 2007-08 local secured and non-unitary utility assessed valuation: $49,340,452,880
Source: California Municipal Statistics, Inc.

Typical Tax Rate Areas. The State Constitution permits the levy of an *ad valorem* tax on taxable property not to exceed 1% of the full cash value of the property, and State law requires the full 1% tax to be levied. The levy of special *ad valorem* property taxes in excess of the 1% levy is permitted as necessary to provide for debt service payments on voter-approved indebtedness. The *ad valorem* property tax rates for the last five years ranged from 1.01800% to 1.07614% in typical tax rate areas ("TRA") 1-000 (City of Carmel), 3-00 (City of Monterey), 4-000 (City of Pacific Grove), 5-015 (City of Salinas) and 60-001 (Unincorporated Monterey County). TRA 1-000, TRA 3-000, TRA 4-000, TRA 5-015 and TRA 60-001 comprise approximately 5.26%, 5.47%, 3.81%, 4.90% and 4.64%, respectively, of the total assessed value of taxable property within the territory of the Agency.

Tax Collections and Delinquencies. The county treasurer prepares the property tax bills. Property taxes on the regular secured assessment roll are due in two equal installments: the first installment is due on November 1, and becomes delinquent after December 10. The second installment is due on February 1 and becomes delinquent after April 10. If taxes are not paid by the delinquent date, a 10% penalty attaches and a $10 cost is added to unpaid second installments. If taxes remain unpaid by June 30, the tax is deemed to be in default, and a $15 state redemption fee applies. Interest then begins to accrue at the rate of 1.5% per month. The property owner has the right to redeem the property by paying the taxes, accrued penalties, and costs within five years of the date the property went into default. If the property is not redeemed within five years, it is subject to sale at a public auction by the county treasurer.

Property taxes on the unsecured roll are due in one payment on the lien date, January 1, and become delinquent after August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue on November 1. To collect unpaid taxes, the county treasurer may obtain a judgment lien upon and cause the sale of all property owned by the taxpayer in the county, and may seize and sell personal property, improvements and possessory interests of the taxpayer. The county treasurer may also bring a civil suit against the taxpayer for payment.

The date on which taxes on supplemental assessments are due depends on when the supplemental tax bill is mailed.

The secured roll tax charges for all taxing agencies and corresponding delinquencies with respect to property located within the County (which is coterminous with the territory of the Agency) for the five-year period from 2002-03 through 2006-07 are set forth in the following table.

Table 8
Secured Tax Charges and Delinquencies
Within the County of Monterey
(All Taxes Collected by the County)
Fiscal Years 2002–03 through 2006–07

Fiscal Year	Secured Tax Charge[1]	Amount Delinquent (As of June 30)	Percentage Delinquent (As of June 30)
2002–03	$357,964,001	$ 5,423,620	1.52%
2003–04	391,960,460	4,983,062	1.27
2004–05	420,615,057	5,585,814	1.33
2005–06	463,722,750	7,831,541	1.69
2006–07	516,066,717	15,519,381	3.01

(1) Includes all ad valorem taxes collected by the County for all local agencies.
Source: California Municipal Statistics.

Historical Ad Valorem Tax Revenues. The Ad Valorem Taxes allocated by the Monterey County Auditor to, and received by, the Agency with respect to property located within the territory of the Agency for the five-year period from 2003-04 through 2007-08 are set forth in the following table.

Table 9
Monterey County Water Resources Agency
Ad Valorem Tax Revenues
Fiscal Years 2003–04 through 2007–08

Fiscal Year	Ad Valorem Tax Revenues
2003-04[1]	$1,524,330
2004-05[1]	1,535,642
2005-06	1,726,483
2006-07	1,990,397
2007-08	2,081,950[2]

(1) Amounts are after required transfers of $127,183 in aggregate from all zones to the Educational Revenue Augmentation Fund ("ERAF") in fiscal year 2003-04 and 2004-05. See "–The Educational Revenue Augmentation Fund and Proposition 1A" below.
(2) Fiscal year 2007-08 amount constitutes estimated year end results.
Source: The Agency.

The Agency covenants in the Installment Purchase Agreement to receive and collect the Ad Valorem Taxes and apply the Ad Valorem Taxes as provided in the Installment Purchase Agreement. See "–The Installment Purchase Agreement–Revenue Fund; Allocation of Revenues" above.

The Educational Revenue Augmentation Fund and Proposition 1A. Since Fiscal Year 1992/93, the State Legislature has authorized the reallocation of property tax revenues from local agencies multiple times in an effort to assist the State in balancing its General Fund budget. As indicated in the table above, the Agency was required to transfer $127,183 of ad valorem taxes in aggregate from all zones to the Educational Revenue Augmentation Fund ("ERAF") in fiscal year 2003-04 and 2004-05. Proposition 1A, which was approved by the California electorate in November 2004, places restrictions in the State Constitution on the ability of the State Legislature to reallocate property tax revenues from local agencies. Starting in fiscal year 2008-09, the State may shift up to 8% of total property tax revenues away from local agencies, but only if: (i) the Governor declares such action to be necessary due to a State fiscal emergency; (ii) two-thirds of both houses of the Legislature approve the action; (iii) the amount diverted is required by statute to be repaid within three years; (iv) the State does not "owe" money due local agencies under the vehicle license fee "gap repayment" statute or any repayment for past property tax revenue diversions to local agencies, and (v) such property tax revenue diversions do not occur in more than two fiscal years during any period of ten consecutive fiscal years. Furthermore, the State can only change the pro rata allocation of property tax revenues among local entities within a county upon a two-thirds vote of both houses of the Legislature. See also "LIMITATIONS ON TAXES AND APPROPRIATIONS – Proposition 1A."

Direct and Overlapping Debt. Set forth below is a schedule of direct and overlapping debt prepared by California Municipal Statistics Inc. and effective April 24, 2008 for debt issued as of March 1, 2008. The table is included for general information purposes only. The Agency has not reviewed this table for completeness or accuracy and makes no representations in connection therewith. The first column in the table names each public agency which has outstanding debt as of the date of the schedule and whose territory overlaps the Agency in whole or in part. Column 2 shows the percentage of each overlapping agency's assessed value located within the boundaries of the Agency. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table) produces the amount shown in column 3, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the Agency.

The schedule generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the Agency. Such long-term obligations generally are not payable from revenues of the Agency (except as indicated) nor are they necessarily obligations secured by land within the Agency. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

Table 10
Monterey County Water Resources Agency
Direct And Overlapping Bonded Debt
As of April 24, 2008

2007-08 Assessed Valuation:	$51,844,194,809	(includes unitary utility valuation)
Redevelopment Incremental Valuation:	4,470,881,875	
Adjusted Assessed Valuation:	47,373,312,934	

OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 4/15/2008
Hartnell Community College District	99.822%	$64,151,765
Monterey Peninsula Community College District	100.000	133,563,685
Carmel Unified School District	100.000	28,889,199
North Monterey County Unified School District	100.000	18,670,000
Pacific Grove Unified School District	100.000	26,906,000
Soledad Unified School District	100.000	5,096,152
King City Joint Union High School District	98.494	14,700,230
Salinas Union High School District and School Facilities Improvement District	100.000	74,253,611
Alisa Union School District	100.000	30,551,909
King City Union School District	100.000	10,894,531
Santa Rita Union School District	100.000	20,983,838
Washington Union School District	100.000	14,355,000
Other School Districts	Various	38,291,880
City of Marina	100.000	8,550,000
City of Pacific Grove	100.000	740,000
Soledad Community Hospital District	100.000	1,880,000
Community Facilities Districts	100.000	4,852,542
City 1915 Act Bonds (Estimate)	100.000	33,401,000
Special District 1915 Act Bonds	100.000	5,140,000
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		$535,871,342
DIRECT AND OVERLAPPING GENERAL FUND DEBT		
Monterey County General Fund Obligations	100.000	$213,180,000
Monterey County Judgment Obligations	100.000	4,730,000
Monterey County Water Resource District	100.000	-(1)
Monterey Peninsula Unified School District Certificates of Participation	100.000	8,165,000
Salinas Union High School District Certificates of Participation	100.000	5,730,000
Salinas City School District Certificates of Participation	100.000	16,000,000
Other School District General Fund Obligations	Various	22,608,283
City of Carmel General Fund Obligations	100.000	8,905,000
City of Marina Pension Obligations	100.000	4,315,000
City of Monterey General Fund Obligations	100.000	18,015,000
City of Pacific Grove Pension Obligations	100.000	19,325,355
City of Salinas Certificates of Participation	100.000	42,275,000
City of Seaside Pension Obligations	100.000	6,880,000
Carmel Valley Fire Protection District Certificates of Participation	100.000	1,505,000
Monterey Bay Unified Air Pollution Control Authority	58.759	1,771,584
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		$373,405,222
COMBINED TOTAL DEBT		$909,276,564(2)

(1) Excludes the Bonds to be sold.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2007-08 Assessed Valuation:
Total Direct and Overlapping Tax and Assessment Debt........................1.03%

Ratios to Adjusted Assessed Valuation:
Combined Direct Debt ....-%
Combined Total Debt..1.92%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/07: $0

Source: California Municipal Statistics, Inc.

Historical Revenues

Total historical Revenues for the five-year period from fiscal year 2003-04 through fiscal year 2007-08 are set forth in the following table.

Table 11
Monterey County Water Resources Agency
Historical Revenues
Fiscal Years 2003–04 through 2007–08

	Fiscal Year 2003-04	Fiscal Year 2004-05	Fiscal Year 2005-06	Fiscal Year 2006-07	Fiscal Year 2007-08
Assessments(1)	$1,156,992	$1,199,361	$1,164,893	$1,090,468	$1,088,770(3)
Hydroelectric Facility Net Revenues	654,503	1,044,947	1,449,600	1,345,273	956,680(3)
Ad Valorem Taxes(2)	1,524,330	1,535,642	1,726,483	1,990,397	2,081,950(3)
Total	**$3,335,825**	**$3,779,950**	**$4,340,976**	**$4,426,138**	**$4,127,400**(3)

(1) Includes the components levied to fund the acquisition, construction and installation of the Salinas River Diversion Facility Project and the acquisition, construction and installation of the Nacimiento Dam Spillway Modifications Project. Excludes assessments for operations and maintenance of the Nacimiento and San Antonio dams and reservoirs and the costs of administering the assessments which are not pledged to the payment of the Installment Payments due under the Installment Purchase Agreement.
(2) Amounts are after required transfers of $127,183 in aggregate from all zones to the Educational Revenue Augmentation Fund ("ERAF") in fiscal year 2003-04 and 2004-05. See "–Ad Valorem Taxes – The Educational Revenue Augmentation Fund" above.
(3) Fiscal year 2007-08 amounts constitute estimated year end results.
Source: The Agency.

BOND INSURANCE

Set forth below is a brief summary of certain information concerning the Insurer and the terms of the Insurance Policy. The information relating to the Insurer and the Insurance Policy contained below has been supplied to the Authority by the Insurer. No representation is made by the Authority or the Agency as to the accuracy, completeness or adequacy of such information or as to the absence of material adverse changes in the condition of the Insurer subsequent to the date of this Official Statement.

The Insurance Policy

The following information is not complete and reference is made to Appendix G for a specimen of the Insurance Policy of the Insurer.

The Insurer has made a commitment to issue the Insurance Policy relating to the Bonds, effective as of the date of issuance of such Bonds. Under the terms of the Insurance Policy, the Insurer will unconditionally and irrevocably guarantee to pay that portion of principal of and interest on the Bonds that becomes Due for Payment but shall be unpaid by reason of Nonpayment (the "Insured Payments"). Insured Payments shall not include any additional amounts owing by the Authority solely as a result of the failure by the Trustee to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee by reason of such failure. The Insurance Policy is non-cancelable for any reason, including without limitation the non-payment of premium.

"Due for Payment" means, when referring to the principal of the Bonds, the stated maturity date thereof, or the date on which such Bonds shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless the Insurer in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and, when referring to interest on such Bonds, means the stated dates for payment of interest.

"Nonpayment" means the failure of the Authority to have provided sufficient funds to the Trustee for payment in full of all principal and interest Due for Payment on the Bonds. It is further understood that the term Nonpayment in respect of a Bond also includes any amount previously distributed to the Holder (as such term is defined in the Insurance Policy) of such Bond in respect of any Insured Payment by or on behalf of the Authority, which amount has been recovered from such Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such Holder. Nonpayment does not include nonpayment of principal or interest caused by the failure of the Trustee to pay such amount when due and payable.

The Insurer will pay each portion of an Insured Payment that is Due for Payment and unpaid by reason of Nonpayment, on the later to occur of (i) the date such principal or interest becomes Due for Payment, or (ii) the business day next following the day on which the Insurer shall have received a completed notice of Nonpayment therefor in accordance with the terms of the Insurance Policy.

The Insurer shall be fully subrogated to the rights of the Holders of the Bonds to receive payments in respect of the Insured Payments to the extent of any payment by the Insurer under the Insurance Policy.

The Insurance Policy is not covered by any insurance or guaranty fund established under New York, California, Connecticut or Florida insurance law.

The Insurer

Assured Guaranty Corp. (the "Insurer") is a Maryland-domiciled insurance company regulated by the Maryland Insurance Administration and licensed to conduct financial guaranty insurance business in all fifty states of the United States, the District of Columbia and Puerto Rico. The Insurer commenced operations in 1988. The Insurer is a wholly owned, indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO." AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, structured finance and mortgage markets. Neither AGL nor any of its shareholders is obligated to pay any debts of the Insurer or any claims under any insurance policy issued by the Insurer.

The Insurer is subject to insurance laws and regulations in Maryland and in New York (and in other jurisdictions in which it is licensed) that, among other things, (i) limit the Insurer's business to financial guaranty insurance and related lines, (ii) prescribe minimum solvency requirements, including capital and surplus requirements, (iii) limit classes and concentrations of investments, (iv) regulate the amount of both the aggregate and individual risks that may be insured, (v) limit the payment of dividends by the Insurer, (vi) require the maintenance of contingency reserves, and (vii) govern changes in control and transactions among affiliates. Certain state laws to which the Insurer is subject also require the approval of policy rates and forms.

The Insurer's financial strength is rated "AAA" by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P"), "AAA" by Fitch, Inc. ("Fitch") and "Aaa" by Moody's Investors Service, Inc. ("Moody's"). Each rating of the Insurer should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by the Insurer. The Insurer does not guaranty the market price of the securities it guarantees, nor does it guaranty that the ratings on such securities will not be revised or withdrawn.

Recent Developments. On July 21, 2008, Moody's issued a press release stating that it had placed the "Aaa" insurance financial strength rating of the Insurer under review for possible downgrade. Moody's noted in its press release that, while the outcome of the review was uncertain, a downgrade of the Insurer's insurance financial strength rating below "Aa2" was currently seen as unlikely. A copy of the press release is available at www.moodys.com.

The Insurer intends to cooperate with Moody's in connection with its review. The Insurer cannot give any assurance as to the outcome of the review or the timing of when such review may be completed.

On July 17, 2008, Fitch issued a report to provide an update on its views with respect to the outlook for the monoline financial guaranty industry. In such report, Fitch stated that the Insurer continues to maintain a "AAA" insurer financial strength rating from Fitch with a stable rating outlook.

On June 18, 2008, S&P issued a press release in which it affirmed its "AAA" financial strength and financial enhancement ratings on the Insurer. In such press release, S&P stated that the Insurer's outlook is stable.

Capitalization of Assured Guaranty Corp. As of March 31, 2008, the Insurer had total admitted assets of $1,518,398,730 (unaudited), total liabilities of $1,138,285,708 (unaudited), total surplus of $380,113,022 (unaudited) and total statutory capital (surplus plus contingency reserves) of $1,001,533,924 (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2007, the Insurer had total admitted assets of $1,361,538,502 (audited), total liabilities of $961,967,238 (audited), total surplus of $399,571,264 (audited) and total statutory capital (surplus plus contingency reserves) of $982,045,695 (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. The Maryland Insurance Administration recognizes only statutory accounting practices for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the Maryland Insurance Code, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. No consideration is given by the Maryland Insurance Administration to financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") in making such determinations.

Incorporation of Certain Documents by Reference. The portions of the following documents relating to the Insurer are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- The Annual Report on Form 10-K of AGL for the fiscal year ended December 31, 2007 (which was filed by AGL with the Securities and Exchange Commission (the "SEC") on February 29, 2008);

- The Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2008 (which was filed by AGL with the SEC on May 9, 2008); and

- The Current Reports on Form 8-K filed by AGL with the SEC, as they relate to the Insurer.

All consolidated financial statements of the Insurer and all other information relating to the Insurer included in documents filed by AGL with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, subsequent to the date of this Official Statement and prior to the termination of the offering of the Bonds shall be deemed to be incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such consolidated financial statements.

Any statement contained in a document incorporated herein by reference or contained herein under the heading "BOND INSURANCE - The Insurer" shall be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any subsequently filed document which is incorporated by reference herein also modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

Copies of the consolidated financial statements of the Insurer incorporated by reference herein and of the statutory financial statements filed by the Insurer with the Maryland Insurance Administration are available upon request by contacting the Insurer at 1325 Avenue of the Americas, New York, New York 10019 or by calling the Insurer at (212) 974-0100. In addition, the information regarding the Insurer that is incorporated by reference in this Official Statement that has been filed by AGL with the SEC is available to the public over the Internet at the SEC's web site at http://www.sec.gov and at AGL's web site at http://www.assuredguaranty.com, from the SEC's Public Reference Room at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, and at the office of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

The Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, the Insurer has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom other than with respect to the accuracy of the information regarding the Insurer supplied by the Insurer and presented under the heading "BOND INSURANCE."

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the Bonds are shown below.

SOURCES

Principal Amount of Bonds	$32,855,000.00
Plus Net Original Issue Premium	763,468.65
Less Underwriter's Discount	(286,796.12)
Total Sources	$33,331,672.53

USES

Acquisition Fund	$28,950,350.00
Capitalized Interest[1]	1,598,455.32
Reserve Fund[2]	2,189,250.00
Costs of Issuance[3]	593,617.21
Total Uses	$33,331,672.53

(1) *Represents capitalized interest on the Bonds in an amount expected to fund interest through September 1, 2009.*
(2) Represents the Reserve Requirement.
(3) Includes legal, underwriting, rating agency, printing and trustee fees, premium for the Insurance Policy and other miscellaneous costs of issuance.

THE PROJECT

The Salinas Valley lies along the Salinas River in the northern portion of the County from Monterey Bay at its northerly end and travels inland in a southeasterly direction for approximately 84 miles with an average width of approximately 6 miles between the Gabilan Mountain Range and the Santa Lucia Mountain Range. Agriculture dominates the economy of the Salinas Valley. In particular, a large majority of the salad greens consumed in the United States are grown within this region. Strawberries, lettuce, tomatoes and artichokes are the dominant crops in the Salinas Valley. Other crops include broccoli, cauliflower, wine grapes, celery and spinach.

Historically, groundwater has been the source for almost all of the water needs in the Salinas Valley. The high dependence on groundwater has resulted in overdraft conditions in the water basin. These overdraft conditions have allowed seawater to intrude into the northern Salinas Valley. The seawater intrusion has resulted in the degradation of groundwater supplies, requiring numerous urban and agricultural supply wells to be abandoned or destroyed. In an effort to halt further seawater intrusion, provide flood protection, eliminate overdraft and create new water supplies for the Salinas Valley, the Agency is proceeding with the construction of the Nacimiento Dam Spillway Modifications Project and the construction of the Salinas River Diversion Facility Project.

Nacimiento Dam Spillway Modifications

The existing operation of the Nacimiento Reservoir and the San Antonio Reservoir is focused on two objectives: providing flood protection and providing conservation of winter flows for release during the summer months. As such, the reservoirs are operated based on "rule curves" that establish minimum flood pool requirements necessary to provide an adequate level of flood protection. Stored winter flows are released during the summer season, with the Agency's objective to increase stream recharge by maintaining flow to the Salinas River.

The spillway modifications at Nacimiento Dam are needed to address lack of capacity to pass a probable maximum flood ("PMF") event. The PMF is a measure used to evaluate the dam spillway capacity to prevent catastrophic failure of the dam under extreme meteorologic conditions. The only alternative to modifying the reservoir spillway is to lower the operating rule curve to provide the level of additional storage required to attenuate a PMF event within the reservoir and prevent overtopping of the dam structure. The option of lowering the rule curve would reduce the effective water conservation storage capacity of the Nacimiento Reservoir by approximately 124,000 acre-fee (out of a total of 377,900 acre-feet) and, therefore, was not considered to be a viable alternative.

The spillway modifications at Nacimiento Dam will allow changes in the way both reservoirs are operated, resulting in additional water for surface diversion and/or groundwater recharge, assuring the provision of adequate flood control capacity and maximizing conservation releases.

The Nacimiento Dam Spillway Modifications Project will modify the existing spillway by lowering the spillway's crest and installing an inflatable rubber dam. The modification to Nacimiento Reservoir includes lowering the concrete ogee spillway eight feet. Lowering the crest requires the excavation and removal of more than 1,000 cubic yards of concrete. The spillway crest will then be prepared and finished with concrete to accommodate the installation of an inflatable rubber dam. The sidewalls of the downstream spillway chute will be raised to accommodate the increased flows that could pass through the modified spillway.

The rubber dam will deflate to pass the PMF, which will increase the capacity of the spillway. Once the peak of the event hydrograph has passed, or late in the winter season, the rubber dam will be inflated to allow the reservoir water levels to return to the full storage capacity of Nacimiento Reservoir. Implementation of this component will not increase the existing maximum lake level elevation of 800 feet (i.e., maximum inundation area surrounding the lake).

The custom-made inflatable rubber dam will be anchored to a new spillway concrete foundation. Two rubber dam sections, each approximately 75 feet in length, would be installed across the 150-foot spillway crest. Compressed air will raise the inflatable dams using an air pipe inflation system consisting of an air supply and exhaust pipe, upstream water level sensor pipe, and inner pressure sensor pipe. Full inflation of the rubber dam will take approximately 20-40 minutes, while deflation will be rapid. Inflation and deflation could be accomplished automatically and by remote or local control. Automatic safety devices will be installed to protect the dam from damage should any of the other control mechanisms fail.

Salinas River Surface Diversion Facility

The Salinas River Diversion Facility Project consists of the construction of the Salinas River Diversion Facility (the "Diversion Facility") to allow the diversion of river water released from the San Antonio and Nacimiento reservoirs to the existing Castroville Seawater Intrusion Project ("CSIP") distribution pipeline where it will be blended with recycled water produced at the Salinas Valley Reclamation Plant, a tertiary treatment plant for wastewater, and delivered to the CSIP service area for agricultural irrigation. Diverted river water would supplement the use of the CSIP project water and would replace existing groundwater pumping in the CSIP service area. The Diversion Facility will include an inflatable dam designed to operate from April to November and will form a shallow impoundment of water upstream of the facility when the Nacimiento Dam is operational. This impoundment could extend up to two miles upstream and divert up to 12,800 acre-feet of water per year.

The Diversion Facility will be constructed within the Salinas River channel, approximately two miles upstream of Highway 1 near Moro Cojo at the approximate location of the Salinas River crossing of the CSIP distribution pipeline.

The diversion of water from the Salinas River to the CSIP distribution pipeline will include (i) a diversion dam structure that incorporates an Obermeyer Spillway gate approximately 230 feet in length and whose height will be controlled with an inflatable air bladder and whose foundation will be constructed of reinforced concrete with vinyl sheet piles (instead of steel that would deteriorate by corrosion) driven at the upstream and downstream ends; (ii) a fish screen diversion and fish ladder that will be designed as a single hydraulic unit; and (iii) the Salinas River Pump Station and CSIP Interconnection Pipeline.

Based upon the current agricultural operation in the CSIP service area, the pump station operation may need to be limited or stopped for up to 6 hours (late at night) in a 24-hour period. The impoundment created by the diversion structure will be operated to provide flexibility in the water delivery while minimizing spills at the diversion structure. The top one foot of the impoundment provides approximately 85 acre-feet of storage, which is equivalent to approximately 12 hours of pump station operation at 85 cubic feet per second. By drawing down the impoundment by one-half to one foot at the end of the pump station operations, the impoundment would be allowed to recover during the pump station down time.

The Agency has implemented a delivery charge for recipients of water delivered from the Diversion Facility for purposes of funding the costs of operating and maintaining the Diversion Facility.

Environmental Review

On June 4, 2002, after preparation and consideration of an Environmental Impact Report ("EIR") pursuant to the California Environmental Quality Act ("CEQA"), the Board of Supervisors of the Agency certified that the EIR fully complied with CEQA and approved implementation of the Project subject to and contingent upon the approval of funding for the Project through the assessment of landowners specially benefited by the Project.

Permits

The Agency has obtained all necessary permits for completion of the Project, including building and encroachment permits from the County, necessary permits from the State Department of Transportation, State Water Resources Control Board, State Department of Fish & Game, State Department of Water Resources, Division of Safety of Dams, Air Pollution Control District and the Federal Energy Regulatory Commission. The Agency has existing water right permits and licenses for the Salinas Valley Water Project. In order to complete the Salinas River Diversion Facility Project, the Agency has petitioned the State Water Resources Control Board to make changes to such rights with respect to the point of diversion of water from the Nacimiento Reservoir to the Diversion Facility and to conform the place of use therefor. The changes require the completion of an administrative process with the State Water Resources Control Board. A protest was filed in connection with the Agency's requested changes. However, the protestor indicated that it was willing to drop its protest if certain conditions were met. Such conditions are being satisfied and the Agency expects that its petitions will be granted in August 2008. The Agency began construction of the Project in April 2008 and expects to complete construction of the Project in September 2009.

Estimated Remaining Project Costs and Funding Sources

The Agency has received bids for all components of the Project and estimates that remaining costs of the spillway modifications at Nacimiento Dam amount to approximately $14,079,057 and estimates that remaining costs of the Diversion Facility amount to approximately $17,796,293, for an estimated combined total of approximately $31,875,350. The Agency expects to fund the remaining costs of the Project from approximately $425,000 of funds on hand, $5,500,000 of grant funds from the State Water Resources Control Board pursuant to a Proposition 50 Integrated Regional Water Management Implementation Grant Agreement between the State Water Resources Control Board and the Agency and Bond proceeds. The Agency also expects to reimburse itself from Bond proceeds for certain expenditures incurred prior to the issuance of the Bonds.

RISK FACTORS

The following factors, along with the other information in this Official Statement, should be considered by potential investors in evaluating the purchase of the Bonds. However, they do not purport to be an exhaustive listing of risks and other considerations which may be relevant to an investment in the Bonds. In addition, the order in which the following factors are presented is not intended to reflect the relative importance of any such risks.

The Bonds are Special Obligations of the Authority

The Bonds are special obligations of the Authority, payable solely from the Authority Revenues and the other assets pledged therefor under the Indenture. Neither the faith and credit nor the taxing power of the Authority, the Agency or the State, or any political subdivision thereof, is pledged to the payment of the Bonds.

The Obligation to Make Installment Payments is a Special Obligation of the Agency

The obligation of the Agency to make the Installment Payments and other payments required to be made by it under the Installment Purchase Agreement is a special obligation of the Agency, payable in the manner provided in the Installment Purchase Agreement solely from the Revenues and other assets pledged therefor under the Installment Purchase Agreement. Neither the faith and credit nor the taxing power of the Agency or the State, or any political subdivision thereof, is pledged to the payment of the Installment Payments or other payments required to be made by the Agency under the Installment Purchase Agreement.

Natural Disasters

The Agency, like all California communities, may be subject to unpredictable seismic activity, fires due to the vegetation and topography, or flooding in the wake of fires or in the event of unseasonable rainfall. There is significant potential for destructive ground-shaking during the occurrence of a major seismic event. In addition, land susceptible to seismic activity may be subject to liquefaction during such an event. The occurrence of earthquakes, fires or flooding in or around the territory of the Agency, among other things, could (i) damage or destroy the Hydroelectric Facility reducing or eliminating the Agency's ability to generate Hydroelectric Facility Revenues, (ii) damage or destroy the Project reducing the ability or willingness of property owners to pay their Assessments when due (even though legally obligated to do so), or (iii) result in substantial damage to other property and infrastructure in the territory of the Agency causing a reduction in the assessed value of taxable property within the territory of the Agency and reduced Ad Valorem Taxes available to the Agency. The Agency is not required under the Installment Purchase Agreement to, and it does not currently, maintain earthquake or flood insurance.

Hydroelectric Facility Net Revenues

The availability of Hydroelectric Facility Net Revenues to make the Installment Payments due under the Installment Purchase Agreement is dependent upon the generation of Hydroelectric Facility Revenues and the amount of Hydroelectric Facility Maintenance and Operation Costs. With respect to Hydroelectric Facility Revenues, the generation and sale of electricity generated at the Hydroelectric Facility is dependent upon water being accumulated in and released from the Nacimiento Dam. To the extent the amount of water accumulated in the Nacimiento Dam is reduced, due to lower rainfall or otherwise, less electricity will be generated at the Hydroelectric Facility resulting in less Hydroelectric Facility Revenue. With respect to Hydroelectric Facility Maintenance and Operation Costs, there can be no assurance that such expenses will be consistent with historic levels. A variety of factors could increase Hydroelectric Facility Maintenance and Operation Costs, including changes in technology, increases in the cost of raw materials and increased environmental regulation.

Power Purchase Agreement With PG&E

The PG&E Agreement, as modified by the Amendment, is set to expire on July 13, 2012. Given the current demand for renewable energy sources, the Agency expects to be able to extend the PG&E Agreement or enter into a new agreement for the purchase and sale of electric energy generated by the Hydroelectric Facility. However, the Agency cannot guarantee that it will be able to extend the PG&E Agreement or enter into a new agreement and cannot make any assurances as to the rate the Agency will be able to obtain for the electric energy generated by the Hydroelectric Facility in the future.

Limitations on Remedies

Remedies available to the Owners may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the Bonds or to preserve the tax-exempt status of the Bonds. Bond Counsel has limited its opinion as to the enforceability of the Bonds and of the Indenture to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or others similar laws affecting generally the enforcement of creditor's rights, by equitable principles, by the exercise of judicial discretion and by limitations on remedies against public agencies in the State. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the Owners.

Loss of Tax Exemption

As discussed under the caption "TAX MATTERS," interest on the Bonds could become includable in gross income for purposes of Federal income taxation retroactive to the date the Bonds were issued, as a result of acts or omissions of the Authority or the Agency in violation of the Internal Revenue Code. Should such an event of taxability occur, the Bonds are not subject to redemption and will remain Outstanding until maturity or until redeemed under the optional redemption or mandatory redemption provisions of the Indenture.

LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIIIA of the California Constitution

Article XIIIA of the California Constitution, adopted and known as Proposition 13, was approved by the voters in June 1978. Section 1(a) of Article XIIIA limits the maximum *ad valorem* tax on real property to 1% of "full cash value," and provides that such tax shall be collected by the counties and apportioned according to State law. Section 1(b) of Article XIIIA provides that the 1% limitation does not apply to *ad valorem* taxes levied to pay interest and redemption charges on (i) indebtedness approved by the voters prior to July 1, 1978, or (ii) bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast on the proposition, or (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the bond proposition.

Section 2 of Article XIIIA defines "full cash value" to mean the county assessor's valuation of real property as shown on the fiscal year 1975-76 tax bill, or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. The full cash value base may be adjusted annually to reflect inflation at a rate not to exceed 2% for any given year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. Legislation enacted by the State Legislature to implement Article XIIIA provides that, notwithstanding any other law, local agencies may not levy any *ad valorem* property tax except the 1% base tax levied by each county and taxes to pay debt service on indebtedness approved by the voters as described above.

Since its adoption, Article XIIIA has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be reassessed when purchased, newly constructed or a change in ownership has occurred. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain improvements to accommodate disabled persons and for seismic upgrades to property. These amendments have resulted in marginal reductions in the property tax revenues of the Agency.

Both the California State Supreme Court and the United States Supreme Court have upheld the validity of Article XIIIA.

Section 51 of the Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently "recapture" such value (up to the pre-decline value of the property) at an annual rate higher than 2%, depending on the assessor's measure of the restoration of value of the damaged property. The constitutionality of this procedure was challenged in a lawsuit brought in 2001 in the Orange County Superior Court entitled, and in similar lawsuits brought in other counties, on the basis that the decrease in assessed value creates a new "base year value" for purposes of Proposition 13 and that subsequent increases in the assessed value of a property by more than 2% in a single year violate Article XIII A. On appeal, the California Court of Appeal upheld the recapture practice in 2004, and the State Supreme Court declined to review the ruling leaving the recapture law in place.

Article XIIIB of the California Constitution

In addition to the limits Article XIIIA imposes on property taxes that may be collected by local governments, certain other revenues of the State and local governments are subject to an annual "appropriations limit" or "Gann Limit" imposed by Article XIIIB of the State Constitution, which effectively limits the amount of such revenues that government entities are permitted to spend. Article XIIIB, approved by the voters in June 1979, was modified substantially by Proposition 111 in 1990. The appropriations limit of each government entity applies to "proceeds of taxes," which consist of tax revenues, state subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed "the cost reasonably borne by such entity in providing the regulation, product or service." "Proceeds of taxes" excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on the appropriation of funds which are not "proceeds of taxes," such as reasonable user charges or fees, and certain other non-tax funds.

Article XIIIB also does not limit appropriation of local revenues to pay debt service on bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriation by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990, levels. The appropriations limit may also be exceeded in cases of emergency; however, the appropriations limit for the three years following such emergency appropriation must be reduced to the extent by which it was exceeded, unless the emergency arises from civil disturbance or natural disaster declared by the Governor, and the expenditure is approved by two-thirds of the legislative body of the local government.

The State and each local government entity has its own appropriations limit. Each year, the limit is adjusted to allow for changes, if any, in the cost of living, the population of the jurisdiction, and any transfer to or from another government entity of financial responsibility for providing services.

Proposition 111 requires that each agency's actual appropriations be tested against its limit every two years. If the aggregate "proceeds of taxes" for the preceding two-year period exceeds the aggregate limit, the excess must be returned to the agency's taxpayers through tax rate or fee reductions over the following two years.

Article XIIIC of the California Constitution

On November 5, 1996, the voters of the State approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIIIC and XIIID to the State Constitution, which contain a number of provisions affecting the ability of local agencies to levy and collect both existing and future taxes, assessments, fees and charges. Among other things, Article XIIIC establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes); prohibits special purpose government agencies from levying general taxes; and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote. Article XIIIC also provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIIIA of the California Constitution and special taxes approved by a two-thirds vote under Article XIIIA, Section 4.

Article XIIIC also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Although the matter is not free from doubt, it is likely that Article XIIIC has not conferred on the voters the power to repeal or reduce the Assessments and Ad Valorem Taxes if such reduction would interfere with the timely retirement of the Bonds. Legislation adopted in 1997 provides that Article XIIIC shall not be construed to mean that any owner or beneficial owner of a municipal security assumes the risk of or consents to any initiative measure which would constitute an impairment of contractual rights under the contracts clause of the U.S. Constitution.

The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination.

Proposition 1A

Proposition 1A, proposed by the Legislature in connection with the 2004-05 Budget Act and approved by the voters in November 2004, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any Fiscal Year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature. Proposition 1A provides, however, that beginning in Fiscal Year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that if the State reduces the vehicle license fee rate currently in effect, 0.65 percent of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State, beginning July 1, 2005, to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

Future Initiatives

Article XIIIA, Article XIIIB, Article XIIIC, Article XIIID, as well as Proposition 1A, were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting Agency's revenues or the Agency's ability to expend revenues.

THE AUTHORITY

The Authority was formed pursuant to the provisions of Article 1 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Joint Powers Law") and the Joint Exercise of Powers Agreement, dated as of April 1, 1995 (the "JPA Agreement"), by and between the Agency and the County. The Authority was formed to assist in the financing of public capital improvements.

The Authority functions as an independent entity and its policies are determined by a five-member Board of Directors consisting of the members of the Board of Supervisors of the County elected from Supervisiorial Districts 1, 2 and 3 and the Chair and Vice Chair of the Board of Directors of the Agency. The General Manager of the Agency, the Assistant Administrative Officer of the County, the Assistant General Manager of the Agency, the County Treasurer and the County Auditor-Controller serve as the Executive Director, Assistant Executive Director, Secretary, Treasurer and Controller, respectively, of the Authority. The County's County Counsel serves as counsel to the Authority. The Authority has no employees and all staff work is performed by the County, the Agency or consultants.

Under the JPA Agreement, the Authority is empowered to assist in providing financing for purposes that are authorized under the Joint Powers Law, including the financing of public capital improvements, through the issuance of revenue bonds in accordance with the Joint Powers Law. To exercise its powers, the Authority is authorized, in its own name, to do all necessary acts, including but not limited to making and entering into contracts; employing agents and employees; and to sue or be sued in its own name.

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM THE AUTHORITY REVENUES AND THE OTHER ASSETS PLEDGED THEREFOR UNDER THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE AUTHORITY, THE AGENCY OR THE STATE, OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE BONDS. NOTWITHSTANDING ANYTHING CONTAINED IN THE INDENTURE, THE AUTHORITY SHALL NOT BE REQUIRED TO ADVANCE ANY MONEY DERIVED FROM ANY SOURCE OF INCOME OTHER THAN THE AUTHORITY REVENUES AS PROVIDED IN THE INDENTURE FOR THE PAYMENT OF THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE BONDS OR FOR THE PERFORMANCE OF ANY AGREEMENTS OR COVENANTS CONTAINED IN THE INDENTURE. THE OBLIGATION OF THE AGENCY TO MAKE THE INSTALLMENT PAYMENTS AND OTHER PAYMENTS REQUIRED TO BE MADE BY IT UNDER THE INSTALLMENT PURCHASE AGREEMENT IS A SPECIAL OBLIGATION OF THE AGENCY, PAYABLE IN THE MANNER PROVIDED IN THE INSTALLMENT PURCHASE AGREEMENT SOLELY FROM THE REVENUES AND OTHER ASSETS PLEDGED THEREFOR UNDER THE INSTALLMENT PURCHASE AGREEMENT. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE AGENCY OR THE STATE, OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE INSTALLMENT PAYMENTS OR OTHER PAYMENTS REQUIRED TO BE MADE BY THE AGENCY UNDER THE INSTALLMENT PURCHASE AGREEMENT.

The Authority may issue obligations other than the Bonds, which other obligations are and will be secured by instruments and revenues separate and apart from the Indenture and the Bonds. The holders of such obligations of the Authority have no claim on the security of the Bonds and the owners of the Bonds will have no claim on the security of such other obligations issued by the Authority.

THE AGENCY

General

The Agency is a flood control and water agency formed in 1990 pursuant to the Monterey County Water Resources Agency (the "Act") as a successor to the Monterey County Flood Control and Water Conservation District (formed in 1947). The Agency's service area consists of all of the territory of the County. The Agency is governed by a board of supervisors comprised of the five members of the Board of Supervisors of the County serving *ex officio*. The board of supervisors is advised by a nine member board of directors. Five directors are appointed, one each by each member of the board of supervisors, and four by a majority vote of the supervisors from nominees submitted by local groups and organizations set forth in the Act.

Agency Functions and Powers

The Agency was formed to provide for the control of the flood and storm waters of the County, to conserve those waters for beneficial and useful purposes by spreading, storing and retaining them, to prevent and deter the loss of usable groundwater through intrusion of seawater and to obtain, retain and reclaim drainage, storm, flood and other waters for beneficial use within the County. The Agency provides flood control and manages, protects and enhances the quantity and quality of water for the County. The Agency is currently engaged in the development and management of facilities relating to water reclamation, water distribution, seawater intrusion prevention, dams and levees, water conservation, generation of hydroelectric energy, groundwater management and drainage.

The Agency is empowered to: acquire, hold and sell real and personal property both within and without the borders of the County; cooperate and act in conjunction with county, State, federal and private entities to control flood or storm waters and to conserve water; incur indebtedness and issue bonds; cause taxes or assessments to be levied and collected in order to pay any obligation of the Agency and to carry out any of the purposes of the Act; exercise the power of eminent domain; generate, deliver and sell hydroelectric power; fix and charge water standby or availability charges for any lands to which water is made available by the Agency (whether the water is actually used or not), which charges shall be used for ongoing maintenance and operation of the zones of the Agency upon which the charge is levied as well as for the retirement of any bonded indebtedness attributable to that zone; fix and impose water reclamation charges on any persons who extract water from the Salinas Valley Groundwater Basin, which charges may be used only to pay for costs associated with reclamation facilities; through its board of supervisors, levy *ad valorem* taxes or assessments upon all property in the agency to pay the general administrative costs and expenses of the Agency and to carry out any object or purpose of the Act of common benefit to the Agency; through its board of supervisors, levy taxes and assessments on any of the zones to pay the costs and expenses of carrying out any of the purposes of the Act of special benefit to the zone or zones taxed, including the costs of constructing, maintaining, operating, extending, repairing or otherwise improving any or all works or improvements established or to be established within or on behalf of the respective zone or zones; and, levy a tax or assessment each year to pay for the bonded indebtedness chargeable to such zone or zones.

There are currently seventeen zones and two maintenance districts within the territory of the Agency relating to approximately twenty-seven Agency projects and programs. Zones are formed by resolution of the board of supervisors of the Agency and additional areas may be annexed to an existing zone either by board resolution or through petition by those residing in the area to be annexed, which in some cases requires an election.

Any charges fixed by the Agency, including water tolls or charges, are a lien on all property against which the charge is imposed or to which the water is delivered and shall have the same force and effect as other liens for taxes, subject to the same enforcement tools as liens for state and county taxes. Assessments are set by board of supervisors resolution, or, if certain protest conditions are present, by zone landowner election where each landowner is entitled to one vote per acre owned, but after the initial year's approval assessments are not subject to the usual protest procedures and election requirements unless an increase in the assessment amount is sought. Assessments are also subject to the use of the referendum power. Assessments are levied and collected together with taxes for County purposes, but are held in the County treasury to the credit of the Agency.

Presently, separate audited financial statements are not prepared for the Agency but, rather, the financial statements for the Agency are consolidated with the audited financial statements for the County of Monterey. The County's audited financial statements for the Fiscal Year ended June 30, 2007 are included as Appendix A, and should be read in their entirety. Bartig, Basler & Ray, LLP, the County's independent auditor, has not been requested to consent to the use or to the inclusion of its report in this Official Statement, and it has neither audited nor reviewed this Official Statement.

Although the financial statements for the Agency are consolidated with the audited financial statements for the County, the Agency is a legally separate entity. Neither the faith and

credit nor the taxing power of the County is pledged to the payment of the Installment Payments or other payments required to be made by the Agency under the Installment Purchase Agreement. The obligation of the Agency to make the Installment Payments and other payments required to be made by it under the Installment Purchase Agreement is a special obligation of the Agency, payable in the manner provided in the Installment Purchase Agreement solely from the Revenues and other assets pledged therefor under the Installment Purchase Agreement.

CONTINUING DISCLOSURE

The Authority has covenanted for the benefit of the Owners and beneficial owners of the Bonds to provide certain financial information and operating date relating to the Agency (the "Annual Report"), commencing with the Annual Report for the 2007-08 fiscal year, and to provide notice of the occurrence of certain enumerated events, if material. The Annual Report will be filed by Union Bank of California, N.A., as dissemination agent (the "Dissemination Agent") on behalf of the Authority with each Nationally Recognized Municipal Securities Information Repository and the State Repository, if any. The notices of material events will be filed by the Dissemination Agent on behalf of the Authority with the Municipal Securities Rulemaking Board and the State Repository, if any. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in Appendix E — "FORM OF CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5) ("Rule 15c2-12"). The Authority has not previously had occasion to undertake continuing disclosure responsibilities with respect to Rule 15c2-12 and, therefore, has not previously failed to comply in all material respects with any previous undertakings with respect to said rule to provide annual reports or notices of material events. The Agency has not previously had occasion to undertake continuing disclosure responsibilities with respect to Rule 15c2-12.

RATINGS

Fitch, Inc. ("Fitch"), Moody's Investors Service ("Moody's") and Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P") are expected to assign the Bonds the ratings of "AAA," "Aaa," and "AAA," respectively, with the understanding that upon delivery of the Bonds, the Insurance Policy will be issued by the Insurer. These ratings reflect the rating agencies' views of the creditworthiness of the Insurer. In addition, Fitch, Moody's and S&P have assigned the Bonds underlying ratings of "A+," "A2" and "AA-," respectively. The rating agencies may have obtained and considered information and material which has not been included in this Official Statement. Generally, the rating agencies base their ratings on information and material so furnished and on investigations, studies and assumptions made by them. The ratings are not a recommendation to buy, sell or hold the Bonds. The ratings reflect only the views of each rating agency with respect to its respective rating and an explanation of the significance of such rating may be obtained from it. No assurance can be given that the rating of a rating agency will be maintained for any given period of time or that the rating may not be revised downward or withdrawn entirely by the rating agency, if in its own judgment, circumstances warrant. Any such downward change in or withdrawal may have an adverse effect on the market price of the Bonds. Neither the Underwriter, the Authority or the Agency have undertaken any responsibility after the offering of the Bonds to assure the maintenance of the ratings or to oppose any such revision or withdrawal.

On July 21, 2008, Moody's issued a press release stating that it had placed the "Aaa" insurance financial strength rating of the Insurer under review for possible downgrade. Any downgrade of such rating may have an adverse effect on the market price of the Bonds. See "BOND INSURANCE — The Insurer — Recent Developments."

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), bond counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix D hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each beneficial owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of beneficial owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a beneficial owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such beneficial owner. Beneficial owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Authority and the Agency have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond

Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a beneficial owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the beneficial owner or the beneficial owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority or the beneficial owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority and their appointed counsel, including the beneficial owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the Authority or the beneficial owners to incur significant expense.

CERTAIN LEGAL MATTERS

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. Bond Counsel, as such, has not undertaken any responsibility for the accuracy, completeness or fairness of this Official Statement and expresses no opinion as to the matters set forth herein. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix D hereto and will accompany the Bonds. Certain legal matters will be passed upon for the Agency and the Authority by County of Monterey Office of County Counsel, Salinas, California, and by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel; and for the Underwriter by Jones Hall, A Professional Law Corporation, San Francisco, California.

FINANCIAL INTEREST

Payment of the fees and expenses of Bond Counsel, Disclosure Counsel and Underwriter's counsel is contingent upon the issuance and delivery of the Bonds. From time to time, Orrick, Herrington & Sutcliffe LLP represents the Underwriter on matters unrelated to the Bonds.

ABSENCE OF MATERIAL LITIGATION

At the time of delivery of and payment for the Bonds, the Authority and the Agency, as applicable, will certify that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court or governmental or public entity pending or, to the best knowledge of the Authority or the Agency, as applicable, threatened against such entity (i) which affects or seeks to prohibit, restrain or enjoin the execution or delivery of the Bonds, the Indenture, the Installment Purchase Agreement or the Continuing Disclosure Agreement, (ii) contesting the validity of the Bonds, the Indenture, the Installment Purchase Agreement or the Continuing Disclosure Agreement, the powers of the Authority or the Agency, as applicable, to enter into or perform its obligations under the Indenture, the Installment Purchase Agreement or the Continuing Disclosure Agreement, or the existence or powers of the Authority or the Agency, or (iii) which, if determined adversely to the Agency, would materially impair the Agency's ability to meet its obligations under the Installment Purchase Agreement or materially and adversely affect the Agency's financial condition.

The Agency does have claims pending against it. The aggregate amount of the uninsured liabilities of the Agency which may result from all claims will not, in the opinion of the Agency, materially affect the Agency's finances or impair its ability to make Installment Payments under the Installment Purchase Agreement.

UNDERWRITING

The Bonds are to be purchased by Morgan Stanley & Co. Incorporated (the "Underwriter"). The Underwriter has agreed, subject to certain terms and conditions set forth in the Bond Purchase Agreement, dated July 16, 2008, by and among the Underwriter, the Authority and the Agency, to purchase the Bonds at a purchase price of $33,331,672.53 (which represents the aggregate principal amount of the Bonds, plus $763,468.65 of net original issue premium, and less $286,796.12 of Underwriter's discount). The Underwriter will purchase all the Bonds if any are purchased. The Bonds may be offered and sold to certain dealers (including dealers depositing said Bonds into investment trusts) and others at prices lower than the initial public offering price, and the public offering price may be changed from time to time by the Underwriter.

MISCELLANEOUS

References are made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive and reference is made to such documents and reports for full and complete statements of the contents thereof.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Agency and the purchasers or Owners of any of the Bonds.

The execution and delivery of this Official Statement has been duly authorized by the Authority and the Agency.

MONTEREY COUNTY FINANCING AUTHORITY

By: /s/ Curtis Weeks
Curtis Weeks, Executive Director

MONTEREY COUNTY WATER RESOURCES AGENCY

By: /s/ Curtis Weeks
Curtis Weeks, General Manager

APPENDIX A

2006-07 COUNTY OF MONTEREY AUDITED FINANCIAL STATEMENTS

COUNTY of MONTEREY

STATE of CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2007

Prepared and Submitted by the Office of the Auditor-Controller
Michael J. Miller, CPA, CISA

COUNTY OF MONTEREY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2007

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Introductory Section

December 17, 2007

To the Board of Supervisors and the Citizens of The County of Monterey:

I am pleased to present this Fiscal-Year 2006-2007 Comprehensive Annual Financial Report (CAFR) for the County of Monterey. This CAFR is intended to present information above and beyond what is required by generally accepted accounting principles or State Law.

It is my hope that this report will give the Board of Supervisors, the residents of Monterey County and other users a broader view and understanding of County financial operations and to further assist the users of our financial statements in assessing the financial condition of the County.

This CAFR is in compliance with Sections 25250 & 25253 of the Government Code of the State of California. These statutes require all general-purpose local governments to issue an annual report on the financial position and activities of that government. The report must be presented in conformance with generally accepted accounting principles (GAAP) and must be audited by an independent firm of certified public accountants (CPA) in conformance with generally accepted auditing standards (GAAS). The financial statements contained in this CAFR meet these requirements.

This report contains management representations and is prepared by the Office of the Auditor-Controller. Monterey County management (management) is responsible for the accuracy of the presented data, and the completeness and fairness of the presentation. To provide reasonable assurance of accuracy of the information presented in these financial statements and to protect County assets, management has instituted an internal control framework. This framework consists of policies, procedures and computer-based accounting and management information systems sufficient to ensure reliable information for the preparation of the County's financial statements in conformity with GAAP.

The financial statements and accompanying Notes to the financial statements (Notes) contained in this CAFR have been audited by Bartig, Basler & Ray, a Professional Corporation of Certified Public Accountants (BB&R). Their audit was performed in accordance with GAAS. The auditors have concluded, based on their audit that the financial statements combined with the accompanying Notes present fairly, in all material respects, the financial condition of Monterey

County as of June 30, 2007. A copy of their report is included on page 1 in the "Financial Section" of this CAFR.

In planning and performing the audit of the financial statements, BB&R considered the internal control structure of the County in order to determine appropriate audit procedures. During this review, no required reportable conditions were noted, however several opportunities to strengthen internal control and operating efficiency were recommended. This information was presented in a letter to the Board of Supervisors and management.

This report includes all of the funds of the County of Monterey, the Redevelopment Agency of the County of Monterey, Monterey County Water Resources Agency, all County Service Areas, all County Sanitation Districts except Seaside County Sanitation District, Nacimiento Hydroelectric Operations, Monterey County Financing Authority, and Natividad Medical Center. Although all these entities (except for Natividad Medical Center) are legally separate from the County, the County Board of Supervisors serve as the governing board of each entity and the entities meet the test required by GAAP to be presented as blended component units in the County Financial Statements.

In addition, individual financial statements are available for many of the above component units and can be obtained by contacting the Office of the Auditor-Controller of the County of Monterey.

Management is required by GAAP (GASB 34) to provide a management discussion and analysis (MD&A) in conjunction with financial statement reporting. The purpose of the MD&A is to introduce the basic financial statements and to provide an analytical overview of the financial activities of the County. The MD&A begins on page 3 in the "Financial Section" of this CAFR.

PROFILE OF THE COUNTY OF MONTEREY

Overview of the County

Monterey, described as the "Greatest meeting of land and sea" celebrated its quadricentennial in 2002. In 1602, Spanish merchant Sebastian Vizcaino became the first European on the Monterey Peninsula. He christened Monterey after the viceroy of New Spain, Count de Monte Rey. Eventually, the City of Monterey served as California's first capital, where the State constitution was signed in 1849. Monterey County is one of the 27 original California counties, incorporating in 1850.

The County is a general law county. The County government is comprised of ten elected officials including a five-member Board of Supervisors, the Assessor-Clerk-Recorder, the Auditor-Controller, the District Attorney, the Sheriff and the Treasurer-Tax Collector; all elected to four-year terms. A County Administrative Officer (CAO) is appointed by the Board of Supervisors and functions as the Chief Executive. Averaging 4,584 full-time equivalent employees, the County government provides a full range of public services including public safety, roads and facilities, social services, administrative services, health services, sanitation services and leisure services. Typically, the department heads who run these operations, other than the elected department heads, report to the CAO.

With an area of about 3,300 square miles, the County of Monterey borders the Pacific Ocean almost at the midpoint of California with 99 miles of coastline. The County is located about 100 miles south of San Francisco and 240 miles north of Los Angeles. It is bordered by Santa Cruz County to the north, San Benito (originally part of Monterey County), Fresno and Kings Counties to the east and San Luis Obispo County to the south. The January 1, 2007 estimated population of the County is 410,206, down 3.4% from 2006. About 98% of the 3,300 square miles in the County are outside of a municipality, with about 25% of the residents living in these unincorporated areas. The City of Salinas is the County's largest city with approximately 148,350 residents as of January 1, 2006, down .3% over 2005, and serves as the County seat. The eleven other incorporated cities are Carmel-by-the-Sea, Del Rey Oaks, Gonzales, Greenfield, King City, Marina, Monterey, Sand City, Seaside, Soledad and Pacific Grove.

There are two distinct sub-regions in the County. One is the Monterey Peninsula, world famous for beautiful ocean views, opulent homes, 17-mile drive, delicious seafood and world-class golf courses. The other, the Salinas Valley, is equally renowned as an area full of fertile farmland, running almost the entire length of the County and is one of the world's most fertile major vegetable producing areas.

The County also benefits from two wilderness areas set aside for recreational enjoyment, consisting of 468,538 total acres. The Los Padres National Forest has 304,035 acres and the Ventana Wilderness totals 164,503 acres.

LOCAL ECONOMY

The local economy centers on Agribusiness, Tourism and Government. Service occupations, agriculture and government combined provided 63% of the County's employment base.

Agribusiness:

Monterey County is the third highest agricultural-producing county in the State. According to the Monterey County Agricultural Commissioner, the gross production value of County agribusiness in calendar year 2006 was $3.5 billion dollars. This is an increase of more than 4% over the 2005 number of $3.3 billion. Agribusiness continued to prosper despite the obstacles that plagued the industry this past year.

Monterey County has 2,127,359 total acres, out of which approximately 240,400 acres are prime or important farmland, over one million acres are grazing land and 764,982 acres are in the Williamson Act Agricultural Preserves and Farmland Security Zones. From June 2006 to June 2007, the California Employment Development Department reported a decrease of 3,400 farm-related jobs, from 52,600 to 49,200.

Table is in millions per Calendar Year:

Year	Vegetables	Fruit & Nuts	Nursery	Live Stock Dairy	Field Crops	Seed	Apiary	TOTAL
2006	$2,386.8	$699.3	$339.2	$38.3	$16.9	$9.6	$.04	$3,490.1
2005	$2,323.4	$685.6	$276.2	$40.2	$15.5	$6.0	$.03	$3,346.9

Wine grape production value came in closer to historical averages, declining $36.6 million or 14% below last year's record-breaking values. As the demand for organic and miscellaneous vegetables climb, organic acreage has grown from 16,410 acres, valued at $155,536,239 in 2005 to 17,357 acres at $226 million in 2006, a respectful 8.5% increase, while the miscellaneous category rose 11% on stronger pricing. Both categories should continue to enjoy an upward trend in their relatively new industry status. In addition, the U.S. Department of Agriculture has proposed a farm bill which dedicates $5 billion to support several locally grown crops. This is historic in that funds have never been specifically set aside for specialty crops.

Monterey County's agricultural industry continues to be the leader in the local economy, as well as within California, with more than forty (40) crops exceeding $2.7 million in production value. In 2006, some 590 million pounds of Monterey County produce were shipped to more than fifty (50) countries.

Tourism:

Tourism is the second largest industry in the County and continues to increase, generating $2.16 billion in gross revenue in calendar year 2006, an increase of .18 billion from 1.98 billion in 2005. According to information gathered from Economic Fast Facts, a website specializing in economic statistics, contributing factors are The Car Week (Concourse) and the Monterey Bay Aquarium, both reporting record-breaking attendance. Monterey County Transient Occupancy Tax (TOT-Hotel Tax) for fiscal year 2006-07 was up $1.34 million over the previous year, an increase of 7.97%. Interestingly, there were fewer people employed by the tourism industry in 2006, numbering 22,700 people, down 1,300 from 2005.

Sales & Use Tax Trends (net collections on a cash basis):

	FY 2002-2003	FY 2003-2004	FY 2004-2005	FY 2005-2006	FY 2006-2007
Unincorporated Area	$6,840,749	$6,836,761	$7,578,948	$8,469,568	$8,645,626
% Increase	-8.0%	0.0%	11.0%	12.0%	2.0%
Countywide	$49,251,646	$48,893,588	$52,762,320	$56,306,108	$57,772,717
% Increase	-3.37%	-0.01%	7.91%	6.72%	2.60%
Unincorporated as % of Countywide	13.9%	14.0%	14.4%	15.0%	15.0%

County receipts of sales tax increased 2% in fiscal year 2006-07 over fiscal year 2005-06, which was very modest compared to the prior two fiscal years. An increase in sales taxes from hotels, restaurants, groceries and fuel is largely attributable to climbing prices, which were then offset by a decrease in housing/building related materials sales.

Sales Tax in the CAFR does not reflect the actual sales tax. This is due to the State of California taking 25% of all local government sales tax to pay for State Deficit Reduction Revenue Bond Debt Service ($2,209,621 from Monterey County); more fully explained in the "Triple Flip" section on page xii. The State repayment of 25% Sales Tax is shown on the Government-wide statements in property tax.

Employment:

The substantial seasonal employment involved in the tourism and agriculture industries generally results in higher average and large fluctuations in the unemployment rates for the County. Consequently, according to the State Employment Development Department, in 2006-07 unemployment varied from a high of 10.8% in January 2007 to a low of 4.6% in October 2006 compared to a statewide average of 5.3% in January 2007 and 4.4% in October 2006. This is compared to 2005 numbers for the County from a high of 10.7% in January to a low of 5.0% in October.

Overall, the State of California and the County of Monterey both had lower unemployment rates for all periods ranging from the slight increase of 0.3% to 1.1% reductions for FY 07 from FY 06.

Housing:

The 2006 median price of a home in Monterey County was $655,700 down slightly from $659,000 in 2005, a .5% decrease. Total sales continued to decrease, dropping another 34.7%. Average days on the market were 110, up from 88 days in 2005. According to local real estate information, the trend is that sellers are staying close to the asking price. This has resulted in fewer offers being accepted, with a high percentage of homes falling out of escrow. For the homes that sell, buyers are paying around 95% of the seller's asking price.

Government:

Various government agencies provide work for almost 19% of the County's employed workers, with almost 70% of that number working for local governments.

Total expenses (accrual basis) of all County Funds for fiscal year 2006-07 was $668.9 million, an increase of $4.4 million or 0.6% over fiscal year 2005-06 totals of $664.5 million, and $8.5 million or 1.3% over fiscal year 2004-05 totals of $660.4 million.

FACTORS AFFECTING FINANCIAL CONDITION

Accounting Information

The accounts of the County are organized on the basis of funds, each of which is considered a separate entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues and expenditures or expenses as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which the spending activities are controlled.

Budgetary Process

The County is required by State law to adopt a balanced budget by July 1 of each fiscal year. The process begins in December with budget instructions issued to departments by the County Administrative Officer (CAO). The various departments develop departmental budget requests by April. After the CAO reviews the various departmental requests, the CAO prepares the County recommended budget, which is summarized by program cost centers, and submits it to the Board of Supervisors prior to budget hearings in June. July 1 is the start of the fiscal year. The County Auditor-Controller is responsible for monitoring and reporting expenditures within budgeted appropriations. The Board of Supervisors has established a Budget Committee with two members of the Board of Supervisors. This committee meets monthly to review financial and program issues of the County. Each quarter the Board of Supervisors receives a summary review of the County's operating results as compared to the budget, with an analysis by the CAO. The legal level of budgetary control is at the Department level.

Budget information is presented for the general fund, special revenue funds, debt service funds and capital project funds. This budget data is prepared on the modified accrual basis consistent with comparable actual amounts. Budgets are also adopted for the enterprise fund (Natividad Medical Center). Budget appropriations are presented for the original budget and the final budget, which is the original amounts adjusted by budget transfers and appropriation amendments. Variances on "Budget Comparison Statement" are measured against the final budget.

Encumbrance accounting is utilized during the year for budget control purposes. Encumbrances outstanding at year-end do not constitute expenditures or liabilities, but rather restrictions (reserves) of net assets. The County does, however, honor the contracts represented by year-end encumbrances. Unencumbered budget appropriations lapse at the end of the fiscal year. Board of Supervisors policy requires re-appropriation of carryover capital improvement projects on an annual basis after review of each project status.

The County Administrative Officer or his designee approves amendments or transfers of appropriations between major object classes of expenditure within the same department. The Board approves supplemental appropriations, which are normally financed by unanticipated revenues during the year.

Factors Affecting the Fiscal Year 2006-07 Budget:

Please see Management Discussion and Analysis, page 3 of this report for a complete analysis of the FY 2006-07 Budget.

Debt Administration

Section 17a of the Securities Act of 1933 and Section 10b and Rule 10b-5 of the Exchange Act of 1934 generally prohibit misleading disclosures pertaining to securities. Pursuant to disclosures made in the offering statements relating to the County's outstanding bonds, the County has undertaken to provide Continuing Disclosure required by Securities and Exchange Commission rule 15c2-12. The County has elected to disseminate its Comprehensive Annual Financial Report for this purpose through its Dissemination Agent and Trustee, Union Bank of California, N.A. No events have arisen in the last year which would rise to the level of required disclosure under the eleven scenarios presented in the rule.

The Board adopted a formal written Public Financing Policy for the management of the County's debt on May 19, 1998, as well as a Mello-Roos financing policy on October 8, 2002. The policy provides general guidelines for the decision making process with regard to the issuance of debt instruments, with the goal of utilizing debt as a major financing tool for the County. The use of debt must provide general or specific benefits to its citizens in relation to the cost of repayment levied upon those citizens.

During fiscal year 06-07, the position of "Debt Manager" was created and filled under the purview of the Auditor-Controller to assume the daily debt administration responsibilities from the County Treasurer. This position is responsible for debt service, analysis, continuing disclosure, and administration of County debt. In addition to refining policies and procedures, the Public Financing Policy is being revised for presentation to the Board of Supervisors for adoption.

County Debt Obligations

Fiscal year 2006-07 brought about positive changes to the County's financial position regarding debt. On May 3, 2007, the County issued 2007 Refunding and Public Facilities Financing in the form of Certificates of Participation (2007 COP's) in the amount of $152,680,000. Three issues were refunded saving taxpayers over $4.17 million, or approximately 4.49% of refunded par. The issue not only provided $17.0 million in funding for a long needed County parking garage to remove over 500 cars from neighborhood streets surrounding the new government center, but also $24.8 million for the completion of the Courthouse North Wing Renovation, $6.2 million for the Courthouse East and West Wing Remodel, and $5.3 million for Renovation of Natividad Road Health Department Headquarters.

At fiscal year end, the County's total outstanding debt including estimated self-insurance liabilities and compensated absences was $255.4 million for Government Activities and $77.6 million for Business Type Activities. Prior year debt was $201.1 million for Governmental Activities and $79.4 million for Business Type Activities. Change in Governmental Activities is primarily due to the issue of the COP. Change in Business Type Activities is primarily due to the principal payment of outstanding COP.

Continuing Disclosure

Previous issues refunded by the 2007 COP's were the 1993 Refunding Certificates of Participation (1985 Sheriff's Facility Project), the 1996 Natividad Medical Center Improvement Project, Series D bonds, and the 2001 County of Monterey Certificates of Participation (Master Plan Financing). At the time of the 2007 COP issuance, the County had failed to spend $13.0 million of the 2001 North Wing Renovation proceeds due to the discovery and subsequent remediation of asbestos. The County employs Bondlogistix, LLC to calculate any arbitrage rebate required.

The $53.3 million of new money raised by the 2007 COP issue was set aside in the Acquisition Fund at the trustee. Unforeseen project delays have caused the County to fail to incur a binding obligation to one or more unrelated parties involving an expenditure of not less than 5% of the Net Sale Proceeds within six months after issuance as required by the Three-Year Temporary Period exception to the Arbitrage Yield Restriction rule under the Internal Revenue Code of 1986. However, the County has proactively implemented measures to accelerate the construction and completion of all applicable projects. The County reasonably expects that 85% of the Net Sale Proceeds will be spent to pay costs of executing and delivering Obligations allocable to the Non-refunding Portion and costs of the New Money Project before May 3, 2010.

At the County's direction, the 2007 COP new money proceeds were invested in a Guaranteed Investment Contract (GIC) with Morgan Stanley and Co. at a rate of 4.832%. At the time of investment, the County delivered a draw schedule setting forth estimated dates and amounts of withdrawals as a guide for maturities within those investments. As of December 1, 2007 the County was behind on draws by approximately $6.5 million. The County is proactively working with the GIC provider to protect the integrity of the commitment and assure interest accumulation.

Credit Rating

The County submitted to a credit review by two of the Nationally Recognized Statistical Ratings Organizations (Fitch and Moody's) just prior to the 2007 COP issuance. The County's uninsured credit was rated "A3" by Moody's and "A+" by Fitch. These ratings reflect the County's commitment to improve its financial condition and to take necessary measures to resolve the Natividad Medical Center financial problems. The County continues to improve its financial condition and underlying credit ratings.

Proposed Financings

The Water Resources Agency is diligently working toward bringing the "Salinas Valley Water Project" to construction. Revenue sources have been identified and a financing team put in place toward a proposed $38.5 million bond issuance during Spring 2008. This project will increase capacity at the Lake Naciemento Dam to allow for increased water storage there and greater irrigation from the Salinas River. The second phase of the project will allow for diversion from the Salinas River to remedy sea water intrusion into ground water.

The Next Generation Radio System implementation is the project to bring the County and municipal law enforcement, fire, emergency services, and local government field forces into compliance with the Federal Communications Commission (FCC) deadline to terminate the obsolete band width currently utilized by January 2013. The Information Technologies department is working with a coalition representing the municipal agencies in planning and implementing this very valuable technology. Details of the financing are being finalized, but should have minimal impact on County finances.

Debt Management is monitoring the housing market in determining the feasibility and timing of the anticipated Mello Roos issue surrounding the East Garrison planned community project on old Fort Ord. Due to the precipitous downturn in local and national real estate markets, the issuance of the first tranche of the financing to reimburse the developer for Phase I infrastructure has been delayed by at least 6 months until December 2008, awaiting a change in conditions. Further delays based on market saturation, housing valuations, and other market conditions could warrant further delays in financing and completion.

Pending Litigation

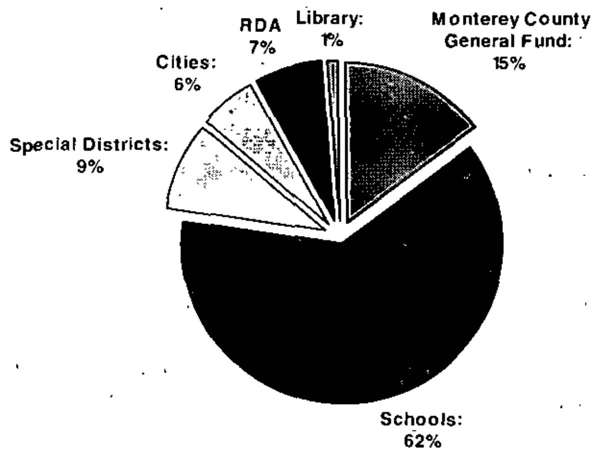
The County has potential liability in the case HYH Corporation v. County of Monterey (Monterey Superior Court case no. M46616), a Petition for Writ of Mandate and Complaint filed in 1999 alleging violation of the State and Federal Constitutions, state Planning and Zoning law, and the California Environmental Quality Act. As a result of rulings of the court thus far in the case, the County is potentially liable for substantial monetary damages, estimated in the range of $45,000,000 to $150,000,000, due to alleged delays in processing applications for development submitted by the H-Y-H Corporation to the County. The damages claim is currently scheduled for trial in May 2008, and liability is likely in the event the case goes to trial. However, the parties are in intensive negotiations to settle this case. It is likely that the parties will settle the case or continue the trial date beyond the 2007-08 fiscal year. The contemplated monetary settlement amount is significantly less than the estimated exposure.

Property Tax Collection and Apportionment

Property taxes levied countywide (secured, unsecured and unitary) rose in fiscal year 2006-07 to $541.7 million, an increase of 11.1% over the previous fiscal year total of $487.6 million. The Auditor-Controller calculates the local property tax bills based on assessed values as provided by the Assessor. The Treasurer-Tax Collector then distributes the tax bills and is charged with collection. In fiscal year 2006-07 the Auditor-Controller apportioned the revenue as follows:

- Monterey County General Fund 15%
- Schools 62%
- Special Districts 9%
- Cities 6%
- Redevelopment Agencies 7%
- Library 1%

Percentages are exclusive of the "Triple Flip" effect described on page xii.



Including the "Triple Flip" effect, the County portion of property taxes collected increased by \$10,262,511 from the prior year amount of \$127,362,680 to \$137,625,191. The increase is a result of the annual percent increase in assessed value allowed by Proposition 13, offset by a small decrease in supplemental property taxes stemming from the County experiencing the beginning of the current slowdown of housing sales. In June 1978, Proposition 13 amended Article 13A of the California Constitution, limiting increases in assessed value to no more than 2% per year, but upon sale the full assessed value is assigned. Educational Revenue Augmentation Fund (ERAF) III expired in FY 2005-06, thus there was no payment made to the State in FY 06-07.

Cash Management

The County sponsors an investment pool that is managed by the County Treasurer-Tax Collector for the purpose of earning interest through investments. The State of California statutes require certain government entities and special districts to maintain their surplus cash with the County Treasurer-Tax Collector. Cash and investments for most County activities are included in the investment pool. A condensed statement of net assets and changes in net assets for the County Investment Pool is found on page 54 of the "Notes to Financial Statements."

The California Government Code statutes and the County's investment policy govern the County's investment pool activity. The County's investment policy has the following objectives: safety, liquidity and yield. Those statutes and policy authorize the County Treasurer-Tax Collector to invest in securities issued by the U.S. Government and its Agencies, certain corporate bonds and notes, bankers' acceptances, certificates of deposit, commercial paper, repurchase agreements, and the State of California Local Agency Investment Fund. Individual securities in the investment pool have a statutory maximum maturity limitation of 5 years, and the County's Investment Policy imposes a maximum weighted average maturity of 2 years on the entire portfolio.

The County pool of investments earned a rate of return for the Fiscal Year ending June 30, 2006 of 3.72%; for FY 06-07 the rate was 5.06%; the expected rate for FY 07-08 is 4.35 – 4.85%. The downward trend is due to recent federal funds rate decreases by the Federal Reserve Bank.

Risk Management

Monterey County safeguards its assets from various risks of losses utilizing conventional insurance carriers and the management of self-insurance for general liability and worker's compensation. Note 18: Insurance and Contingent Liabilities contained in the Notes to the Financial Statements details the various insurance coverage limits, carriers and other risk financing activities.

Reserve Policy

Strategic Reserves

- The Monterey County Board of Supervisors adopted a formal reserve policy for strategic reserves and contingencies. The policy was unanimously adopted in ordinance form beginning in fiscal year 2004-05, General Fund reserves will be funded over eight years to equal ten percent of General Fund budgeted revenues. The reserve is established for use in legal judgment settlements against the County, economic downturns, natural disasters and reductions in State and Federal Aid.

Capital Improvements Plan

- In fiscal year 2006-2007 the Monterey County Board of Supervisors unanimously approved and accepted the second annual Capital Improvements Program (CIP) covering the five-year period between fiscal years 2007-08 and 2011-12. The plan categorizes current and future capital project needs into three orders of importance: "A" being the highest priority, "B" and "C" being of lesser priority. The plan identifies the following "A" level priorities and the associated estimated costs:

- General Fund Projects – $410.373 million
- Parks Fund Projects – $7.633 million
- Public Works (Road Fund) Projects – $90.212 million
- Redevelopment Agency – $76.600 million
- Library Projects – $40.700 million
- Water Resources Agency – $371.851 million
- Medical Center Projects – $16.922 million

California State Budgetary Difficulties

California local governments are particularly vulnerable to State budgetary difficulties. Because the State of California acts as a pass-through entity for most County revenue, delays in payment of revenues to the County may, depending on the extent, result in significant financial consequences. These impacts will negatively affect the County budget and therefore decrease the ability to provide services. Additionally, unforeseen delays may affect the County's ability to cover short and medium-term cash needs.

In addition, due to the State implementation of the Educational Revenue Augmentation Fund III (ERAF III) program, Monterey County forfeited an additional $3.8 million in property tax revenue in each of fiscal years 2004-05 and 2005-06 to the State of California to cover State shortfalls in schools funding. ERAF III was a two year program ending June 30, 2006, thus no payment was made in fiscal year 2006-07.

State of California Takeaway – the "Triple Flip"

In FY 04, the State of California issued State Deficit Reduction bonds under Proposition 57. Wall Street wanted a dedicated revenue stream. The State of California then devised a method to secure this dedicated revenue stream called the "Triple Flip"

1. The State would take 25% of the local government 1% sales tax (Cities & Counties). This is to continue for nine (9) years, beginning in FY 2004-05.
2. In January (6 months into the year), the State would require that Counties take property tax which was earmarked for schools and pay back the first 6 months of the sales tax takeaway to the local governments, the State will then have the counties pay the estimated next 6 months in May. The difference between the estimated and actual sales tax in one year will be corrected in the next year payments.
3. Then the State, using State General Fund monies, would pay back the schools.

The State repayment of Monterey County Sales Tax in FY 2006-07 was $2,176,656 and is posted on the Government-wide statements in property taxes.

Vehicle License Fee Backfill:

In addition to the Triple Flip, which delayed the receipt of Sales Tax to local jurisdictions, the State of California cut the Motor Vehicle License Fees (VLF) that the Citizens had to pay late in FY 04. The local share was then effectively cut by 67.5%. The State agreed to pay a VLF backfill to the local jurisdictions. This agreement has no defined end date.

Again the State had the Counties take property tax from the schools to pay the local governments the VLF backfill and then the State General Fund would reimburse the schools for their lost property tax. The State payment for VLF backfill to Monterey County for FY 2006-07 was $38,437,488 and is presented on the Government-wide statements in property taxes.

Natividad Medical Center

Natividad Medical Center (NMC) is the only enterprise fund in Monterey County. The County continues to aggressively investigate actions that will increase the efficiency and effectiveness of NMC. To that end, the County contracted with a nationally known consulting firm that specializes in hospital turn-arounds. The contract is for a two year period, terminating in December 2008.

This strategy is proving effective. For fiscal year ending June 30, 2007, NMC had an increase in net assets of $8.5 million on an operating gain of $0.2 million and net loss before contributions of $3.8 million, with a cash reserve of $12.5 million. The County General Fund contributed $10.4 million to the medical center in fiscal year 2006-07. This is in comparison to fiscal year ending June 30, 2006 when NMC had a decrease in net assets of $2.6 million on an operating loss of $24.893 million and net loss before contributions of $29.391 million, with a cash reserve of $239,526. The County General Fund contributed $26.776 million to the medical center in fiscal year 2005-06.

Some factors in the financial turn-around at NMC are as follows; NMC experienced over a $25 million increase in Net Revenue in FY 07 vs. FY 06. Approximately $12 million of this increase came from increased Government Funding ($40 million in FY 07 vs. $28 million in FY 06). There are approximately 7 categories or programs that drive government funding including Disproportionate Share funding (DSH), AB 915, SB 1732, CHIP and MIA. All of these programs were maximized during FY 07 along with implementing processes to maximize these funding sources in future years. The residual approximately $5 million in additional improved Net Patient Revenues in FY 07 vs. FY 06 came from careful training and optimal management of all patient business processes from the registration process, to the billing and collection processes.

The challenge will be to acquire permanent management staff that will build on the progress that has been achieved thus far.

In addition, on July 18, 2006, the County entered into an agreement with the Salinas Valley Healthcare System, a California local public health care district (District), and the Community Hospital of the Monterey Peninsula (CHOMP), a duly licensed hospital located in Monterey. Because the District and CHOMP are committed to maintaining and improving the health of all residents in the County of Monterey, each entity has committed to contributing $4 million dollars each to NMC, to be used for the sole purpose of creating operational and/or capital improvements at NMC. In addition, a new Board of Trustees has been created including two appointed from the District, two appointed from CHOMP, one appointed by the County, one County of Monterey Board of Supervisors member and the CAO. However, due to federal regulations, four million dollars of these contributions will probably be offset by a four million dollar reduction in federal reimbursements.

Previous Fiscal Years:

For fiscal year end, June 30, 2005, NMC had an increase in net assets of $26.5 million and a cash reserve of $1.4 million.

The $26.5 million increase in net assets was primarily a result of:

1. The reclassification of two internal loans from the County totaling $42.3 million. Due to the hospital's current and projected operating losses and the resulting poor cash flow, the County determined the loans to be uncollectible and the loans were reclassified as contributed capital to more appropriately reflect the current status of the transactions. This reclassification does not impair the Board of Supervisors from recovering part or all of the paid in capital should operations at the hospital eventually turn profitable (See note below on Impaired Assets).

2. A net loss of $15.8 million due primarily to:
    - Billing difficulties
    - Rapidly increasing cost of business

The medical center remains negatively impacted by chronic factors common to all California County operated hospitals. These include rapidly escalating medical costs, marketplace competition for skilled personnel, decreases in federal and state assistance to public hospitals and a continued deterioration in patient ability to pay for services. Lingering operational issues also present challenges, including an outdated financial infrastructure and inefficient billing practices.

County management continues to vigorously strive to mitigate these issues. Some key factors include:

- The outdated financial/billing system has been replaced with the new Meditech system, which went live on July 1, 2005.
- A consultant has been hired to continue to implement "best business practices' at the hospital and to assist the staff to maximize revenues and minimize costs.
- Competition for skilled medical help, especially nurses, continues to escalate costs.

- Uncertainty in Federal and State funding makes budgeting and other planning processes more difficult than usual. NMC is dependent on this revenue stream.
- Delays in certain payments of State and federal aid until June negatively impact cash-flow for eleven months of the fiscal year

Impaired Asset Write-off and Reclassification of "Note Payable to County" to "Contributed Capital":

Due to operational losses, poor cash flow and delays in certain State and federal subsidies at NMC, it has been necessary to provide working capital to the hospital from the County General Fund. Beginning with FY 1997-98, by fiscal year end, the hospital was unable to repay these short-term outstanding cash balances. Therefore, for financial reporting purposes, these transfers were presented as loans to the hospital from the General Fund in the General Purpose Financial Statements.

Although these are not loans in the legal sense of the term (NMC and the County are the same entity), this reporting treatment reflects both the operational difficulties at the hospital and the adopted policy of the Board of Supervisors.

By fiscal year end 2002-03 the Auditor-Controller of the County together with the County Administrator's Office determined that NMC would not be able to repay previous loans, even as the need for additional working capital cash and operating losses increased. By this time, the outstanding balance had reached $30,035,609. In addition, a construction loan from the Capital Improvement Fund could no longer be serviced. The balance of that loan was $11,005,252. Total internal loans to the hospital at June 30, 2003 were $41,040,861.

As a result, for the year ended 6-30-2003, the Auditor-Controller recorded a contra-asset, "allowance for impaired assets" for the amount of the two loans, reflecting the fact that the General Fund was providing cash to NMC and in effect, removing the assets. It was hoped that a solution to the systemic operational issues at the hospital could be resolved shortly and that NMC would be able to continue to service these loans in the medium term. Therefore, the note payable to the County General Fund and Capital Improvement Fund continued to be presented in the hospital's financial statements.

By FY 2004-05, it was apparent that a solution for the systemic problems at the hospital would take significant time and effort and that the hoped-for medium term solution was not possible. Therefore, the hospital could not begin to repay the loans in the foreseeable future. Given this additional information, we then determined that a more appropriate presentation would be to reclassify the note payable as contributed capital. The amount of the note payable/contributed capital recorded in FY 2004-05 was $42,253,003. The reclassification of the note payable was the major reason the hospital showed an increase in net assets of $26.5 million as discussed above. The assets and corresponding contra-assets were removed from the General Purpose Financial Statements.

Future year-end outstanding cash balances will be recorded as "Contributed Capital" until such time that NMC can demonstrate an ability to service short-term loans.

Additionally, we have changed the accounting for certain subsidies at NMC that we believe provide better reporting around the operations and cash flow.

Depending on the extent of the impact that future Federal and State budgetary shortfalls have on the County; the ability of the General Fund to subsidize NMC operations may be in doubt.

Pension Benefits

The County of Monterey is a member of the California Public Employee's Retirement System (CalPERS). Recent changes in actuarial assumptions and benefit levels have significantly increased pension costs in recent years.

According to the CalPERS Actuarial Valuation Report as of June 30, 2006, the funded ratio based on Market Value of Assets (MVA) has increased by 3.7% from 95.2% to 98.9% for General (Miscellaneous) plan. For Safety plan, the increase was 4.0% from 78.8% to 82.8%.

For the detail discussion of the pension benefits, please refer to Note 11: Employee's Retirement Plan and Post Retirement Benefits contained in the Notes to the Financial Statements.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) has awarded the Certificate of Achievement for Excellence in Financial Reporting to County of Monterey for its 2005-06 Comprehensive Annual financial Report (CAFR). The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management.

A Certificate of Achievement is valid for a period of one year only. We believe our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The CAFR has been judged by an impartial panel to meet the high standards of the program including demonstrating a constructive "spirit of full disclosure" to clearly communicate its financial story and motivate potential users and user groups to read the CAFR. This is the first time the County has received the GFOA award.

The GFOA is a nonprofit professional association serving approximately 16,000 government finance professionals with offices in Chicago, IL and Washington, DC.

Acknowledgments

I extend my thanks to my staff in the Auditor-Controller's Office who have performed above and beyond the call of duty, making many significant improvements to this CAFR and the reporting function in general, even though there was significant turnover in the General Accounting Division. I also wish to thank the staff in the Budget Office, and all the departments and agencies that contributed financial information to this report and to Bartig, Basler & Ray, LLP for their dedication and hard work. I also thank the Board of Supervisors for their support in planning and conducting the financial operations of the County of Monterey in a responsible and progressive manner.

Respectfully Submitted:

Michael J. Miller, CPA, CISA
Auditor-Controller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

County of Monterey California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

State of California
Office of the Controller

Award for Achieving Excellence in Financial Reporting

Presented to

County of Monterey

For its Year-End Financial Reports
For the Fiscal Year Ended June 30, 2006

This Award for Achieving Excellence in Financial Reporting is presented by the California State Controller to your County for achieving the highest quality in California government accounting and financial reporting.

JOHN CHIANG, California State Controller
Dated at Sacramento, California, this 16th day of October 2007

COUNTY OF MONTEREY

DIRECTORY OF COUNTY OFFICIALS

Elected Officials:

Legislative Branch:

Board of Supervisors

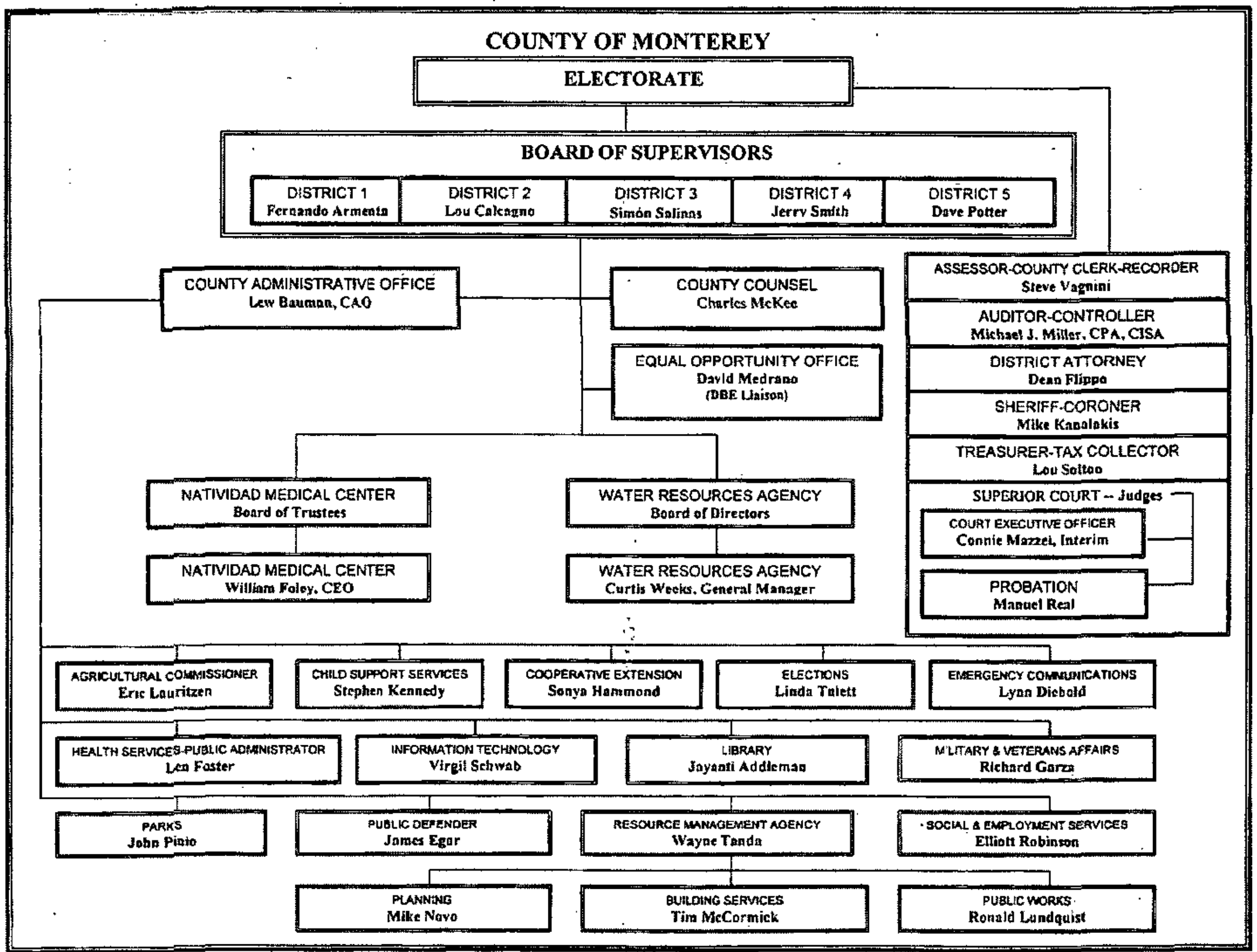
District #1 .... Fernando Armenta
District #2 .... Louis R. Calcagno
District #3 .... Simon Salinas
District #4 .... Jerry Smith
District #5 .... Dave Potter

Executive Branch:

Assessor-County Clerk-Recorder .... Stephen Vagnini
Auditor-Controller .... Michael J. Miller, CPA, CISA
District Attorney .... Dean Flippo
Sheriff-Coroner-Public Administrator .... Mike Kanalakis
Treasurer-Tax Collector .... Louis G. Solton

Appointed Department Heads:

County Administrative Officer .... Lew Bauman
Agricultural Commissioner .... Eric Lauritzen
Building Services Director .... Tim McCormick
Child Support Services Director .... Stephen Kennedy
Cooperative Extension Director .... Sonya Varea-Hammond
County Counsel .... Charles McKee
County Librarian .... Jayanti Addleman
Emergency Communications Director .... Lynn Diebold
Equal Opportunity Officer .... David Medrano
Health Services Director .... Len Foster
Information Technology Director .... Virgil Schwab
Military and Veterans' Affairs Officer .... Richard Garza
Natividad Medical Center Chief Executive Officer .... William Foley
Parks Director .... John Pinio
Resource Management Agency Director .... Wayne Tanda
Planning Director .... Michael Novo
Public Defender .... James Egar
Public Works Director .... Ron Lundquist
Registrar of Voters (acting) .... Linda Tulett
Social Services Director .... Elliott Robinson
Water Resources Agency General Manager .... Curtis Weeks



Electorate Org Chart: Updated 11/14/07

Financial Section

BARTIG, BASLER & RAY, LLP
A GALLINA LLP COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
County of Monterey, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Monterey, California (County), as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the County of Monterey, California. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Monterey, California, as of June 30, 2007, and the respective changes in financial position and cash flows , where applicable, and the respective budgetary comparisons for the General Fund and major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued under separate cover our report dated December 17, 2007, on our consideration of the County of Monterey's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Supervisors
County of Monterey, California

The Management's Discussion and Analysis (MD & A) and the required supplementary information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules and detailed budget schedule have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

BARTIG, BASLER & RAY, LLP
A GALLINA LLP Company

Bartig, Basler & Ray, LLP

Roseville, CA
December 17, 2007

COUNTY OF MONTEREY
MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the County of Monterey's (the County) annual report presents the discussion and analysis of the County's financial performance during the fiscal year that ended on June 30, 2007. Please read it in conjunction with the transmittal letter at the front of this report and the County's financial statements, which follow this section. All amounts, unless otherwise indicated, are expressed in millions of dollars.

FINANCIAL HIGHLIGHTS

- The assets of the County exceeded its liabilities at the close of the year by $706.1 (net assets). Of this amount, $80.1 represents *unrestricted net assets,* which will be available to meet the County's ongoing obligations to citizens and creditors. *Restricted net assets* of $105.7 may be used for the County's ongoing obligations related to programs with external restrictions. The remaining $520.3 represents the County's investment in capital assets, less any related outstanding debt used to acquire those assets *(invested in capital assets, net of related debt).* (See Table 1 – Net Assets.)

- The County's total net assets increased by $57.4 during the current fiscal year. The increase in net assets represents the degree to which revenues exceed expenses. (See Table 1 – Net Assets and Table 2 – Change in Net Assets).

As of June 30, 2007, the County's governmental funds reported total ending fund balances of $283.8, increasing by $65.9. Approximately 89.5%, or $254.1, of this total amount, is available for spending *(unreserved fund balance).* $129.3 of the unreserved balance is for Capital Projects and $31.8 is for Special Revenue fund purposes such as Water Resources, Community Development, and the Road fund. Of the remaining $93.1 unreserved fund balance, $1.0 is earmarked by management for self-insurance purposes, and $54.3 is designated by the Board of Supervisors for special purposes. Please refer to Note 10 for more specific details. (See further discussion in Financial Analysis of the County's Funds beginning on page 11.)

- At the end of the current fiscal year, the General Fund shows $92.3 in unreserved fund balance, which is an increase of $14.4 or 18.5% from the prior year. (See further discussion in Financial Analysis of the County's Funds beginning on page 11.)

- The County's total long-term debt increased by $53.4 or 26.8%. (See Table 4 – Long Term Debt.) The increase is due to the new issue of Certificates of Participation for refunding and public facilities financing.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

Government-wide financial statements The Government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business and are presented on a full accrual basis.

The *statement of net assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *statement of activities* presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows.* Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

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 are administration and support, public safety and protection, public ways and facilities, health and sanitation, public assistance, education, and recreation and culture. The County has one business-type activity: Natividad Medical Center.

Component units consist of legally separate entities for which the County is financially accountable and that have substantially the same governing board as the County or provide services entirely to the County. The County has six blended component units (See Note 1 for more details).

The government-wide financial statements can be found on pages 19 – 21 of this report.

Fund financial statements A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statements of revenues, expenditures, and changes in fund balances provide reconciliation to the government-wide financial statement in order to facilitate this comparison between governmental funds and governmental activities.

The County maintains over 130 individual governmental funds. For financial reporting purposes, these funds have been combined into 5 groupings. The County segregates within the governmental funds the General Fund, the Road Fund, the Community Development Fund, the Facility Master Plan Implementation Fund and a grouping for all non-major funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for these four funds, which are considered to be major funds according to the rules stated in Government Accounting Standards Board Statement No. 34 (GASB 34). Data for the remaining governmental funds are combined into the presentation of Other Governmental Funds. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements located in the Combining and Individual Fund Statements and Schedules section of this report.

The County adopts an annual appropriated budget for all of its operating funds. A budgetary comparison statement has been provided for the General Fund, Special Revenue Funds, Capital Project Funds and Debt Service Funds to demonstrate performance against this budget. For individual fund budget comparison, please see the required Supplementary Information schedules.

The governmental funds financial statements can be found on pages 25 – 31 of this report.

Proprietary funds Proprietary Funds include both Internal Service Funds and Enterprise Funds within the County's Comprehensive Annual Financial Report.

The County has two Internal Service Funds. These *Internal Service Funds* are used to account for the General Liability and Workers' Compensation Insurance activities.

The County maintains one Enterprise Fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses an enterprise fund to account for its County Hospital, Natividad Medical Center. Proprietary funds provide the same type of information as the government-wide statements, but in more detail, and are presented on a full accrual basis.

The proprietary funds financial statements can be found on pages 32 – 35 of this report.

Fiduciary funds Fiduciary funds are used to account for resources held for the benefit of parties outside the County. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The external portion of the Treasurer's Investment Pool and agency funds are reported as fiduciary funds.

The fiduciary funds financial statements can be found on pages 36 – 37 of this report.

Notes to the basic financial statements The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 39 – 81 of this report.

Other Information In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the County's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 85 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 91 – 146 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by $706.1 at the close of the current fiscal year (Table 1 – Net Assets).

The largest portion of the County's net assets, $520.3 or 73.7% reflects its investment in capital assets (e.g. land, buildings, roads, bridges, machinery and equipment), less any related outstanding debt used to acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used.

A portion of the County's net assets, $105.7, represents resources that are subject to external restrictions for use of the monies. The major restrictions on net assets are for those monies dedicated to specific services such as flood control, sanitation, state and federal restrictions, debt service, federal and state allocations for roads, low income housing funds, emergency medical services, capital projects, and developments of unincorporated areas.

Table 1 – Net Assets (in millions)

	Governmental Activities		Business-type Activities		Total		Total	
	2007	2006	2007	2006	2007	2006	Dollar Change	Percent Change
Current and other assets	$413.1	$320.5	$ 30.3	$ 17.8	$ 443.4	$ 338.3	$105.1	31.2%
Capital assets	572.4	553.5	118.8	124.2	691.2	677.7	13.5	2.0%
Prior period adjustment	-	(3.6)	-	-	-	(3.6)	3.6	-100.0%
Total assets	985.5	870.4	149.1	142.0	1,134.6	1,012.4	122.2	12.1%
Current and other liabilities	83.8	71.9	11.7	11.2	95.5	83.1	12.4	14.9%
Long-term liabilities	255.4	201.1	77.6	79.5	333.0	280.6	52.4	18.7%
Total liabilities	339.2	273.0	89.3	90.7	428.5	363.7	64.8	17.8%
Invested in capital assets, net of related debt	473.0	463.9	47.3	50.6	520.3	514.5	5.8	1.1%
Prior period adjustment	-	(3.6)	-	-	-	(3.6)	3.6	-100.0%
Restricted	105.7	94.2	-	-	105.7	94.2	11.5	12.2%
Unrestricted	67.6	42.9	12.5	0.7	80.1	43.6	36.5	84.9%
Total net assets	$ 646.3	$597.4	$ 59.8	$ 51.3	$ 706.1	$ 648.7	$ 57.4	8.8%

The unrestricted net assets balance represents resources that are available to meet the County's ongoing obligations to citizens and creditors. Unrestricted net assets increased by $36.5 to a balance of $80.1. The improvement is primarily due to increases in charges for services for business-type activities and property tax revenues received mitigated by a modest increase in expenses.

Restricted net assets increased by $11.5 or 12.2% due to a net increase of $9.8 in capital projects, mostly associated with the construction and rehabilitation of certain government center and courthouse complex facilities.

Table 2 – Change in Net Assets (in millions)

	Governmental Activities		Business-type Activities		Total		Total	
	2007	2006	2007	2006	2007	2006	Dollar Change	Percent Change
Revenues								
Program revenues:								
Charges for services	$107.6	$113.1	$133.0	$107.4	$ 240.6	$ 220.5	$ 20.1	9.1%
Operating grants and contributions	294.6	279.7	-	-	294.6	279.7	14.9	5.3%
Capital grants and contributions	.7	7.3	-	-	.7	7.3	(6.6)	-90.4%
General revenues:								
Property taxes	137.6	127.3	-	-	137.6	127.3	10.3	8.1%
Sales & Use Tax	5.8	6.6	-	-	5.8	6.6	(0.8)	-12.1%
Transient occupancy and other taxes	16.9	23.8	-	-	16.9	23.8	(6.9)	-29.0%
Franchise taxes	6.1	-	-	-	6.1	-	6.1	N/A
Other taxes	1.7	-	-	-	1.7	-	1.7	N/A
Grants and contributions	-	-	-	0.9	-	0.9	(0.9)	-100.0%
Unrestricted investment earnings	14.4	12.6	-	-	14.4	12.6	1.8	14.3%
Tobacco settlement revenues	4.2	-	-	-	4.2	-	4.2	N/A
Other	3.0	10.4	-	-	3.0	10.4	(7.4)	-71.2%
Donations	-	-	.7	-	.7	-	.7	N/A
Total revenues	592.6	580.8	133.7	108.3	726.3	689.1	37.2	5.4%
Expenses								
General government	74.4	69.8	-	-	74.4	69.8	4.6	6.6%
Public safety	144.6	153.0	-	-	144.6	153.0	(8.4)	-5.5%
Public ways and facilities	44.8	63.2	-	-	44.8	63.2	(18.4)	-29.1%
Health and sanitation	115.2	93.3	-	-	115.2	93.3	21.9	23.5%
Public assistance	136.4	129.7	-	-	136.4	129.7	6.7	5.2%
Education	6.4	6.0	-	-	6.4	6.0	.4	6.7%
Recreation and culture services	8.3	7.2	-	-	8.3	7.2	1.1	15.3%
Interest on long-term debt	3.2	4.6	-	-	3.2	4.6	(1.4)	-30.4%
Natividad Medical Center	-	-	135.6	137.7	135.6	137.7	(2.1)	-1.5%
Total expenses	533.3	526.8	135.6	137.7	668.9	664.5	4.4	.7%
Changes in net assets before transfers	59.3	54.0	(1.9)	(29.4)	57.4	24.6	32.8	133.3%
Transfers	(10.4)	(26.7)	10.4	26.7	-	-	-	N/A
Increase (decrease) in net assets	48.9	27.3	8.5	(2.7)	57.4	24.6	32.8	133.3%
Net assets, beginning as restated	597.4	573.9	51.3	54.0	648.7	627.9	20.8	3.3%
Prior period adjustment	-	(3.8)	-	-	-	(3.8)	3.8	-100.0%
Net assets, ending	$ 646.3	$597.4	$59.8	$ 51.3	$706.1	$648.7	$ 57.4	8.8%

Governmental Activities Governmental activities increased the County's net assets by $45.3, accounting for 84.2% of the total increase in net assets. The increase is due to operating revenues exceeding operating expenses plus a decrease in transfers made to Business-type activities (See Table 2 – Change in Net Assets).

Revenues Governmental activities' revenue (not including transfers) increased $11.8 from $580.8 to $592.6 or 2.0% as a result of increased property taxes and operating grants offset by a decrease in capital grants revenue.

Charges for Services decreased by $5.5 mainly comprised of $8.7 reclassified to Inter/Intra-fund reimbursements (expenditure reduction) offset by an increase of $3.2 reclassified from Other Revenue.

Operating grants and contributions increased by $14.9. The increase was mainly comprised of realignment funding of $2.0 and revenue recognition of $1.6 from state funds received in prior years for Social Services, revenue recognition of $4.0 from state funds received in prior years by Behavioral Health programs, and grant reimbursements of $5.5.

Capital grants decreased by $6.6 due primarily to completion of a road and bridge construction project for which federal aid of $5.9 was received in FY 2005-06.

Property taxes increased by $10.3. Secured property taxes increased $10.9 due to Proposition 13 assessments and supplemental property taxes decreased $1.9 due to decreased sales and development in the housing market.

Transient Occupancy Taxes, Franchise Taxes and Other Taxes are displayed separately beginning in fiscal year 2006-07. The sum of these taxes increased $0.9 over the prior year combined amount mainly due to an increase in Transient Occupancy Taxes as the Monterey County tourism industry remains strong. Interest and Investment earnings increased $1.8 primarily due to increased cash held in the County Treasury.

Other revenues in FY 2005-06 included the Tobacco Settlement monies, which is displayed separately in FY 2006-07. The combined FY 2006-07 totals decreased from prior year by $3.2 due to reclassification to Charges for Services.

Expenses Governmental activities expenses increased by $6.5 or 1.2% to $533.3. Although the total increase is only 1.2%, significant increases and decreases in the individual functions/programs occurred.

General government expenses increased by $4.6 due to several factors. There was a general increase of approximately $2.8 in Services and Supplies across all General Governmental funds and departments without a significant increase in any specific area. This year the Redevelopment Agency and Planning & Building were correctly reported in General Government, increasing expenses by $3.0 and $9.8, respectively. Negotiated salaries and benefits costs increased $4.2 while other professional services decreased by $6.7. Community Development loans decreased $4.5 and the liability for loss contingencies in the General Liability Fund for self-insurance was reduced by $4.0.

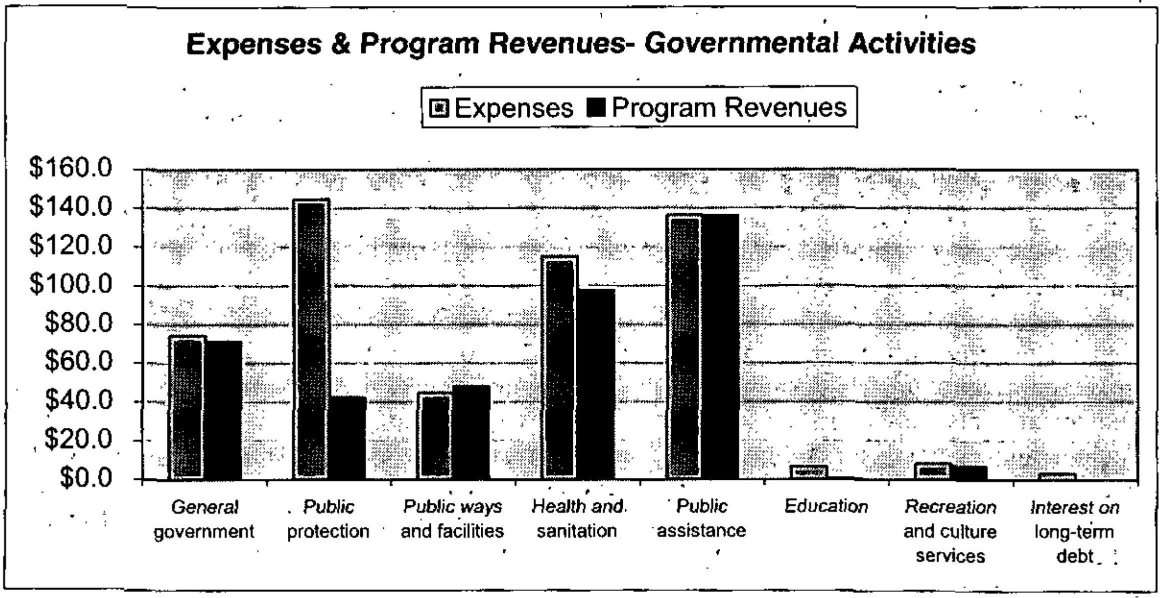
Public Safety expenses decreased by $8.4 mainly due to reduction of Planning & Building expenses reported under this function in FY 2005-06, $11.1, now properly classified in General Government. Negotiated salaries and benefits increased by $4.5 while other professional services decreased by $1.4.

Public ways and facilities expenses decreased by $18.4. This decrease represents properly reclassifying $15.4 in expenses as Construction in Progress and a decrease of $6.7 due to reclassification of inter-fund activities offset by a modest overall increase.

Health and sanitation expenses increased $21.9 from last year. $8.2 is attributed to the implementation of Proposition 63 Mental Health Services Act by the Behavioral Health Division. $7.1 of the increase is from reclassifying services provided by Natividad Medical Center. Salaries and benefits increased by $4.6 as part of the continuing transition and expansion of the outpatient clinic.

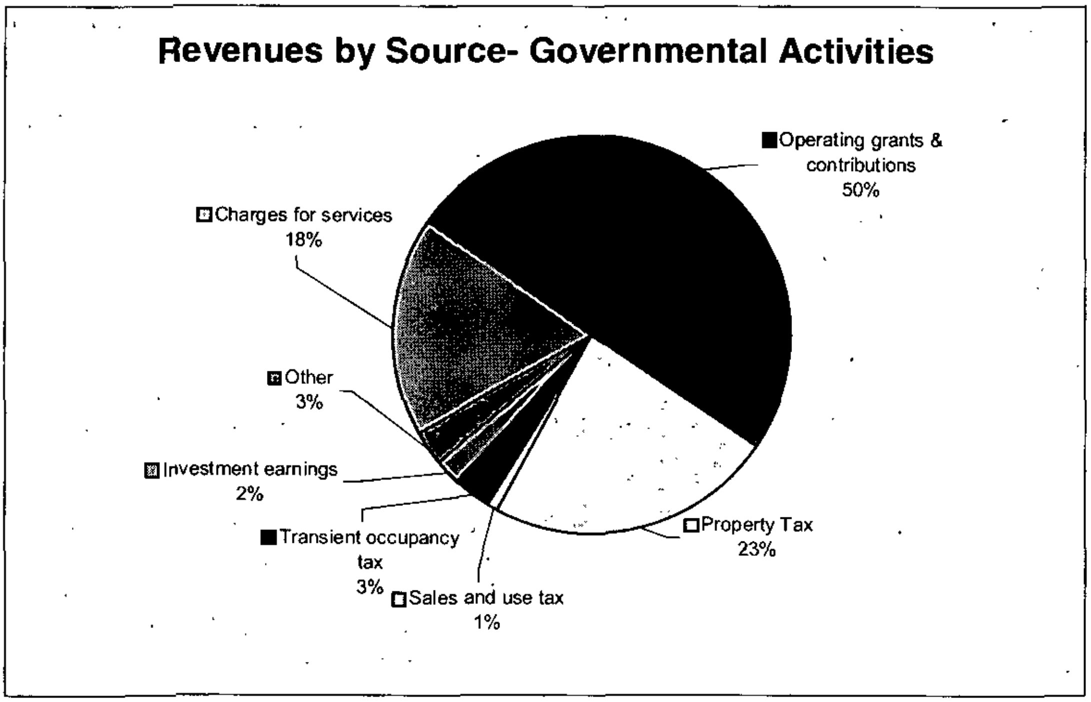
Public Assistance increased $6.7. $3.2 is attributed to increases in program services and $3.5 to salaries and benefits. The decrease of $1.5 in interest for long-term debt was a result of the issue of the 2007 Refunding Certificates of Participation and the timing and accrual of interest due at fiscal year-end. The full time equivalent (FTE) employee count for governmental activities as of June 30 increased from 3,717 in 2005-06 to 3,830.

As shown in the following chart, program revenues are less than the expenses in all functional areas except for Public ways and facilities. The difference between expenses and program revenues totals $130.4.



The short-fall of $130.4 of program revenues to cover associated expenses is offset by general revenues of $189.6 that were intended to fund governmental functions.

Total revenues by sources for governmental activities are shown on the following chart.



Business-type Activities Business-type activities' net assets increased $8.5 or 16.6% to a net ending balance of $59.8. Revenues increased by $25.4 or 23.5% from the prior year. Overall operating expenses decreased by $2.1, or 1.5%. The most notable income change was in Net Patient Revenue. There was considerable effort expended to streamline business office practices, focus on collections and filing of necessary documentation, which in turn allowed staff to fully identify and capture all available funding.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As noted earlier; the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County's governmental funds reported total fund balances of $283.8, an increase of 30.1% from prior year. Approximately 89.5% or $254.1 of the total fund balance constitutes *unreserved fund balance,* which is available to meet the County's current and future needs. A portion of this amount is restricted for use by the County's capital project and special revenue funds to be spent on such items as buildings, roads, bridges, waterways and other programs based on the restrictions dictated by the funding sources.

Designations by management of unreserved fund balance represent funds earmarked for self-insurance, vehicle replacement, and other projects.

The remainder of fund balance is reserved to indicate that the funds are not available for new spending because it has been reserved for the following purposes:

- $12.0 to liquidate contracts and purchase orders of the prior period (Encumbrances)
- $16.4 to pay debt service
- $1.3 for unavailable assets and other reserves

General Fund The General Fund is the main operating fund of the County. At June 30, 2007, unreserved fund balance had a balance of $92.3, an increase of $14.4 from $77.9 reported in the prior fiscal year. The General Fund's total fund balance was $101.1 as of June 30, 2007, an increase of $13.4, or 15.3%, over the prior year.

Road Fund The Road Fund is used to segregate the revenues and expenditures associated with streets and roads within the County. The Road Fund has a total fund balance of $2.2, of which $0.5 *is reserved to liquidate contracts and purchase orders,* $0.1 *is unavailable assets, and* $1.5 *is* unreserved. The total fund balance decrease of 30.2% from the prior fiscal year is due to a combination of factors, which include decreased road and bridge construction projects.

Community Development Community Development is used for a variety of economic development activities. Fund balance was $1.8, of which $.05 is reserved to liquidate contracts and purchase orders.

Facility Master Plan Implementation The Facility Master Plan Implementation Fund has a total fund balance of $85.0, all of which is unreserved. This is a $31.8, or 59.4% increase over the prior fiscal year, due to funding received from the new bond issue for construction and rehabilitation of certain government center and court house complex facilities.

Other Governmental Funds The remaining governmental funds' fund balances increased 26.5% or $19.6 to a balance of $93.7.

Proprietary funds The County's proprietary fund (Natividad Medical Center) provides the same type of information found in the government-wide financial statements, but in more detail. Other factors concerning finances of this fund are addressed in Notes of the financial statements.

GENERAL FUND BUDGETARY HIGHLIGHTS

Original Budget to Final Budget (in millions)

	Original Budget	Final Budget	Increase (Decrease)
Revenues	$501.4	$514.4	$13.0
Expenditures	$493.2	$497.8	$4.6
Other Financing Sources (Uses)	$25.8	$32.5	$6.7

Revenues increase of $13.0:
The final estimated revenue budget increased over the original budget by 1.0%. This was primarily attributed to an $11.8 increase in the revenue budget for Aid from Other Governmental Agencies (operating grants and contributions) due to the receipt of unanticipated Federal and State subsidies in Health and Sanitation, Public Assistance, General Government, and Public Safety.

Expenditures increase of $4.6:
The final budgeted appropriations increased from the original budget by 0.9%. The majority of this amount consisted of increases of $8.1 in Health and Sanitation, $7.0 in Public Safety and $3.5 in Public Assistance. These increases were associated with cost increases in salaries and benefits and services and supplies. The increase was offset by a $14.0 decrease in General Government due to unspent services and supplies and salary savings as a result of vacant positions.

Final Budget to Actual (in millions)

	Final Budget	Actual Amounts	Variance Positive (Negative)
Revenues	$514.4	$506.9	($7.5)
Expenditures	$497.8	$467.0	$30.8
Other Financing Sources (Uses)	$32.5	$28.7	$3.8

Revenues actual was lower than final budget by $7.5:
Taxes, VLF and franchises; Fines, forfeitures and penalties; and Revenue from use of money and property exceeded the budget while Licenses and permits, Aid from other governmental agencies, Charges for services, Tobacco settlement, and Other were lower than budget. These changes contributed to a total net change in actual revenues from the final budget.

Expenditures actual was less than final budget by $30.8:
Salary and benefit cost savings of approximately $9.3 resulted from unfilled positions across all functions and $21.9 resulted from unspent appropriations of program services in general government, public safety, health and sanitation, public assistance, and culture and recreation programs. Capital outlay was over budget by $0.4.

CAPITAL ASSET AND DEBT ADMINISTRATION

Table 3 - Capital Assets (in millions)

	Governmental Activities		Business-type Activities		Total		Total	
	2007	2006	2007	2006	2007	2006	Dollar Change	Percent Change
Land	$ 174.8	$ 174.5	$ -	$ -	$ 174.8	$ 174.5	$ 0.3	0.2%
Structures and Improvements	83.6	83.8	151.0	151.4	234.6	235.2	(0.6)	-0.3%
Equipment	72.7	76.1	34.8	33.5	107.5	109.6	(2.1)	-1.9%
Infrastructure	473.9	456.9	-	-	473.9	456.9	17.0	3.7%
Construction in Progress (CIP)	104.1	86.3	0.1	-	104.2	86.3	17.9	20.7%
Total Capital Assets	909.1	877.6	185.9	184.9	1,095.0	1,062.5	32.5	3.1%
Accumulated Depreciation	(336.7)	(324.0)	(67.1)	(60.7)	(403.8)	(384.7)	(19.1)	5.0%
Net Capital Assets	$ 572.4	$ 553.6	$ 118.8	$ 124.2	$ 691.2	$ 677.8	$ 13.4	2.0%

Capital projects are generally completed over multiple fiscal years and flow through the Construction in Progress (CIP) to completion and are then transferred to Structures and improvements, Equipment or Infrastructure. The County's major capital asset events in the current fiscal year included the Construction in Progress additions for the Courthouse complex and Infrastructure as prior years' CIP was transferred upon completion.

As a result of the implementation of GASB 34, the accompanying government-wide financial statements include those infrastructure assets that were either completed during the fiscal year or considered Construction in Progress at year-end.

Additional information on the County's capital assets can be found in Note 5 on page 58 of this report.

Long-Term Debt At June 30, 2007, the County had total long-term debt outstanding of $253.7. This was an increase of $53.4 or 26.8% from prior year $200.3.

Moody's has assigned an A3 rating to the County with a positive outlook, due to significantly improved financial flexibility and strong financial performance in recent years.

TABLE 4 - Long Term Debt (in millions)

	Governmental Activities		Business-type Activites		Total		Total	
	2007	2006	2007	2006	2007	2006	Dollar Change	Percent Change
Certificates of participation	$ 144.0	$ 87.5	$ 69.4	$ 70.5	$ 213.4	$ 158.0	$ 55.4	35.4%
Revenue bonds	1.1	1.2	-	-	1.1	1.2	(0.1)	-8.3%
Loans payable-Bureau of Reclamation	32.9	33.9	-	-	32.9	33.9	(1.0)	-2.9%
Judgment Obligation Bonds	5.5	6.1	-	-	5.5	6.1	(0.6)	-9.8%
Other bonds and notes	0.8	1.1	-	-	0.8	1.1	(0.3)	-27.3%
Total	$ 184.3	$ 129.8	$ 69.4	$ 70.5	$ 253.7	$ 200.3	$ 53.4	26.8%

State statutes limit the amount of general obligation debt a government entity may issue to 1.25% of the total assessed valuation of property within the County. The current debt limitation of the County is $599.0, which is significantly in excess of the County's outstanding total debt of $253.7. The above schedule does not include some other liabilities such as estimated self-insurance liabilities, compensated absences and estimated landfill closure.

Additional information on the County's long-term debt can be found in Note 9 on page 61 of this report.

ECONOMIC ANALYSIS AND NEXT YEAR'S BUDGET AND RATES

The following are economic factors for 2007-08:

- Property Tax Values are estimated to decrease 6.6% below 2006-07 levels.
- In accordance with previously negotiated contracts, Units D, E, F, H, J, K, M, N, P, R, X, Y, and Z received a 3.5% increase in July 2007. Units A, B and C received a 3.0% increase and Units Q and V received a 4.0% increase effective July 1, 2007. Unit L received a 3.0% increase on November 1, 2007.
- The County of Monterey adopted an ordinance for reserve policies. Beginning in FY 2004-05, General Fund reserves will be accumulated over eight years to equal ten percent of the General Fund budgeted revenues. The reserve is established for use in legal judgment settlements against the County, economic downturns, natural disasters and reductions in State Aid. Fiscal year 2006-07 strategic reserve balance was $33.7.
- The 2007-08 board adopted budget for the General Fund totals $556.9, an increase of $32.0 over 2006-07 primarily due to an anticipated increase in expenditures across all activities as a result of revenue increases in aid from other governmental agencies, taxes, and most other areas. Increases in salaries and benefits associated with increased staffing, competitive compensation and higher retirement costs coupled with continuing litigation and a cash contribution to NMC impact the difference.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT FOR REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report or need additional information, contact the County of Monterey, Office of Auditor-Controller, 168 West Alisal Street, Salinas, CA 93901.

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BASIC FINANCIAL STATEMENTS –
GOVERNMENT-WIDE FINANCIAL STATEMENTS

COUNTY OF MONTEREY

Statement of Net Assets
June 30, 2007

	Primary Government: Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments:			
Held in County treasury	$ 261,774,905	$ 12,486,293	$ 274,261,198
Held with trustee	77,383,935	896,612	78,280,547
Imprest cash	18,500	2,128	20,628
Restricted cash	1,905,602	--	1,905,602
Receivables	55,934,947	11,112,242	67,047,189
Inventories	404,288	1,111,593	1,515,881
Land held for resale and development	915,680	--	915,680
Prepaid items	217,952	785,028	1,002,980
Internal balances	(2,837,877)	2,837,877	--
Long-term receivables	14,893,001	--	14,893,001
Bond issuance costs, net of amortization	2,360,537	1,078,033	3,438,570
Capital assets:			
Nondepreciable	278,893,320	61,998	278,955,318
Depreciable, net	293,587,868	118,735,443	412,323,311
Total Assets	$ 985,452,658	$ 149,107,247	$ 1,134,559,905
LIABILITIES			
Vouchers and accounts payable	$ 17,340,147	$ 4,933,442	$ 22,273,589
Accrued salaries and benefits	5,455,645	1,194,721	6,650,366
Accrued interest payable	901,072	1,387,302	2,288,374
Accrued liabilities	2,073,833	3,088,606	5,162,439
Deposits from others	7,189,534	856,171	8,045,705
Unearned revenues	50,830,177	211,025	51,041,202
Long-term liabilities:			
Due within one year	22,013,525	5,795,354	27,808,879
Due beyond one year	233,410,231	71,784,331	305,194,562
Total Liabilities	339,214,164	89,250,952	428,465,116
NET ASSETS			
Invested in capital assets, net of related debt	472,944,995	47,333,756	520,278,751
Restricted for:			
Community resources and facilities	24,181,818	--	24,181,818
Health and public assistance	2,962,308	--	2,962,308
Disaster assistance	258,355	--	258,355
Debt Service	6,170,759	--	6,170,759
Capital projects	64,815,247	--	64,815,247
General government and support services	7,323,407	--	7,323,407
Unrestricted	67,581,605	12,522,539	80,104,144
Total Net Assets	646,238,494	59,856,295	706,094,789
Total Liabilities and Net Assets	$ 985,452,658	$ 149,107,247	$ 1,134,559,905

The accompanying notes are an integral part of these financial statements.

COUNTY OF MONTEREY

Statement of Activities
For the Year Ended June 30, 2007

		Program Revenues		
Functions/Programs	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
General government	$ 74,424,982	$ 38,268,488	$ 32,429,975	$ 717,572
Public safety	144,627,926	11,786,239	30,613,759	--
Public ways and facilities	44,828,654	24,099,123	24,126,228	--
Health and sanitation	115,156,988	27,162,867	70,468,263	--
Public assistance	136,394,823	7,575	136,107,363	--
Education	6,340,748	272,984	193,565	--
Recreation and culture services	8,316,547	5,993,643	692,284	--
Interest on long-term debt	3,215,924	--	--	--
Total Governmental Activities	533,306,592	107,590,919	294,631,437	717,572
Business-Type Activities:				
Natividad Medical Center	135,633,933	133,071,226	--	--
Total Business-Type Activities	135,633,933	133,071,226	--	--
Total Primary Government	$ 668,940,525	$ 240,662,145	$ 294,631,437	$ 717,572

General Revenues:
Taxes:
Property taxes
Sales and use taxes
Transient occupancy taxes
Franchise taxes
Other taxes
Unrestricted interest and investment earnings
Tobacco settlement revenues
Other revenues
Donations
Transfers
Total General Revenues and Transfers

Change in Net Assets
Net Assets - July 1, 2006 as restated

Net Assets - June 30, 2007

The accompanying notes are an integral part of these financial statements.

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Total
$ (3,008,947)	$ --	$ (3,008,947)
(102,227,928)	--	(102,227,928)
3,396,697	--	3,396,697
(17,525,858)	--	(17,525,858)
(279,885)	--	(279,885)
(5,874,199)	--	(5,874,199)
(1,630,620)	--	(1,630,620)
(3,215,924)	--	(3,215,924)
(130,366,664)	--	(130,366,664)
--	(2,562,707)	(2,562,707)
--	(2,562,707)	(2,562,707)
(130,366,664)	(2,562,707)	(132,929,371)
137,625,191	--	137,625,191
5,767,266	--	5,767,266
16,912,274	--	16,912,274
6,057,503	--	6,057,503
1,657,269	--	1,657,269
14,365,668	--	14,365,668
4,171,895	--	4,171,895
3,040,661	--	3,040,661
--	679,323	679,323
(10,371,528)	10,371,528	--
179,226,199	11,050,851	190,277,050
48,859,535	8,488,144	57,347,679
597,378,959	51,368,151	648,747,110
$ 646,238,494	$ 59,856,295	$ 706,094,789

The accompanying notes are an integral part of these financial statements.

BASIC FINANCIAL STATEMENTS –
FUND FINANCIAL STATEMENTS

COUNTY OF MONTEREY

Balance Sheet
Governmental Funds
June 30, 2007

	General Fund	Road Fund	Community Development	Facility Master Plan Implementation	Other Governmental Funds	Total
ASSETS						
Cash and Investments:						
Held in County Treasury	$ 111,100,377	$ 8,136,245	$ 1,034,989	$ 20,943,363	$ 81,474,492	$ 222,689,466
Held with trustee	8,616	--	869,434	66,320,425	10,185,460	77,383,935
Impres cash	18,500	--	--	--	--	18,500
Restricted cash	1,905,602	--	--	--	--	1,905,602
Receivables	46,340,012	3,875,076	769,814	--	4,229,815	55,214,717
Due from other funds	--	--	--	--	9,308	9,308
Advances to other funds	183,800	--	--	--	--	183,800
Inventories	259,431	144,857	--	--	--	404,288
Land held for resale	--	--	--	--	915,680	915,680
Prepaid items and other assets	198,152	--	--	--	19,800	217,952
Long-term receivables	--	--	10,483,645	--	4,409,356	14,893,001
Total Assets	$ 160,014,490	$ 12,156,178	$ 13,157,882	$ 87,263,788	$ 101,243,911	$ 373,836,249
LIABILITIES						
Vouchers and accounts payable	$ 11,554,846	$ 2,433,472	$ 62,153	$ 2,092,599	$ 1,025,245	$ 17,168,315
Accrued salaries and benefits	5,091,365	147,852	--	--	216,428	5,455,645
Accrued liabilities	1,964,059	--	--	109,774	--	2,073,833
Claims liability	798,000	--	--	--	--	798,000
Due to other funds	--	--	7,205	--	2,103	9,308
Deposits from others	4,744,274	2,399,960	--	--	45,300	7,189,534
Unearned revenues	34,739,160	5,011,600	11,253,456	--	6,118,649	57,122,865
Advances from other funds	--	--	--	--	183,800	183,800
Total Liabilities	58,891,704	9,992,884	11,322,814	2,202,373	7,591,525	90,001,300
FUND BALANCES						
Reserved for:						
Encumbrances	8,511,142	514,796	51,700	--	2,954,266	12,031,904
Unavailable assets	277,931	144,857	--	--	915,680	1,338,468
Debt service	--	--	--	--	16,351,748	16,351,748
Unreserved:						
General						
Designated:						
Self insurance	1,035,468	--	--	--	--	1,035,468
Other designations	53,546,564	750,000	--	--	--	54,296,564
Undesignated	37,751,681	--	--	--	--	37,751,681
Special revenue funds:						
Undesignated	--	753,641	1,783,368	--	29,236,785	31,773,794
Capital projects funds:						
Undesignated	--	--	--	85,061,415	44,193,907	129,255,322
Total Fund Balances	101,122,786	2,163,294	1,835,068	85,061,415	93,652,386	283,834,949
Total Liabilities and Fund Balances	$ 160,014,490	$ 12,156,178	$ 13,157,882	$ 87,263,788	$ 101,243,911	$ 373,836,249

The accompanying notes are an integral part of these financial statements.

COUNTY OF MONTEREY

Reconciliation of the Governmental Funds Balance Sheet to
the Governmental-Wide Statement of Net Assets - Governmental Activities
June 30, 2007

Fund Balance - total governmental funds (page 25)		$ 283,834,949
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		572,481,188
Other long-term assets are not available to pay for current-period expenditures and, therefore are deferred in the governmental funds.		6,292,688
Internal service funds are used by the County to charge the cost of general liability and workers' compensation insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. Internal service fund net assets are:		(6,760,472)
Issuance costs on certificates of participation are capitalized and amortized over the life of the related debt issue.		2,360,537
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities are reported in the statement of net assets. Balances as of June 30, 2007 are:		
Bonds and notes payable	$ (34,827,766)	
Certificates of participation	(144,400,000)	
Unamortized premium on certificates of participation	(2,198,432)	
Unamortized gain on refunding of certificates of participation	2,630,272	
Capital lease obligations	(222,947)	
Accrued interest on long-term debt	(901,072)	
Compensated absences	(25,087,476)	
Estimated landfill closure and postclosure costs	(4,125,098)	(209,132,519)
Adjustment necessary to close Internal Service Funds activities. This is the cummulative excess of revenues over expenses allocable to business-type activities		(2,837,877)
Net assets of governmental activities (page 19)		$ 646,238,494

The accompanying notes are an integral part of these financial statements.

COUNTY OF MONTEREY

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

	General Fund	Road Fund	Community Development	Facility Master Plan Implementation	Other Governmental Funds	Total
Revenues:						
Taxes, VLF and franchises	$ 169,545,478	$ --	$ --	$ --	$ 12,377,173	$ 181,922,651
Licenses and permits	15,560,680	1,956,848	--	--	27,400	17,544,928
Fines, forfeitures and penalties	4,551,284	--	--	--	23,192	4,574,476
Revenue from use of money and property	6,832,025	193,630	192,580	1,980,659	4,226,823	13,425,717
Aid from other governmental agencies	245,876,811	24,189,548	901,853	--	10,106,571	281,074,783
Charges for services	57,635,022	3,852,862	--	--	19,953,720	81,441,604
Tobacco settlement and miscellaneous	6,892,652	47,666	1,155,004	--	2,480,977	10,576,299
Total Revenues	506,893,952	30,240,554	2,249,437	1,980,659	49,195,856	590,560,458
Expenditures:						
Current:						
General government	64,814,555	--	1,572,593	110,571	7,993,481	74,491,200
Public safety	149,144,040	--	--	--	--	149,144,040
Public ways and facilities	--	16,821,891	--	--	16,171,327	32,993,218
Health and sanitation	112,998,815	--	--	--	3,716,287	116,715,102
Public assistance	128,333,772	--	--	--	8,659,278	136,993,050
Education	--	--	--	--	6,277,426	6,277,426
Recreation and culture services	8,561,754	--	--	--	22,187	8,583,941
Debt service:						
Principal	--	--	--	--	3,632,661	3,632,661
Interest and debt service costs	--	--	--	--	7,265,791	7,265,791
Capital outlay	897,769	15,353,614	--	20,055,791	625,040	36,932,214
Total Expenditures	464,750,705	32,175,505	1,572,593	20,166,362	54,363,478	573,028,643
Excess (Deficiency) of Revenues Over (Under) Expenditures	42,143,247	(1,934,951)	676,844	(18,185,703)	(5,167,622)	17,531,815
Other Financing Sources (Uses):						
Transfers in	414,272	1,000,000	--	1,893,600	28,428,019	31,735,891
Transfers out	(29,123,051)	--	--	(5,323,421)	(7,660,947)	(42,107,419)
Inception of lease	--	--	--	--	70,925	70,925
Issuance of debt:						
Refunding bond	--	--	--	53,300,000	91,100,000	144,400,000
Premium on refunding bond	--	--	--	--	2,198,432	2,198,432
Payment to refunded bond escrow agent	--	--	--	--	(87,895,272)	(87,895,272)
Total Other Financing Sources (Uses)	(28,708,779)	1,000,000	--	49,870,179	26,241,157	48,402,557
Net Change in Fund Balance	13,434,468	(934,951)	676,844	31,684,476	21,073,535	65,934,372
Fund Balances, Beginning of Year restated	87,688,318	3,098,245	1,158,224	53,376,939	72,578,851	217,900,577
Fund Balances, End of Year	$ 101,122,786	$ 2,163,294	$ 1,835,068	$ 85,061,415	$ 93,652,386	$ 283,834,949

The accompanying notes are an integral part of these financial statements.

COUNTY OF MONTEREY

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Governmental-Wide Statement of Activities - Governmental Activities
For the Year Ended June 30, 2007

Net Change in fund balance - total governmental funds (page 27)		$ 65,934,372
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay 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.		
Expenditures for general capital assets, infrastructure, and other related capital asset adjustment	$ 41,641,748	
Less current year depreciation	(19,356,015)	22,285,733
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		415,579
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. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues.		
Change in accrued interest on long-term debt	1,138,559	
Change in compensated absences	(2,236,712)	
Change in estimated landfill closure and postclosure	556,858	(541,295)
Long-term debt proceeds provide current financial resources for governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Costs associated with the issuance of debt are reported as expenditures in the governmental funds, but deferred and amortized through out the period during which the associated debt is outstanding. Prepayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Inception of capital lease	(70,925)	
Issuance of refunding certificates of participation	(144,400,000)	
Premium on refunding certificates of participation	(2,198,432)	
Payment to refunding agent	87,895,272	
Debt issuance costs	2,360,537	
Principal repayments:		
General obligation bonds	5,108	
Certificates of Participation	2,205,000	
Revenue bonds	46,000	
Special assessment bonds	5,000	
Notes and loans	1,371,554	
Capital leases	99,870	(52,681,016)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of certain activities of the internal service funds is reported with governmental activities.		15,342,980
Adjustment necessary to close Internal Service Funds activities. This is the current year excess of revenues over expenses allocable to business-type activities		(1,896,818)
Change in net assets of governmental activities (page 21)		$ 48,859,535

The accompanying notes are an integral part of these financial statements.

COUNTY OF MONTEREY

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund
For the Year Ended June 30, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues				
Taxes, VLF and franchises	$ 159,417,065	$ 161,019,604	$ 169,545,478	$ 8,525,874
Licenses and permits	15,753,440	15,753,440	15,560,680	(192,760)
Fines, forfeitures and penalties	4,042,126	4,459,909	4,551,284	91,375
Revenue from use of money and property	3,974,948	4,098,162	6,832,025	2,733,863
Aid from other governmental agencies	249,396,946	261,212,299	245,876,811	(15,335,488)
Charges for services	61,848,290	60,084,261	57,635,022	(2,449,239)
Tobacco settlement and miscellaneous	6,992,294	7,766,680	6,892,652	(874,028)
Total revenues	501,425,109	514,394,355	506,893,952	(7,500,403)
Expenditures				
Current:				
General government	96,293,095	82,123,865	66,829,408	15,294,457
Public safety	146,708,861	153,799,789	149,335,542	4,464,247
Public ways and facilities	1,200,000	--	--	--
Health and sanitation	109,552,899	117,958,510	113,642,113	4,316,397
Public assistance	130,792,758	134,571,703	128,427,461	6,144,242
Culture and recreation	9,004,895	8,822,681	7,830,985	991,696
Capital outlay	--	482,650	897,769	(415,119)
Total expenditures	493,552,508	497,759,198	466,963,278	30,795,920
Excess (Deficiency) of Revenues Over (Under) Expenditures	7,872,601	16,635,157	39,930,674	23,295,517
Other financing sources (uses)				
Transfers in	1,687,277	1,540,904	414,272	(1,126,632)
Transfers out	(27,455,451)	(33,993,055)	(29,123,051)	4,870,004
Total Other Financing Sources (Uses)	(25,768,174)	(32,452,151)	(28,708,779)	3,743,372
Net change in budgetary fund balances	(17,895,573)	(15,816,994)	11,221,895	27,038,889
Budgetary fund balances, July 1	87,688,318	87,688,318	87,688,318	--
Budgetary fund balances, June 30	$ 69,792,745	$ 71,871,324	$ 98,910,213	$ 27,038,889

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Expenditures:

Uses/outflows of resources

Actual amounts (budgetary basis) of expenditures from the budgetary comparison statement	$ 466,963,278
Differences - budget to GAAP:	
Encumbrances for supplies and services ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes	(2,212,573)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 464,750,705

The accompanying notes are an integral part of these financial statements.

COUNTY OF MONTEREY

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Road Fund
For the Year Ended June 30, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues:				
Licenses, permits and franchises	$ 3,516,292	$ 2,465,623	$ 1,956,848	$ (508,775)
Revenue from use of money and property	150,000	305,500	193,630	(111,870)
Aid from other governmental agencies	28,220,569	26,208,436	24,189,548	(2,018,888)
Charges for services	3,692,637	5,484,616	3,852,862	(1,631,754)
Other revenue	4,000	4,000	47,666	43,666
Total Revenues	35,583,498	34,468,175	30,240,554	(4,227,621)
Expenditures:				
Current:				
Public ways and facilities	37,781,088	12,353,511	16,756,783	(4,403,272)
Capital outlay	--	24,660,099	15,353,614	9,306,485
Total Expenditures	37,781,088	37,013,610	32,110,397	4,903,213
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,197,590)	(2,545,435)	(1,869,843)	675,592
Other Financing Sources (Uses):				
Transfers in	1,000,000	1,000,000	1,000,000	--
Total Other Financing Sources (Uses)	1,000,000	1,000,000	1,000,000	--
Net change in budgetary fund balances	(1,197,590)	(1,545,435)	(869,843)	675,592
Budgetary fund balances, beginning	3,098,245	3,098,245	3,098,245	--
Budgetary fund balances, ending	$ 1,900,655	$ 1,552,810	$ 2,228,402	$ 675,592

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Expenditures:

Uses/outflows of resources

Actual amounts (budgetary basis) of expenditures from the budgetary comparison statement	$ 32,110,397
Differences - budget to GAAP:	
Encumbrances for supplies and services ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes	65,108
Total expenditures as reported on the combining statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 32,175,505

The accompanying notes are an integral part of these financial statements.

COUNTY OF MONTEREY

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Community Development
For the Year Ended June 30, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues:				
Revenue from use of money and property	$ 145,000	$ 145,000	$ 192,580	$ 47,580
Aid from other governmental agencies	2,991,000	2,991,000	901,853	(2,089,147)
Other revenue	1,090,600	1,090,600	1,155,004	64,404
Total Revenues	4,226,600	4,226,600	2,249,437	(1,977,163)
Expenditures:				
Current:				
General government	4,894,292	5,142,426	1,524,763	3,617,663
Total Expenditures	4,894,292	5,142,426	1,524,763	3,617,663
Excess (Deficiency) of Revenues Over (Under) Expenditures	(667,692)	(915,826)	724,674	1,640,500
Other Financing Sources (Uses):				
Transfer out	--	9,500	--	(9,500)
Total Other Financing Sources (Uses)	--	9,500	--	(9,500)
Net change in budgetary fund balances	(667,692)	(906,326)	724,674	1,631,000
Budgetary fund balances, beginning	1,158,224	1,158,224	1,158,224	--
Budgetary fund balances, ending	$ 490,532	$ 251,898	$ 1,882,898	$ 1,631,000

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Expenditures:

Uses/outflows of resources

Actual amounts (budgetary basis) of expenditures from the budgetary comparison statement	$ 1,524,763
Differences - budget to GAAP:	
Encumbrances for supplies and services ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes	47,830
Total expenditures as reported on the combining statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 1,572,593

The accompanying notes are an integral part of these financial statements.

COUNTY OF MONTEREY

Statement of Fund Net Assets
Proprietary Funds
June 30, 2007

	Business-Type Activities - Enterprise Funds	Governmental Activities
	Natividad Hospital	Internal Service Funds
Assets		
Current Assets:		
Cash and cash equivalents	$ 12,486,293	$ 39,085,439
Imprest cash	2,128	--
Patient's accounts receivable, net of estimated uncollectable of $74,145,172	8,120,742	--
Accounts receivable	--	724,828
Due from other agencies	2,991,500	--
Inventories	1,111,593	--
Prepaid expenses	785,028	--
Total Current Assets	25,497,284	39,810,267
Noncurrent Assets:		
Restricted Assets:		
Held by trustee	896,612	--
Capital assets:		
Depreciable, net	118,797,441	--
Deferred charges	1,078,033	--
Total Assets	146,269,370	39,810,267
Liabilities		
Current Liabilities:		
Accounts payable	4,933,442	176,430
Accrued salaries and benefits	1,194,721	--
Accrued interest payable	1,387,302	--
Accrued liabilities	3,088,606	--
Deposits from others	856,171	--
Unearned revenue	211,025	--
Current portion of long-term debt and other liabilities	5,795,354	10,599,018
Total Current Liabilities	17,466,621	10,775,448
Long-Term Liabilities:		
Claims liability	--	30,999,994
Bonds payable	--	4,795,297
Certificates of participation	67,088,976	--
Capital leases	2,624,677	--
Compensated absences	2,070,678	--
Total Long-Term Liabilities	71,784,331	35,795,291
Total Liabilities	89,250,952	46,570,739
Net Assets		
Invested in capital assets, net of related debt	47,333,756	--
Unrestricted (deficit)	9,684,662	(6,760,472)
Total Net Assets	57,018,418	$ (6,760,472)
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	2,837,877	
Net assets of business-type activities	$ 59,856,295	

The accompanying notes are an integral part of these financial statements.

COUNTY OF MONTEREY

Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2007

	Business-Type Activities - Enterprise Funds	Governmental Activities
	Natividad Hospital	Internal Service Funds
Operating Revenues:		
Net patient services revenues	$ 128,511,796	$ --
Other charges for services	--	18,485,796
Other operating revenues	4,529,430	5,969,232
Total Operating Revenues	133,041,226	24,455,028
Operating Expenses:		
Salaries and wages	44,948,530	--
Employee benefits	18,902,337	--
Supplies	9,397,852	98,606
Provisions for doubtful accounts receivable	16,659,303	--
Claims expense	--	7,502,628
Utilities	2,702,791	--
Purchased services	28,179,237	943,254
Insurance	2,101,497	1,925,795
Depreciation	6,809,476	--
Other	3,119,356	--
Total Operating Expenses	132,820,379	10,470,283
Net Operating Income (Loss)	220,847	13,984,745
Non-Operating Revenues (Expenses):		
Interest income	30,000	1,560,302
Interest expense	(4,712,372)	(202,067)
Gain on sale of assets	2,000	--
Donations	679,323	--
Total Non-Operating Revenues (Expenses)	(4,001,049)	1,358,235
Income (Loss) Before Transfers	(3,780,202)	15,342,980
Transfers in	10,371,528	--
Change in Net Assets	6,591,326	15,342,980
Net Assets - Beginning of Year, restated	50,427,092	(22,103,452)
Net Assets - End of Year	$ 57,018,418	$ (6,760,472)
Change in net assets, from above	$ 6,591,326	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	1,896,818	
Change in net assets of business-type activities	$ 8,488,144	

The accompanying notes are an integral part of these financial statements.

COUNTY OF MONTEREY

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2007

	Business-Type Activities - Enterprise Funds	Governmental Activities
	Natividad Hospital	Internal Service Funds
Cash Flows from Operating Activities:		
Cash received from patients and third party payors	$ 118,791,370	$ --
Cash receipts from customers and users	--	23,751,193
Cash paid to employees for services	(63,701,949)	--
Cash paid to suppliers for goods and services	(45,545,795)	(12,037,885)
Net cash provided (used) by operating activities	9,543,626	11,713,308
Cash flows from noncapital financing activities:		
Transfers received for other than capital purposes	10,371,528	--
Donations	679,323	--
Net cash provided (used) by noncapital financing activities	11,050,851	--
Cash flows from capital and related financing activities:		
Principal paid on capital related debt	(3,304,321)	(670,000)
Interest paid on capital related debt	(4,210,934)	(212,950)
Payments related to the acquisition of capital assets	(1,389,127)	--
Proceeds from capital related debt	784,239	--
Proceeds from the sale of capital assets	2,000	--
Net cash provided (used) by capital and related financing activities	(8,118,143)	(882,950)
Cash flow from investing activities:		
Interest payments received	30,000	1,560,302
Net cash provided (used) by investing activities	30,000	1,560,302
Net increase (decrease) in cash and cash equivalents	12,506,334	12,390,660
Cash and equivalents, July 1	878,699	26,694,779
Cash and equivalents, June 30	$ 13,385,033	$ 39,085,439
Reconciliation of cash and cash equivalents to Statement of Net Assets		
Cash and cash equivalents	$ 12,486,293	$ 39,085,439
Imprest cash	2,128	--
Restricted cash	896,612	--
Total cash and cash equivalents	$ 13,385,033	$ 39,085,439

continued

The accompanying notes are an integral part of these financial statements.

COUNTY OF MONTEREY

Statements of Cash Flows (continued)
Proprietary Funds
For the Year Ended June 30, 2007

	Business-Type Activities - Enterprise Funds	Governmental Activities
	Natividad Hospital	*Internal* Service Funds
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 220,847	$ 13,984,745
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	6,809,476	--
Increase (decrease) in provision for doubtful accounts	16,659,303	--
(Increase) decrease in accounts receivable	(15,020,692)	(703,835)
(Increase) decrease in inventories	49,100	--
(Increase) decrease in prepaid items	(63,281)	--
Increase (decrease) in accounts payable	(806,046)	113,787
Increase (decrease) in other accrued liabilities	775,165	--
Increase (decrease) in deposits from others	856,171	--
Increase (decrease) in unearned revenue	(85,335)	--
Increase (decrease) in compensated absences	148,918	--
Increase (decrease) in claims liability	--	(1,681,389)
Total Adjustments	9,322,779	(2,271,437)
Net cash provided (used) by operating activities	$ 9,543,626	$ 11,713,308
Noncash investing, capital, and financing activities:		
Refunding bonds deposited directly with trustee	$ 7,945,174	$ --
Transfer from escrow to refunding agent	(7,814,934)	--
Issuance costs withheld from bond proceeds	(130,240)	--

The accompanying notes are an integral part of these financial statements.

COUNTY OF MONTEREY

Statement of Fiduciary Net Assets
June 30, 2007

	Investment Trust	Agency Funds
ASSETS		
Cash and investments held in County treasury	$ 551,712,568	$ 26,877,047
Taxes receivable	--	36,958,352
Long-term receivables	--	30,000
Total Assets	551,712,568	63,865,399
LIABILITIES		
Accounts payable	--	10,936,673
Agency funds held for others	--	52,928,726
Total Liabilities	--	63,865,399
NET ASSETS		
Net assets held in trust for investment pool participants	551,712,568	--
Total Net Assets	$ 551,712,568	$ --

The accompanying notes are an integral part of these financial statements.

COUNTY OF MONTEREY

Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2007

	Investment Trust
ADDITIONS	
Contributions to investment pool	$ 92,790,997
Interest and investment income	28,494,620
Total Additions	121,285,617
DEDUCTIONS	
Distributions from investment pool	124,350,582
Total Deductions	124,350,582
Change in net assets	(3,064,965)
Net assets, beginning of year	554,777,533
Net assets, end of year	$ 551,712,568

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

The notes provided in the financial section of this report are considered an integral and essential part of adequate disclosure and fair presentation of this report. The notes include a summary of significant accounting policies for the County, and other necessary disclosure of pertinent matters relating to the financial position of the County. The notes express significant insight to the financial statements and are conjunctive to understanding the rationale for presentation of the financial statements and information *contained in this document.*

Note 1: **Summary of Significant Accounting Policies**

A. **The Financial Reporting Entity**

The County of Monterey (the County) was created pursuant to general law as a subdivision of the State of California. It is governed by a five-member elected Board of Supervisors. As required by generally accepted accounting principles, the accompanying financial statements present the County (the primary government) and its component units, entities for which the government is considered to be financially accountable under the criteria set by Government Auditing Standards Board (GASB) Statement No. 14.

Although they are legally separate from the County, the following blended component units are reported as if they were a part of the County because the Monterey County Board of Supervisors also serves as the governing board of each component unit:

- Monterey County Water Resources Agency, including Storm Drain Maintenance District No. 2 and Gonzales Slough Maintenance District
- All County Service Areas
- All County Sanitation Districts except Seaside County Sanitation District
- Monterey County Redevelopment Agency
- Nacimiento Hydroelectric Operations
- Monterey County Financing Authority

The County does not report any discretely presented component units.

Complete financial statements of the Monterey County Redevelopment Agency can be obtained from County of Monterey, Intergovernmental Affairs, P.O. Box 180, Salinas, CA 93902.

The Monterey County Board of Supervisors appoints a voting majority of the governing boards of the following entities; however, such entities are excluded from the accompanying basic financial statements due to the fact that (1) the County is not able to impose its will on the entity and (2) there is not a financial benefit/burden relationship between the County and the entity:

- Monterey County Housing Authority
- Monterey Bay Unified Air Pollution Control District
- All Cemetery Districts
- Carmel Highlands Fire Protection District
- Mid-Carmel Valley Fire Protection District
- Mission Soledad Rural Fire Protection District
- Salinas Rural Fire Protection District
- North County Public Recreation District

Note 1: **Summary of Significant Accounting Policies**

B. **Basis of Presentation**

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the primary government (the County) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the County. 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 charged to external parties.

The statement of activities presents a comparison between program expenses and program revenues for each segment of the business-type activities of the County and for each function of the County's governmental activities. Program expenses include direct expenses, which are clearly identifiable with a specific function, and allocated indirect expenses. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments for services where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the County's funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions.

When both restricted and unrestricted net assets are available, restricted resources are used first, then unrestricted resources as they are needed..

Fund Financial Statements

The fund financial statements provide information about the County's funds, including fiduciary funds and blended component units. Separate statements for each fund category – *governmental, proprietary and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are separately aggregated and reported as nonmajor funds.

Note 1: **Summary of Significant Accounting Policies**

B. **Basis of Presentation** (continued)

Fund Financial Statements (continued)

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

The County reports the following major governmental funds:

- The *General Fund* is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the County that are not accounted for through other funds. For the County, the General Fund includes such activities as public protection, public ways and facilities, health and sanitation, public assistance, education and recreation services.

- The *Road Fund* is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the County that relate to public ways not accounted for through other funds.

- The *Community Development Fund* is used for a variety of economic development activities and for planning and technical assistance studies. This fund is also used to account for monies received from the State and Federal Governments and loaned by the County to individuals and businesses to encourage economic growth.

- The *Facility Master Plan Implementation Fund* is designated for the renovation of the North, East & West Wings of the Courthouse, the renovation of the Old Natividad Medical Center and the construction of a new County Administrative Building. Additionally, funds will be used to address space needs for various other County departments.

Note 1: **Summary of Significant Accounting Policies**

B. **Basis of Presentation** (continued)

Fund Financial Statements (continued)

The County reports the following major enterprise fund:

- The *Natividad Medical Center (the Hospital)* accounts for hospital operations involved in providing health services to County residents. Revenues are principally fees for patient services, payments from Federal and State programs such as Medicare, Medi-Cal and Short-Doyle, realignment revenues and subsidies from the general fund. For more detailed information on the hospital, refer to the Natividad Medical Center audit report.

The County reports the following additional fund types:

- *Internal Service Funds* account for the County's self-insurance programs including workers' compensation and general liability insurance.

- The *Investment Trust Fund* accounts for the assets of legally separate entities that deposit cash with the County Treasurer. These entities include school and community college districts and other special districts governed by local boards, regional boards and authorities. These funds represent the assets, primarily cash and investments, and the related liability of the County to disburse these monies on demand.

- The *Agency Funds* account for assets held by the County as an agent for various local governments.

C. **Basis of Accounting**

The government-wide, proprietary and agency fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Agency funds have no measurement focus and report only assets and liabilities. However, Agency funds use the accrual basis of accounting when recognizing receivables and payables.

Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales taxes

Note 1: **Summary of Significant Accounting Policies**

C. **Basis of Accounting** (continued)

are recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available ("susceptible to accrual"). The County considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenues are considered to be available if they are collected within 90 days of the end of the current fiscal 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 and claims and judgments are recorded only when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

For its business-type activities and enterprise funds, the County has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,* to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, 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 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 units.

D. **Cash and Investments**

The County follows the practice of pooling cash and investments of all funds with the County Treasurer, except for certain restricted funds which are generally held by outside custodians and classified as "Cash and investments with fiscal agents" on the accompanying financial statements. Interest earned on pooled investments is allocated to the appropriate funds based on the average daily cash balance of each fund for the quarter in which the interest was earned.

Note 1: **Summary of Significant Accounting Policies** (continued)

D. **Cash and Investments** (continued)

For purposes of the Statement of Cash Flows, the proprietary fund types consider all highly liquid investments with a maturity date of three months or less at the time of purchase to be cash equivalents. Proprietary fund type deposits with the County Treasurer are demand-type deposits and are therefore considered to be cash equivalents.

Investment in the Treasurer's Pool

Statutes authorize the County to invest its surplus cash in obligations of the U.S. Treasury, agencies and instrumentalities, corporate bonds rated P-1 by Standard & Poor's Corporation or A-1 by Moody's Investor Service, bankers' acceptances, certificates of deposit, commercial paper, repurchase agreements, and the State of California Local Agency Investment Fund. Gains and losses are recognized upon sale based upon the specific identification method. Investments in nonparticipating interest-earning investment contracts (guaranteed investment contracts) are reported at cost, commercial paper which have maturities of less than 90 days are reported at amortized cost and all other investments are reported at fair value. The fair values of investments are obtained by using quotations obtained from independent published sources.

The fair value of participants' position in the County's investment pool is the same as the value of the pool shares. The method used to determine the value of participants' equity withdrawn is based on the book value of the participants' percentage at the date of such withdrawal.

E. **Inventories**

Inventories are stated at cost (first-in, first-out basis) for governmental funds and lower of average cost or market for proprietary funds. Inventory recorded by governmental funds includes postage and materials and supplies for roads. Governmental fund inventories are recorded as expenditures at the time the inventory is consumed. Reported inventories of governmental funds are equally offset by a fund balance reservation to indicate that portion of fund balance not available for future appropriation.

Inventory recorded in the proprietary funds mainly consists of maintenance supplies as well as pharmaceutical supplies maintained by the Hospital. Inventory is expensed as the supplies are consumed.

Note 1: **Summary of Significant Accounting Policies** (continued)

F. Property Taxes

Property taxes attach as an enforceable lien on secured and unsecured property as of January 1, and are levied as of July 1. Secured property taxes are due in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are due on July 1 and become delinquent, if unpaid, on August 31. The County bills and collects its own property taxes and also collects such taxes for cities, schools, and special districts.

G. Capital Assets

Capital assets (including infrastructure) are recorded at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. Capital assets include public domain (infrastructure) general capital assets consisting of certain improvements including roads, bridges, lighting system, drainage system, dams and water systems. The County defines capital assets as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. For buildings, the capitalization threshold is $125,000. Capital assets used in operations are depreciated or amortized (assets under capital leases) using the straight-line method over the lesser of the capital lease period or their estimated useful lives in the government-wide statements and proprietary funds.

The estimated useful lives are as follows:

Infrastructure (except for the maintained pavement subsystem)	15 to 50 years
Structures and improvements	50 years
Equipment	3 to 20 years

The County has four networks of infrastructure assets – roads, lighting, drainage system, dams and water system.

H. Compensated Absences (Accrued Vacation, Paid-Time-Off, Sick Leave, and Compensatory Time)

Vacation and Paid-Time-Off

Unused vacation and paid-time-off (PTO) leaves may be accumulated up to a specified maximum cap based on an employee's bargaining unit or management group.

Note 1: **Summary of Significant Accounting Policies** (continued)

H. **Compensated Absences (Accrued Vacation, Paid-Time-Off, Sick Leave, and Compensatory Time)** (continued)

Vacation and Paid-Time-Off (continued)

Vacation and PTO leaves are paid to the employee at the time of separation from County employment. Some County employees have an option to buy back up to 80 hours of vacation or PTO leave.

The current portion of the liability for vacation and PTO leaves is based on an estimated percentage of employees that will separate from County employment in the next fiscal year (turnover rate), applied to the total liability for vacation and PTO leaves.

Sick Leave

Sick Leave can be accumulated indefinitely. Upon retirement or death, unused sick leave is paid up to 500 hours or 750 hours if an employee opts to exchange time to pay for health benefits. All unused sick leave above the 500-750 hours or any unused sick leave for employees separated from the County for other reasons is forfeited.

Compensatory Time

Compensatory time-off can be accrued in lieu of overtime payments. An employee can accumulate compensatory time-off up to 240 hours or 480 hours for public safety and seasonal workers. The compensatory time-off balances are expected to be used within the next fiscal year. All compensatory time-off balances are considered current year liabilities.

The County includes its share of Social Security and Medicare taxes payable on behalf of the employees in the accrual for compensated absences.

I. **Bond Issuance Costs and Premium Discounts**

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using a method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Unamortized bond issuance costs are reported on the statement of net assets and amortized over the term of the related debt.

Note 1: **Summary of Significant Accounting Policies** (continued)

I. **Bond Issuance Costs and Premium Discounts** (continued)

Gains or losses from advance refundings are deferred and amortized as interest expense over the life of the new refunding debt.

In the fund financial statements, governmental fund types recognize bond premiums and discount, as well as bond issuance costs, during the current period. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

J. **Interfund Transactions**

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and 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 noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances". Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

K. **Estimates**

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 1: **Summary of Significant Accounting Policies** (continued)

L. **Budgetary Basis of Accounting**

In accordance with the provisions of Sections 29000 and 29143, inclusive, of the California Government Code and other statutory provisions, commonly known as the County Budget Act, the County prepares a budget for each fiscal year on or before August 30. Budgeted expenditures are enacted into law through the passage of an Appropriation Ordinance. This ordinance mandates the maximum authorized expenditures for the fiscal year and cannot be exceeded except by subsequent amendments to the budget by the County's Board of Supervisors.

An operating budget is adopted each fiscal year for all Governmental Funds. Expenditures are controlled at the department level for the County. Department level expenditures may not legally exceed appropriations. Any amendments or transfers of appropriations between departments or funds are authorized by the County Administrator's office and must be approved by the Board of Supervisors. Supplementary appropriations normally financed by unanticipated revenues during the year must be approved by the Board of Supervisors. Pursuant to Board Resolution, the County Administrative Officer and/or appointed department heads are authorized to approve transfers and revision of appropriations under $50,000 within a single budget unit as deemed necessary and appropriate unless it is to a capital asset object. Transfers to capital asset objects must be approved by the Board of Supervisors. Budgeted amounts in the budgetary financial schedules are reported as originally adopted and as amended during the fiscal year by resolutions approved by the Board of Supervisors.

The amounts reported in the budgetary basis differ from the basis used to present the basic financial statements in accordance with generally accepted accounting principles (GAAP). The County uses an encumbrances system as an extension of normal budgetary accounting for the general, special revenue, and debt service funds and to assist in controlling expenditures of the capital projects funds. Under this system, purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of applicable appropriations.

Encumbrances outstanding at year-end are recorded as reservations of fund balance since they do not constitute expenditures or liabilities. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward in the ensuing year's budget.

Note 2: **Cash and Investments**

Cash and investments for most County activities are included in an investment pool. The investment pool includes both voluntary and involuntary participation from external entities. The State of California statutes require certain special districts and other governmental entities to maintain their cash surplus with the County Treasurer.

The County investment pool is not registered with the Securities and Exchange Commission as an investment company. Investments made by the Treasurer are regulated by the California Government Code and by the County's investment policy. The objectives of the policy are in order of priority, safety, liquidity, yield, and public trust.

As of June 30, 2007, the County's cash, deposits and investments were as follows:

	Pooled	With Fiscal Agents	Other	Total
Imprest cash	$ --	$ --	$ 20,628	$ 20,628
Deposits with financial institutions	7,594,576	1,210,080	1,905,602	10,710,258
Outstanding warrants	(11,295,260)	--	--	(11,295,260)
Investments	856,551,497	77,070,467	--	933,621,964
	$ 852,850,813	$ 78,280,547	$ 1,926,230	$ 933,057,590

Total cash and investments at June 30, 2007 were presented on the County's financial statements as follows:

Primary government	$ 354,467,975
Investment trust fund	551,712,568
Agency fund	26,877,047
Total cash and investments	$ 933,057,590

Investments

The table below identifies the investment types that are authorized for the County by the California Government Code or the County's investment policy, where more restrictive. The table also identifies certain provisions of the County's investment policy that address interest rate risk, credit risk, and concentration risk.

Note 2: **Cash and Investments** (continued)

Investments (continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	10%
U.S. Treasury Obligations	5 years	None	None
State of California Obligations	5 years	None	10%
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	10%
Commercial Paper	270 days	40%	10%
Negotiable CDs/CD Placement Service	5 years	30%	10%
Repurchase Agreements	1 year	20%	None
Reverse Repurchase Agreements	92 years	20%	None
Medium Term Notes	5 years	30%	10%
Mutual/Money Market Funds	N/A	20%	10%
Collateralized Bank Deposits	5 years	None	10%
Mortgage Pass-Through Securities	5 years	20%	10%
Time Deposits	2 years	None	None
Local Agency Investment Fund (LAIF)	N/A	None*	None

* The investment policy limits the pool's investments in LAIF to $40,000,000, regardless of the percentage this represents.

At June 30, 2007, the County had the following investments:

	Interest Rates	Maturities	Par	Cost	Fair Value	WAM (Years)
Investments in Investment Pool						
Local Agency Investment Fund (LAIF)	5.16%	On Demand	$ 40,000,000	$ 40,000,000	$ 40,000,000	--
Money Market Funds	5.12% - 5.22%	On Demand	127,956,635	127,956,635	129,109,929	--
Repurchase Agreements	5.25% - 5.37%	On Demand	175,230,304	175,230,304	175,230,304	--
U.S. Treasury Bills	4.65% - 4.90%	9/27/07 - 12/27/07	80,000,000	78,599,028	78,608,000	.37
U.S. Agencies	4.90% - 5.92%	7/25/08 - 12/29/11	244,850,000	244,890,355	244,243,612	2.94
Medium Term Notes	5.00% - 5.80%	9/17/07 - 12/15/09	190,000,000	189,875,175	188,720,700	.98
Total investments in investment pool			$ 858,036,939	$856,551,497	$ 855,912,545	
Weighted average maturity for pool						1.09
Investments With Fiscal Agents Outside Investment Pool						
Investment Agreements	4.83% - 5.17%	5/01/10 - 7/29/37	$ 63,527,125	$ 63,527,125	$ 63,527,125	7.25
Money Market Mutual Funds	Variable	On Demand	13,543,342	13,543,342	13,543,342	--
			$ 77,070,467	$ 77,070,467	$ 77,070,467	

Note 2: **Cash and Investments** (continued)

Investments (continued)

At June 30, 2007 the difference between the cost and fair value of cash and investments was not material (fair value was 99.93% of carrying value). Therefore, an adjustment to fair value was made.

Interest Rate Risk

The County manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to five years or less in accordance with its investment policy.

Credit Risk and Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The County Treasurer mitigates these risks by holding a diversified portfolio of high quality investments. The adopted Investment Policy contains specific limitations on investments by credit quality, maturity length and the maximum allocation by asset class. In all instances, the adopted Investment Policy is equal to or more restrictive than applicable codified statutes.

Commercial Paper obligations must be rated a minimum of F1 by Fitch, P1 by Moody's or A1 by Standard & Poor's. Corporate Bonds must be rated A or better by one of these three rating agencies. In addition, total exposure of all asset classes to any single issuer shall not exceed 10% of the 12-month projected minimum size of the portfolio, other than securities issued by the U.S. Government, its agencies and sponsored enterprises.

The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of the County Investment Pool's fair value at June 30, 2007.

Note 2: **Cash and Investments** (continued)

Credit Risk and Concentration of Credit Risk (continued)

	S&P	Moody's	% of Portfolio
U.S. Treasury Bills	AAA	Aaa	9.20%
U.S. Agencies	AAA	Aaa	28.57%
Medium-Term Notes	AAA	Aaa	5.84%
Medium-Term Notes	AAA	Unrated	1.17%
Medium-Term Notes	AA+	Aa1	2.33%
Medium-Term Notes	AA	Aa	2.33%
Medium-Term Notes	AA	Aa3	1.16%
Medium-Term Notes	A+	A1	1.17%
Medium-Term Notes	A+	Aa3	2.34%
Medium-Term Notes	AA	Aa2	2.34%
Medium-Term Notes	BBB+	A2	3.40%
Local Agency Investment Fund	Unrated	Unrated	4.68%
Money Market Funds	Unrated	Unrated	14.97%
Repurchase Agreements	Unrated	Unrated	20.50%
Total			100.00%

Custodial Credit Risk

Custodial credit risk for investments is the risk that the County will not be able to recover the invested securities that are in the possession of an outside party. The County's investment policy requires the use of a safekeeping agent to mitigate custodial risk. Securities are invested on a "Delivery vs. Payment" basis using the custodian agent. In no case does the County engage in securities purchases that are held in broker or dealer accounts. At June 30, 2007, the County's investment pool had no securities exposed to custodial risk.

Local Agency Investment Fund

The County Treasurer's Pool maintains an investment in the State of California Local Agency Investment Fund (LAIF). LAIF is part of the Pooled Money Investment Account (PMIA), an investment pool consisting of funds held by the state in addition to those deposited in LAIF. All PMIA funds are managed by the Investment Division of the State Treasurer's Office. This fund is not registered with the Securities and Exchange Commission as an investment company, but is required to invest according to California Government Code. Participants in the pool include voluntary and involuntary participants, such as special districts and school districts for which there are legal provisions regarding their investments. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute.

Note 2: **Cash and Investments** (continued)

Local Agency Investment Fund (continued)

At June 30, 2007, the County's investment position in the State of California Local Agency Investment Fund (LAIF) was $40,000,000, which approximates fair value and is the same as value of the pool shares which is determined on an amortized cost basis. The total amount invested by all public agencies in PMIA on that day was $65.8 billion. Of that amount, 3.47% was invested in structured notes and asset-backed securities with the remaining 96.53% invested in other non-derivative financial products.

County Investment pool Condensed Financial Statements

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's investment pool as of June 30, 2007:

Statement of Net Assets

Net assets held for pool participants	$ 852,850,813
Equity of internal pool participants	$ 301,138,245
Equity of external pool participants	551,712,568
Total net assets	$ 852,850,813

Statement of Changes in Net Assets

Investment earnings	$ 42,283,551
Investment expenses	(941,214)
Net contribution from pool participants	8,767,831
Increase in net assets	50,110,168
Net assets at July 1, 2006	802,740,645
Net assets at June 30, 2007	$ 852,850,813

The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2007 to support the value of shares in the pool.

Note 4: Interfund Transactions

Interfund Receivables/Payables

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

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
Other Governmental Funds	Community Development	$ 7,205
	Other Governmental Funds	2,103
	Total	$ 9,308

The above interfund receivables and payables are the result of the transfer of note receivable transactions between funds.

Advances to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	$ 183,800

The above interfund advances are long-term loans that are not expected to be repaid during the next fiscal year.

Transfers

Transfers are indicative of funding for capital projects, lease payments or debt service, subsidies of various County operations and re-allocations of special revenues. Transfers between funds for the year ended June 30, 2007, were as follows:

Transfer from	Transfer to	Amount
General Fund	Road Fund	$ 1,000,000
	Natividad Hospital	10,371,528
	Other Governmental Funds	17,751,524
		29,123,052
Facility Master Plan Implementation	Other Governmental Funds	5,323,421
Other Governmental Funds	General Fund	414,272
	Facility Master Plan Implementation	1,893,600
	Other Governmental Funds	5,353,074
		7,660,946
	Totals	$ 42,107,419

Note 5: **Receivables**

Receivables as of June 30, 2007, for the County's individual major, nonmajor, internal service, and proprietary funds are as follows:

	General Fund	Road Fund	Community Development	Other Governmental Funds	Internal Service Funds	Natividad Hospital
Receivables:						
Accounts - net	$ 30,282,664	$ 3,126,277	$ --	$ 217,949	$ --	$ 2,991,500
Taxes receivable	5,736,660	--	--	--	--	--
Due from other agencies	10,320,688	748,799	769,814	4,011,866	724,828	8,120,742
Total	$ 46,340,012	$ 3,875,076	$ 769,814	$ 4,229,815	$ 724,828	$ 11,112,242

Governmental funds report deferred revenue in connection with receivables for revenues considered unavailable to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. As of June 30, 2007, the various components of deferred revenue and unearned revenue in the governmental funds were as follows:

	Unavailable	Unearned	Total
Notes receivable issued from grants on a revolving basis	$ --	$ 14,893,001	$ 14,893,001
Grant drawdowns prior to meeting all eligibility requirements	--	35,937,176	35,937,176
Receivables collected after the period of availability (90 days)	6,292,688	--	6,292,688
	$ 6,292,688	$ 50,830,177	$ 57,122,865

Note 5: Capital Assets

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

	Audited Balance July 1, 2006	Additions	Retirements	Transfers & Adjustments	Audited Balance June 30, 2007
Governmental Activities					
Capital assets, not being depreciated:					
Land	$ 174,505,696	$ 109,208	$ --	$ 214,371	$ 174,829,275
Construction in progress	86,264,973	36,408,231	--	(18,609,159)	104,064,045
Total capital assets, not being depreciated	260,770,669	36,517,439	--	(18,394,788)	278,893,320
Capital assets, being depreciated:					
Infrastructure	456,861,308		--	17,075,292	473,936,600
Structures and improvements	83,806,792	983,269	(1,382,175)	179,224	83,587,110
Equipment	76,089,741	5,726,068	(2,198,981)	(6,897,944)	72,718,884
Total capital assets, being depreciated	616,757,841	6,709,337	(3,581,156)	10,356,572	630,242,594
Less accumulated depreciation for:					
Infrastructure	(241,986,430)	(11,610,978)	--	(369,043)	(253,966,451)
Structures and improvements	(32,361,916)	(2,402,130)	847,432	--	(33,916,614)
Equipment	(49,644,498)	(5,342,907)	1,148,695	5,067,049	(48,771,661)
Total accumulated depreciation	(323,992,844)	(19,356,015)	1,996,127	4,698,006	(336,654,726)
Total capital assets, being depreciated, net	292,764,997	(12,646,678)	(1,585,029)	15,054,578	293,587,868
Government activities capital assets, net	$ 553,535,666	$ 23,870,761	$ (1,585,029)	$ (3,340,210)	$ 572,481,188
Business-Type Activities					
Capital assets, not being depreciated:					
Construction in progress	$ --	$ 54,008	$ --	$ 7,990	$ 61,998
Total capital assets, not being depreciated	--	54,008	--	7,990	61,998
Capital assets, being depreciated:					
Structures and improvements	151,388,166	--	(413,641)	--	150,974,525
Equipment	33,558,734	1,335,119	(17,482)	(7,990)	34,868,381
Total capital assets, being depreciated	184,946,900	1,335,119	(431,123)	(7,990)	185,842,906
Less accumulated depreciation for:					
Structures and improvements	(35,378,721)	(4,084,994)	413,641	--	(39,050,074)
Equipment	(25,350,389)	(2,724,482)	17,482	--	(28,057,389)
Total accumulated depreciation	(60,729,110)	(6,809,476)	431,123	--	(67,107,463)
Total capital assets, being depreciated, net	124,217,790	(5,474,357)	--	(7,990)	118,735,443
Business-type activities capital assets, net	$ 124,217,790	$ (5,420,349)	$ --	$ --	$ 118,797,441

Note 5: **Capital Assets** (continued)

Depreciation

Depreciation expense was charged to governmental functions as follows:

General government	$	3,323,725
Public safety		1,401,882
Public ways and facilities		13,692,234
Health and sanitation		265,522
Public assistance		263,052
Education		123,319
Recreation and cultural services		286,281
Total Depreciation Expense - Governmental Functions	$	19,356,015

Depreciation expense was charged to the business-type functions as follows:

Natividad Medical Center	$	6,809,476

Note 6: **Short-Term Debt**

Tax and Revenue Anticipation Note

On July 1, 2006, the County issued a Tax and Revenue Anticipation Note (TRAN) in the amount of $35,000,000, with an interest rate of 4.5%. The note had a maturity date of June 29, 2007. Proceeds of the funds were used for cash flow purposes as needed by the County. The balance of the note at June 30, 2007 was zero.

Note 7: **Leases**

Operating Leases

The County has commitments under long-term and personal property operating lease agreements. During the fiscal year ended June 30, 2007, the County paid operating rents of $7,708,068. Future minimum lease payments are approximately as follows:

Note 7: **Leases** (continued)

Operating Leases (continued)

	Governmental Activities	Business-Type Activities
Year Ending June 30:		
2008	$ 5,248,002	$ 426,925
2009	4,304,113	250,000
2010	3,741,860	229,167
2011	3,101,043	--
2012	2,250,869	--
2013 – 2017	8,741,217	--
2018 – 2022	8,627,837	--
2023 – 2027	8,509,455	--
Total Minimum Lease Payments	$ 44,524,396	$ 906,092

However, the County believes that it would be able to terminate the leases early, should the need arise, based on California case City of Los Angeles v. Offner, 19 Cal.2d 483 dated February 13, 1942.

Capital Leases

The County leases equipment under certain lease obligations accounted for as capital leases. Included in the governmental and business-type funds are the following capital asset amounts under capital leases:

	Governmental Activities	Business-Type Activities
Equipment	$ 521,267	$ 5,240,340
Less: accumulated depreciation	(298,320)	(4,343,319)
	$ 222,947	$ 897,021

The following is a schedule of future minimum lease payments under capital leases together with the present value of future minimum lease payments as of June 30, 2007:

	Governmental Activities	Business-Type Activities
Year Ending June 30		
2008	$ 87,371	$ 1,391,290
2009	99,676	1,271,932
2010	26,616	1,271,932
2011	18,179	220,997
2012	11,157	--
Total	242,999	4,156,151
Less: Amount representing interest	(20,052)	(301,883)
Present value of future minimum lease payments	$ 222,947	$ 3,854,268

Note 7: **Leases** (continued)

Capital Leases (continued)

During the fiscal year ended June 30, 2005, Natividad Medical Center entered into a capital lease agreement with GE Finance Corp for $3,786,368. The proceeds are restricted to finance the purchase and installation of the Meditech Healthcare Information System and are shown as an addition to capital leases. The proceeds from the agreement were transferred from GE Finance Corp to Marshall & Islley Trust Company. During the fiscal year ended June 30, 2007, GE Finance Corp transferred an additional $650,000 to Marshall and Islley Trust Company. The funds are also restricted to use on the Meditech Healthcare Information System.

Note 8: **Rental Income Under Operating Leases**

The following is a schedule by years of minimum future rental income on noncancellable operating leases as of June 30, 2007. These operating leases, for vacant office spaces located on the campus of Natividad Medical Center, contain no material restrictions. All are to be paid to Natividad Medical Center.

Year Ended June 30,	Amount
2008	$ 1,437,447
2009	1,074,047
2010	1,041,081
2011	352,476
	$ 3,905,051

Total rental income under operating lease agreements during the year ended June 30, 2007 was $1,685,970.

Note 9: **Long-Term Liabilities**

Legal Debt Limit

The County's legal debt limit for the year ended June 30, 2007 was $598,958,000. This limit is based on 1.25% of the net assessed valuation of property within the County. The County's outstanding long-term issues payable is $260,602,766, but none is applicable to the debt limit. The County has complied with all significant debt covenants.

Note 9: **Long-Term Liabilities** (continued)

Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. *Generally, all interest paid to bondholders can be retroactively* rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years. During the current year, the County performed calculations of excess investment earnings on various bonds and financings and at June 30, 2007 does not expect to incur a liability.

Summary of Long-Term Liabilities

Governmental Activities	Maturity	Interest Rates	Principal Installments	Date of Issue	Amount Authorized	Outstanding June 30, 2007
General Obligation Bonds:						
Agencies under the Board of Supervisors	2004-2007	4.50%	$4,523-$5,108	1/1/1964	$ 13,196,000	$ --
Certificates of Participation						
1993 issue – defeased the 1985 Sheriff Facility (financed the Sheriff facility) – Defeased 2007	*2004-2017*	*2.5%-5.25%*	*$575,000-$1,130,000*	*9/1/1993*	*16,975,000*	--
2001 Issue (financed the acquisition, construction of certain administration, public health and court related facilities) – Defeased 2007	2004-2032	4.0%-5.25%	$1,135,000-$5,100,000	8/1/2001	79,320,000	--
2007 Issue (defeased the 1993 Sheriff Facility and the 2001 Issue Master Plan Financing issue plus new monies for parking garage and completion of public health and court related facilities)	2008-2038	4.0%-5.0%	$2,785,000-$6,845,000	5/30/07	144,400,000	144,400,000
Judgment Obligation Bonds	2004-2014	3.0%-4.0%	$695,000-$870,000	6/29/2004	7,470,000	5,425,000
Revenue Bonds						
Agencies under Board of Supervisors	2004-2036	5.0%	$16,000-$37,000	1980-95	56,859,700	1,131,000
Notes payable – Redevelopment Agency	2004-2010	5.73%-6.49%	$25,000	2001	250,000	64,583
Notes payable – RDA – CA Housing Finance Authority	2013	3.00%	Principal and interest due 2013	2004	900,000	556,146
Loans payable – Bureau of Reclamation						
Agencies under Board of Supervisors	2004-2037	1.65%-7.63%	$16,847-$1,207,699	1995	35,035,790	32,910,037
Special assessment bonds with governmental commitment:						
General County	2004-2025	4.25%-7.2%	$4,000-$26,000	1984-93	257,000	166,000
Business-Type Activities						
Certificate of Participation						
1994 Series C Noncancellable Outstanding	2004-2006	9%	$570,000-$675,000	2/1/1998	4,080,000	--
1996 Series D Outstanding – Defeased 2007	2004-2029	4.6%-5.75%	$150,000-$595,000	2/2/1998	9,000,000	--
1998 Series E Refunding	2004-2028	4.1%-4.7%	$1,095,000-$4,935,000	2/3/1998	77,375,000	67,670,000
2007 Refunding	2008-2038	4.0%-5.0%		5/30/07	8,280,000	8,280,000
Note payable	2007-2008				229,611	155,086

Note 9: **Long-Term Liabilities** (continued)

The following is a summary of long-term liabilities transactions for the year ended June 30, 2007:

	Balance July 1, 2006	Additions	Deletions	Adjustments	Balance June 30, 2007	Amounts Due Within One Year
Governmental Activities:						
General obligation bonds	$ 5,108	$ --	$ 5,108	$ --	$ --	$ --
Judgment obligation bonds	6,095,000	--	670,000	--	5,425,000	695,000
Unamortized premium	87,063	--	10,883	--	76,180	10,883
Revenue bonds	1,177,000	--	46,000	--	1,131,000	49,000
Special assessment bonds	171,000	--	5,000	--	166,000	5,000
Notes payable - RDA	89,583	--	25,000	--	64,583	25,000
Notes payable - RDA CA Housing Fin Agy	864,394	--	308,248	--	556,146	21,000
Certificates of Participation	87,470,000	144,400,000	2,205,000	(85,265,000)	144,400,000	4,830,000
Unamortized premium	--	2,198,432	--	--	2,198,432	73,281
Unamortized refunding loss	--	(2,630,272)	--	--	(2,630,272)	(87,676)
Loans payable	33,948,342	--	1,038,305	--	32,910,037	1,039,907
Capital leases	251,891	70,925	99,869	--	222,947	64,847
Compensated absences	22,850,764	22,306,257	20,069,545	--	25,087,476	4,596,148
Estimated self-insurance liabilities	43,372,518	8,214,150	9,895,539	--	41,691,129	10,691,135
Estimated landfill closure and postclosure liability	4,681,956	--	556,858	--	4,125,098	--
Total Governmental Activities Long-Term Liabilities	$ 201,064,619	$ 174,559,492	$ 34,935,355	$ (85,265,000)	$ 255,423,756	$ 22,013,525
Business-type Activities						
Certificates of Participation	$ 77,495,000	$ 8,280,000	$ 2,130,000	$ (7,695,000)	75,950,000	$ 2,340,000
Unamortized premium (discount)	(1,579,894)	219,802	(116,311)	--	(1,243,781)	--
Unamortized refunding loss	(5,424,717)	(119,934)	(267,408)	--	(5,277,243)	--
Net Certificates of Participation	70,490,389	8,379,868	1,746,281	(7,695,000)	69,428,976	2,340,000
Note payable	--	229,611	74,525	--	155,086	155,086
Capital leases	4,954,064	--	1,099,796	--	3,854,268	1,229,591
Compensated absences	3,992,437	148,918	--	--	4,141,355	2,070,677
Total Business-type Activities Long-Term Liabilities	$ 79,436,890	$ 8,758,397	$ 2,920,602	$ (7,695,000)	$ 77,579,685	$ 5,795,354

Estimated claims are liquidated by the General Fund and the internal service funds. *Compensated absences* are generally liquidated by the General Fund and related special revenue funds.

Note 9: **Long-Term Liabilities** (continued)

As of June 30, 2007, annual debt service requirements of governmental activities to maturity are as follows:

Year Ending June 30:	Governmental Activities: Bonds Payable Principal	Bonds Payable Interest	Certificates of Participation Principal	Certificates of Participation Interest	Loans and Notes Payable Principal	Loans and Notes Payable Interest
2008	$ 749,000	$ 259,448	$ 4,830,000	$ 4,800,538	$ 1,085,907	$ 1,786,006
2009	772,000	236,279	3,310,000	6,318,845	1,066,630	1,766,460
2010	801,000	207,854	3,460,000	6,166,145	1,058,068	1,746,153
2011	834,000	174,539	3,630,000	6,007,045	1,544,481	1,821,746
2012	866,000	139,893	3,795,000	5,839,570	1,047,630	1,707,661
2013-2017	2,094,000	287,903	21,870,000	26,232,012	5,312,716	8,267,986
2018-2022	433,000	114,738	23,170,000	20,757,500	5,360,953	7,791,467
2023-2027	173,000	15,296	25,645,000	15,240,059	5,482,803	7,324,693
2028-2032	--	--	31,460,000	8,890,424	5,658,752	6,857,919
2033-2037	--	--	19,565,000	2,638,463	5,912,825	6,484,500
2038-2042	--	--	3,665,000	82,463	--	--
	$ 6,722,000	$ 1,435,950	$ 144,400,000	$ 102,973,064	$ 33,530,765	$ 45,554,591

As of June 30, 2007, annual debt service requirements of business-type activities to maturity are as follows:

Year Ending June 30:	Business-type Activities: Certificates of Participation Principal	Certificates of Participation Interest	Notes Payable Principal	Notes Payable Interest
2008	$ 2,340,000	$ 3,411,851	$ 155,086	$ 4,659
2009	2,345,000	3,407,213	--	--
2010	2,450,000	3,301,728	--	--
2011	2,565,000	3,190,020	--	--
2012	2,675,000	3,070,888	--	--
2013-2017	15,415,000	13,284,857	--	--
2018-2022	19,510,000	9,158,870	--	--
2023-2027	24,805,000	3,942,628	--	--
2028-2032	3,845,000	115,782	--	--
	$ 75,950,000	$ 42,883,837	$ 155,086	$ 4,659

Note 9: **Long-Term Liabilities** (continued)

Advance Refunding

The County issued 2007 refunding certificates of participation in the aggregate amount of $152,680,000 to refund the 1993 Sheriff's facility, 2001 Master Plan and 1996 Natividad Medical Center Series D Certificate of Participation, to provide additional funds for capital projects and to pay costs related to the issuance of the bonds. The proceeds of the refunded bonds were placed in an irrevocable trust for the purpose of generating resources for all future debt payments in accordance with the schedule of remaining payments due. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities and business activities columns of the statement of net assets and the proprietary fund statements for Natividad Medical Center. The reacquisition price exceeded the net carrying amount of the old debt by $2,750,206. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. The advance refunding was undertaken to reduce total debt service payments over the next 14 years by $4,875,355 and resulted in an economic gain of $3,001,357.

Note 10: **Net Assets/Fund Balances**

Net Assets

The government-wide and business-type activities fund financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted. These categories are described below:

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

- *Restricted Net Assets* – This category represents net assets that are subject to constraints either (1) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

Note 10: **Net Assets/Fund Balances** (continued)

Net Assets (continued)

Restricted net assets at June 30, 2007 for governmental activities are as follows:

Restricted for debt service	$ 6,170,759	$ 6,170,759
Restricted for capital projects:		
Facilities Project Fund	3,512,128	
Capital Projects Management	25,645,225	
Capital Projects Automation	8,851,124	
Facility Master Plan Implementation	18,740,990	
Projects for Redevelopment Agencies	8,065,780	64,815,247
Restricted for General Government & Support Services:		
Inclusionary Housing	700,312	
Productivity Investment	1,137,141	
Community Development	1,334,547	
Fort Ord Reuse	161,029	
Redevelopment Agencies	3,990,378	7,323,407
Restricted for Disaster Assistance	258,355	258,355
Restricted for Community Resources & Facilities:		
Roads	2,163,294	
Fish and Game Propagation	26,392	
County Library	1,930,771	
Nacimiento Hydroelectric Operations	805,514	
Water Resources Agency	11,931,046	
County Service Areas	7,324,801	24,181,818
Restricted for Health & Public Assistance:		
Community Services	232,020	
Emergency Medical Services	970,074	
In-Home Support Services	236,501	
Sanitation Districts	1,523,713	2,962,308
Total Restricted Net Assets - Governmental Activities		$ 105,711,894

As of June 30, 2007, the County did not have any net assets that were restricted by enabling legislation.

Note 10: **Net Assets/Fund Balances** (continued)

Net Assets (continued)

- *Unrestricted Net Assets* – This category represents net assets of the County, not restricted for any project or other purpose.

Fund Balances

In the fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the Board and management and can be increased, reduced or eliminated by similar actions.

As of June 30, 2007, reservations of fund balance are described below:

The term "reserved" is used to indicate that a portion of reported fund balance is (1) legally restricted to a specific use or (2) not available for appropriation or expenditure. The County's management will sometimes designate portions of unreserved (available) fund balance based on tentative future spending plans. Designated portions of fund balance represent financial resources legally available for uses other than those tentatively planned.

The County has "reserved" fund balances as follows:

- *Reserved for encumbrances* – to reflect outstanding contractual obligations for which goods and services have not been received.

- *Reserved for unavailable assets* – to indicate that certain assets such as imprest cash, inventories, advances, and land held for resale and development do not represent available spendable resources.

- *Reserved for debt service* – to indicate that the fund balance is restricted for the retirement of debt.

The County has designated fund balance as follows:

- *Designated for self-insurance* – to indicate that a portion of the general fund balance is designated for payment of long-term self-insurance liabilities.

Note 10: **Net Assets/Fund Balances** (continued)

Fund Balances (continued)

- *Designated for other designations* – to indicate that a portion of the governmental fund balance is designated for the following projects:

Strategic	$ 33,691,395
Automation System	8,737,972
Nacimiento Hydroelectric	317,742
Vehicle Replacement	3,506,019
Facility Master Plan	733,707
Health Clinics	1,100,000
Social Services	1,500,000
NGEN Radio System Design	3,155,563
Road Fund Projects	750,000
Miscellaneous	804,166
Total Other Designations	$ 54,296,564

Note 11: **Employee's Retirement Plan and Post Retirement Benefits**

The Miscellaneous Plan

Plan Description

The County of Monterey (the County) defined benefit pension plan, the Miscellaneous Plan, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Miscellaneous Plan of the County of Monterey is part of the Public Agencies portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The County selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local County ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members in the Miscellaneous Plan are required to contribute 7% of their annual covered salary. Due to a collective bargaining agreement, the County has a legal obligation to contribute 2% – 7% of the active members contribution. The County is required to contribute the actuarially determined, remaining amounts necessary to fund the

Note 11: **Employee's Retirement Plan and Post Retirement Benefits** (continued)

The Miscellaneous Plan (continued)

Funding Policy (continued)

benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal 2006-2007 was 9.716%. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost

For fiscal year 2006-07, the County's annual pension cost for the Miscellaneous Plan was $19,173,282, and the County actually contributed $19,173,282. The required contribution for fiscal year 2006-07 was determined as part of the June 30, 2004 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumption included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45% for miscellaneous members, and (c) 3.25% cost-of-living adjustment. Both (a) and (b) include an inflation component of 3.0%. The actuarial value of the Miscellaneous Plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two to five year period depending on the size of investment gains and/or losses. The Miscellaneous Plan's unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2004 was twenty-two years.

Three-Year Trend Information for the Miscellaneous Plan

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed
06/30/05	$ 11,560,048	100%
06/30/06	18,884,299	100%
06/30/07	19,173,282	100%

Note 11: **Employee's Retirement Plan and Post Retirement Benefits** (continued)

The Safety Plan

Plan Description

The County of Monterey (the County) defined benefit pension plan, the Public Safety Plan, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Public Safety Plan of the County of Monterey is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees Retirement Law. The County selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local County ordinance.

CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Active plan members in the Public Safety Plan are required to contribute 9% of their annual covered salary. Due to a collective bargaining agreement, the County has a legal obligation to contribute 7% – 9% of the active members contribution. The County is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal 2006-2007 was 25.419%. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost

For fiscal year 2006-2007, the County's annual pension cost was $9,829,767 and the County actually contributed $9,829,767. The required contribution for fiscal year 2006-07 was determined as part of the June 30, 2004 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumption included (a) 7.75% investment rate of return (net of administrative expense); (b) projected salary increases that vary by duration of service ranging from 3.25% to 13.15% for safety members, and (c) 3.25% cost-of-living adjustment. Both (a) and (b) include an inflation component of 3.0%. The actuarial value of the Public Safety Plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two to five year period depending on

Note 11: **Employee's Retirement Plan and Post Retirement Benefits** (continued)

The Safety Plan (continued)

Annual Pension Cost (continued)

the size of investment gains and/or losses. The Public Safety Plan's unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2004 was twenty-two years.

Three-Year Trend Information for the Safety Plan

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed
06/30/05	$ 10,749,173	100%
06/30/06	10,790,033	100%
06/30/07	9,829,767	100%

The MCWRA Plan

Plan Description

The County of Monterey (the County) defined benefit pension plan, the Monterey County Water Resources Agency Plan (MCWRA Plan), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The MCWRA Plan of the County of Monterey is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The County selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local County ordinance. Information on this plan is available on a pooled-basis only and may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Post Retirement Benefits

The County provides health coverage for retired employees. During the year, the County provided benefits for an average of 485 retirees per month at a cost of $431,604.

Note 12: **Joint Powers Agreement**

The Natividad Medical Center participates in the Beta Healthcare Group (BHG). The purpose of the Program, established by a Joint Powers Agreement, is to self-insure member hospital districts for professional liability. The Beta Healthcare Group (BHG) administers the Program pursuant to the joint powers provision of the Government Code of the State of California. After a $5,000 deductible, the BHG provides payment in full on covered individual malpractice claims up to $5,000,000. Claims in excess of $5,000,000 are the responsibility of individual program participants. Also, after a $25,000 deductible, the BHG provides payment on covered directors, officers, and trustee liability claims up to an annual maximum of $500,000. The Center made no contributions to the program in 2007.

Condensed financial information of Program Beta for the calendar year ended December 31, 2006 is as follows:

Cash and investments	$279,637,463
Other assets	91,195,768
Total Assets	$370,833,231
Loss reserves	$239,956,192
Other liabilities	54,127,954
Fund balance	76,749,085
Total Liabilities and Fund Balance	$370,833,231
Total Revenues	$ 82,369,211
Total Expenses	(73,608,383)
Revenue in excess of expenses before minority interest, refunds to Participants, cumulative effect of adoption of SFAS 124 and change in unrealized gains on investments	$ 8,760,828

Financial statements for the Program, audited by Ernst & Young, can be obtained from Program Beta, 1443 Danville Blvd., Suite 200, Alamo, CA 94507-1973.

In January, 1997 the County entered into a Joint Powers Agreement with the City of Salinas, the City of Gonzales, the City of Greenfield, the City of King, and the City of Soledad creating the Salinas Valley Waste Authority. The purpose of the Authority, established by the Joint Powers Agreement, is to undertake and perform: solid waste planning and program management, including collection services and siting; and the transfer and disposal of solid waste generated within each of the Parties' jurisdictional boundaries. The Authority administers the Agreement pursuant to the joint powers provision of the Government Code of the State of California.

Financial statements for the Authority can be obtained from Salinas Valley Solid Waste Authority, 337 Melody Lane, Salinas, CA 93901.

Note 12: **Joint Powers Agreement** (continued)

Condensed financial information of the Authority for the fiscal year ended June 30, 2006 (the most current available) is as follows:

Cash and investments	$ 10,241,826
Other assets	25,281,769
Capital assets	28,396,350
Total Assets	63,919,945
Closure liability	9,842,105
Other liabilities	55,678,155
Total Liabilities	65,520,260
Net Assets	$ (1,600,315)
Total Operating Revenues	$ 14,809,642
Total Operating Expenses	13,800,230
Other Revenues and Expenses	(1,037,534)
Change in Net Assets	$ (28,122)

Note 13: **Landfill Closure and Postclosure Costs**

State and federal laws and regulations require the County to place a final cover on its landfill site when closed and perform certain maintenance and monitoring functions at the landfill sites for thirty years after closure. A liability has been recorded in the statement of net assets for estimated future postclosure care costs only because all landfills have been closed. The liability is based on estimated current costs for landfill postclosure care multiplied by thirty years. The estimated current costs and liability recorded as of June 30, 2007 for the County's landfill sites is summarized as follows:

Note 13: **Landfill Closure and Postclosure Costs** (continued)

LANDFILL SITE	POST CLOSURE PERMITTING	POST CLOSURE INSPECTIONS	POST CLOSURE MAINTENANCE	POST CLOSURE REPAIR	POST CLOSURE GROUNDWATER MONITORING	POSTCLOSURE ADMIN & MISC	POSTCLOSURE TOTAL COSTS	POSTCLOSURE TOTAL COST
BRADLEY	$221,310	$28,800	$180,000	$150,000	$522,433	$46,980	$1,149,523	$928,212
SAN ARDO II	$221,310	$28,800	$180,000	$150,000	$522,433	$46,980	$1,149,523	$928,213
LAKE SAN ANTONIO N. SHORE	$221,310	$28,800	$180,000	$150,000	$522,433	$46,980	$1,149,523	$928,213
LAKE SAN ANTONIO S. SHORE	$86,040	$28,800	$180,000	$150,000	N/A	$46,980	$491,820	$405,780
SAN ARDO I	$86,040	$28,800	$180,000	$150,000	N/A	$46,980	$491,820	$405,780
PARKFIELD I	$86,040	$28,800	$180,000	$150,000	N/A	$46,980	$491,820	$405,780
PARKFIELD II	$86,040	$28,800	$180,000	$150,000	N/A	$46,980	$491,820	$405,780
CHUALAR	$86,040	$28,800	$180,000	$150,000	N/A	$46,980	$491,820	$405,780
ARROYO SECO / GREENFIELD	$86,040	$28,800	$180,000	$150,000	N/A	$46,980	$491,820	$405,780
LOCKWOOD	$86,040	$28,800	$180,000	$150,000	N/A	$46,980	$491,820	$405,780
TOTAL	$1,266,210	$288,000	$1,800,000	$1,500,000	$1,567,299	$469,800	$6,891,309	$5,625,098
						Less non-budgeted closure repair		($1,500,000)
						Total liability at June 30, 2007		$4,125,098
						Total liability at June 30 .2006		$4,681,956
						Decrease in liability		($556,858)

The estimated total current cost of landfill closure and postclosure care is based on the amount that would be paid if all equipment, facilities and services required to monitor and maintain the landfill were acquired as of June 30, 2007. However, all landfills have been closed so costs include only post-closure care. The actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

The County is required by state and federal laws and regulations to make annual contributions to finance closure and postclosure care. The County is in compliance with these regulations, and at June 30, 2007, cash and investments, totaling $35,152 are held in an agency fund for that purpose.

Note 14: **Commitments and Contingencies**

In prior years, the Monterey County Water Resources Agency (MCWRA), a blended component unit of Monterey County, entered into an agreement with the Monterey County Water Pollution Control Agency (MCWPCA) to provide tertiary treated water. The MCWPCA built the tertiary water treatment plan and the MCWRA built the distribution pipelines from the plant to the users. Both projects were financed by loans between each Agency and the Bureau of Reclamation and/or State Water Resources Control Board. A special assessment was established and is collected by the MCWRA. Based on the agreement between the MCWRA and the MCWPA, the financing and operating expenses incurred by the MCWPCA on this project are paid by this special assessment on an advance basis from the MCWRA. The loans entered into directly between the MCWPCA and the lenders are not included in the County's financial statements.

Note 14: **Commitments and Contingencies** (continued)

As of June 30, 2007, the outstanding loan balances of the MCWPCA related to the above project are as follows:

Loan from the Bureau of Reclamation:	$ 19,166,382
Loan from the State Water Resources Control Board:	$ 5,816,232

Grant Entitlement – The County is a participant in a number of federal and state assisted programs. These programs are subject to compliance audits by the grantors. The audits of these programs for fiscal year 2004 and certain earlier years have not been completed. Accordingly, the County's compliance with applicable program requirements is not completely established. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time. Management believes it has adequately provided for potential liabilities, if any, which may arise from the grantor's audits.

Medi-Cal and Medicare Reimbursements – Natividad Medical Center's Medi-Cal and Medicare cost reports for certain prior years are in various stages of review by the third-party intermediaries and, as such, have not been settled. Management believes it has adequately provided for any potential liabilities which may arise from the intermediaries' audit.

Construction Commitments – At June 30, 2007, the County had ongoing construction commitments that totaled approximately $641,659.

Other

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County Counsel the resolution of these matters will not have a material adverse effect on the financial condition of the County.

Note 15: **Hospital Enterprise Fund – Net Patient Service Revenue and Government Programs**

Natividad Medical Center (the Hospital) has agreements with third party payors to provide for payments to the Hospital at amounts different from its established rates. A summary of the basis of the payment arrangements with major third-party payors follows:

Medicare

Inpatient acute care services rendered to Medicare program beneficiaries are paid at predetermined prospective rates per discharge. These rates vary according to the diagnostic related group that the patient's condition is classified under. Services other than inpatient acute care are paid based on a reimbursement methodology specific to the type of service which generally entails reimbursement rates at the lower of costs, charges, or a

Note 15: **Hospital Enterprise Fund – Net Patient Service Revenue and Government Programs** (continued)

published limit. The Hospital is reimbursed at a tentative rate during the year that is later subject to final settlement after submission and audit of an annual cost report.

Medi-Cal

Inpatient acute care services rendered to Medi-Cal program beneficiaries are reimbursed under a cost reimbursement methodology that is limited to a maximum allowable rate per discharge. Outpatient hospital services are reimbursed based on a published fee schedule. Skilled nursing services are reimbursed at a published per diem rate. The Hospital is reimbursed at a tentative rate during the year that is later subject to final settlement after submission and audit of an annual cost report.

Short Doyle

Inpatient acute care services rendered to County mental health patients under the Short Doyle program are reimbursed based on a per diem rate specified in an agreement between the hospital and the Monterey County Health Department.

Other Third Party Payors

The Hospital contracts with numerous employers, other county departments, and health plans to provide health care services to their beneficiaries. Reimbursement varies by contract and can be based on a combination of per diem, fee schedule, or percent of charges payment rates.

During the year ended June 30, 2007, patients for which reimbursement was calculated under the third party payor programs comprised approximately 88% of the Hospital's gross patient service revenues, as follows:

	2007
Medi-Cal	49%
Medicare	18%
Short Doyle	3%
Other Third Parties	30%
Total	100%

The State of California provides funding from tobacco taxes to cover write-offs of accounts receivable pertaining to qualified indigent care under the California Health Care for Indigents program. The Hospital recognized funding under this program, net of amounts passed through other providers, of approximately $5,611,800 in fiscal year 2007, as net patient service revenue.

Note 15: **Hospital Enterprise Fund – Net Patient Service Revenue and Government Programs** (continued)

Other Third Party Payors (continued)

The Hospital received revenues under the State of California's Medi-Cal disproportionate share program. The program required the County to provide matching funds which were recorded as expenditures in the general fund. The amount received by the Hospital through this program is dependent upon the number of Medi-Cal inpatient days provided by the Hospital and has been reported as part of the net patient revenue.

Note 16: **Hospital Enterprise Fund – Charity Care**

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The following information measures the level of charity care provided during the year ended June 30, 2007.

	2007
Charges foregone, based on established rates	$ 15,055,885
Estimated costs and expenses incurred to provided charity care	$ 5,674,779
Equivalent percentage of charity care patients to all patients served	4.69%

Note 17: **Related Party Transactions**

Incorporated in 1988, the Natividad Medical Foundation (the Foundation) is a non-profit, non-governmental organization separately incorporated from the Center. Recognizing the need for quality health care and decreased funding from the Federal, State, and local levels, community leaders accepted the responsibility of providing financial assistance to and developed the Natividad Medical Foundation. The amount of donations that the Center received from the Foundation during the fiscal year ended June 30, 2007 was $679,323. The Center used the donations to purchase medical supplies and minor equipment and to pay for sponsor care bills such as the Breast Cancer Early Detection Program.

Note 17: **Related Party Transactions** (continued)

The criteria established in GASB 39, *Determining Whether Certain Organizations are Component Units*, determines whether the Natividad Medical Foundation (Foundation) is reported as a component unit of the Center. Since the revenues reported by the Foundation are not significant to the Center, the Foundation is not a component unit of the Center, but is a related party.

Note 18: **Insurance and Contingent Liabilities**

The County is exposed to various risk of losses related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters.

The County carries some of its insurance, such as workers compensation, fire, burglary, malpractice, and public official bonds, with conventional insurance carriers but it has chosen to establish "self-insurance" programs (absorb losses itself) for the following risks:

- Workers compensation to a maximum of $400,000 per incident, over which coverage is provided to $5,000,000 per accident and $5,000,000 per illness by a private insurance carrier with effective dates of July 1, 2006 – July 1, 2007, with $150,000,000 pooled excess.

- General liability is self-insured primary layer of $1,000,000 (S.I.R.), over which coverage is provided to $45,000,000 aggregate limits by a private insurance carrier.

- Employee health insurance to a maximum of $125,000 per incident, over which losses are absorbed by a private insurance carrier up to $2,000,000 per person per annum and $1,000,000 per year in the aggregate.

Amounts in excess of these limits are self-insured.

There have been no reductions in any of the County's insurance coverage from the prior year. Settlement amounts did not exceed commercial insurance coverage for fiscal years ended June 30, 2007 and 2006. However, for fiscal year ended June 30, 2003, settlement amounts exceeded commercial insurance coverage.

On July 1, 1998, the County contracted with Liberty Mutual to provide workers compensation insurance coverage. Claims incurred/reported prior to July 1, 1996, remain a part of the County's self-insurance program for workers compensation and are administered by Helmsman, a wholly owned subsidiary of Liberty Mutual.

At June 30, 2007, the County's estimate of unpaid claims liabilities for all self-insurance risks is $41,691,129. This estimate is based on the results of an actuarial valuation and includes amounts for claims incurred but not reported. Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of pay-outs, and other economic and social factors.

Note 18: **Insurance and Contingent Liabilities** (continued)

The County accounts for its risk financing activities in internal service funds for General Liability and Workers' Compensation. All other risk financing activities are accounted for in the General Fund. As such, $798,000 of the County's total estimated unpaid claims liabilities has been recorded as a current liability of the General Fund since that amount is expected to be paid within the succeeding year from expendable, available financial resources.

Changes in the balance of claims liabilities during fiscal 2007 and 2006 for all self-insurance risks are approximately as follows:

	2007	2006
Unpaid claims, beginning of year	$ 43,372,518	$ 39,572,012
Estimated claims, incurred	8,214,150	10,461,506
Claim payments	(9,895,539)	(6,661,000)
Unpaid claims, end of year	$ 41,691,129	$ 43,372,518

The County is a defendant in several lawsuits arising in the normal course of business. In the aggregate these claims seek monetary damages in significant amounts. Litigation where loss to the County is reasonably possible has not been accrued in the accompanying financial statements; however, County Counsel estimates that several lawsuits could result in a significant loss. The County exposure in this case is estimated to be in the multi-million dollar range.

Note 19: **Subsequent Events**

Lakes' Liability Settlement

On July 31, 2007, the County entered in a settlement agreement for $22,000,000 to terminate lease agreements that authorized the lessee to operate two lake resorts on behalf of the County (landlord). With $6.5 million paid to the lessee on October 1, 2007, the remaining $15.5 million is agreed to be paid under an installment payment plan at 5% interest with the last monthly payment due in the year 2022. Monthly installment payments of $122,573 are due starting November 1, 2007. The County's insurance recovery on this liability was $5,250,000. Under this settlement agreement, the County acquired assets owned by the lessee at both resorts. Thus, a portion of this liability is attributed to the purchase of those assets. The County is in the process of obtaining independently appraised values of the purchased assets.

Note 19: **Subsequent Events** (continued)

Natividad Hospital – Cost Settlements

The Center for Medicare and Medicaid Services (CMS) performed a desk review of Natividad Hospital's costs reports submitted to CMS for the fiscal years ended June 30, 2004 and 2005. Subsequent to the fiscal year ended June 30, 2007, CMS determined that the hospital was underpaid for Medicare liabilities for those years. In September 2007, CMS refunded $1,473,815 for the fiscal year ended June 30, 2004 and $1,460,786 for the fiscal year ended June 30, 2005.

Note 20: **Restatement of Net Assets and Fund Balances**

Adjustments resulting from errors or changes to comply with provisions of the accounting standards are treated as adjustments to prior periods. Accordingly, the County reports these changes as restatements of beginning fund balance / net assets.

The impact of the restatements on the fund balances/net assets as previously reported is presented below:

	Government-Wide Statement of Activities	Fund Financial Statements Governmental Funds	Fund Financial Statements Proprietary Funds
	Governmental Activities	Other Governmental Funds	Natividad Hospital
Fund balances/net assets, June 30, 2006, as previously reported	$ 601,026,158	$ 72,885,840	$ 51,368,151
Prior period adjustments:			
Adjustment to reflect acquisition cost of land	214,371	--	--
Adjustment to remove duplicate costs from construction in process accounts	(894,243)	--	--
Adjustment to correct prior year costs of depreciable assets	(829,443)	--	--
Adjustment to remove duplicate equipment costs	(1,830,895)	--	--
Defer long-term note receivable balances generated from revolving funds	(306,989)	(306,989)	--
Reverse prior year look-back adjustment on fund statements and include on government-wide statements only	--	--	(941,059)
Total restatements	(3,647,199)	(306,989)	(941,059)
Fund balances/net assets July 1, 2006 as restated	$ 597,378,959	$ 72,578,851	$ 50,427,092

Note 21: **Stewardship, Compliance and Accountability**

Deficit Fund Balances/Net Assets

The Office of Employment Training special revenue fund had a deficit fund balance of $73,166 as of June 30, 2007. The deficit was created due to expenditures incurred prior to applying for reimbursement through a Federal Grant. The reimbursement will be received after the 90-day accrual period for the County.

The General Liability internal service fund had deficit net assets of $2,388,239 as of June 30, 2007. The County approved a 5 year plan to fund the deficit in fiscal year 04-05. Prior to that the County had been on a pay-as-you-go basis which caused the deficit in the fund.

In addition, the Workers' Compensation internal service fund had deficit net assets of $4,372,233 as of June 30, 2007. The County approved a 10 year plan to fund the deficit in fiscal year 04-05. Prior to that the County was on a pay-as-you-go basis which caused the deficit in the fund.

REQUIRED SUPPLEMENTARY INFORMATION:

SCHEDULE OF FUNDING PROGRESS

JUNE 30, 2007

Required Supplementary Information
For the Fiscal Year Ended June 30, 2007

SCHEDULE OF FUNDING PROGRESS

The tables below show a three-year analysis of the actuarial value of assets as a percentage of the actuarial accrued liability and the unfunded actuarial accrued liability as a percentage of the annual covered payroll as of June 30:

Funded Status of Miscellaneous Plan

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL as a % of Payroll
6/30/04	$ 657,478,941	$ 617,886,968	$ 39,591,973	94.0%	$ 171,145,971	23.1%
6/30/05	721,515,769	668,016,347	53,499,422	92.6%	183,385,268	29.2%
6/30/06	778,918,948	726,261,720	52,657,228	93.2%	192,035,416	27.4%

Funded Status of Safety Plan

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL as a % of Payroll
6/30/04	$ 245,303,902	$ 186,806,569	$ 58,497,333	76.2%	$ 31,479,552	185.8%
6/30/05	269,355,541	206,180,207	63,175,334	76.5%	32,980,788	191.6%
6/30/06	294,046,269	229,651,922	64,394,347	78.1%	35,671,705	180.5%

Funded Status of MCWRA Plan

Information is available on a pooled-basis only and may be obtained from CalPERS, P.O. Box 942709, Sacramento, CA 94229-2709.

SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

COUNTY OF MONTEREY

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
ASSETS				
Cash and Investments:				
Held in County treasury	$ 30,278,678	$ 6,151,949	$ 45,043,865	$ 81,474,492
Held with trustee	4,471	10,180,989	--	10,185,460
Receivables	3,184,252	--	1,045,563	4,229,815
Due from other funds	9,308	--	--	9,308
Land held for resale and development	--	--	915,680	915,680
Prepaid items and other assets	--	19,800	--	19,800
Long-term receivables	4,285,368	--	123,988	4,409,356
Total Assets	$ 37,762,077	$ 16,352,738	$ 47,129,096	$ 101,243,911
LIABILITIES				
Vouchers and accounts payable	$ 783,817	$ 990	$ 240,438	$ 1,025,245
Accrued salaries and benefits	216,428	--	--	216,428
Deposits from others	--	--	45,300	45,300
Deferred revenues	5,604,848	--	513,801	6,118,649
Advances from other funds	--	--	183,800	183,800
Total Liabilities	6,605,093	990	983,339	7,589,422
FUND BALANCES				
Reserved for:				
Encumbrances	2,225,085	--	729,181	2,954,266
Unavailable assets	--	--	915,680	915,680
Debt service	--	16,351,748	--	16,351,748
Unreserved:				
Undesignated reported in:				
Special revenue funds	28,929,796	--	--	28,929,796
Capital projects funds	--	--	44,500,896	44,500,896
Total Fund Balances	31,154,881	16,351,748	46,145,757	93,652,386
Total Liabilities and Fund Balances	$ 37,759,974	$ 16,352,738	$ 47,129,096	$ 101,241,808

COUNTY OF MONTEREY

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2007

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
Revenues:				
Taxes	$ 8,715,530	$ 3,661,643	$ --	$ 12,377,173
Licenses, permits and franchises	27,400	--	--	27,400
Fines, forfeitures and penalties	23,192	--	--	23,192
Revenue from use of money and property	1,693,937	872,264	1,660,622	4,226,823
Aid from other governmental agencies	9,315,109	--	791,462	10,106,571
Charges for services	18,662,921	1,290,699	100	19,953,720
Other revenue	1,081,765	847	1,398,365	2,480,977
Total Revenues	39,519,854	5,825,453	3,850,549	49,195,856
Expenditures:				
Current:				
General government	1,925,785	--	6,067,696	7,993,481
Public ways and facilities	16,171,327	--	--	16,171,327
Health and sanitation	3,716,287	--	--	3,716,287
Public assistance	8,659,278	--	--	8,659,278
Education	6,277,426	--	--	6,277,426
Recreation and culture services	22,187	--	--	22,187
Debt service:				
Principal	308,248	3,299,413	25,000	3,632,661
Interest and debt service costs	45,867	7,208,573	11,351	7,265,791
Capital outlay	--	--	625,040	625,040
Total Expenditures	37,126,405	10,507,986	6,729,087	54,363,478
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,393,449	(4,682,533)	(2,878,538)	(5,167,622)
Other Financing Sources (Uses):				
Transfers in	1,122,097	11,529,390	15,776,532	28,428,019
Transfers out	(829,450)	(3,986,759)	(2,844,738)	(7,660,947)
Inception of capital lease	70,925	--	--	70,925
Issuance of debt:				
Refunding bond	--	91,100,000	--	91,100,000
Premium on refunding bond	--	2,198,432	--	2,198,432
Payment to refunded bond escrow agent	--	(87,895,272)	--	(87,895,272)
Total Other Financing Sources (Uses)	363,572	12,945,791	12,931,794	26,241,157
Net Change in Fund Balance	2,757,021	8,263,258	10,053,256	21,073,535
Fund Balances, Beginning of Year as restated	28,397,860	8,088,490	36,092,501	72,578,851
Fund Balances, End of Year	$ 31,154,881	$ 16,351,748	$ 46,145,757	$ 93,652,386

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

SPECIAL REVENUE FUNDS

County Library – Established as a special taxing authority under the County Library Law of 1911 and, as such, is funded primarily through its own share of property tax to provide library services to residents of Monterey County.

In-Home Support Services – Program to provide services to aged, blind and disabled persons who are unable to remain in their home without assistance.

Fish and Game Propagation – Administration of the County's Fish and Game Commission, which consists of fifteen members, three from each supervisorial district to oversee allocation of fish and game fine monies.

Office of Employment Training – Receives federal funds for the design, implementation and oversight of youth and adult employment training services.

Community Services – Administration of the Community Services Block Grant for provision of specified programs to advance and advocate for the low-income population.

Inclusionary Housing – To facilitate the development of lower income housing throughout Monterey County through either direct grants or low interest rate loans.

Disaster Assistance – To help minimize the loss of life and property damage throughout the County resulting from the potential impact of any natural, technological or human-conflict related disasters.

Productivity Investment – Established by the Board of Supervisors in February 1996 with $1.1 million allocated from Public Employee Retirement surplus funds to foster innovacation and to provide a source of funding for implementation of cost-effective departmental and formal employee organization projects.

Natural Disaster Assistance – Finances the County General Fund expenditures for March 1995 and Winter Storm of 1997 and reflects the anticipated federal and State reimbursements for nonpersonnel related emergency services.

Emergency Medical Services – Established at the beginning of 1989 to provide for the collection and distribution of fine proceeds authorized by the California State Legislature's adoption of Senate Bill 612.

Fort Ord Reuse – Implementation of the Fort Ord Redevelopment Project Area A28.

Nacimiento Hydroelectric Operations – Responsible for the management of Nacimiento hydroelectric operations in Monterey County.

Water Resources Agency – Responsible for the management of groundwater resources and flood control protection in Monterey County.

County Service Areas – Provide a variety of services to the unincorporated developments within the County including storm drain and surface water disposal, street and sidewalk maintenance, street lighting, wastewater reclamation and open space maintenance.

Sanitation Districts – Administers and maintains four sanitation districts, operating costs are funded with user fees and property taxes.

Redevelopment Agency Set Aside Fund – Include the set aside fund of the Redevelopment Agency of the County of Monterey that accounts for tax increment revenues set aside for low to moderate income housing projects.

COUNTY OF MONTEREY

Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2007

	County Library	In-Home Support Service	Fish and Game Propagation	Office of Employment Training
Assets				
Cash and investments:				
Held in County treasury	$ 2,050,046	$ 210,160	$ 26,507	$ --
Cash advanced to paying agent	--	--	--	--
Receivables	3,789	36,169	--	2,230
Due from other funds	2,103	--	--	--
Long-term receivables	--	--	--	--
Total Assets	$ 2,055,938	$ 246,329	$ 26,507	$ 2,230
Liabilities and Fund Balances				
Liabilities:				
Vouchers and accounts payable	$ 63,017	$ 6,934	$ 115	$ 3,038
Accrued salaries and benefits	62,150	2,894	--	70,255
Unearned revenue	--	--	--	--
Total Liabilities	125,167	9,828	115	73,293
Fund Balances:				
Reserved for encumbrances	135,080	--	--	--
Unreserved	1,795,691	236,501	26,392	(73,166)
Total Fund Balances	1,930,771	236,501	26,392	(73,166)
Total Liabilities and Fund Balances	$ 2,055,938	$ 246,329	$ 26,507	$ 127

continued

COUNTY OF MONTEREY

Combining Balance Sheet (continued)
Nonmajor Special Revenue Funds
June 30, 2007

	Community Services	Inclusionary Housing	Disaster Assistance	Productivity Investment
Assets				
Cash and investments:				
Held in County treasury	$ 157,189	$ 715,306	$ 258,355	$ 1,137,141
Cash advanced to paying agent	--	4,471	--	--
Receivables	87,747	--	--	--
Due from other funds	--	--	--	--
Long-term receivables	--	716,039	--	--
Total Assets	$ 244,936	$ 1,435,816	$ 258,355	$ 1,137,141
Liabilities and Fund Balances				
Liabilities:				
Vouchers and accounts payable	$ 9,964	$ 19,465	$ --	$ --
Accrued salaries and benefits	2,952	--	--	--
Unearned revenue	--	716,039	--	--
Total Liabilities	12,916	735,504	--	--
Fund Balances:				
Reserved for encumbrances	--	--	--	--
Unreserved	232,020	700,312	258,355	1,137,141
Total Fund Balances	232,020	700,312	258,355	1,137,141
Total Liabilities and Fund Balances	$ 244,936	$ 1,435,816	$ 258,355	$ 1,137,141

continued

COUNTY OF MONTEREY

Combining Balance Sheet (continued)
Nonmajor Special Revenue Funds
June 30, 2007

	Natural Disaster Assistance	Emergency Medical Services	Fort Ord Reuse
Assets			
Cash and investments:			
Held in County treasury	$ 1,067,128	$ 1,038,312	$ 33,925
Cash advanced to paying agent	--	--	--
Receivables	--	82,317	441,698
Due from other funds	--	--	--
Long-term receivables	--	--	--
Total Assets	$ 1,067,128	$ 1,120,629	$ 475,623
Liabilities and Fund Balances			
Liabilities:			
Vouchers and accounts payable	$ --	$ 150,555	$ 132,430
Accrued salaries and benefits	--	--	--
Unearned revenue	1,067,128	--	182,164
Total Liabilities	1,067,128	150,555	314,594
Fund Balances:			
Reserved for encumbrances	--	--	--
Unreserved	--	970,074	161,029
Total Fund Balances	--	970,074	161,029
Total Liabilities and Fund Balances	$ 1,067,128	$ 1,120,629	$ 475,623

continued

COUNTY OF MONTEREY

Combining Balance Sheet (continued)
Nonmajor Special Revenue Funds
June 30, 2007

	Agencies Under Board of Supervisors				
	Nacimiento Hydroelectric Operations	Other Water Resources Agencies	County Service Areas	Sanitation Districts	RDA Set-Aside
Assets					
Cash and investments:					
Held in County treasury	$ 863,068	$ 10,425,311	$ 6,781,991	$ 1,524,233	$ 3,990,006
Cash advanced to paying agent	--	--	--	--	--
Receivables	--	1,910,114	553,940	66,248	--
Due from other funds	--	--	--	--	7,205
Long-term receivables	--	--	--	--	3,569,329
Total Assets	$ 863,068	$ 12,335,425	$ 7,335,931	$ 1,590,481	$ 7,566,540
Liabilities and Fund Balances					
Liabilities:					
Vouchers and accounts payable	$ 57,554	$ 326,202	$ 7,190	$ 520	$ 6,833
Accrued salaries and benefits	--	78,177	--	--	--
Unearned revenue	--	--	3,940	66,248	3,569,329
Total Liabilities	57,554	404,379	11,130	66,768	3,576,162
Fund Balances:					
Reserved for encumbrances	231,802	1,842,583	13,831	827	962
Unreserved	573,712	10,088,463	7,310,970	1,522,886	3,989,416
Total Fund Balances	805,514	11,931,046	7,324,801	1,523,713	3,990,378
Total Liabilities and Fund Balances	$ 863,068	$ 12,335,425	$ 7,335,931	$ 1,590,481	$ 7,566,540

continued

COUNTY OF MONTEREY

Combining Balance Sheet (continued)
Nonmajor Special Revenue Funds
June 30, 2007

	Totals
Assets	
Cash and investments:	
Held in County treasury	$ 30,278,678
Cash advanced to paying agent	4,471
Receivables	3,184,252
Due from other funds	9,308
Long-term receivables	4,285,368
Total Assets	$ 37,762,077
Liabilities and Fund Balances	
Liabilities:	
Vouchers and accounts payable	$ 783,817
Accrued salaries and benefits	216,428
Unearned revenue	5,604,848
Total Liabilities	6,605,093
Fund Balances:	
Reserved for encumbrances	2,225,085
Unreserved	28,929,796
Total Fund Balances	31,154,881
Total Liabilities and Fund Balances	$ 37,759,974

COUNTY OF MONTEREY

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2007

	County Library	In-Home Support Service	Fish and Game Propagation	Office of Employment Training
Revenues:				
Taxes	$ 5,830,139	$ --	$ --	$ --
Licenses, permits and franchises	--	--	--	--
Fines, forfeitures and penalties	--	--	23,192	--
Revenue from use of money and property	97,129	3,763	1,148	--
Aid from other governmental agencies	193,565	394,018	--	7,712,993
Charges for services	135,158	--	--	--
Other revenue	125,166	550	--	8,192
Total Revenues	6,381,157	398,331	24,340	7,721,185
Expenditures:				
Current:				
General government	--	--	--	--
Public ways and facilities	--	--	--	--
Health and sanitation	--	--	--	--
Public assistance	--	324,782	--	7,876,654
Education	6,277,426	--	--	--
Culture and recreation	--	--	22,187	--
Debt service:				
Principal	--	--	--	--
Interest	--	--	--	--
Total Expenditures	6,277,426	324,782	22,187	7,876,654
Excess (Deficiency) of Revenues Over (Under) Expenditures	103,731	73,549	2,153	(155,469)
Other Financing Sources (Uses):				
Transfers in	239,497	48,228	15,000	--
Transfers out	--	--	--	--
Inception of capital lease	--	--	--	--
Total Other Financing Sources (Uses)	239,497	48,228	15,000	--
Net change in fund balances	343,228	121,777	17,153	(155,469)
Fund balances, beginning as restated	1,587,543	114,724	9,239	82,303
Fund balances, ending	$ 1,930,771	$ 236,501	$ 26,392	$ (73,166)

continued

COUNTY OF MONTEREY

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (continued)
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2007

	Community Services	Inclusionary Housing	Disaster Assistance	Productivity Investment
Revenues:				
Taxes	$ --	$ --	$ --	$ --
Licenses, permits and franchises	--	--	--	--
Fines, forfeitures and penalties	--	--	--	--
Revenue from use of money and property	8,459	80,145	--	52,160
Aid from other governmental agencies	469,363	--	--	--
Charges for services	--	--	--	--
Other revenue	722	148,510	--	--
Total Revenues	478,544	228,655	--	52,160
Expenditures:				
Current:				
General government	--	732,766	--	--
Public ways and facilities	--	--	--	--
Health and sanitation	--	--	--	--
Public assistance	457,842	--	--	--
Education	--	--	--	--
Culture and recreation	--	--	--	--
Debt service:				
Principal	--	--	--	--
Interest	--	--	--	--
Total Expenditures	457,842	732,766	--	--
Excess (Deficiency) of Revenues Over (Under) Expenditures	20,702	(504,111)	--	52,160
Other Financing Sources (Uses):				
Transfers in	--	--	--	223,518
Transfers out	--	(98,746)	--	(109,791)
Inception of capital lease	--	--	--	--
Total Other Financing Sources (Uses)	--	(98,746)	--	113,727
Net change in fund balances	20,702	(602,857)	--	165,887
Fund balances, beginning as restated	211,318	1,303,169	258,355	971,254
Fund balances, ending	$ 232,020	$ 700,312	$ 258,355	$ 1,137,141

continued

COUNTY OF MONTEREY

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (continued)
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2007

	Natural Disaster Assistance	Emergency Medical Services	Fort Ord Reuse
Revenues:			
Taxes	$ --	$ --	$ --
Licenses, permits and franchises	--	--	--
Fines, forfeitures and penalties	--	--	--
Revenue from use of money and property	--	61,155	12,558
Aid from other governmental agencies	--	288,803	--
Charges for services	--	720,991	--
Other revenue	--	--	719,099
Total Revenues	--	1,070,949	731,657
Expenditures:			
Current:			
General government	--	--	1,119,369
Public ways and facilities	--	--	--
Health and sanitation	--	1,075,008	--
Public assistance	--	--	--
Education	--	--	--
Culture and recreation	--	--	--
Debt service:			
Principal	--	--	--
Interest	--	--	--
Total Expenditures	--	1,075,008	1,119,369
Excess (Deficiency) of Revenues Over (Under) Expenditures	--	(4,059)	(387,712)
Other Financing Sources (Uses):			
Transfers in	--	--	42,000
Transfers out	--	(188,782)	--
Inception of capital lease	--	--	--
Total Other Financing Sources (Uses)	--	(188,782)	42,000
Net change in fund balances	--	(192,841)	(345,712)
Fund balances, beginning as restated	--	1,162,915	506,741
Fund balances, ending	$ --	$ 970,074	$ 161,029

continued

COUNTY OF MONTEREY

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (continued)
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2007

	Agencies Under Board of Supervisors				
	Nacimiento Hydroelectric Operations	Other Water Resources Agencies	County Service Areas	Sanitation Districts	RDA Set-Aside
Revenues:					
Taxes	$ --	$ --	$ 1,574,342	$ --	$ 1,311,049
Licenses, permits and franchises	--	27,400	--	--	--
Fines, forfeitures and penalties	--	--	--	--	--
Revenue from use of money and property	--	708,504	339,847	114,048	215,021
Aid from other governmental agencies	--	256,367	--	--	--
Charges for services	1,770,064	13,846,082	1,110,439	1,080,187	--
Other revenue	--	15,650	--	--	63,876
Total Revenues	1,770,064	14,854,003	3,024,628	1,194,235	1,589,946
Expenditures:					
Current:					
General government	--	--	--	--	73,650
Public ways and facilities	811,789	14,560,217	692,549	106,772	--
Health and sanitation	--	--	1,156,425	1,484,854	--
Public assistance	--	--	--	--	--
Education	--	--	--	--	--
Culture and recreation	--	--	--	--	--
Debt service:					
Principal	--	--	--	--	308,248
Interest	--	--	--	--	45,867
Total Expenditures	811,789	14,560,217	1,848,974	1,591,626	427,765
Excess (Deficiency) of Revenues Over (Under) Expenditures	958,275	293,786	1,175,654	(397,391)	1,162,181
Other Financing Sources (Uses):					
Transfers in	--	450,649	--	98,746	4,459
Transfers out	(260,931)	(67,000)	--	(104,200)	--
Inception of capital lease	--	70,925	--	--	--
Total Other Financing Sources (Uses)	(260,931)	454,574	--	(5,454)	4,459
Net change in fund balances	697,344	748,360	1,175,654	(402,845)	1,166,640
Fund balances, beginning as restated	108,170	11,182,686	6,149,147	1,926,558	2,823,738
Fund balances, ending	$ 805,514	$ 11,931,046	$ 7,324,801	$ 1,523,713	$ 3,990,378

continued

COUNTY OF MONTEREY

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (continued)
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2007

	Totals
Revenues:	
Taxes	$ 8,715,530
Licenses, permits and franchises	27,400
Fines, forfeitures and penalties	23,192
Revenue from use of money and property	1,693,937
Aid from other governmental agencies	9,315,109
Charges for services	18,662,921
Other revenue	1,081,765
Total Revenues	39,519,854
Expenditures:	
Current:	
General government	1,925,785
Public ways and facilities	16,171,327
Health and sanitation	3,716,287
Public assistance	8,659,278
Education	6,277,426
Culture and recreation	22,187
Debt service:	
Principal	308,248
Interest	45,867
Total Expenditures	37,126,405
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,393,449
Other Financing Sources (Uses):	
Transfers in	1,122,097
Transfers out	(829,450)
Inception of capital lease	70,925
Total Other Financing Sources (Uses)	363,572
Net change in fund balances	2,757,021
Fund balances, beginning as restated	28,397,860
Fund balances, ending	$ 31,154,881

COUNTY OF MONTEREY

Budgetary Comparison Schedule
County Library Fund
For the Year Ended June 30, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	$ 5,340,352	$ 5,340,352	$ 5,830,139	$ 489,787
Revenue from use of money and property	15,000	15,000	97,129	82,129
Aid from other governmental agencies	175,400	175,400	193,565	18,165
Charges for services	75,000	75,000	135,158	60,158
Other revenue	5,050	74,690	125,166	50,476
Total Revenues	5,610,802	5,680,442	6,381,157	700,715
Expenditures:				
Current:				
Education	6,829,022	7,168,042	6,785,554	382,488
Total Expenditures	6,829,022	7,168,042	6,785,554	382,488
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,218,220)	(1,487,600)	(404,397)	1,083,203
Other Financing Sources (Uses):				
Transfers in	239,497	239,497	239,497	--
Total Other Financing Sources (Uses)	239,497	239,497	239,497	--
Net change in budgetary fund balances	(978,723)	(1,248,103)	(164,900)	1,083,203
Budgetary fund balances, beginning	1,587,543	1,587,543	1,587,543	--
Budgetary fund balances, ending	$ 608,820	$ 339,440	$ 1,422,643	$ 1,083,203

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Expenditures:

Uses/outflows of resources

Actual amounts (budgetary basis) of expenditures from the budgetary comparison schedule budgetary comparison statement	$ 6,785,554
Differences - budget to GAAP:	
Encumbrances for supplies and services ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes	(508,128)
Total expenditures as reported on the combining statement of revenues, expenditures, and changes in fund balances - nonmajor special revenue funds	$ 6,277,426

COUNTY OF MONTEREY

Budgetary Comparison Schedule
In-Home Support Services
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive
	Original	Final	(Budgetary Basis)	(Negative)
Revenues:				
Revenue from use of money and property	$ 206,164	$ 206,164	$ 3,763	$ (202,401)
Aid from other governmental agencies	317,107	317,107	394,018	76,911
Other revenue	--	--	550	-550
Total Revenues	523,271	523,271	398,331	(124,940)
Expenditures:				
Current:				
Public assistance	869,037	749,006	324,782	424,224
Total Expenditures	869,037	749,006	324,782	424,224
Excess (Deficiency) of Revenues Over (Under) Expenditures	(345,766)	(225,735)	73,549	299,284
Other Financing Sources (Uses):				
Transfers in	111,011	111,011	48,228	(62,783)
Total Other Financing Sources (Uses)	111,011	111,011	48,228	(62,783)
Net change in budgetary fund balances	(234,755)	(114,724)	121,777	236,501
Budgetary fund balances, beginning	114,724	114,724	114,724	--
Budgetary fund balances, ending	$ (120,031)	$ --	$ 236,501	$ 236,501

COUNTY OF MONTEREY

Budgetary Comparison Schedule
Fish and Game Propagation
For the Year Ended June 30, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues:				
Fines, forfeitures and penalties	$ 9,000	$ 9,000	$ 23,192	$ 14,192
Revenue from use of money and property	350	350	1,148	798
Total Revenues	9,350	9,350	24,340	14,990
Expenditures:				
Current:				
Culture and recreation	30,860	30,860	22,187	8,673
Total Expenditures	30,860	30,860	22,187	8,673
Excess (Deficiency) of Revenues Over (Under) Expenditures	(21,510)	(21,510)	2,153	23,663
Other Financing Sources (Uses):				
Transfers in	15,000	15,000	15,000	--
Total Other Financing Sources (Uses)	15,000	15,000	15,000	--
Net change in budgetary fund balances	(6,510)	(6,510)	17,153	23,663
Budgetary fund balances, beginning	9,239	9,239	9,239	--
Budgetary fund balances, ending	$ 2,729	$ 2,729	$ 26,392	$ 23,663

COUNTY OF MONTEREY

Budgetary Comparison Schedule
Office of Employment Training
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive
	Original	Final	(Budgetary Basis)	(Negative)
Revenues:				
Aid from other governmental agencies	$ 9,000,000	$ 9,528,705	$ 7,712,993	$ (1,815,712)
Other revenue	--	--	8,192	8,192
Total Revenues	9,000,000	9,528,705	7,721,185	(1,807,520)
Expenditures:				
Current:				
Public assistance	9,000,000	9,528,705	7,876,654	1,652,051
Total Expenditures	9,000,000	9,528,705	7,876,654	1,652,051
Net change in budgetary fund balances	--	--	(155,469)	(155,469)
Budgetary fund balances, beginning	82,303	82,303	82,303	--
Budgetary fund balances, ending	$ 82,303	$ 82,303	$ (73,166)	$ (155,469)

COUNTY OF MONTEREY

Budgetary Comparison Schedule
Community Services
For the Year Ended June 30, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues:				
Revenue from use of money and property	$ 3,000	$ 3,000	$ 8,459	$ 5,459
Aid from other governmental agencies	460,903	460,903	469,363	8,460
Other revenue	--	--	722	722
Total Revenues	463,903	463,903	478,544	14,641
Expenditures:				
Current:				
Public assistance	563,178	675,221	457,842	217,379
Total Expenditures	563,178	675,221	457,842	217,379
Net change in budgetary fund balances	(99,275)	(211,318)	20,702	232,020
Budgetary fund balances, beginning	211,318	211,318	211,318	--
Budgetary fund balances, ending	$ 112,043	$ --	$ 232,020	$ 232,020

COUNTY OF MONTEREY

Budgetary Comparison Schedule
Inclusionary Housing
For the Year Ended June 30, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues:				
Revenue from use of money and property	$ 21,000	$ 21,000	$ 80,145	$ 59,145
Other revenue	105,000	105,000	148,510	43,510
Total Revenues	126,000	126,000	228,655	102,655
Expenditures:				
Current:				
General government	531,476	1,151,205	702,253	448,952
Total Expenditures	531,476	1,151,205	702,253	448,952
Other Financing Sources (Uses):				
Transfers out	--	(100,000)	(98,746)	1,254
Total Other Financing Sources (Uses)	--	(100,000)	(98,746)	1,254
Net change in budgetary fund balances	(405,476)	(1,125,205)	(572,344)	552,861
Budgetary fund balances, beginning	1,610,158	1,610,158	1,303,169	(306,989)
Budgetary fund balances, ending	$ 1,204,682	$ 484,953	$ 730,825	$ 245,872

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Expenditures:

Uses/outflows of resources

Actual amounts (budgetary basis) of expenditures from the budgetary comparison schedule	$ 702,253
Differences - budget to GAAP:	
Encumbrances for supplies and services ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes	30,513
Total expenditures as reported on the combining statement of revenues, expenditures, and changes in fund balances - nonmajor special revenue funds	$ 732,766

COUNTY OF MONTEREY

Budgetary Comparison Schedule
Disaster Assistance
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive
	Original	Final	(Budgetary Basis)	(Negative)
Revenues:				
Aid from other governmental agencies	$ --	$ --	$ --	$ --
Total Revenues	--	--	--	--
Expenditures:				
Current:				
General government	--	--	--	--
Total Expenditures	--	--	--	--
Net change in budgetary fund balances	--	--	--	--
Budgetary fund balances, beginning	258,355	258,355	258,355	--
Budgetary fund balances, ending	$ 258,355	$ 258,355	$ 258,355	$ --

COUNTY OF MONTEREY

Budgetary Comparison Schedule
Productivity Investment
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive
	Original	Final	(Budgetary Basis)	(Negative)
Revenues:				
Revenue from use of money and property	$ 30,000	$ 30,000	$ 52,160	$ 22,160
Total Revenues	30,000	30,000	52,160	22,160
Excess (Deficiency) of Revenues Over (Under) Expenditures	30,000	30,000	52,160	22,160
Other Financing Sources (Uses):				
Transfers in	223,518	223,518	223,518	--
Transfers out	(1,212,150)	(1,224,772)	(109,791)	1,114,981
Total Other Financing Sources (Uses)	(988,632)	(1,001,254)	113,727	1,114,981
Net change in budgetary fund balances	(958,632)	(971,254)	165,887	1,137,141
Budgetary fund balances, beginning	971,254	971,254	971,254	--
Budgetary fund balances, ending	$ 12,622	$ --	$ 1,137,141	$ 1,137,141

COUNTY OF MONTEREY

Budgetary Comparison Schedule
Fort Ord Reuse
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive
	Original	Final	(Budgetary Basis)	(Negative)
Revenues:				
Revenue from use of money and property	$ --	$ --	$ 12,558	$ 12,558
Other revenue	900,000	1,919,391	719,099	(1,200,292)
Total Revenues	900,000	1,919,391	731,657	(1,187,734)
Expenditures:				
Current:				
General government	1,172,672	1,966,767	871,294	1,095,473
Total Expenditures	1,172,672	1,966,767	871,294	1,095,473
Excess (Deficiency) of Revenues Over (Under) Expenditures	(272,672)	(47,376)	(139,637)	(92,261)
Other Financing Sources (Uses):				
Transfers in	42,000	42,000	42,000	--
Transfers out	(31,888)	(100,000)	--	100,000
Total Other Financing Sources (Uses)	10,112	(58,000)	42,000	100,000
Net change in budgetary fund balances	(262,560)	(105,376)	(97,637)	7,739
Budgetary fund balances, beginning	506,741	506,741	506,741	--
Budgetary fund balances, ending	$ 244,181	$ 401,365	$ 409,104	$ 7,739

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Expenditures:

Uses/outflows of resources

Actual amounts (budgetary basis) of expenditures from the budgetary comparison statement	$ 871,294
Differences - budget to GAAP:	
Encumbrances for supplies and services ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes	248,075
Total expenditures as reported on the combining statement of revenues, expenditures, and changes in fund balances - nonmajor special revenue funds	$ 1,119,369

COUNTY OF MONTEREY

Budgetary Comparison Schedule
Emergency Medical Services
For the Year Ended June 30, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues:				
Revenue from use of money and property	$ 20,000	$ 20,000	$ 61,155	$ 41,155
Aid from other governmental agencies	--	288,806	288,803	(3)
Charges for services	600,000	600,000	720,991	120,991
Total Revenues	620,000	908,806	1,070,949	162,143
Expenditures:				
Current:				
Health and sanitation	849,884	1,797,003	1,075,008	721,995
Total Expenditures	849,884	1,797,003	1,075,008	721,995
Excess (Deficiency) of Revenues Over (Under) Expenditures	(229,884)	(888,197)	(4,059)	884,138
Other Financing Sources (Uses):				
Transfers out	(290,000)	(274,718)	(188,782)	85,936
Total Other Financing Sources (Uses)	(290,000)	(274,718)	(188,782)	85,936
Net change in budgetary fund balances	(519,884)	(1,162,915)	(192,841)	970,074
Budgetary fund balances, beginning	1,162,915	1,162,915	1,162,915	
Budgetary fund balances, ending	$ 643,031	$ --	$ 970,074	$ 970,074

COUNTY OF MONTEREY

Budgetary Comparison Schedule
Nacimiento Hydroelectric Operations
For the Year Ended June 30, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues:				
Charges for services	$ 1,200,000	$ 1,200,000	$ 1,770,064	$ 570,064
Total Revenues	1,200,000	1,200,000	1,770,064	570,064
Expenditures:				
Current:				
Public ways and facilities	1,200,000	1,200,000	925,423	274,577
Total Expenditures	1,200,000	1,200,000	925,423	274,577
Excess (Deficiency) of Revenues Over (Under) Expenditures	--	--	844,641	844,641
Other Financing Sources (Uses):				
Transfers out	--	--	(260,931)	(260,931)
Total Other Financing Sources (Uses)	--	--	(260,931)	(260,931)
Net change in budgetary fund balances	--	--	583,710	583,710
Budgetary fund balances, beginning	108,170	108,170	108,170	--
Budgetary fund balances, ending	$ 108,170	$ 108,170	$ 691,880	$ 583,710

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Expenditures:

Uses/outflows of resources

Actual amounts (budgetary basis) of expenditures from the budgetary comparison statement	$ 925,423
Differences - budget to GAAP:	
Encumbrances for supplies and services ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes	(113,634)
Total expenditures as reported on the combining statement of revenues, expenditures, and changes in fund balances - nonmajor special revenue funds	$ 811,789

COUNTY OF MONTEREY

Budgetary Comparison Schedule
Water Resources Agency
For the Year Ended June 30, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance with *Final Budget* Positive (Negative)
Revenues:				
Licenses, permits and franchises	$ 25,000	$ 25,000	$ 27,400	$ 2,400
Revenue from use of money and property	9,074,949	9,074,949	708,504	(8,366,445)
Aid from other governmental agencies	10,273,000	10,760,400	256,367	(10,504,033)
Charges for services	21,629,367	14,539,288	13,846,082	(693,206)
Other revenue	--	--	15,650	15,650
Total Revenues	41,002,316	34,399,637	14,854,003	(19,545,634)
Expenditures:				
Current:				
Public ways and facilities	50,412,738	46,596,969	14,775,158	31,821,811
Debt service - interest	469,471	469,471	--	469,471
Total Expenditures	50,882,209	47,066,440	14,775,158	32,291,282
Excess (Deficiency) of Revenues Over (Under) Expenditures	(9,879,893)	(12,666,803)	78,845	12,745,648
Other Financing Sources (Uses):				
Transfers in	2,898,677	160,000	450,649	290,649
Transfers out	(2,976,078)	(67,000)	(67,000)	--
Issuance of debt	5,728,507	5,728,507	--	(5,728,507)
Inception of capital lease	--	--	70,925	70,925
Total Other Financing Sources (Uses)	5,651,106	5,821,507	454,574	(5,366,933)
Net change in budgetary fund balances	(4,228,787)	(6,845,296)	533,419	7,378,715
Budgetary fund balances, beginning	11,182,686	11,182,686	11,182,686	--
Budgetary fund balances, ending	$ 6,953,899	$ 4,337,390	$ 11,716,105	$ 7,378,715

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Expenditures:

Uses/outflows of resources

Actual amounts (budgetary basis) of expenditures from the budgetary comparison statement	$ 14,775,158
Differences - budget to GAAP:	
Encumbrances for supplies and services ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes	(214,941)
Total expenditures as reported on the combining statement of revenues, expenditures, and changes in fund balances - nonmajor special revenue funds	$ 14,560,217

COUNTY OF MONTEREY

Budgetary Comparison Schedule
County Service Areas
For the Year Ended June 30, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	$ 1,523,696	$ 1,523,696	$ 1,574,342	$ 50,646
Revenue from use of money and property	176,850	176,850	339,847	162,997
Charges for services	962,221	962,221	1,110,439	148,218
Total Revenues	2,662,767	2,662,767	3,024,628	361,861
Expenditures:				
Current:				
Public ways and facilities	1,771,363	3,698,085	681,564	3,016,521
Health and sanitation	2,188,273	1,320,099	1,156,425	163,674
Total Expenditures	3,959,636	5,018,184	1,837,989	3,180,195
Net change in budgetary fund balances	(1,296,869)	(2,355,417)	1,186,639	3,542,056
Budgetary fund balances, beginning	6,149,147	6,149,147	6,149,147	--
Budgetary fund balances, ending	$ 4,852,278	$ 3,793,730	$ 7,335,786	$ 3,542,056

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Expenditures:

Uses/outflows of resources

Actual amounts (budgetary basis) of expenditures from the budgetary comparison statement	$ 1,837,989
Differences - budget to GAAP:	
Encumbrances for supplies and services ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes	10,985
Total expenditures as reported on the combining statement of revenues, expenditures, and changes in fund balances - nonmajor special revenue funds	$ 1,848,974

COUNTY OF MONTEREY

Budgetary Comparison Schedule
Sanitation Districts
For the Year Ended June 30, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues:				
Revenue from use of money and property	$ 88,120	$ 88,120	$ 114,048	$ 25,928
Charges for services	1,064,855	1,214,855	1,080,187	(134,668)
Total Revenues	1,152,975	1,302,975	1,194,235	(108,740)
Expenditures:				
Current:				
Public ways and facilities	40,604	188,261	106,772	81,489
Health and sanitation	1,304,719	1,584,658	1,484,854	99,804
Total Expenditures	1,345,323	1,772,919	1,591,626	181,293
Excess (Deficiency) of Revenues Over (Under) Expenditures	(192,348)	(469,944)	(397,391)	72,553
Other Financing Sources (Uses):				
Transfer in	--	--	98,746	98,746
Transfers out	(104,200)	(104,200)	(104,200)	--
Total Other Financing Sources (Uses)	(104,200)	(104,200)	(5,454)	98,746
Net change in budgetary fund balances	(296,548)	(574,144)	(402,845)	171,299
Budgetary fund balances, beginning	1,926,558	1,926,558	1,926,558	--
Budgetary fund balances, ending	$ 1,630,010	$ 1,352,414	$ 1,523,713	$ 171,299

COUNTY OF MONTEREY

Budgetary Comparison Schedule
Redevelopment Set-Aside Fund
For the Year Ended June 30, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	$ 917,746	$ 917,746	$ 1,311,049	$ 393,303
Revenue from use of money and property	13,900	13,900	215,021	201,121
Aid from other governmental agencies	5,000	5,000	--	(5,000)
Charges for current services	3,298	3,298	--	(3,298)
Other revenue	--	--	63,876	63,876
Total Revenues	939,944	939,944	1,589,946	650,002
Expenditures:				
Current:				
General government	2,811,922	3,356,840	73,532	3,283,308
Debt service - principal	--	360,000	308,248	51,752
Debt service - interest	--	--	45,867	(45,867)
Total Expenditures	2,811,922	3,716,840	427,647	3,289,193
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,871,978)	(2,776,896)	1,162,299	3,939,195
Other Financing Sources (Uses):				
Transfers in	419	419	4,459	4,040
Total Other Financing Sources (Uses)	419	419	4,459	4,040
Net change in budgetary fund balances	(1,871,559)	(2,776,477)	1,166,758	3,943,235
Budgetary fund balances, beginning, restated	2,823,738	2,823,738	2,823,738	--
Budgetary fund balances, ending	$ 952,179	$ 47,261	$ 3,990,496	$ 3,943,235

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Expenditures:

Uses/outflows of resources

Actual amounts (budgetary basis) of expenditures from the budgetary comparison statement	$ 427,647
Differences - budget to GAAP:	
Encumbrances for supplies and services ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes	118
Total expenditures as reported on the combining statement of revenues, expenditures, and changes in fund balances - nonmajor special revenue funds	$ 427,765

DEBT SERVICE FUNDS

The Debt Service Funds are used to account for the accumulation of resources for and the payment of general long-term debt principal, interest and related costs.

COUNTY OF MONTEREY

Combining Balance Sheet
Nonmajor Debt Service Funds
June 30, 2007

	Debt Service County	Debt Service RDA	Total
Assets			
Cash and investments in County Treasury	$ 6,133,719	$ 18,230	$ 6,151,949
Cash with fiscal agent	10,180,989	--	10,180,989
Prepaid items and other assets	19,800	--	19,800
Total Assets	$ 16,334,508	$ 18,230	$ 16,352,738
Liabilities and Fund Balance			
Liabilities:			
Accounts payable	$ 990	$ --	$ 990
Total Liabilities	990	--	990
Fund Balance:			
Reserved for debt service	16,333,518	18,230	16,351,748
Total Fund Balances	16,333,518	18,230	16,351,748
Total Liabilities and Fund Balance	$ 16,334,508	$ 18,230	$ 16,352,738

COUNTY OF MONTEREY

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Debt Service Funds
For the Year Ended June 30, 2007

	Debt Service General	Debt Service RDA	Totals
Revenues:			
Taxes	$ 14,018	$ 3,647,625	$ 3,661,643
Revenue from use of money and property	828,430	43,834	872,264
Charges for services	1,290,699	--	1,290,699
Other revenues	847	--	847
Total Revenues	2,133,994	3,691,459	5,825,453
Expenditures:			
Debt service - principal	3,299,413	--	3,299,413
Debt service - interest and debt service costs	7,208,573	--	7,208,573
Total Expenditures	10,507,986	--	10,507,986
Excess (Deficiency) of Revenues Over (Under) Expenditures	(8,373,992)	3,691,459	(4,682,533)
Other Financing Sources (Uses):			
Transfers in	11,529,390	--	11,529,390
Transfers out	--	(3,986,759)	(3,986,759)
Issuance of new debt:			
Refunding bond	91,100,000	--	91,100,000
Premium on refunding bond	2,198,432	--	2,198,432
Payment to refunded bond escrow agent	(87,895,272)	--	(87,895,272)
Total Other Financing Sources (Uses)	16,932,550	(3,986,759)	12,945,791
Net change in fund balances	8,558,558	(295,300)	8,263,258
Fund balances, beginning	7,774,960	313,530	8,088,490
Fund balances, ending	$ 16,333,518	$ 18,230	$ 16,351,748

COUNTY OF MONTEREY

Budgetary Comparison Schedule
Debt Service - County
For the Year Ended June 30, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	$ --	$ --	$ 14,018	$ 14,018
Revenue from use of money and property	110,000	574,280	828,430	254,150
Charges for services	--	--	1,290,699	1,290,699
Other revenues	--	--	847	847
Total Revenues	110,000	574,280	2,133,994	1,559,714
Expenditures:				
Current:				
Debt service - principal	2,832,304	3,137,704	3,299,413	(161,709)
Debt service - interest and other	5,717,044	7,944,925	7,208,573	736,352
Total Expenditures	8,549,348	11,082,629	10,507,986	574,643
Excess (Deficiency) of Revenues Over (Under) Expenditures	(8,439,348)	(10,508,349)	(8,373,992)	2,134,357
Other Financing Sources (Uses):				
Transfers in	6,355,375	6,550,775	11,529,390	4,978,615
Issuance of new debt:				
Refunding bond	--	83,625,936	91,100,000	7,474,064
Premium on refunding bond	--		2,198,432	2,198,432
Payment to refunded bond escrow agent	--	(88,512,820)	(87,895,272)	617,548
Total Other Financing Sources (Uses)	6,355,375	1,663,891	16,932,550	15,268,659
Net change in budgetary fund balances	(2,083,973)	(8,844,458)	8,558,558	17,403,016
Budgetary fund balances, beginning	7,774,960	7,774,960	7,774,960	--
Budgetary fund balances, ending	$ 5,690,987	$ (1,069,498)	$ 16,333,518	$ 17,403,016

COUNTY OF MONTEREY

Budgetary Comparison Schedule
Debt Service - RDA
For the Year Ended June 30, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	$ 3,676,753	$ 3,676,753	$ 3,647,625	$ (29,128)
Revenue from use of money and property	22,000	22,000	43,834	21,834
Other revenue	22,000	22,000	--	(22,000)
Total Revenues	3,720,753	3,720,753	3,691,459	(29,294)
Expenditures:				
Current:				
General government	79,999	--	--	--
Debt service - interest and other	26,940	--	--	--
Total Expenditures	106,939	--	--	--
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,613,814	3,720,753	3,691,459	(29,294)
Other Financing Sources (Uses):				
Transfers in	5,000	5,000	--	(5,000)
Transfers out	(3,632,034)	(4,039,283)	(3,986,759)	52,524
Total Other Financing Sources (Uses)	(3,627,034)	(4,034,283)	(3,986,759)	47,524
Net change in budgetary fund balances	(13,220)	(313,530)	(295,300)	18,230
Budgetary fund balances, beginning	313,530	313,530	313,530	--
Budgetary fund balances, ending	$ 300,310	$ --	$ 18,230	$ 18,230

CAPITAL PROJECTS FUNDS

Capital Projects Funds are used to account for financial resources to be used for the acquisition of major capital facilities (other than those financed by proprietary funds).

CAPITAL PROJECT FUNDS

Major Capital Project Funds

Facilities Master Plan Implementation – Provides for the renovation of the North, East & West Wings of the Courthouse, the renovation of the Old Natividad Medical Center and the construction of a new County Administrative Building. Additionally, funds will be used to address space needs for various other County departments.

Nonmajor Capital Project Funds

Capital Projects Management – A Division of the County Administrative Office and it manages the construction of new facilities.

Capital Projects Automation – Provides for the implementation project to replace the County's core financial accounting system, budget preparation system, and human resources system.

Facilities Project – Provides for the maintenance of existing facilities.

Castroville Pajaro Project – Provides for the administration and implementation of the Castroville/Pajaro Redevelopment Plan adopted in 1986.

Boronda Project – Provides for the administration and implementation of the Boronda Redevelopment Plan adopted in 1988.

Fort Ord Project – Provides for the implementation of the Fort Ord Redevelopment Project Area.

COUNTY OF MONTEREY

Budgetary Comparison Schedule
Facility Master Plan
For the Year Ended June 30, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues				
Revenue from use of money and property	$ 1,300,000	$ 1,300,000	$ 1,980,659	$ 680,659
Charges for services	500	500	--	(500)
Total revenues	1,300,500	1,300,500	1,980,659	680,159
Expenditures				
Current:				
General government	315,199	325,199	110,571	214,628
Capital outlay	48,126,299	51,187,384	19,972,773	31,214,611
Total expenditures	48,441,498	51,512,583	20,083,344	31,429,239
Excess (Deficiency) of Revenues Over (Under) Expenditures	(47,140,998)	(50,212,083)	(18,102,685)	32,109,398
Other financing sources (uses)				
Transfers in	1,893,600	1,893,600	1,893,600	--
Transfers out	--	(5,323,422)	(5,323,421)	1
Issuance of refunding bond	--	--	53,300,000	53,300,000
Total Other Financing Sources (Uses)	1,893,600	(3,429,822)	49,870,179	53,300,001
Net change in budgetary fund balances	(45,247,398)	(53,641,905)	31,767,494	85,409,399
Budgetary fund balances, July 1	53,376,939	53,376,939	53,376,939	--
Budgetary fund balances, June 30	$ 8,129,541	$ (264,966)	$ 85,144,433	$ 85,409,399

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Expenditures:

Uses/outflows of resources

Actual amounts (budgetary basis) of expenditures from the budgetary comparison statement	$ 20,083,344
Differences - budget to GAAP:	
Encumbrances for supplies and services ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are *received for financial reporting purposes*	83,018
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 20,166,362

COUNTY OF MONTEREY

Combining Balance Sheet
Nonmajor Capital Projects Funds
June 30, 2007

	Capital Projects Management	Capital Projects Automation	Facilities Project	Redevelopment Capital Projects	Total
Assets					
Cash and investments in County Treasury	$ 25,161,712	$ 8,851,124	$ 3,566,360	$ 7,464,669	$ 45,043,865
Accounts receivable	803,056	--	--	242,507	1,045,563
Land held for resale and development	--	--	--	915,680	915,680
Long term receivable	--	--	--	123,988	123,988
Total Assets	$ 25,964,768	$ 8,851,124	$ 3,566,360	$ 8,746,844	$ 47,129,096
Liabilities and Fund Balance					
Liabilities:					
Vouchers and accounts payable	$ 119,184	$ --	$ 54,232	$ 67,022	$ 240,438
Deposits from others	--	--	--	45,300	45,300
Deferred revenues	200,359	--	--	313,442	513,801
Advances payable	--	--	--	183,800	183,800
Total Liabilities	319,543	--	54,232	609,564	983,339
Fund Balances:					
Reserved for:					
Encumbrances	13,723	--	715,458	--	729,181
Land held for resale	--	--	--	915,680	915,680
Unreserved	25,631,502	8,851,124	2,796,670	7,221,600	44,500,896
Total Fund Balances	25,645,225	8,851,124	3,512,128	8,137,280	46,145,757
Total Liabilities and Fund Balances	$ 25,964,768	$ 8,851,124	$ 3,566,360	$ 8,746,844	$ 47,129,096

COUNTY OF MONTEREY

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Capital Projects Funds
For the Year Ended June 30, 2007

	Capital Projects Management	Capital Projects Automation	Facilities Project	Redevelopment Capital Projects	Totals
Revenues:					
Revenue from use of money and property	$ 850,834	$ 277,527	$ 136,878	$ 395,383	$ 1,660,622
Aid from other governmental agencies	80,200	--	--	711,262	791,462
Charges for services	100	--	--	--	100
Other revenue	--	--	--	1,398,365	1,398,365
Total Revenues	931,134	277,527	136,878	2,505,010	3,850,549
Expenditures:					
Current:					
General government	297,468	23,520	1,083,061	4,663,647	6,067,696
Debt service:					
Principal	--	--	--	25,000	25,000
Interest	--	--	--	11,351	11,351
Capital outlay	200,931	--	424,109	--	625,040
Total Expenditures	498,399	23,520	1,507,170	4,699,998	6,729,087
Excess (Deficiency) of Revenues Over (Under) Expenditures	432,735	254,007	(1,370,292)	(2,194,988)	(2,878,538)
Other Financing Sources (Uses):					
Transfers in	9,358,755	--	2,431,267	3,986,510	15,776,532
Transfers out	(2,791,828)	--	(48,700)	(4,210)	(2,844,738)
Total Other Financing Sources (Uses)	6,566,927	--	2,382,567	3,982,300	12,931,794
Net change in fund balances	6,999,662	254,007	1,012,275	1,787,312	10,053,256
Fund balances, beginning	18,645,563	8,597,117	2,499,853	6,349,968	36,092,501
Fund balances, ending	$ 25,645,225	$ 8,851,124	$ 3,512,128	$ 8,137,280	$ 46,145,757

COUNTY OF MONTEREY

Budgetary Comparison Schedule
Capital Projects Management
For the Year Ended June 30, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues:				
Revenue from use of money and property	$ 115,000	$ 115,000	$ 850,834	$ 735,834
Aid from other governmental agencies	--	80,200	80,200	--
Charges for services	100	100	100	--
Total Revenues	115,100	195,300	931,134	735,834
Expenditures:				
Current:				
General government	635,224	404,928	306,391	98,537
Capital outlay	15,570,211	17,255,349	200,931	17,054,418
Total Expenditures	16,205,435	17,660,277	507,322	17,152,955
Excess (Deficiency) of Revenues Over (Under) Expenditures	(16,090,335)	(17,464,977)	423,812	17,888,789
Other Financing Sources (Uses):				
Transfers in	725,000	1,625,000	9,358,755	7,733,755
Transfers out	(2,791,828)	(2,791,828)	(2,791,828)	--
Total Other Financing Sources (Uses)	(2,066,828)	(1,166,828)	6,566,927	7,733,755
Net change in budgetary fund balances	(18,157,163)	(18,631,805)	6,990,739	25,622,544
Budgetary fund balances, beginning	18,645,563	18,645,563	18,645,563	--
Budgetary fund balances, ending	$ 488,400	$ 13,758	$ 25,636,302	$ 25,622,544

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Expenditures:

Uses/outflows of resources	
Actual amounts (budgetary basis) of expenditures from the budgetary comparison statement	$ 507,322
Differences - budget to GAAP:	
Encumbrances for supplies and services ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes	(8,923)
Total expenditures as reported on the combining statement of revenues, expenditures, and changes in fund balances - nonmajor capital projects funds	$ 498,399

COUNTY OF MONTEREY

Budgetary Comparison Schedule
Capital Projects Automation
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive
	Original	Final	(Budgetary Basis)	(Negative)
Revenues:				
Revenue from use of money and property	$ --	$ --	$ 277,527	$ 277,527
Total Revenues	--	--	277,527	277,527
Expenditures:				
General government		$ 100,000	23,520	76,480
Total Expenditures	--	100,000	23,520	76,480
Net change in budgetary fund balances	--	(100,000)	254,007	354,007
Budgetary fund balances, beginning	8,597,117	8,597,117	8,597,117	--
Budgetary fund balances, ending	$ 8,597,117	$ 8,497,117	$ 8,851,124	$ 354,007

COUNTY OF MONTEREY

Budgetary Comparison Schedule
Facilities Project
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive
	Original	Final	(Budgetary Basis)	(Negative)
Revenues:				
Revenue from use of money and property	$ 25,000	$ 25,000	$ 136,878	$ 111,878
Total Revenues	25,000	25,000	136,878	111,878
Expenditures:				
Current:				
General government	4,009,014	3,640,370	1,136,871	2,503,499
Capital outlay	50,000	1,260,549	910,064	350,485
Total Expenditures	4,059,014	4,900,919	2,046,935	2,853,984
Excess (Deficiency) of Revenues Over (Under) Expenditures	(4,034,014)	(4,875,919)	(1,910,057)	2,965,862
Other Financing Sources (Uses):				
Transfers in	2,408,228	2,408,228	2,431,267	23,039
Transfers out	--	(48,700)	(48,700)	--
Total Other Financing Sources (Uses)	2,408,228	2,359,528	2,382,567	23,039
Net change in budgetary fund balances	(1,625,786)	(2,516,391)	472,510	2,988,901
Budgetary fund balances, beginning	2,499,853	2,499,853	2,499,853	--
Budgetary fund balances, ending	$ 874,067	$ (16,538)	$ 2,972,363	$ 2,988,901

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Expenditures:

Uses/outflows of resources

Actual amounts (budgetary basis) of expenditures from the budgetary comparison statement	$ 2,046,935
Differences - budget to GAAP:	
Encumbrances for supplies and services ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes	(539,765)
Total expenditures as reported on the combining statement of revenues, expenditures, and changes in fund balances - nonmajor capital projects funds	$ 1,507,170

COUNTY OF MONTEREY

Budgetary Comparison Schedule
RDA Capital Projects Fund
For the Year Ended June 30, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance with *Final Budget* Positive (Negative)
Revenues:				
Taxes	$ (58,000)	$ (78,000)	$ --	78,000
Revenue from use of money and property	1,283,500	1,283,500	395,383	(888,117)
Aid from other governmental agencies	1,325,669	1,325,669	711,262	(614,407)
Other revenue	1,531,888	2,434,099	1,398,365	(1,035,734)
Total Revenues	4,083,057	4,965,268	2,505,010	(2,460,258)
Expenditures:				
Current:				
General government	10,295,917	12,518,393	2,973,510	9,544,883
Debt service - principal	26,000	26,000	25,000	1,000
Debt service - interest	56,250	56,250	11,351	44,899
Total Expenditures	10,378,167	12,600,643	3,009,861	9,590,782
Excess (Deficiency) of Revenues Over *(Under) Expenditures*	(6,295,110)	(7,635,375)	(504,851)	7,130,524
Other Financing Sources (Uses):				
Transfers in	3,631,834	3,949,517	3,986,510	36,993
Transfers out	(100,000)	(105,000)	(4,210)	100,790
Total Other Financing Sources (Uses)	3,531,834	3,844,517	3,982,300	137,783
Net change in budgetary fund balances	(2,763,276)	(3,790,858)	3,477,449	7,268,307
Budgetary fund balances, beginning, restated	4,213,236	4,213,236	6,349,968	2,136,732
Budgetary fund balances, ending	$ 1,449,960	$ 422,378	$ 9,827,417	$ 9,405,039

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Expenditures:

Uses/outflows of resources

Actual amounts (budgetary basis) of expenditures from the budgetary comparison statement	$ 3,009,861
Differences - budget to GAAP:	
Encumbrances for supplies and services ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes	1,690,137
Total expenditures as reported on the combining statement of revenues, expenditures, and changes in fund balances - nonmajor capital projects funds	$ 4,699,998

INTERNAL SERVICE FUNDS

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the County, or to other governments on a cost-reimbursement basis.

INTERNAL SERVICE FUNDS

General Liability

This fund accounts for the financing of the County's general liability insurance.

Workers' Compensation

This fund accounts for the financing of the County's workers' compensation insurance.

COUNTY OF MONTEREY

Combining Statement of Fund Net Assets
Internal Service Funds
June 30, 2007

	General Liability	Workers' Compensation	Total
Assets			
Current Assets:			
Cash and cash equivalents	$ 7,896,264	$ 31,189,175	$ 39,085,439
Accounts receivable	724,828	--	724,828
Total Assets	$ 8,621,092	$ 31,189,175	$ 39,810,267
Liabilities and Net Assets			
Current Liabilities:			
Accounts payable	$ --	$ 176,430	$ 176,430
Current portion of claims liability	2,212,269	7,680,866	9,893,135
Current portion of bonds payable	705,883	--	705,883
Total Current Liabilities	2,918,152	7,857,296	10,775,448
Long-Term Liabilities:			
Claims liability	3,295,882	27,704,112	30,999,994
Bonds payable	4,795,297	--	4,795,297
Total Long-Term Liabilities	8,091,179	27,704,112	35,795,291
Total Liabilities	11,009,331	35,561,408	46,570,739
Net Assets:			
Unrestricted (deficit)	(2,388,239)	(4,372,233)	(6,760,472)
Total Net Assets	(2,388,239)	(4,372,233)	(6,760,472)
Total Liabilities and Net Assets	$ 8,621,092	$ 31,189,175	$ 39,810,267

COUNTY OF MONTEREY

Combining Statement of Revenues, Expenses and Changes in Net Assets
Internal Service Funds
For the Year Ended June 30, 2007

	General Liability	Workers' Compensation	Total
Operating Revenues:			
Charges for services	$ 4,786,897	$ 13,698,899	$ 18,485,796
Other operating revenues	5,969,232	--	5,969,232
Total Operating Revenues	10,756,129	13,698,899	24,455,028
Operating Expenses:			
Services and supplies	17,776	80,830	98,606
Claims expense	2,308,557	5,194,071	7,502,628
Purchased services	131,207	812,047	943,254
Insurance	685,404	1,240,391	1,925,795
Total Operating Expenses	3,142,944	7,327,339	10,470,283
Net Operating Income	7,613,185	6,371,560	13,984,745
Non-Operating Revenues (Expenses):			
Interest income	152,136	1,408,166	1,560,302
Interest expense	(202,067)	--	(202,067)
Total Non-Operating Revenues (Expenses)	(49,931)	1,408,166	1,358,235
Change in Net Assets	7,563,254	7,779,726	15,342,980
Net Assets - Beginning of Year	(9,951,493)	(12,151,959)	(22,103,452)
Net Assets - End of Year	$ (2,388,239)	$ (4,372,233)	$ (6,760,472)

COUNTY OF MONTEREY

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2007

	General Liability	Workers' Compensation	Total
Cash Flows from Operating Activities:			
Cash receipts from customers	$ 10,052,294	$ 13,698,899	$ 23,751,193
Cash paid to suppliers for goods and services	(3,690,258)	(8,347,627)	(12,037,885)
Net cash provided by operating activities	6,362,036	5,351,272	11,713,308
Cash flows from capital and related financing activities:			
Principal payments on COPs, capital leases, loans	(670,000)		(670,000)
Interest payments on COPs, capital leases, loans	(212,950)	--	(212,950)
Net cash provided (used) by capital and related financing activities	(882,950)	--	(882,950)
Cash flow from investing activities:			
Interest payments received	152,136	1,408,166	1,560,302
Net cash provided (used) by investing activities	152,136	1,408,166	1,560,302
Net increase (decrease) in cash and cash equivalents	5,631,222	6,759,438	12,390,660
Cash and equivalents, July 1	2,265,042	24,429,737	26,694,779
Cash and equivalents, June 30	$ 7,896,264	$ 31,189,175	$ 39,085,439

continued

COUNTY OF MONTEREY

Statements of Cash Flows (continued)
Internal Service Funds
For the Year Ended June 30, 2006

	General Liability	Workers' Compensation	Total
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$ 7,613,185	$ 6,371,560	$ 13,984,745
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
(Increase) decrease in accounts receivable	(703,835)	--	(703,835)
Increase (decrease) in accounts payable	7,150	106,637	113,787
Increase (decrease) in claims liability	(554,464)	(1,126,925)	(1,681,389)
Total Adjustments	(1,251,149)	(1,020,288)	(2,271,437)
Net cash provided (used) by operating activities	$ 6,362,036	$ 5,351,272	$ 11,713,308

AGENCY FUNDS

COUNTY OF MONTEREY

Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2007

	July 1, 2006	Additions	Deductions	June 30, 2007
Clearing and Revolving Funds				
Assets:				
Cash and cash equivalents	$ 814,586	$ 495,215,724	$ 491,316,051	$ 4,714,259
Total Assets	$ 814,586	$ 495,215,724	$ 491,316,051	$ 4,714,259
Liabilities:				
Accounts payable	$ 722,960	$ 55,703,023	$ 56,001,932	$ 424,051
Assets held as agency for others	91,626	568,988,234	564,789,652	4,290,208
Total Liabilities	$ 814,586	$ 624,691,257	$ 620,791,584	$ 4,714,259
Taxes and Interest				
Assets:				
Cash and cash equivalents	$ 6,988,208	$ 727,924,376	$ 728,445,057	$ 6,467,527
Receivables - taxes	28,283,197	576,177,138	567,501,983	36,958,352
Total Assets	$ 35,271,405	$ 1,304,101,514	$ 1,295,947,040	$ 43,425,879
Liabilities:				
Accounts payable	$ 735,241	$ 57,548,274	$ 47,931,121	$ 10,352,394
Assets held as agency for others	34,536,164	817,911,717	819,374,396	33,073,485
Total Liabilities	$ 35,271,405	$ 875,459,991	$ 867,305,517	$ 43,425,879
Departmental				
Assets:				
Cash and cash equivalents	$ 9,469,661	$ 18,722,031	$ 19,790,545	$ 8,401,147
Receivables - other	93,769	--	93,769	--
Long term receivables	30,000	--	--	30,000
Total Assets	$ 9,593,430	$ 18,722,031	$ 19,884,314	$ 8,431,147
Liabilities:				
Accounts payable	$ 270,442	$ 5,045,829	$ 5,156,043	$ 160,228
Assets held as agency for others	9,322,988	7,189,207	8,241,276	8,270,919
Total Liabilities	$ 9,593,430	$ 12,235,036	$ 13,397,319	$ 8,431,147

COUNTY OF MONTEREY

Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2007

	July 1, 2006	Additions	Deductions	June 30, 2007
Transit				
Assets:				
Cash and cash equivalents	$ 8,079,911	$ 22,700,283	$ 23,486,080	$ 7,294,114
Total Assets	$ 8,079,911	$ 22,700,283	$ 23,486,080	$ 7,294,114
Liabilities:				
Assets held as agency for others	$ 8,079,911	$ 19,384,704	$ 20,170,501	$ 7,294,114
Total Liabilities	$ 8,079,911	$ 19,384,704	$ 20,170,501	$ 7,294,114
Total All Agency Funds				
Assets:				
Cash and cash equivalents	$ 25,352,366	$ 1,264,562,414	$ 1,263,037,733	$ 26,877,047
Receivables - taxes	28,283,197	576,177,138	567,501,983	36,958,352
Receivables - other	93,769	--	93,769	--
Long term receivables	30,000	--	--	30,000
Total Assets	$ 53,759,332	$ 1,840,739,552	$ 1,830,633,485	$ 63,865,399
Liabilities:				
Accounts payable	$ 1,728,643	$ 118,297,126	$ 109,089,096	$ 10,936,673
Assets held as agency for others	52,030,689	1,413,473,862	1,412,575,825	52,928,726
Total Liabilities	$ 53,759,332	$ 1,531,770,988	$ 1,521,664,921	$ 63,865,399

DETAILED BUDGET SCHEDULES

COUNTY OF MONTEREY

General Fund
Schedule of Expenditures-Budget and Actual on Budgetary Basis
For the Year Ended June 30, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
General Government				
Legislative and Administrative:				
Board of Supervisors				
Salaries and benefits	$ 1,613,309	$ 1,705,231	$ 1,617,357	$ (87,874)
Services and supplies	626,723	626,723	554,824	(71,899)
Expense transfer reimbursement	(32,165)	(32,165)	(18,449)	13,716
Subtotal	2,207,867	2,299,789	2,153,732	(146,057)
Assessment Appeals Board				
Services and supplies	50,000	50,000	3,450	(46,550)
Subtotal	50,000	50,000	3,450	(46,550)
County Memberships				
Services and supplies	55,000	55,000	52,303	(2,697)
Subtotal	55,000	55,000	52,303	(2,697)
County Administrative Office				
Salaries and benefits	3,191,679	3,289,825	2,907,245	(382,580)
Services and supplies	970,532	1,177,700	1,030,752	(146,948)
Expense transfer reimbursement	(86,482)	(86,482)	(59,716)	26,766
Subtotal	4,075,729	4,381,043	3,878,281	(502,762)
Total Legislative and administrative	6,388,596	6,785,832	6,087,766	(698,066)
Personnel:				
Human Resources Division				
Salaries and benefits	1,668,939	1,872,114	1,655,536	(216,578)
Services and supplies	1,177,227	1,133,383	1,009,337	(124,046)
Fixed assets	24,102	24,102	--	(24,102)
Expense transfer reimbursement	--	(65,892)	(111,266)	(45,374)
Subtotal	2,870,268	2,963,707	2,553,607	(410,100)
Total Personnel	2,870,268	2,963,707	2,553,607	(410,100)
Finance:				
Auditor-Controller				
Salaries and benefits	3,691,826	3,464,052	3,375,883	(88,169)
Services and supplies	581,417	974,169	784,419	(189,750)
Fixed assets	--	7,635	7,635	--
Expense transfer reimbursement	(10,000)	(10,000)	(30,363)	(20,363)
Subtotal	4,263,243	4,435,856	4,137,574	(298,282)

COUNTY OF MONTEREY

General Fund (continued)
Schedule of Expenditures-Budget and Actual on Budgetary Basis
For the Year Ended June 30, 2007

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual Amounts	(Negative)
Annual County Audit				
Services and supplies	$ 143,330	$ 143,330	$ 140,410	$ (2,920)
Subtotal	143,330	143,330	140,410	(2,920)
Treasurer-Tax Collector				
Salaries and benefits	1,981,342	1,981,342	1,921,971	(59,371)
Services and supplies	724,511	724,511	636,986	(87,525)
Expense transfer reimbursement	(102,894)	(102,894)	(95,055)	7,839
Subtotal	2,602,959	2,602,959	2,463,902	(139,057)
Assessor				
Salaries and benefits	4,170,660	4,150,660	4,131,464	(19,196)
Services and supplies	499,432	563,646	529,247	(34,399)
Fixed assets	25,000	10,786	10,785	(1)
Expense transfer reimbursement	(74,325)	(74,325)	(106,943)	(32,618)
Subtotal	4,620,767	4,650,767	4,564,553	(86,214)
Revenue Division				
Salaries and benefits	2,038,982	2,049,126	1,460,976	(588,150)
Services and supplies	772,324	697,366	327,462	(369,904)
Expense transfer reimbursement	(46,855)	(46,855)	--	46,855
Subtotal	2,764,451	2,699,637	1,788,438	(911,199)
Total Finance	14,394,750	14,532,549	13,094,877	(1,437,672)
Counsel:				
County Counsel				
Salaries and benefits	4,020,790	4,181,544	3,919,040	(262,504)
Services and supplies	549,018	549,018	410,205	(138,813)
Expense transfer reimbursement	(467,500)	(467,500)	(2,148,256)	(1,680,756)
Subtotal	4,102,308	4,263,062	2,180,989	(2,082,073)
Total Counsel	4,102,308	4,263,062	2,180,989	(2,082,073)
Elections:				
Elections				
Salaries and benefits	646,090	489,090	449,811	(39,279)
Services and supplies	1,450,253	2,872,774	2,600,945	(271,829)
Fixed assets	--	111,496	8,871	(102,625)
Subtotal	2,096,343	3,473,360	3,059,627	(413,733)
Total Elections	2,096,343	3,473,360	3,059,627	(413,733)

COUNTY OF MONTEREY

General Fund (continued)
Schedule of Expenditures-Budget and Actual on Budgetary Basis
For the Year Ended June 30, 2007

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual Amounts	(Negative)
Promotion:				
Cluster Loan Fund				
Other financing uses	$ 115,000	$ 115,000	$ --	$ (115,000)
Subtotal	115,000	115,000	--	(115,000)
Development Set-Aside				
Services and supplies	1,388,905	1,388,905	1,189,770	(199,135)
Subtotal	1,388,905	1,388,905	1,189,770	(199,135)
Total Promotion	1,503,905	1,503,905	1,189,770	(314,135)
Other General Government:				
Risk Management				
Salaries and benefits	788,298	748,002	606,409	(141,593)
Services and supplies	158,184	208,226	171,739	(36,487)
Expense transfer reimbursement	--	(328,962)	(343,181)	(14,219)
Subtotal	946,482	627,266	434,967	(192,299)
Resource Management Agency				
Salaries and benefits	2,950,823	2,795,308	2,367,648	(427,660)
Services and supplies	411,230	661,272	458,800	(202,472)
Expense transfer reimbursement	(3,037,553)	(3,037,553)	(2,401,508)	636,045
Subtotal	324,500	419,027	424,940	5,913
Information Technology				
Salaries and benefits	9,140,291	9,045,902	8,818,197	(227,705)
Services and supplies	4,259,858	4,354,247	3,774,497	(579,750)
Fixed assets	225,000	225,000	151,314	(73,686)
Expense transfer reimbursement	(8,828,964)	(11,585,840)	(10,509,137)	1,076,703
Subtotal	4,796,185	2,039,309	2,234,871	195,562
Telecommunications				
Salaries and benefits	2,569,549	2,518,908	2,265,914	(252,994)
Services and supplies	2,660,878	2,736,519	2,552,512	(184,007)
Fixed assets	618,000	678,000	555,525	(122,475)
Expense transfer reimbursement	(3,573,782)	(4,617,782)	(4,143,462)	474,320
Other financing uses	70,500	70,500	--	(70,500)
Subtotal	2,345,145	1,386,145	1,230,489	(155,656)

COUNTY OF MONTEREY

General Fund (continued)
Schedule of Expenditures-Budget and Actual on Budgetary Basis
For the Year Ended June 30, 2007

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual Amounts	(Negative)
General Services				
Salaries and benefits	$ 6,149,798	$ 5,427,710	$ 5,391,155	$ (36,555)
Services and supplies	7,237,354	7,978,874	7,889,529	(89,345)
Other charges	55,000	55,000	45,108	(9,892)
Fixed assets	110,000	58,635	51,234	(7,401)
Expense transfer reimbursement	(4,005,265)	(4,005,265)	(4,604,235)	(598,970)
Subtotal	9,546,887	9,514,954	8,772,791	(742,163)
Capital Improvements Management				
Salaries and benefits	404,233	75,833	67,170	(8,663)
Services and supplies	464,760	793,160	321,058	(472,102)
Expense transfer reimbursement	(533,769)	(533,769)	(148,143)	385,626
Subtotal	335,224	335,224	240,085	(95,139)
Vehicle Replacement				
Fixed assets	2,500,000	2,500,000	2,101,024	(398,976)
Expense transfer reimbursement	(930,000)	(930,000)	(1,133,645)	(203,645)
Subtotal	1,570,000	1,570,000	967,379	(602,621)
Recorder-County Clerk				
Salaries and benefits	937,992	897,992	784,930	(113,062)
Services and supplies	610,508	720,508	468,134	(252,374)
Fixed assets	350,000	280,000	35,406	(244,594)
Subtotal	1,898,500	1,898,500	1,288,470	(610,030)
Equal Opportunity Office				
Salaries and benefits	292,102	323,217	321,433	(1,784)
Services and supplies	106,584	88,584	65,961	(22,623)
Expense transfer reimbursement	--	--	(3,384)	(3,384)
Subtotal	398,686	411,801	384,010	(27,791)
Insurance				
Services and supplies	1,665,374	2,341,551	1,984,667	(356,884)
Expense transfer reimbursement	(220,085)	(896,262)	(347,790)	548,472
Subtotal	1,445,289	1,445,289	1,636,877	191,588
Contributions - Other Agencies				
Other charges	323,196	323,196	312,144	(11,052)
Subtotal	323,196	323,196	312,144	(11,052)

COUNTY OF MONTEREY

General Fund (continued)
Schedule of Expenditures-Budget and Actual on Budgetary Basis
For the Year Ended June 30, 2007

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual Amounts	(Negative)
Short-Term Borrowing				
Services and supplies	$ 50,000	$ 55,000	$ 54,353	$ (647)
Other charges	1,650,000	1,645,000	1,548,750	(96,250)
Subtotal	1,700,000	1,700,000	1,603,103	(96,897)
Other Financing Uses				
Services and supplies	15,042,125	2,997,393	1,284,593	(1,712,800)
Other charges	5,000	5,000	5,000	--
Expense transfer reimbursement	15,484,123	14,596,427	11,090,202	(3,506,225)
Other financing uses	11,674,817	19,674,817	17,888,455	(1,786,362)
Subtotal	42,206,065	37,273,637	30,268,250	(7,005,387)
Contingencies				
Contingencies	5,017,842	3,556,092	--	(3,556,092)
Subtotal	5,017,842	3,556,092	--	(3,556,092)
Total Other General Government	72,854,001	62,500,440	49,798,376	(12,702,064)
Total General Government	104,210,171	96,022,855	77,965,012	(18,057,843)
Public Safety				
Judicial:				
Public Defender				
Salaries and benefits	5,091,979	4,954,002	4,947,461	(6,541)
Services and supplies	555,270	832,917	758,308	(74,609)
Expense transfer reimbursement	(81,145)	(81,145)	(65)	81,080
Subtotal	5,566,104	5,705,774	5,705,704	(70)
Trial Courts				
Services and supplies	437,000	437,000	332,410	(104,590)
Other charges	8,511,000	8,511,000	8,216,584	(294,416)
Subtotal	8,948,000	8,948,000	8,548,994	(399,006)
Grand Jury				
Services and supplies	107,344	107,344	93,516	(13,828)
Subtotal	107,344	107,344	93,516	(13,828)
District Attorney				
Salaries and benefits	13,769,871	13,918,810	13,620,479	(298,331)
Services and supplies	1,766,610	1,958,740	1,846,024	(112,716)
Expense transfer reimbursement	(1,378,000)	(1,378,000)	(1,243,915)	134,085
Subtotal	14,158,481	14,499,550	14,222,588	(276,962)

COUNTY OF MONTEREY

General Fund (continued)
Schedule of Expenditures-Budget and Actual on Budgetary Basis
For the Year Ended June 30, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Court Assigned Counsel				
Services and supplies	$ 1,399,000	$ 1,519,000	$ 1,519,000	$ --
Subtotal	1,399,000	1,519,000	1,519,000	--
Total Judicial	30,178,929	30,779,668	30,089,802	(689,866)
Other Protection:				
Sheriff				
Salaries and benefits	26,045,294	27,907,418	27,708,559	(198,859)
Services and supplies	4,977,032	5,581,539	5,296,592	(284,947)
Fixed assets	419,659	1,100,137	1,212,121	111,984
Expense transfer reimbursement	(72,000)	(192,000)	(209,202)	(17,202)
Other financing uses	--	100,000	100,000	--
Subtotal	31,369,985	34,497,094	34,108,070	(389,024)
Joint Gang Task Force				
Salaries and benefits	678,242	728,242	723,517	(4,725)
Services and supplies	1,393,541	1,343,541	1,026,089	(317,452)
Subtotal	2,071,783	2,071,783	1,749,606	(322,177)
Sheriff's Correctional Division				
Salaries and benefits	22,828,670	24,157,120	24,122,949	(34,171)
Services and supplies	8,180,786	8,803,235	8,725,324	(77,911)
Fixed assets	--	50,188	48,684	(1,504)
Expense transfer reimbursement	(12,600)	(12,600)	(12,360)	240
Subtotal	30,996,856	32,997,943	32,884,597	(113,346)
Juvenile Hall				
Salaries and benefits	10,182,824	11,082,609	11,040,933	(41,676)
Services and supplies	2,940,124	2,858,479	2,792,147	(66,332)
Fixed assets	--	89,416	89,414	(2)
Expense transfer reimbursement	(240,176)	(240,176)	(178,259)	61,917
Subtotal	12,882,772	13,790,328	13,744,235	(46,093)
Coroner-Public Administrator				
Salaries and benefits	924,442	1,002,412	956,729	(45,683)
Services and supplies	511,718	525,068	468,739	(56,329)
Subtotal	1,436,160	1,527,480	1,425,468	(102,012)

COUNTY OF MONTEREY

General Fund (continued)
Schedule of Expenditures-Budget and Actual on Budgetary Basis
For the Year Ended June 30, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Probation				
Salaries and benefits	$ 11,130,044	$ 11,306,884	$ 11,146,879	$ (160,005)
Services and supplies	1,913,457	2,220,615	1,998,305	(222,310)
Other charges	1,000,000	861,511	577,252	(284,259)
Fixed assets	--	21,825	13,099	(8,726)
Expense transfer reimbursement	(425,932)	(451,891)	(456,183)	(4,292)
Other financing uses	--	--	17,550	17,550
Subtotal	13,617,569	13,958,944	13,296,902	(662,042)
Emergency Communications				
Salaries and benefits	6,248,673	6,831,123	6,757,000	(74,123)
Services and supplies	1,203,484	1,181,684	953,908	(227,776)
Fixed assets	--	210,190	210,190	--
Expense transfer reimbursement	(105,708)	(105,708)	(105,708)	--
Subtotal	7,346,449	8,117,289	7,815,390	(301,899)
Office of Emergency Services				
Salaries and benefits	551,264	526,264	508,226	(18,038)
Services and supplies	1,565,913	812,425	811,825	(600)
Subtotal	2,117,177	1,338,689	1,320,051	(18,638)
Child Support Services				
Salaries and benefits	9,098,936	8,598,936	8,491,787	(107,149)
Services and supplies	2,090,088	2,590,088	2,350,448	(239,640)
Fixed assets	--	--	(872)	(872)
Expense transfer reimbursement	--	--	(32,384)	(32,384)
Subtotal	11,189,024	11,189,024	10,808,979	(380,045)
Housing and Redevelopment				
Salaries and benefits	*1,062,711*	*1,062,711*	*912,913*	*(149,798)*
Services and supplies	389,230	389,230	111,885	(277,345)
Expense transfer reimbursement	(1,451,941)	(1,451,941)	(1,024,503)	427,438
Subtotal	--	--	295	295
Contributions - Prop 172				
Other charges	2,190,362	2,190,362	1,140,111	(1,050,251)
Subtotal	2,190,362	2,190,362	1,140,111	(1,050,251)
Total Other Protection	115,218,137	121,678,936	118,293,704	(3,385,232)

COUNTY OF MONTEREY

General Fund (continued)
Schedule of Expenditures-Budget and Actual on Budgetary Basis
For the Year Ended June 30, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Property Management:				
Planning & Building Inspection				
Salaries and benefits	$ 8,024,581	$ 7,374,453	$ 7,274,115	$ (100,338)
Services and supplies	3,502,036	4,102,036	4,223,599	121,563
Fixed assets	50,000	50,000	13,846	(36,154)
Subtotal	11,576,617	11,526,489	11,511,560	(14,929)
Surveyor				
Services and supplies	826,215	826,215	615,570	(210,645)
Subtotal	826,215	826,215	615,570	(210,645)
Nacimiento Hydroelectric Project				
Services and supplies	1,200,000	--	--	--
Subtotal	1,200,000	--	--	--
Total Property Management	13,602,832	12,352,704	12,127,130	(225,574)
Protective Inspection:				
Produce Inspection				
Salaries and benefits	1,389,759	1,389,759	862,702	(527,057)
Services and supplies	130,592	130,592	43,675	(86,917)
Subtotal	1,520,351	1,520,351	906,377	(613,974)
Total Protective Inspection	1,520,351	1,520,351	906,377	(613,974)
Agriculture:				
Agricultural Commissioner				
Salaries and benefits	4,743,624	3,966,822	3,966,821	(1)
Services and supplies	1,490,693	1,773,075	1,772,733	(342)
Fixed assets	--	121,773	121,772	(1)
Expense transfer reimbursement	(172,241)	(172,241)	(709)	171,532
Other financing uses	--	872,647	701,114	(171,533)
Subtotal	6,062,076	6,562,076	6,561,731	(345)
Cooperative Extension Service				
Salaries and benefits	264,897	264,897	239,279	(25,618)
Services and supplies	93,584	93,584	89,425	(4,159)
Subtotal	358,481	358,481	328,704	(29,777)

COUNTY OF MONTEREY

General Fund (continued)
Schedule of Expenditures-Budget and Actual on Budgetary Basis
For the Year Ended June 30, 2007

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual Amounts	(Negative)
CoOp Ext - Reimbursed Projects				
Salaries and benefits	$ 319,189	$ 319,189	$ 194,568	$ (124,621)
Services and supplies	12,480	12,480	10,233	(2,247)
Subtotal	331,669	331,669	204,801	(126,868)
Total Agriculture	6,752,226	7,252,226	7,095,236	(156,990)
Total Public Safety	167,272,475	173,583,885	168,512,249	(5,071,636)
Health and Sanitation				
Health:				
Health				
Salaries and benefits	13,435,009	12,710,009	11,717,765	(992,244)
Services and supplies	5,892,410	6,617,410	6,092,217	(525,193)
Fixed assets	65,000	318,200	303,166	(15,034)
Expense transfer reimbursement	(3,642,896)	(3,642,896)	(3,561,590)	81,306
Subtotal	15,749,523	16,002,723	14,551,558	(1,451,165)
Environmental Health				
Salaries and benefits	5,445,868	5,517,868	5,410,625	(107,243)
Services and supplies	1,932,929	2,027,929	1,997,108	(30,821)
Fixed assets	79,000	79,000	44,038	(34,962)
Expense transfer reimbursement	(99,000)	(99,000)	(72,519)	26,481
Subtotal	7,358,797	7,525,797	7,379,252	(146,545)
Primary Health Care				
Salaries and benefits	12,417,550	13,237,550	12,845,503	(392,047)
Services and supplies	5,319,766	7,357,551	6,761,811	(595,740)
Expense transfer reimbursement	(2,500,000)	(2,500,000)	(2,594,129)	(94,129)
Subtotal	15,237,316	18,095,101	17,013,185	(1,081,916)
Public Administration				
Salaries and benefits	822,769	857,769	827,224	(30,545)
Services and supplies	245,725	225,725	181,405	(44,320)
Expense transfer reimbursement	(269,672)	(91,119)	(16,255)	74,864
Subtotal	798,822	992,375	992,374	(1)

COUNTY OF MONTEREY

General Fund (continued)
Schedule of Expenditures-Budget and Actual on Budgetary Basis
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Children's Medical Services				
Salaries and benefits	$ 5,014,923	$ 5,142,423	4,847,808	(294,615)
Services and supplies	1,577,323	1,577,323	1,282,032	(295,291)
Other charges	985,000	985,000	793,180	(191,820)
Expense transfer reimbursement	(55,000)	(55,000)	(53,310)	1,690
Subtotal	7,522,246	7,649,746	6,869,710	(780,036)
Alcohol and Drug Programs				
Salaries and benefits	1,832,148	1,846,914	1,543,919	(302,995)
Services and supplies	4,850,422	4,988,041	4,860,324	(127,717)
Other charges	23,778	1,217	(22,560)	(23,777)
Expense transfer reimbursement	(775,945)	(775,945)	(757,557)	18,388
Other financing uses	--	--	22,560	22,560
Subtotal	5,930,403	6,060,227	5,646,686	(413,541)
Emergency Medical Services System				
Salaries and benefits	762,690	762,690	417,707	(344,983)
Services and supplies	721,786	721,786	632,108	(89,678)
Other charges	80,000	80,000	78,511	(1,489)
Subtotal	1,564,476	1,564,476	1,128,326	(436,150)
Behavioral Health				
Salaries and benefits	22,039,913	22,079,503	21,579,589	(499,914)
Services and supplies	21,325,107	24,827,196	25,303,965	476,769
Other charges	1,046,761	1,248,734	1,248,732	(2)
Fixed assets	95,600	228,940	222,314	(6,626)
Expense transfer reimbursement	(504,801)	(504,801)	(722,990)	(218,189)
Other financing uses	--	28,691	17,550	(11,141)
Subtotal	44,002,580	47,908,263	47,649,160	(259,103)
Medical Care Services				
Services and supplies	2,500,000	2,500,000	2,500,000	--
Other charges	6,287,235	7,087,696	--	(7,087,696)
Other financing uses	--	87,235	6,200,000	6,112,765
Subtotal	8,787,235	9,674,931	8,700,000	(974,931)
County Disposal Sites				
Services and supplies	234,717	234,517	136,752	(97,765)
Other charges	145	345	--	(345)
Subtotal	234,862	234,862	136,752	(98,110)

COUNTY OF MONTEREY

General Fund (continued)
Schedule of Expenditures-Budget and Actual on Budgetary Basis
For the Year Ended June 30, 2007

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual Amounts	(Negative)
Animal Services				
Salaries and benefits	$ 1,349,396	$ 1,299,396	$ 1,280,044	$ (19,352)
Services and supplies	557,882	607,882	596,883	(10,999)
Subtotal	1,907,278	1,907,278	1,876,927	(30,351)
Litter Control				
Services and supplies	474,361	474,361	473,411	(950)
Subtotal	474,361	474,361	473,411	(950)
Total Health	109,567,899	118,090,140	112,417,341	(5,672,799)
Total Health and Sanitation	109,567,899	118,090,140	112,417,341	(5,672,799)
Public Assistance				
Social Services:				
Social Services				
Salaries and benefits	46,437,723	48,214,023	46,847,150	(1,366,873)
Services and supplies	16,862,654	17,998,574	17,149,353	(849,221)
Other charges	220,122	220,122	136,341	(83,781)
Fixed assets	70,000	160,000	91,706	(68,294)
Expense transfer reimbursement	(129,000)	(129,000)	(808,486)	(679,486)
Subtotal	63,461,499	66,463,719	63,416,064	(3,047,655)
Social Services - Other Assist				
Services and supplies	509,541	559,541	544,062	(15,479)
Subtotal	509,541	559,541	544,062	(15,479)
Multipurpose Senior Svcs Prog				
Salaries and benefits	613,220	612,620	605,551	(7,069)
Services and supplies	7,180	148,090	146,493	(1,597)
Other charges	118,008	125,690	124,423	(1,267)
Expense transfer reimbursement	--	(29,400)	(40,733)	(11,333)
Subtotal	738,408	857,000	835,734	(21,266)
Area Agency on Aging				
Salaries and benefits	232,415	272,415	223,718	(48,697)
Services and supplies	1,986,116	2,165,596	1,913,479	(252,117)
Expense transfer reimbursement	--	(40,000)	(83,085)	(43,085)
Subtotal	2,218,531	2,398,011	2,054,112	(343,899)

COUNTY OF MONTEREY

General Fund (continued)
Schedule of Expenditures-Budget and Actual on Budgetary Basis
For the Year Ended June 30, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Linkages				
Salaries and benefits	$ 187,275	$ 118,275	$ 118,110	$ (165)
Services and supplies	69,048	157,641	157,453	(188)
Other charges	34,802	26,949	26,203	(746)
Expense transfer reimbursement	(26,414)	(38,154)	(38,154)	--
Subtotal	264,711	264,711	263,612	(1,099)
Total Social Services	67,192,690	70,542,982	67,113,584	(3,429,398)
Other Public Assistance:				
Military & Veterans Affairs				
Salaries and benefits	447,089	421,764	381,042	(40,722)
Services and supplies	91,930	91,930	81,112	(10,818)
Fixed assets	--	25,325	24,699	(626)
Subtotal	539,019	539,019	486,853	(52,166)
Child Care Planning Council				
Salaries and benefits	280,249	240,249	238,622	(1,627)
Services and supplies	1,137,499	1,258,152	1,239,151	(19,001)
Subtotal	1,417,748	1,498,401	1,477,773	(20,628)
Out-of-Home Care				
Services and supplies	2,039,159	2,039,159	1,400,705	(638,454)
Other charges	17,228,485	17,228,485	16,661,191	(567,294)
Subtotal	19,267,644	19,267,644	18,061,896	(1,205,748)
IHSS Wages & Benefits				
Other financing uses	111,011	111,011	48,228	(62,783)
Other charges	7,879,944	8,227,944	8,486,131	258,187
Subtotal	7,990,955	8,338,955	8,534,359	195,404
Aid to Indigents				
Other charges	532,168	532,168	490,353	(41,815)
Subtotal	532,168	532,168	490,353	(41,815)
Calworks-TANF Benefits				
Other charges	33,963,545	33,963,545	32,260,874	(1,702,671)
Subtotal	33,963,545	33,963,545	32,260,874	(1,702,671)
Total Other Public Assistance	63,711,079	64,139,732	61,312,108	(2,827,624)
Total Public Assistance	130,903,769	134,682,714	128,425,692	(6,257,022)

COUNTY OF MONTEREY

General Fund (continued)
Schedule of Expenditures-Budget and Actual on Budgetary Basis
For the Year Ended June 30, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Culture & Recreation				
Recreation Facilities:				
Parks				
Salaries and benefits	$ 4,450,867	$ 4,489,881	$ 4,489,523	$ (358)
Services and supplies	2,061,908	2,244,951	2,186,879	(58,072)
Other charges	19,660	20,602	20,602	--
Fixed assets	963,694	980,982	1,755,891	774,909
Other financing uses	--	13,727	13,727	--
Expense transfer reimbursement	--	--	(3,280)	(3,280)
Subtotal	7,496,129	7,750,143	8,463,342	713,199
Parks - Grant Projects				
Fixed assets	1,508,766	1,573,766	279,139	(1,294,627)
Subtotal	1,508,766	1,573,766	279,139	(1,294,627)
Total Recreation Facilities	9,004,895	9,323,909	8,742,481	(581,428)
Total Culture & Recreation	9,004,895	9,323,909	8,742,481	(581,428)
Other				
Expenditures:				
Other General Expenditures				
Services and supplies	48,750	48,750	23,554	(25,196)
Subtotal	48,750	48,750	23,554	(25,196)
Total Expenditures	48,750	48,750	23,554	(25,196)
Total Other	48,750	48,750	23,554	(25,196)
Total General Fund	$ 521,007,959	$ 531,752,253	$ 496,086,329	$ (35,665,924)

STATISTICAL SECTION

The information in this section is not covered by the Independent Auditor's Report, but is presented as supplemental data for the benefit of the readers of the comprehensive financial report.

Financial Trends

These schedules contain trend information to help the reader understand how the County's financial performance and well-being have changed over time. (Schedule 1-4)

Revenue Capacity

These schedules contain information to help the reader assess the County's most significant local revenue sources, property tax and sales tax. (Schedule 5-10)

Debt Capacity

These schedules present information to help the reader assess the affordability of the County's current levels of outstanding debt and the County's ability to issue additional debt in the future. (Schedule 11-13)

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the County's financial activities take place. (Schedule 14-16)

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the County's financial report relates to the services the County provides and the activities it performs. (Schedule 17-18)

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Schedule 1

COUNTY OF MONTEREY

Net Assets by Component,
Last Six Fiscal Years (in thousands)
(accrual basis of accounting)

	Fiscal Year Ended June 30,					
	2007	2006	2005	2004	2003	2002
Governmental activities						
Invested in capital assets, net of related debt	$ 472,945	$ 463,900	$ 459,041	$ 470,684	$ 465,234	$ 368,529
Restricted	105,712	94,186	75,421	65,960	95,272	-
Unrestricted	67,582	42,940	39,461	532	(7,278)	156,552
Total governmental activities net assets	646,239	601,026	573,923	537,176	553,228	525,081
Business-type activities						
Invested in capital assets, net of related debt	47,334	50,634	55,814	46,684	49,678	62,635
Unrestricted	12,522	734	(1,831)	(19,159)	(23,307)	(29,006)
Total business-type activities net assets	59,856	51,368	53,983	27,525	26,371	33,629
Primary government						
Invested in capital assets, net of related debt	520,279	514,534	514,855	517,368	514,912	431,164
Restricted	105,712	94,186	75,421	65,960	95,272	-
Unrestricted	80,104	43,674	37,630	(18,627)	(30,585)	127,546
Total primary government net assets	$ 706,095	$ 652,394	$ 627,906	$ 564,701	$ 579,599	$ 558,710

Notes:
(1) Accounting standards require that net assets be reported in three components in the financial statements: invested in capital assets, net of related debt; restricted; and unrestricted. Net assets are considered restricted when 1) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments of 2) imposed by law through constitutional provisions or enabling legislation.

Schedule 2

COUNTY OF MONTEREY

Changes in Net Assets
Last Six Fiscal Years (in thousands)
(accrual basis of accounting)

	Fiscal Year Ended June 30,					
	2007	2006	2005	2004	2003	2002
Expenses (by function)						
Governmental activities:						
General government	$ 74,425	$ 69,797	$ 46,864	$ 76,319	$ 118,440	$ 85,809
Public safety	144,628	153,047	150,392	127,057	160,948	186,131
Public ways and facilities	44,829	63,174	52,600	50,948	32,199	29,686
Health and sanitation	115,157	93,290	100,380	100,883	88,817	117,938
Public assistance	136,395	129,735	126,017	120,371	124,209	136,114
Education	6,341	5,958	5,699	4,969	5,722	6,242
Recreation and culture services	8,316	7,154	6,041	7,208	6,857	7,975
Interest on long-term debt	3,216	4,650	5,987	4,430	5,885	5,049
Total governmental activities expenses	533,307	526,805	493,980	492,185	543,077	574,944
Business-type activities:						
Natividad Medical Center	135,634	137,698	166,433	130,310	137,192	130,515
Total business-type activities expenses	135,634	137,698	166,433	130,310	137,192	130,515
Total Primary Government Expenses	668,941	664,503	660,413	622,495	680,269	705,459
Program Revenues (by function)						
Governmental activities:						
Charges for services:						
General government	38,268	24,384	34,516	42,360	37,783	39,242
Public protection	11,786	26,289	23,586	9,743	40,745	41,939
Public ways and facilities	24,099	31,184	25,790	26,189	8,288	11,441
Health and sanitation	27,163	23,342	19,526	16,385	13,283	11,727
Public assistance	8	6	9	12	68	23
Education	273	110	94	79	159	139
Recreation and culture	5,994	7,774	5,058	5,545	4,489	4,637
Operating grants and contributions	294,631	279,696	244,208	227,820	235,457	310,594
Capital grants and contributions	718	7,327	427	1,094	3,174	9,720
Total governmental activites program revenues	402,940	400,112	353,214	329,227	343,446	429,462
Business-type activities:						
Charges for services:						
Patient services	133,071	107,387	150,638	147,993	128,424	142,807
Capital grants and contributions	-	-	42,253	255	-	-
Total business-type activities revenues	133,071	107,387	192,891	148,248	128,424	142,807
Total Primary Government Program Revenues	536,011	507,499	546,105	477,475	471,870	572,269

Continued

Schedule 2

COUNTY OF MONTEREY

Changes in Net Assets (Continued)
Last Six Fiscal Years (in thousands)
(accrual basis of accounting)

	Fiscal Year Ended June 30,					
	2007	2006	2005	2004	2003	2002
Net (Expense)/ Revenue						
Governmental activities	(130,367)	(126,693)	(140,766)	(162,958)	(199,631)	(145,752)
Business-type activities	(2,563)	(31,230)	26,458	17,938	(8,768)	12,292
Total Primary Net (Expense)/Revenue	(132,930)	(157,923)	(114,308)	(145,020)	(208,399)	(133,460)
General Revenues and Other Changes in Net Assets						
Governmental activities:						
Taxes						
Property taxes	137,625	127,363	79,088	74,994	66,809	62,771
Sales tax	5,767	6,552	6,717	6,503	7,555	7,437
Sales tax in-lieu	-	-	1,497	-	-	-
Vehicle license fees and in-lieu	-	-	28,493	33,325	39,726	37,463
Transient occupancy & other	24,627	23,814	39,312	21,679	15,064	15,286
Unrestricted grants and contributions	-	-	-	-	2,608	-
Investment earnings	14,366	12,620	7,355	5,641	10,070	11,415
Miscellaneous and other revenues	7,213	10,369	17,325	9,934	6,332	3,457
Transfers	(10,372)	(26,776)	-	18,931	7,095	14,361
Total governmental activities	179,226	153,942	179,787	171,007	155,259	152,190
Business-type activities:						
Unrestricted grants and contributions	679	920	42,253	-	608	1,180
Miscellaneous	-	-	-	2,147	7,997	2,211
Transfers	10,372	26,776	-	(18,931)	(7,095)	(14,361)
Total business-type activities	11,051	27,696	42,253	(16,784)	1,510	(10,970)
Total Primary Government	190,277	181,638	222,040	154,223	156,769	141,220
Change in Net Assets						
Governmental activities	48,859	27,249	39,021	8,049	(44,372)	6,438
Business-type activities	8,488	(2,615)	68,711	1,154	(7,258)	1,322
Total Primary Government	$ 57,347	$ 24,634	$ 107,732	$ 9,203	$ (51,630)	$ 7,760

Schedule 3

COUNTY OF MONTEREY

Fund Balances, Governmental Funds
Last Ten Fiscal Years (in thousands)
(modified accrual basis of accounting)

	Fiscal Year Ended June 30,									
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
General Fund										
Reserved	$ 8,789	$ 9,756	$ 8,316	$ 10,618	$ 9,959	$ 10,639	$ 10,657	$ 8,583	$ 11,064	$ 6,912
Unreserved	92,334	77,932	78,701	41,737	21,872	39,886	36,253	35,542	30,859	30,570
Total General Fund	101,123	87,688	87,017	52,355	31,831	50,525	46,910	44,125	41,923	37,482
All Other Governmental Funds										
Reserved	20,933	17,842	34,028	49,663	36,840	46,007	39,333	44,645	40,418	40,536
Unreserved, reported in:										
Special revenue funds	32,524	26,360	29,566	28,388	43,409	53,403	26,105	20,003	19,991	21,576
Capital project funds	129,255	86,317	67,585	62,362	92,491	105,034	23,962	13,882	7,527	8,513
Total All Other Governmental Funds	182,712	130,519	131,179	140,413	172,740	204,444	89,400	78,530	67,936	70,625
Total Governmental Fund Balance	$ 283,835	$ 218,207	$ 218,196	$ 192,768	$ 204,571	$ 254,969	$ 136,310	$ 122,655	$ 109,859	$ 108,107

COUNTY OF MONTEREY

Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years (in thousands)
(modified accrual basis of accounting)

	Fiscal Year Ended June 30,									
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Revenues										
Taxes	$ 181,923	$ 157,728	$ 155,107	$ 136,501	$ 89,910	$ 85,013	$ 82,094	$ 73,217	$ 67,207	$ 64,186
Licenses, permits & franchises	17,545	13,840	14,366	12,097	12,400	17,766	12,569	9,987	7,565	6,090
Fines, forfeitures & penalties	4,574	8,634	5,244	4,109	16,354	16,021	12,622	6,663	7,426	6,255
Revenues from use of money & property	13,426	11,652	7,111	5,605	10,030	11,415	10,955	12,414	7,886	6,445
Aid from other governmental agencies	281,075	281,804	244,635	228,914	278,357	357,777	236,727	207,275	209,237	202,106
Charges for current services	81,442	96,596	88,971	84,107	76,062	75,089	65,473	64,387	56,579	59,398
Other revenues	10,576	10,222	8,603	9,934	6,331	3,457	4,094	6,835	14,851	6,545
Total Revenues	590,561	580,476	524,037	481,267	489,444	566,538	424,534	380,778	370,751	351,025
Expenditures										
General	74,491	74,348	44,532	73,832	110,304	69,062	54,997	46,415	40,655	40,299
Public safety	149,144	154,382	148,873	125,849	159,304	183,795	132,399	124,331	118,596	118,395
Public Ways & Facilities	32,993	65,206	39,031	41,140	29,591	43,260	24,633	17,692	25,829	19,952
Health & Sanitation	116,715	95,321	100,452	100,711	87,970	117,399	77,857	63,009	81,203	56,457
Public Assistance	136,993	129,802	125,181	119,820	124,588	135,566	104,615	96,986	98,757	92,633
Education	6,278	5,851	5,548	4,953	5,826	6,154	5,093	5,314	4,526	4,295
Recreational & Cultural	8,584	7,001	5,755	8,759	6,972	7,737	6,211	5,547	5,128	4,632
Debt Service										
Interest	7,266	4,432	5,444	2,856	5,929	3,112	2,401	4,703	5,027	3,509
Principal	3,633	3,186	2,310	4,643	3,562	7,934	14,041	15,713	11,093	9,489
Capital Outlay	36,932	15,976	25,120	16,511	12,547	11,855	7,262	3,523	3,471	7,982
Total Expenditures	573,029	555,505	502,246	499,074	546,593	585,874	429,509	383,233	394,285	357,643
Excess of Revenues Over (Under) Expenditures	17,532	24,971	21,791	(17,807)	(57,149)	(19,336)	(4,975)	(2,455)	(23,534)	(6,618)
Other Financing Sources (Uses)										
Transfers in	31,736	32,395	32,128	39,179	44,488	128,124	39,270	32,677	32,764	28,983
Transfers out	(42,107)	(57,390)	(44,314)	(20,248)	(37,393)	(113,763)	(26,046)	(27,950)	(15,195)	(25,150)
Issuance of new debt	146,598	36	853	7,579	-	83,089	5,474	12,532	8,477	6,810
Inception of capital leases	71	-	-	-	-	569	196	-	647	-
Payments to refunding agent	(87,895)	-	-	-	-	-	-	-	-	-
Sale of receivables	-	-	8,721	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	24	-	-	21	66	80
Total Other Financing Sources (Uses)	48,403	(24,959)	(2,612)	26,510	7,119	98,019	18,894	17,280	26,759	10,723
Net Change in Fund Balances	$ 65,935	$ 12	$ 19,179	$ 8,703	$ (50,030)	$ 78,683	$ 13,919	$ 14,825	$ 3,225	$ 4,105
Debt Service as a percentage of noncapital expenditures	2.03%	1.41%	1.63%	1.55%	1.78%	1.92%	3.89%	5.38%	4.12%	3.72%

Notes:

(1) For the year ended June 30, 2006, all balances were restated to reflect the total governmental funds balances since the balances previously reflected only the General Fund.

Schedule 5

COUNTY OF MONTEREY

Assessed Value and Actual Value of Taxable Property
Last Ten Fiscal Years
(in thousands)

Fiscal Year Ended June 30	1 Secured Roll	2 Unsecured Roll	3 Exemptions	Net Assessed Value	Percentage Change from Previous Year
1998	22,245,335	1,196,749	(706,691)	22,735,393	4.7%
1999	23,458,729	1,271,000	(783,273)	23,946,456	5.3%
2000	25,177,542	1,361,209	(833,776)	25,704,975	7.3%
2001	27,432,425	1,448,301	(904,216)	27,976,510	8.8%
2002	30,481,587	1,550,890	(1,005,420)	31,027,057	10.9%
2003	33,363,333	1,633,842	(989,319)	34,007,856	9.6%
2004	35,742,970	1,669,501	(1,157,406)	36,255,065	6.6%
2005	38,434,501	1,713,181	(1,235,832)	38,911,850	7.3%
2006	42,538,965	1,859,928	(1,329,452)	43,069,441	10.7%
2007	47,388,757	1,999,660	(1,471,788)	47,916,629	11.3%

Source: *Monterey County Property Tax Records, Report #70-4885-100*

Notes:

1. Secured property is generally real property, which is defined as land, mines, mineral, timber, and improvements such as buildings, structures, crops, trees, and vines. Also included in the secured roll are unitary properties, including railroads and utilities, which cross the county and are assessed by the State Board of Equalization.
2. Unsecured property is generally personal property, including machinery, equipment, office tools, supplies, *mobile homes, and aircraft.*
3. Exempt properties include numerous full and partial exclusions/exemptions provided by the State Constitution and the Legislature that relieve certain taxpayers from the burden of paying property taxes.
4. Due to the passage of Proposition 13 (Prop 13) property tax initiative in 1978, the County does not track the estimated actual value of all County properties. Under Prop 13, property is assessed at the 1978 market value with an annual increase limited to the lesser of 2% or the CPI on properties not involved in a change of ownership or properties that did not undergo new construction. Newly acquired property is assessed at its new market value (usually the purchase price) and the value of any new construction is added to the existing base value of a parcel. As a result, similar properties can have substantially different assessed values based on the date of purchase. Additionally, Prop 13 limits the property tax rate to 1% of assessed value, plus the rate necessary to fund local voter-approved bonds and special assessments.

Schedule 6

COUNTY OF MONTEREY

Principal Property Taxpayers
June 30, 2007 and June 30, 1998 (in thousands)

Fiscal Year Ended June 30, 2007

Taxpayer	Type of Business	Assessed Value	Percentage of Total County assessed Value
Duke Energy Moss Landing	Utility	$ 690,000	1.44%
Pebble Beach Company	Tourism	551,239	1.15%
Pacific Gas and Electric Company	Utility	300,571	0.63%
California-American Water Company	Utility	94,792	0.20%
Pacific Oceanside Holdings	Development	88,321	0.18%
Pacific Bell Telephone Company	Utility	85,092	0.18%
Northridge Fashion Center	Retail	81,562	0.17%
Texaco, Inc.	Petroleum	66,441	0.14%
Dole Fresh Vegetables, Inc.	Agriculture	64,511	0.13%
DDI Salinas II LLC, et al	Development	42,737	0.09%
Ten Largest Tax Payers Total		2,065,266	4.31%
All Other Tax Payers Total		45,851,363	95.69%
Total		$ 47,916,629	100.00%

Fiscal Year Ended June 30, 1998

Taxpayer	Type of Business	Assessed Value	Percentage of Total County Assessed Value
Pacific Gas and Electric Company	Utility	628,992	2.77%
Pebble Beach Company	Tourism	491,315	2.16%
Pacific Bell Telephone Company	Utility	211,374	0.93%
Mobile Oil Corp.	Petroleum	109,787	0.48%
Dole Fresh Vegetables, Inc.	Agriculture	100,056	0.44%
Coastal Monterey Properties, LLC	Development	89,358	0.39%
Basic American Foods, Inc.	Agriculture	86,752	0.38%
Texaco, Inc.	Petroleum	86,563	0.38%
Tanimura Land Company	Agriculture	82,986	0.37%
Thrust IV, Inc.	Development	28,134	0.12%
Ten Largest Tax Payers Total		1,915,317	8.42%
All Other Tax Payers Total		20,817,741	91.58%
Total		$ 22,733,058	100.00%

Source: Monterey County Property Tax Records

Schedule 7

COUNTY OF MONTEREY

Property Tax Levies and Collections
Last Ten Fiscal Years
(in thousands)

Fiscal Year Ended June 30	(1) Taxes Levied for the Fiscal Year Amount	(2) Collected within the Fiscal Year Amount	Percentage of Levy	(3) Collected in Subsequent Years Amount	Total Collections To Date Amount	Total Collections To Date Percentage of Levy
1998	241,420	237,498	98.38%	3,774	241,272	99.94%
1999	252,646	249,013	98.56%	3,428	252,441	99.92%
2000	270,779	267,351	98.73%	3,103	270,454	99.88%
2001	295,668	292,026	98.77%	3,199	295,225	99.85%
2002	326,633	320,879	98.24%	4,451	325,330	99.60%
2003	360,268	353,783	98.20%	5,127	358,910	99.62%
2004	410,453	404,618	98.58%	7,266	411,884	100.35%
2005	440,553	434,059	98.53%	8,378	442,437	100.43%
2006	487,644	476,758	97.77%	7,951	484709	99.40%
2007	541,742	522,686	96.48%	N/A	N/A	N/A

Notes:

(1) Includes Secured, Unsecured, and Unitary taxes levied for the County itself, school districts, cities, and special districts under the supervision of their own governing boards. Includes adjustments to the tax rolls from the levy date to delinquency date.

(2) Includes amounts collected by the County on behalf of itself, school districts, cities and special districts under the supervision of their own governing boards.

(3) Includes adjustments to the levy. Taxes levied less collections to date equal the delinquent taxes receivable.

Source: Monterey County Property Tax Records.

COUNTY OF MONTEREY

Debt Service Tax Rates For County and Major Overlapping Government
Per $100 of Assessed Value
Last Ten Fiscal Years

	For Fiscal Year Ended June 30,									
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
County Wide	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
Water Resources	0.00000	0.00000	0.00000	0.00000	0.00409	0.00410	0.00329	0.00354	0.00364	0.00454
Cities & Special Districts:										
Carmel	0.00000	0.00000	0.00000	0.00000	0.00000	0.01000	0.00911	0.00000	0.00000	0.00000
Del Rey Oaks	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
Gonzales	0.00000	0.00000	0.00000	0.00000	0.04495	0.02000	0.00000	0.00000	0.00000	0.00000
Greenfield	0.00000	0.00000	0.00000	0.00000	0.00000	0.11000	0.22089	0.07107	0.07486	0.07536
King City	0.00000	0.00000	0.00000	0.00000	0.00000	0.10000	0.16311	0.11944	0.07486	0.07536
Marina	0.03559	0.02753	0.00638	0.00624	0.00624	0.04000	0.04041	0.04860	0.05327	0.05807
Monterey	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
Pacific Grove	0.00500	0.00300	0.00300	0.00700	0.00700	0.03000	0.02317	0.00700	0.01100	0.01500
Sand City	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
Seaside	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
Soledad	0.00000	0.00000	0.00000	0.00000	0.02320	0.13000	0.12307	0.15802	0.17771	0.20257
Boronda County Sanitation Dist.	0.00000	0.06534	0.00636	0.00800	0.01738	0.01175	0.02612	0.01287	0.02651	0.02812
San Lucas County Water Dist.	0.03205	0.03780	0.04472	0.04904	0.05000	0.05099	0.05379	0.05353	0.05654	0.06355
Soledad Community Health Care	0.01290	0.01561	0.01776	0.02120	0.02320	0.02554	0.02844	0.03138	0.03526	0.05302
Aromas County Water Dist.	0.00090	0.00100	0.00700	0.00140	0.00140	0.00170	0.00200	0.00250	0.00370	0.00350
School Districts:										
Alisal Union	0.09082	0.10008	0.05898	0.06457	0.10415	0.07000	0.08070	0.09759	0.04855	0.05559
Aromas/San Juan JT Unif Sch Dist	0.04890	0.02390	0.04750	0.06870	0.00750	0.02000	0.01200	0.00700	0.01400	0.00000
Bradley Union	0.00000	0.00000	0.00000	0.00000	0.05559	0.07000	0.14146	0.07107	0.07486	0.07536
Cabrillo College	0.02669	0.03700	0.03800	0.01900	0.01900	0.02100	0.01200	0.00700	0.01400	0.00000
Carmel Unified	0.01784	0.01180	0.01263	0.01324	0.01562	0.01000	0.00911	0.00000	0.00000	0.00765
Chualar Unified School District	0.04746	0.04597	0.04915	0.01547	0.03040	0.00000	0.00000	0.00000	0.00000	0.00000
Coalinga Joint Unified	0.07010	0.03374	0.03281	0.07979	0.11064	0.10000	0.13141	0.04499	0.02130	0.03871
Gonzales Union	0.04666	0.01934	0.03623	0.02986	0.00000	0.02000	0.00000	0.00000	0.00000	0.00000
Graves Elementary School Dist.	0.02305	0.02615	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
Greenfield Union	0.04451	0.06604	0.03787	0.03853	0.07590	0.11000	0.07943	0.07107	0.07486	0.07536
Hartnell Community College Dist.	0.02023	0.01714	0.01862	0.01737	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
King City Union	0.08329	0.08885	0.09977	0.10291	0.08527	0.10000	0.16311	0.11944	0.07486	0.75360
Mission Union Elementary School Dist.	0.01396	0.02767	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.03532
Monterey Peninsula Community College	0.02066	0.01800	0.02062	0.01232	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
North Monterey County Unified	0.03703	0.04899	0.01340	0.05051	0.00000	0.00000	0.01587	0.01436	0.01980	0.02267
Pacific Grove Unified	0.02297	0.02278	0.02550	0.03086	0.01912	0.02000	0.01617	0.00000	0.00000	0.00765
Pajaro JT Unified	0.02545	0.02900	0.03000	0.01900	0.01900	0.02000	0.01200	0.00700	0.01400	0.00002
Pleasant Valley Joint Union	0.00000	0.00000	0.00000	0.00000	0.05700	0.18000	0.18000	0.18000	0.18000	0.18000
Salinas Union High School District	0.03426	0.03549	0.04312	0.05877	0.03842	0.00000	0.00000	0.00000	0.00000	0.00000
San Antonio Union	0.00000	0.00000	0.00000	0.00000	0.05559	0.07000	0.14146	0.07107	0.07486	0.07536
San Ardo Union	0.00000	0.00000	0.00000	0.00000	0.05559	0.07000	0.14146	0.07107	0.74860	0.07536
San Lucas Union	0.00000	0.00000	0.00000	0.00000	0.05590	0.07000	0.14146	7.10700	0.07486	0.07536
San Miguel Elementary School	0.03519	0.03624	0.05009	0.05122	0.05700	0.00000	0.00000	0.00000	0.00000	0.00000
Santa Rita Union	0.03136	0.03255	0.03774	0.04563	0.07921	0.01000	0.04441	0.08131	0.13602	0.02970
Shandon Joint Unified	0.00642	0.00645	0.00646	0.00860	0.00860	0.01000	0.00970	0.01040	0.03210	0.03510
Soledad Unified School District	0.05210	0.06373	0.07575	0.08631	0.09952	0.13000	0.12307	0.15802	0.17771	0.05302
Spreckels Union	0.05882	0.03075	0.04955	0.05455	0.06730	0.04000	0.03223	0.03958	0.04378	0.04755
Washington Union	0.05163	0.05301	0.06992	0.04240	0.09879	0.03000	0.01815	0.02137	0.01898	0.02629
West Hills College	0.01926	0.00057	0.02086	0.02202	0.02715	0.02087	0.06110	0.01388	0.00000	0.00000

Source: Monterey County Records

Schedule 9

COUNTY OF MONTEREY

Taxable Sales by Category
Last Ten Calendar Years

(in thousands)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007*
Apparel Stores	6,614	7,459	7,848	7,074	7,179	7,405	9,495	9,925	10,678	4,740
General Merchandise	2,764	3,312	3,175	2,869	2,473	2,572	2,783	2,776	3,007	1,416
Food Stores	38,486	39,931	40,450	41,462	40,375	41,470	42,453	42,188	42,438	21,484
Eating and Drinking Places	52,168	57,652	60,412	62,138	63,530	62,573	66,348	70,335	70,528	34,429
Building Materials	67,582	71,924	74,691	80,296	81,994	95,776	106,079	111,366	109,567	53,754
Auto Dealers and Supplies	27,987	32,294	38,462	38,094	38,699	34,699	36,072	40,001	39,653	20,261
Service Stations	46,470	52,648	64,244	62,296	57,157	63,593	75,532	88,514	99,384	51,411
Other Retail Stores	58,195	64,576	79,365	76,332	74,452	74,801	79,269	81,821	84,110	37,253
All Other Outlets	296,458	315,404	382,294	378,060	339,493	282,769	347,542	374,570	394,659	196,662
Total	596,724	645,200	750,941	748,621	705,352	665,658	765,573	821,496	854,024	421,410

$* Through the first and second calendar quarters of 2007

Source: State of California Board of Equalization and The HdL Companies

Note: Due to confidentiality issues, the names of the ten largest revenue payers are not available.
The categories presented are intended to provide alternative information regarding the sources of the County's revenue.

Schedule 10

COUNTY OF MONTEREY

Transient Occupancy Tax
Actual Receipts

Calendar Year	Taxable Sales	Growth Rate
1998	$10,556,702	2.92%
1999	$11,385,000	7.85%
2000	$12,680,000	11.37%
2001	$14,430,000	13.80%
2002	$13,286,548	-7.92%
2003	$13,476,749	1.43%
2004	$13,452,336	-0.18%
2005	$14,420,192	7.19%
2006	$15,569,105	7.97%
2007	$16,912,274	8.63%

Source: Monterey County Treasurer-Tax Collector Transient Occupancy Tax Statements

Schedule 11

COUNTY OF MONTEREY

Ratios of Outstanding Debt by Type
Last Ten Fiscal Years (in thousands, except per capita)

	Governmental Activities								Business-Type Activities				
Fiscal Year Ended June 30,	Certificates of Participation	Capital Leases	Redevelopment Notes	Revenue Bonds	Long Term Loans	Special Assessment Bonds	General Obligation Bonds	Judgment Obligation Bonds	Certificates of Participation	Total Primary Government	Percentage of Assessed Value (1)	Per Capita (2)	Percentage of Personal Income
1998	14,810	1,180	-	47,909	-	5,187	1,035	-	94,188	164,309	0.72%	429	1.70%
1999	14,345	1,437	-	38,335	31,177	4,127	699	-	90,119	180,239	0.75%	462	1.72%
2000	13,860	159	-	26,140	42,967	1,554	362	-	85,042	170,084	0.66%	426	1.52%
2001	13,360	246	-	13,691	48,637	834	28	-	76,796	153,592	0.55%	382	1.27%
2002	92,155	645	205	6,725	51,952	420	24	-	85,710	237,836	0.77%	576	1.90%
2003	91,600	403	165	4,242	35,020	183	19	-	83,995	215,627	0.63%	516	1.70%
2004	91,025	147	140	1,995	35,003	179	15	7,470	82,180	218,154	0.60%	516	1.62%
2005	89,285	205	115	1,477	34,986	175	10	6,750	80,260	213,263	0.55%	503	1.52%
2006	87,470	252	953	1,177	33,948	171	5	6,095	77,495	207,566	0.48%	489	1.43%
2007	144,400	223	621	1,131	32,910	166	-	5,425	75,950	260,826	0.54%	636	1.66%

Notes:
(1) See schedule x "Assessed Value of Taxable Property"
(2) See schedule x "Demographic and Economic Statistics"

COUNTY OF MONTEREY

Legal Debt Margin Information
Last Ten Fiscal Years (in thousands)

Legal Debt Margin Calculation for Fiscal Year Ended June 30, 2007

Net assessed value	$ 47,916,629
Debt Limit 1.25% of net assessed value	598,958
Debt applicable to limit:	
General obligation bonds	-
Less: Amount set aside for repayment of debt	-
Net debt applicable to limit	-
Legal Debt Margin	$ 598,958

	Fiscal Year Ended June 30,									
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Debt limit	$ 598,958	$ 538,368	$ 486,398	$ 453,188	$ 425,098	$ 387,838	$ 349,706	$ 321,312	$ 299,331	$ 284,192
Total net debt applicable to limit	-	5	10	15	19	24	28	362	699	1,035
Legal debt margin	$ 598,958	$ 538,363	$ 486,388	$ 453,173	$ 425,079	$ 387,814	$ 349,678	$ 320,950	$ 298,632	$ 283,157
Total net debt applicable to the limit as a percentage of debt limit	0.00%	0.00%	0.00%	0.00%	0.00%	0.01%	0.01%	0.11%	0.23%	0.36%

Note: Article XIII A of the California State Constitution and Senate Bill 1656, Statutes of 1978; provided for changing assessed value from 25% of full cash value to full cash value. Hence, the 5% limitation on general obligation bond indebtedness imposed by Section 29909 of the Government Code became 1.25% of assessed value.

COUNTY OF MONTEREY

Direct and Overlapping Bonded Debt
June 30, 2007 (in thousands)

2006-2007 Assessed Valuation:	$ 47,916,629
Redevelopment Incremental Valuation:	3,901,638
Adjusted Assessed Valuation:	44,014,991

Overlapping Tax and Assessment Debt:	Percentage Applicable	Debt June 30, 2007
Hartnell Community College District	99.815%	$ 65,090
Monterey Peninsula Community College District	100.000%	32,659
Carmel Unified School District	100.000%	29,604
North Monterey County Unified School District	100.000%	19,060
Pacific Grove Unified School District	100.000%	17,461
Soledad Unified School District	100.000%	5,173
King City Joint Union High School District	98.389%	15,314
Salinas Union High School District & School Facilities Improvement District	100.000%	76,259
Alisal Union School District	100.000%	32,104
King City Union School District	100.000%	11,184
Washington Union School District	100.000%	14,660
Other School Districts	Various	46,178
City of Pacific Grove	100.000%	790
City of Marina	100.000%	8,585
Soledad Community Hospital District	100.000%	1,985
Community Facilities Districts	100.000%	5,078
City 1915 Act Bonds	100.000%	35,790
County and Special District 1915 Act Bonds	100.000%	444
Total Overlapping Tax and Assessment Debt		417,418

Direct and Overlapping General Fund Obligation Debt:		
Monterey County General Fund Obligations	100.000%	$ 220,350
Monterey County Judgment Obligations	100.000%	5,425
Monterey Peninsula Unified School District Certificates of Participa	100.000%	8,165
Salinas Union High School District Certificates of Participation	100.000%	6,000
Salinas City School District Certificates of Participation	100.000%	10,330
Other School District General Fund Obligations	Various	23,171
City of Carmel General Fund Obligations	100.000%	9,176
City of Marina Pension Obligations	100.000%	4,315
City of Monterey General Fund Obligations	100.000%	19,450
City of Pacific Grove Pension Obligations	100.000%	19,326
City of Salinas Certificates of Participation	100.000%	43,505
City of Seaside Pension Obligations	100.000%	6,880
Carmel Valley Fire Protection District Certificates of Participation	100.000%	1,540
Monterey Bay Unified Air Pollution Control Authority	58.862%	1,897
Total Direct and Overlapping General Fund Obligation Debt		379,530
Combined Total Debt		$ 796,948 (1)

Ratios to 2006-07 Assessed Valuation:	
Total Overlapping Tax and Assessment Debt	0.87%

Ratios to Adjusted Assessed Valuation:	
Combined Direct Debt ($225,775)	0.51%
Combined Total Debt	1.81%

State School Building Aid Repayable as of 6/30/07: $0

Notes:
(1) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Schedule 14

COUNTY OF MONTEREY

Demographics and Economic Statistics
Last Ten Years

Calendar Year Ended December 31	Population (1)	Per Capita Income (2)	Total Personal Income (3)	Median Age (4)	School Enrollment (5)	Unemployment Rate (6)
1997	382,900	25,602	9,646,718	30.7	66,385	11.0%
1998	390,500	26,987	10,468,091	31.0	68,265	10.8%
1999	398,900	28,186	11,169,200	31.3	69,534	9.7%
2000	401,762	30,005	12,097,144	31.7	71,186	7.4%
2001	412,922	30,723	12,540,815	32.0	72,529	7.8%
2002	418,237	30,800	12,676,027	31.0	73,416	9.0%
2003	422,389	32,469	13,455,580	32.7	73,812	9.0%
2004	423,754	33,952	14,074,798	34.5	73,863	8.4%
2005	424,842	34,177	14,519,770	36.1	71,971	7.3%
2006	410,206	38,193	15,667,000	31.9	69,851	5.7%

Sources:

1. US Census Bureau
2. US Department of Commerce, Bureau of Economic Analysis
3. US Department of Commerce, Bureau of Economic Analysis, in Thousands
4. US Census Bureau
5. California Department of Education, Educational Demographics Unit
6. Employment Development Department, LaborMarket Info

Notes:

Population Data is as of January 1 of the following year
Total Personal Income dollars in thousands
School Enrollment Data includes Kindergarden through grade 12

COUNTY OF MONTEREY

Major Industries by Number of Businesses, Employees, and Payroll
Last Six Years

MSA and Industry	2006 Total	2005 Total	2004 Total	2003 Total	2002 Total	2001 Total
SALINAS MSA						
Total						
No. of Businesses	11,543	11,167	11,270	11,096	10,898	10,542
No. of Employees	150,949	150,590	149,475	147,057	146,325	145,413
Payroll (in thousands)	$1,275,051	$1,253,718	$1,162,537	$1,105,746	$1,063,998	$1,030,270
Agriculture						
No. of Businesses	577	584	602	630	631	635
No. of Employees	51,097	51,053	51,078	45,581	43,597	41,761
Payroll (in thousands)	$342,021	$336,288	$307,580	$266,179	$246,826	$229,534
Mining						
No. of Businesses	9	9	10	12	9	8
No. of Employees	201	192	213	209	225	219
Payroll (in thousands)	$3,742	$3,429	$2,359	$3,760	$3,677	$3,523
Utilities						
No. of Businesses	26	25	24	25	23	21
No. of Employees	569	528	480	589	592	645
Payroll (in thousands)	$8,836	$9,714	$9,756	$10,084	$9,635	$8,853
Construction						
No. of Businesses	1,012	965	995	977	971	938
No. of Employees	7,367	6,886	6,920	6,516	6,588	6,663
Payroll (in thousands)	$80,519	$73,121	$71,493	$68,047	$65,749	$64,890
Manufacturing						
No. of Businesses	281	283	293	302	304	321
No. of Employees	6,274	6,735	7,043	7,888	8,296	9,530
Payroll (in thousands)	$65,346	$73,030	$73,187	$74,410	$77,342	$85,010
Wholesale Trade						
No. of Businesses	429	408	411	398	388	379
No. of Employees	4,938	5,016	4,710	5,207	5,038	4,642
Payroll (in thousands)	$69,628	$71,940	$59,857	$59,362	$57,681	$54,779
Retail Trade						
No. of Businesses	1,330	1,300	1,358	1,372	1,406	1,409
No. of Employees	16,688	16,828	16,969	16,951	17,058	17,196
Payroll (in thousands)	$120,907	$120,898	$114,448	$109,944	$108,210	$105,626
Transportation and Warehousing						
No. of Businesses	248	231	240	250	264	245
No. of Employees	2,925	2,955	2,814	2,611	2,860	2,750
Payroll (in thousands)	$28,644	$28,851	$26,107	$23,111	$23,957	$22,796
Information						
No. of Businesses	116	117	119	115	123	135
No. of Employees	2,163	2,310	2,307	2,402	2,440	2,802
Payroll (in thousands)	$33,618	$33,578	$31,249	$29,449	$28,549	$32,584
Finance and Insurance						
No. of Businesses	389	388	375	381	376	384
No. of Employees	3,816	3,757	3,711	4,159	4,328	4,362
Payroll (in thousands)	$63,144	$63,242	$50,791	$58,519	$54,759	$52,710
Real Estate and Rental and Leasing						
No. of Businesses	445	432	428	414	399	390
No. of Employees	2,497	2,364	2,313	2,405	2,342	2,227
Payroll (in thousands)	$22,315	$21,537	$20,400	$18,598	$17,916	$15,741
Services						
No. of Businesses	6,681	6,425	6,415	6,220	6,004	5,677
No. of Employees	52,414	51,966	50,917	52,539	52,961	52,616
Payroll (in thousands)	$436,331	$418,089	$395,309	$384,284	$369,697	$354,224

Sources: Employment Development Department, Labor Market Information

Notes:
(1) Data are confidential if there are fewer than 3 businesses in a category or one employer makes up 80 percent or more of the employment in a category.
(2) Data are suppressed because confidential data could be extrapolated if these totals were included.
(3) Data do not include totals for government employment.
(4) Due to the Rules instituted by the federal Bureau of Labor Statistics after September 11 prohibit state departments of labor or economic security from publicl identifying the names of individual employers, County of Monterey has removed the Major Employers data from its statistical section. GASB Statement No. allows employment by industry data to be published instead of Major Employers data.

Schedule 16

COUNTY OF MONTEREY

Full-time Equivalent County Government Employees by Function/Program
Fiscal Year 2006 / 07 Approved Budgeted Positions

	Fiscal Year Ended June 30,									
Function/Program	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General government	452.0	465.0	514.0	557.0	581.0	596.0	510.0	462.0	489.0	492.0
Public protection	1,115.0	1,170.0	848.0	1,271.0	1,393.0	1,418.0	1,361.0	1,319.0	1,343.0	1,397.0
Public ways and facilities	174.0	175.0	181.0	171.0	178.0	178.0	178.0	150.0	153.0	135.0
Health and sanitation	487.0	470.0	493.0	548.0	599.0	616.0	614.0	688.0	757.0	820.0
Public assistance	662.0	673.0	770.0	784.0	813.0	838.0	772.0	759.0	775.0	781.0
Recreation and Education	117.0	118.0	119.0	123.0	130.0	131.0	130.0	136.0	140.0	145.0
Hospital	689.0	692.0	707.0	740.0	885.0	956.0	795.0	775.0	799.0	754.0
Water Resource Agency / Special District	61.2	57.0	57.0	57.0	59.0	60.0	60.0	60.0	60.0	60.0
Total Positions:	3,757.2	3,820.0	3,689.0	4,251.0	4,638.0	4,793.0	4,420.0	4,349.0	4,516.0	4,584.0

Source: Monterey County Recommended Budget Book Position Information

Schedule 17

COUNTY OF MONTEREY

Operating Indicators by Function/Program
For the Last Ten Fiscal Years

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
GENERAL GOVERNMENT										
101 Assessment Appeals Board										
Applications Reviewed	520	262	262	234	132	265	331	524	212	123
115 Revenue										
Client agencies	unavail	20	20	20	18	18	18	18	6	6
Accounts	25,000	92,000	92,000	92,000	90,000	125,000	125,000	125,000	125,000	125,000
117 Treasurer-Tax Collector										
Number of payment transactions	285,352	257,700	242,300	218,500	285,000	304,000	329,000	350,000	362,000	354,000
Treasury deposits processed	7,597	7,941	8,290	9,303	9,529	8,500	9,000	8,500	9,100	9,000
Electronic payment transactions processed			710	870	945	1,260	1,100	4,500	40,000	66,000
118 Assessor										
Deeds processed	unavail	18,341	19,018	18,561	19,722	21,712	25,181	26,309	24,903	20,460
Transfers	unavail	11,681	12,505	12,005	10,527	10,596	12,338	12,891	13,188	9,790
Assessable building permits	unavail	1,827	1,944	1,685	2,723	1,998	2,319	2,243	1,841	
151 Telecommunications										
Telephone instruments supported	unavail	unavail	unavail	unavail	4,200	4,500	4,500	4,200	4,650	4,725
Telephone calls completed	unavail	unavail	unavail	unavail	7,300,000	10,000,000	14,000,000	18,000,000	16,300,000	17,750,000
Voicemail messages	unavail	unavail	unavail	unavail	2,900,000	3,500,000	3,000,000	2,800,000	2,100,000	2,600,000
Mobile radios supported	unavail	unavail	unavail	unavail	9,300	2,790	2,830	2,861	2,861	2,900
Mobile data terminals supported	unavail	unavail	unavail	unavail	195	210	214	220	226	246
Data network attached devices	unavail	unavail	unavail	unavail	3,684	3,765	3,878	4,018	4,432	5,170
Videoconferencing sites supported	unavail	unavail	unavail	unavail	8	13	13	18	17	17
193 Information Technology										
PCs and Laptops supported	unavail	unavail	unavail	unavail	2,938	3,954	4,149	4,159	4,485	4,643
E-Mail accounts	unavail	unavail	unavail	unavail	1,840	2,842	2,805	2,715	2,976	3,312
Internet accounts	unavail	unavail	unavail	unavail	1,840	2,522	2,363	2,103	2,136	2,767
Servers in the Data Center	unavail	unavail	unavail	unavail	38	58	110	155	232	250
Secuity attacks intercepted	unavail	unavail	unavail	unavail	unavail	unavail	21,600	360,000	547,500	720,000
SPAM messages deflected	unavail	unavail	unavail	unavail	unavail	unavail		1,200,000	2,847,000	7,500,000
Calls to the Call Center	unavail	unavail	unavail	unavail	6,800	7,000	12,000	12,000	15,000	37,000
Training classes	unavail	unavail	unavail	unavail	1,200	1,350	1,400	1,400	1,650	1,200
291 Recorder-County Clerk										
Documents recorded		92,283	95,929	86,638	110,804	127,597	157,438	138,690	137,348	114,673
Copies requested		49,853	55,433	63,080	61,870	63,966	74,656	71,036	75,789	88,956
Marriage licenses issued		3,408	3,381	3,471	3,776	3,278	3,150	3,123	3,067	2,990
fictitious business names filed		2,456	2,515	2,580	2,428	2,561	2,810	2,059	3,040	3,097

PUBLIC PROTECTION										
152 Emergency Communications										
911 and non-emergency calls	unavail	unavail	unavail	unavail	unavail	unavail	600,000	600,000	612,000	650,000
CAD incidents	unavail	unavail	unavail	unavail	unavail	unavail	556,059	560,422	560,026	560,000
224 District Attorney's Office										
Felonies reviewed	3,023	3,236	2,746	3,226	3,524	3,361	3,876	3,852	4,512	4,580
Misdemeanors reviewed	17,253	16,299	19,194	15,174	14,444	14,114	13,736	13,294	13,836	13,670
Juvenile petitions	1,330	1,119	1,437	1,148	1,278	1,033	998	1,126	834	846
New victims	1,762	1,308	1,500	1,926	1,725	2,082	1,647	1,586	1,860	1,941
Civil cases opened	unavail	unavail	unavail	unavail	197	199	191	231	228	253
225 Child Support Services										
Cases	25,138	28,581	22,226	23,728	22,752	22,116	21,280	21,370	20,266	19,860
227 Public Defender										
Felonies	2,218	2,009	2,146	2,255	2,688	2,928	3,306	3,798	4,592	5,289
Misdemeanors	5,293	4,749	4,820	4,607	6,192	6,229	6,535	6,859	8,170	7,322
Juveniles	2,088	1,855	1,991	2,013	3,612	1,932	1,864	2,143	1,091	999
Mental Health	178	148	198	180	156	117	61	86	110	156
Special Procedings	6,041	6,155	5,933	5,042	3,038	4,240	4,951	3,321	3,356	4,128
228 Court Assigned Counsel										
Felonies	unavail	unavail	unavail	unavail	618	707	918	952	986	991
Misdemeanors	unavail	unavail	unavail	unavail	673	646	537	573	609	640
Juveniles	unavail	unavail	unavail	unavail	unavail	unavail	194	211	190	198
Mental Health	unavail	unavail	unavail	unavail	unavail	unavail	3	2	2	2
State Prison	unavail	unavail	unavail	unavail	unavail	unavail	204	189	106	106
230 Sheriff-Administration and Enforcement Bureau										
Warrants received	15,279	12,984	14,730	12,136	12,500	17,000	13,355	14,538	15,348	15,900
Felony offenses reported	2,572	1,056	1,471	1,998	2,100	2,500	2,625	2,756	2,895	2,900
Misdemeanor offenses reported	2,312	1,440	1,580	1,502	1,600	2,200	2,310	2,425	2,552	2,575
Number of civil services	9,011	8,688	9,687	9,897	8,133	7,761	7,534	7,400	7,261	7,650
235 Sheriff-Joint Gang Task Force										
Felony arrests - adults	n/a	n/a	n/a	n/a	n/a	n/a	n/a	158	235	282
Felony arrests - juveniles	n/a	n/a	n/a	n/a	n/a	n/a	n/a	18	34	57
Misdemeanor arrests - adults	n/a	n/a	n/a	n/a	n/a	n/a	n/a	206	231	231
Misdemeanor arrests - Juveniles	n/a	n/a	n/a	n/a	n/a	n/a	n/a	55	73	83
Task Force and/or Gang Awareness	n/a	n/a	n/a	n/a	n/a	n/a	n/a	12	20	55

251 Sheriff-Custody Operations Bureau										
Prisoners booked	18,335	20,859	18,337	18,927	18,022	18,397	17,705	17,919	17,144	17,300
Average daily prisoner population	1,063	985	959	972	963	930	1,000	1,100	1,151	1,166
Court transportation	24,818	18,388	27,068	19,473	21,000	23,000	23,047	24,848	25,866	2,600
255 Probation										
Juvenile referrals	unavail	unavail	unavail	unavail	unavail	unavail	3,113	2,892	3,034	3,034
Juvenile intake diversion	unavail	unavail	unavail	unavail	unavail	unavail	unavail	1,312	1,517	1,593
Juvenile standard reports	unavail	unavail	unavail	unavail	unavail	unavail	unavail	700	824	850
Juvenile supervision	unavail	unavail	unavail	unavail	unavail	unavail	unavail	1,213	1,364	1,374
Adult standard reports	unavail	unavail	unavail	unavail	unavail	unavail	unavail	1,952	2,760	2,787
Adult supervision	unavail	unavail	unavail	unavail	unavail	unavail	unavail	5,876	6,631	6,705
256 Juvenile Institutions and Alternative Programs										
Juvenile Hall admissions	1,785	1,493	1,724	1,680	1,800	1,600	1,505	1,505	1,180	1,180
Youth Center admissions	unavail	unavail	unavail	unavail	unavail	102	106	130	104	105
292 Sheriff-Coroner										
Total investigations	992	1,091	1,129	1,082	1,155	1,185	1,178	1,064	1,064	1,185
Coroner's cases	312	303	309	284	328	345	388	348	287	356
Indegent cremations	13	26	21	19	20	25	8	14	11	17
Nacimiento Hydroelectric Project										
kilowatt hours generated	10,503,921	15,649,069	15,423,775	15,307,481	16,550,656	11,569,402	13,027,168	13,118,178	17,427,225	
293 Planning										
Discretionary permits initiated	325	435	334	536	568	635	480	411	748	763
299 Building Services										
Building permits	2,399	3,735	3,175	2,449	2,982	3,289	3,816	3,428	3,267	3,332
Grading permits	168	295	226	311	203	182	436	478	414	435
Plan checks	3,097	3,105	3,509	3,278	3,404	3,354	2,252	2,388	2,725	2,780
Building inspections	26,316	27,662	21,295	28,615	22,000	23,000	25,154	25,154	26,939	27,478
930 Water Resources										
Supplemental well production - acre feet	unavail	4,220	6,316	6,925	6,249	6,789	8,109	6,817	5,798	unavail
Recycled water production - acre feet	unavail	7,562	10,433	11,100	13,237	12,839	13,873	10,937	10,865	unavail
Total water deliveries - acre feet	unavail	11,782	16,749	18,025	19,486	19,628	21,982	17,754	16,663	unavail
PUBLIC WAYS AND FACILITIES										
300 Public Works										
Road miles maintained	unavail	unavail	1,258	1,254	1,243	1,243	1,240	1,240	1,240	1,240
Bridges maintained	unavail	unavail	173	173	173	173	173	173	173	173

HEALTH AND SANITATION										
296 Animal Services										
Animals picked up	4,307	3,654	4,255	2,775	2,548	2,074	1,655	1,635	1,730	1,700
Licenses sold	5,841	5,901	5,301	4,174	3,809	5,991	7,576	7,287	7,724	7,340
Citations issued	1,234	845	684	808	595	1,855	2,677	3,383	4,000	4,200
Bite cases	397	630	665	473	501	501	414	188	190	200
Service calls	10,000	8,976	8,306	7,293	6,951	6,400	4,433	3,684	6,050	6,352
Animals admitted to shelter	unavail	unavail	6,391	6,521	5,702	5,452	4,143	4,364	4,083	4,100
Adoptions/animal rescue groups	unavail	unavail	1,172	1,309	1,453	1,566	1,401	1,448	1,593	1,500
Animals returned to owners	unavail	unavail	526	563	461	427	410	441	468	500
411 Health										
Public health nursing home visits	unavail	6,754	9,540	6,828	9,402	10,233	10,516	8,738	9,110	9,200
Communicable diseases reported	unavail	unavail	unavail	unavail	unavail	2,644	2,639	2,266	2,857	2,480
Births registered	6,295	6,293	6,445	6,644	6,644	6,609	6,866	6,998	7,121	7,200
deaths registered	2,101	2,309	2,273	2,392	2,392	2,294	2,311	2,262	2,363	2,400
Burial and crossfile permits	unavail	unavail	unavail	unavail	unavail	unavail	2,342	3,159	2,358	2,400
Public health laboratory tests	unavail	unavail	unavail	unavail	22,811	31,000	25,263	25,774	30,954	11,114
Environmental laboratory tests	unavail	unavail	unavail	unavail	23,681	26,500	28,556	33,632	29,579	28,405
413 Clinic Services										
Primary care clinic visits	41,223	39,150	39,921	40,180	47,439	55,245	60,993	99,971	118,165	130,885
415 Mental Health										
Inpatient services (days)	8,666	13,838	14,442	18,778	23,762	14,107	11,675	17,572	1,345	1,350
Locked facilities (days)	6,508	5,853	6,166	7,452	7,596	7,524	11,122	8,048	13,888	13,888
Case management (minutes)	1,436,423	1,817,833	1,321,609	2,698,080	1,938,360	1,811,857	2,045,159	1,879,594	2,593,596	2,593,596
Outpatient services (minutes)	3,585,425	3,910,505	3,678,496	5,043,180	4,403,369	4,480,719	4,000,795	4,526,026	16,644,400	16,644,400
419 Public Guardian										
Conservatorship cases	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	239
Public Administrator probates	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	37
Public Administrator small estates	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	19
Representative Payee cases	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	370
417 Alcohol and Drug Programs										
Methadone maintenance dosing	41,128	33,443	32,977	36,840	43,302	52,742	54,016	54,958	50,509	50,355
Narcotic treatment program counseling	18,201	1,245	11,832	14,280	14,765	19,238	19,086	19,086	23,021	24,597
Outpatient drug free	955	8,326	8,576	7,140	13,679	9,587	11,272	17,695	14,104	18,038
Residential bed days	unavail	unavail	29,537	46,897	50,012	56,344	55,530	55,530	79,426	65,547

440 Children's Medical Services										
CCS Referrals reviewed for medical elibility	unavail	479	2,150	1,750	1,761	2,181	1,504	2,013	2,476	2,400
CCS referrals opened for medical services	unavail	238	495	550	970	1,196	1,051	1,006	770	770
CCS annual eligibility reviews	unavail	unavail	unavail	unavail	unavail	unavail	*2,130*	*2,210*	*1,502*	*1,635*
CHDP review preventive health screens	unavail	48,280	46,003	26,123	21,082	16,135	15,880	15.557	17,527	15,931
CHDP patient tracking for follow up treatment	unavail	3,187	2,042	2,132	3,708	3,390	3,327	2,642	2,718	2,600
CHDP provider groups enrolled	unavail	52	52	50	36	38	37	36	35	36
CHDP Santa Cruz providers serving North County	unavail	unavail	unavail	unavail	13	13	13	13	13	13
CLPPP Lead affected children receiving services	unavail	unavail	unavail	unavail	64	78	86	88	89	86
PUBLIC ASSISTANCE										
501 Social Services										
Food Stamps intake	704	671	737	689	769	829	921	938	926	1,056
Food Stamps ongoing	3,267	3,985	4,766	4,233	4,485	4,660	4,841	5,687	6,017	6,237
Medi-CAL intake	3,268	2,679	2,796	2,620	2,294	1,780	2,036	2,330	2,521	2,726
Medi-CAL ongoing	15,693	17,472	18,698	19,321	21,775	21,028	21,230	22,077	23,183	23,438
CWS emergency response assessment	344	271	242	216	1,935	303	285	309	247	196
CWS emergency response In-person	250	287	289	222	352	210	249	251	312	261
CWS Family maintenance	140	122	141	128	312	106	89	162	154	158
CWS Family reunification	155	149	94	79	208	102	162	183	183	152
CWS permanent placement	267	355	437	389	104	331	215	306	303	321
Adult SS In-Home Supportive Services (IHSS)	1,809	1,902	2,034	2,494	93	2,906	2,659	2,694	2,809	2,904
Adult SS Adult protective services	unavail	unavail	unavail	128	308	97	133	110	123	106
531 CalWORKs/TANF Benefits caseloads										
Intake	523	504	503	530	558	595	611	599	628	756
Ongoing	6,968	6,137	5,357	4,832	4,543	4,675	4,811	4,359	4,518	4,644
Employment services	1,284	1,875	1,414	1,589	1,935	1,950	1,633	1,373	1,137	1,055
Childcare services	271	408	529	445	352	334	286	273	247	299
535 Out-Of-Home-Care, Average Monthly Caseload										
Foster care intake	33	26	18	16	21	21	24	26	30	32
Foster care ongoing	*527*	*562*	485	422	*371*	*402*	492	*462*	*535*	*512*
Court dependent children	15	24	22	19	15	12	5	4	4	4
Aid to adoptions	202	249	297	364	437	495	449	578	609	650
Severely emotionally disturbed	14	11	7	8	12	12	12	8	8	7
548 In-Home Support Services - Client Services paid cases										
Personal care services program	1,193	1,293	1,584	1,930	2,105	2,296	2,037	2,112	2,418	2,529
Residual/Waiver Plus	616	609	450	564	596	610	621	581	391	375
551 Aid to Indegents										
Regular general assistance	341	287	289	221	266	148	178	148	110	105
Interim general assistance	66	73	62	57	63	185	152	185	*129*	*119*

559 Military and Veterans Affairs caseload items										
Claims filed		5,866	5,790	5,755	5,757	4,489	2,641	2,191	1,878	1,745
Veterans transported to VA Medical		5,866	2,792	2,653	2,134	1,963	1,545	2,790	884	1,350
Claims for VA Health Care		1,084	1,179	1,471	1,489	397	516	722	460	343
Survivors assistance requests		263	265	282	305	283	202	201	126	195
EDUCATION										
611 Library										
Customers visiting library	625,000	620,984	640,393	668,324	665,620	637,787	688,246	642,226	694,259	700,299
Items borrowed by library customers	821,183	734,078	702,940	727,227	726,934	690,226	621,720	653,536	739,199	744,206
Information requests filled for library customers	218,772	163,256	165,066	185,051	177,240	134,848	118,495	116,663	101,218	100,921
Children and adults attending library programs	22,036	41,475	53,653	50,117	53,380	38,229	38,301	38,299	28,330	24,036
Students receiving homeworks assistance	3,385	4,784	9,089	15,535	13,006	12,940	10,358	8,625	9,550	5,000
School classes visiting the library	614	927	834	908	822	914	917	479	373	321
Customers using library computers		38,574	50,172	113,765	124,657	135,458	140,806	162,531	187,651	225,414
621 Cooperative Extension										
Seminars and Presentations organized	unavail	unavail	unavail	unavail	unavail	174	192	161	200	195
Newsletters/publications	unavail	unavail	unavail	unavail	unavail	88,542	88,424	83,334	86,599	95,917
Consultations	unavail	unavail	unavail	unavail	unavail	7,624	8,018	7,963	6,131	6,459
4-H youth development activities	unavail	unavail	unavail	unavail	unavail	4,727	4,744	4,687	5,857	6,032
Telephone calls	unavail	unavail	unavail	unavail	unavail	56,100	56,100	55,500	52,800	54,000
Counter calls	unavail	unavail	unavail	unavail	unavail	26,225	25,750	20,000	16,000	18,500
RECREATION AND CULTURAL SERVICES										
750 Parks										
Visitors	1,514,227	1,586,855	1,360,537	1,392,823	1,419,565	1,384,571	1,415,262	1,400,000	1,400,000	1,400,000

Actuals and Estimates taken from
Departmental Workload Information published in the County of Monterey Recommended Budget Books, and
Departmental Records
Sheriff Joint Gang Task Force started in 2004-05

COUNTY OF MONTEREY

Capital Asset Statistics
Last Three Fiscal Years

	2004-05	2005-06	2006-07
General Government			
Buildings	19	21	21
Modular Buildings			2
Vehicles		125	134
Heavy Equipment		17	13
Public Protection			
Buildings	20	19	23
Modular Buildings			6
Vehicles	468	493	484
Heavy Equipment		36	58
Parking Structure			1
Public Ways & Facilities			
Road Department			
Bridges	123	171	171
Culverts (ft)	218,749	218,749	218749
Drain System Inlets	226	226	226
Drain System Pipe (ft)	68,752	68,752	68752
Fuel Stations	3	3	3
Heavy Road Equipment	44	45	44
Lift Stations	2	16	21
Maintained Road Miles (paved)	1,239	1,100	1099
Maintenance District Facility Buildings	5	5	5
Public Parks & Open Space Acreage	4	4	4
Road Lane Miles	2,611	2,611	2611
Sanitary Heavy Equipment	2	2	2
Sanitary Sewer Lines (miles)	54	44	60
Street Lights	106	1,026	
Traffic Signals	40	20	20
Vehicles		111	89
Water Resources			
Dams	2	2	2
Heavy Equipment	6	6	29
Hydro-electric plants	1	1	1
Levees	1	1	1
Pump Stations	2	5	5
Reclamation Ditches	1	1	1
Vehicles	24	29	32
Potrero Tide Gate		1	1
Homes		2	2
Pipe miles		50	50
Wells		21	21
Booster Pumps		3	3

COUNTY OF MONTEREY

Capital Asset Statistics
Last Three Fiscal Years (continued)

Health			
Buildings	32	7	15
Vehicles	94	131	171
Heavy Equipment	*18*	*1*	*1*
Public Assistance			
Buildings	2	2	3
Vehicles	75	107	114
Recreation and Cultural Services			
Basketball Courts	1	1	1
Boats	14	14	14
Buildings	159	175	175
Heavy Equipment	34	286	317
Lake Acres	10,000	10,000	10000
Land Acres	12,155	7,025	7025
Parks	7	7	7
Tennis Courts	1	1	1
Vehicles	88	94	85
Education			
Bookmobiles	3	3	3
Buildings	5	4	5
Vehicles		15	17
Heavy Equipment		6	6

Source:
04/05 CAFR
Owned Buildings and Parcels from General Services' Real Property Specialist reports
Vehicles & Heavy Equipment from General Services' FleetFocus FA Equipment Inventory List
Departmental Records

Note:
Differences in assets between fiscal years due to updated information sources.

APPENDIX B

COUNTY ECONOMIC AND DEMOGRAPHIC INFORMATION

Population

Between 2003 and 2008 the County's population increased by approximately 1.73% compared to the State's growth of 5.41%. The following table details the yearly population growth in the County and the State.

Table 1
County of Monterey Population Trends
Calendar Years 2003 through 2008
(As of January 1)

	County of Monterey		State of California	
Year	Population	% Change	Population	% Change
2003	421,146	1.34	35,990,107	1.69
2004	423,054	0.45	36,522,026	1.48
2005	422,925	(0.03)	36,981,931	1.26
2006	423,478	0.13	37,444,385	1.25
2007	423,762	1.11	37,559,440	1.28
2008	428,549	1.13	38,049,462	1.30

Source: California Department of Finance, Demographic Research Unit.

Economy

Following is a table which summarizes key economic indicators with respect to the County for the years 2003 through 2007:

Table 2
County of Monterey Key Economic Indicators
Calendar Years 2003 through 2007

	2003	2004	2005	2006	2007
Population	421,146	423,054	422,925	423,478	428,549
Employment	192,000	192,000	194,200	192,100	194,100
Unemployment	19,000	17,500	15,400	14,300	15,100
Unemployment rate	9.0%	8.4%	7.3%	6.9%	7.2%

Sources: Data derived from California Department of Finance, Demographic Research Unit (Population); Employment Development Department, Labor Market Information Division (Employment, Unemployment).

Employment

The following table indicates labor patterns for the County, the State and the nation.

Table 3
Labor Force, Employment And Unemployment
Yearly Average for Years 2003 through 2007

Year, Area	Labor Force	Civilian Employment	Unemployment Rate
2003			
Monterey County	211,000	192,000	9.0%
California	17,403,900	16,212,600	6.8
United States	146,510,000	137,736,000	6.0
2004			
Monterey County	209,500	192,000	8.4%
California	17,499,600	16,407,900	6.2
United States	147,401,000	139,252,000	5.5
2005			
Monterey County	209,600	194,200	7.3%
California	17,695,600	16,746,900	5.4
United States	149,320,000	141,730,000	5.1
2006			
Monterey County	206,400	192,100	6.9%
California	17,907,200	17,029,900	4.9
United States	151,428,000	144,427,000	4.6
2007			
Monterey County	209,200	194,100	7.2%
California	18,188,100	17,208,900	5.4
United States	153,124,000	146,047,000	4.6

Sources: California State Employment Development Department, Labor Market Information Division; U.S. Department of Labor, Bureau of Labor Statistics.

The following table summarizes the historical numbers of workers in the County by industry for the years 2003 through 2007.

Table 4
County of Monterey
Estimated Number of Wage and Salary Workers by Industry

	2003	2004	2005	2006	2007
Agricultural	41,400	41,900	41,500	40,400	41,100
Natural Resources and Mining	200	200	200	200	200
Construction	6,700	6,700	6,700	7,200	7,000
Manufacturing	7,500	7,200	6,700	6,100	6,000
Wholesale Trade	4,900	4,700	4,800	5,000	4,900
Retail Trade	17,100	17,200	16,800	16,800	17,000
Transportation, Warehousing and Utilities	3,200	3,300	3,400	3,400	3,600
Information	2,400	2,300	2,400	2,200	2,100
Financial Activities	6,500	5,900	6,100	6,200	6,000
Professional and Business Services	11,800	11,800	12,400	12,400	12,000
Educational and Health Services	12,300	12,300	12,100	12,500	12,600
Leisure and Hospitality	19,700	20,300	20,700	20,700	21,100
Other Services	4,500	4,700	4,700	4,500	4,500
Government	31,100	30,300	30,200	30,600	31,500
Total All Industries	169,200	168,800	168,700	168,200	169,600

Source: California Employment Development Department, Labor Market Information Division.

Median Household Income

Effective Buying Income (EBI) is defined as money income less personal income tax and non-tax payments. The following table summarizes the total effective buying income and the median household effective buying income for the County, the State and the nation for the years 2002 through 2006.

Table 5
Personal Income
For the Years 2002 through 2006

Year, Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2002		
Monterey County	$ 6,679,148	$43,424
California	647,879,427	42,484
United States	5,340,682,818	38,035
2003		
Monterey County	$ 6,899,170	$43,978
California	674,721,020	42,924
United States	5,466,880,008	38,201
2004		
Monterey County	$ 7,521,250	$45,358
California	705,108,410	43,915
United States	5,692,909,567	39,324
2005		
Monterey County	$ 7,326,823	$46,344
California	720,798,122	44,681
United States	5,894,664,154	40,529
2006		
Monterey County	$ 7,605,625	$47,682
California	764,120,982	46,275
United States	6,107,093,057	41,255

Sources: Sales and Marketing Management, Survey of Buying Power (2002-2004); Demographics USA (2005-2006).

Largest Employers

The following table represents ten major employers within the County for Fiscal Year ended June 30, 2006:

Table 6
County of Monterey
Major Employers

Company	Type of Entity	Number of Employees	Percentage of Labor Force
Dole Fresh Vegetables	Agriculture	4,619	2.5%
County of Monterey	Government	4,112	2.2
Department of Defense; Language Institute	Government	3,716	2.0
Tanimura and Antle	Agriculture	2,500	1.4
Community Hospital of Monterey Peninsula	Hospital	2,134	1.2
Salinas Valley Memorial Health Care System	Hospital	2,112	1.2
Pebble Beach Company	Service	1,839	1.0
D'Arrigo Brothers	Agriculture	1,700	0.9
HSBC Card Services	Service	1,592	0.9
Soledad State Prison	Government	1,488	0.8
	Total County Labor Force	183,200	

Sources: State Employment Development Department, Association of Monterey Bay Area Governments and Individual Employers/Agencies.

There has been considerable local agency planning occurring for the development of the available land of Fort Ord, a military base which closed in 1993. The Fort Ord Reuse Authority with redevelopment agency powers has been formed by State law, and California State University and the University of California have been deeded by the Department of Defense approximately 2,500 acres of the base, including land and existing buildings and infrastructure, for future campus sites. California State University opened a campus on their site in 1995. California State University and University of California have been granted redevelopment agency powers in respect to their Fort Ord sites by State law.

Two other military installations in the County, the Defense Language Institute and the Naval Postgraduate School, are in operation.

Commercial Activity

As of 2006, taxable transactions in the County exceeded $5.65 billion annually. A history of taxable transactions is shown below:

Table 7
County of Monterey
Taxable Transactions 2002 – 2006
(Dollars in Thousands)

	2002	2003	2004	2005	2006
Apparel Stores Group	$ 164,560	$ 165,390	$ 172,931	$ 181,167	$ 189,133
General Merchandise Group	593,851	588,389	608,660	609,948	626,771
Specialty Stores Group	407,431	410,503	435,057	447,420	460,610
Food Stores Group	253,727	263,201	265,097	271,595	275,666
Eating and Drinking Group	472,756	484,559	504,336	525,737	539,382
Household Group	152,763	162,548	164,178	170,614	160,232
Building Material Group	*308,043*	*329,465*	*351,391*	*354,999*	*349,766*
Automotive Group	920,986	952,602	1,041,968	1,113,635	1,156,739
All Other Retail Stores Group	183,332	205,738	222,881	232,493	243,320
Retail Stores Totals	3,457,449	3,562,395	3,766,499	3,907,608	4,001,619
Business and Personal Services	332,202	336,077	351,104	359,809	374,316
All Other Outlets	1,062,295	1,020,184	1,118,352	1,187,083	1,282,231
Total All Outlets	$4,851,946	$4,918,656	$5,235,955	$5,454,500	$5,658,166

Source: State Board of Equalization

Construction Activity

Building permit activity for the years 2003 through 2007 is summarized below.

Table 8
County of Monterey
Building Permit Valuation
(Dollars in Thousands)

	2003	2004	2005	2006	2007
Valuation					
Residential	$453,752	$481,029	$514,182	$392,412	$369,570
Nonresidential	170,704	132,241	116,455	205,768	216,177
Total	$624,456	$613,270	$630,637	$598,180	$585,747
New Housing Units					
Single Family	1,063	1,085	1,181	742	559
Multiple Family	322	191	154	131	557
Total	1,385	1,276	1,335	873	1,116

Source: *Construction Industry Research Board.*

Agriculture

The following table provides a summary of agricultural production within the County for the years 2003 through 2007:

Table 9
County of Monterey
Agricultural Production

	2003	2004	2005	2006	2007
Fruit and Nut Crops	$ 446,356,000	$ 529,041,000	$ 685,552,000	$ 699,260,000	$ 900,595,000
Vegetable Crops	2,544,908,000	2,098,931,000	2,323,429,000	2,386,801,000	2,516,405,000
Field Crops	13,104,600	15,515,000	15,478,000	15,713,000	14,442,000
Seed Crops	6,930,000	7,022,000	6,049,000	9,628,000	7,335,000
Nursery Crops	262,400,000	261,203,000	276,233,000	339,225,000	342,125,000
Apiary	63,450	47,800	34,000	36,800	30,300
Livestock & Poultry	34,904,720	40,111,000	40,189,000	38,267,000	42,355,000
Totals	$3,308,666,770	$2,951,870,800	$3,346,964,000	$3,490,076,000	$3,823,287,300

Source: County of Monterey Agricultural Commission.

Transportation

Two major north-south highways connect the County with surrounding counties. State Highway 1 follows the coast. U.S. 101 follows the Salinas Valley. Highway 68 links Salinas to the Monterey Peninsula. Highways 156 and 198 link U.S. 101 with the parallel inland route in adjacent counties.

Local transit needs are served by the Monterey-Salinas Transit system. Greyhound provides regularly scheduled intrastate and interstate transportation. Amtrak passenger service is available from Salinas, which is located on the Southern Pacific mainline route between San Francisco and Los Angeles.

County residents and visitors utilize commercial airlines flying out of Monterey Peninsula Airport. Airport facilities are also located at Salinas Municipal Airport.

Southern Pacific Transportation Company provides freight service for the interior of the County. Freight transportation is also provided by several intrastate and transcontinental trucking firms.

Education

Public school education is available through 15 elementary school districts; two high school districts, and seven unified school districts. Total public school second period enrollment in the 2007-08 school year is approximately 69,826.

Table 10
County of Monterey
Public School Enrollment
For Fiscal Years 2003-04 through 2007-08

	2003-04	2004-05	2005-06	2006-07	2007-08
K – 8	52,646	50,701	49,019	48,464	48,654
9 – 12	20,521	20,542	20,555	20,779	20,372
Special Classes	696	728	800	608	800
Total	73,863	71,971	70,374	69,851	69,826

Source: California Department of Education, Educational Demographic Unit.

The County is served by a state university campus, two public community colleges, Hartnell College and Monterey Peninsula College, as well as a private institution, The Monterey Institute of International Studies. Hartnell is located in Salinas and serves approximately 15,071 students. Monterey Peninsula College is located in the City of Monterey and has an enrollment of approximately 22,000. Both colleges offer courses off campus. The Monterey Institute of International Studies is located in the City of Monterey and has an enrollment of approximately 700. Its emphasis in undergraduate and graduate study is foreign policy, diplomacy, international relations, and languages. California State University, Monterey Bay is located on the site of the former Fort Ord and has an enrollment of approximately 4,000.

APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain provisions of the Installment Purchase Agreement and the Indenture which are not described elsewhere in this Official Statement. These summaries do not purport to be comprehensive and reference should be made to the Installment Purchase Agreement and the Indenture for a full and complete statement of their provisions. All capitalized terms not defined in this Official Statement or defined below have the meaning set forth in the Installment Purchase Agreement and the Indenture.

DEFINITIONS

"Acquisition Costs" means, with respect to the Project, all costs of acquiring, constructing and installing the Project, including but not limited to:

(a) all costs which the Authority or the Agency shall be required to pay to a manufacturer, vendor or contractor or any other Person under the terms of any contract or contracts for the acquisition, construction or installation of the Project;

(b) obligations of the Authority or the Agency incurred for labor and materials (including obligations payable to the Authority or the Agency for actual out-of-pocket expenses of the Authority or the Agency) in connection with the acquisition, construction or installation of the Project;

(c) the costs of performance or other bonds and any and all types of insurance that may be necessary or appropriate to have in effect during the course of acquisition, construction and installation of the Project;

(d) all costs of design, planning, engineering and architectural services, including the actual out-of-pocket costs of the Authority or the Agency for test borings, surveys, estimates, plans and specifications, environmental documentation, permitting and preliminary investigations therefor, development fees, sales commissions, and for supervising the acquisition, construction and installation, as well as for the performance of all other duties required by or consequent to the proper acquisition, construction and installation of the Project;

(e) Costs of Issuance; and

(f) any sums required to reimburse the Authority or the Agency for advances made by the Authority or the Agency for any of the above items or for any other costs incurred and for work done by the Authority or the Agency which are properly chargeable to the acquisition, construction or installation of the Project, including reimbursement to the Authority or the Agency for all such advances made prior to or after delivery of the Bonds.

"Act" means the Monterey County Water Resources Agency Act, California Water Code Appendix Chapter 52 (West's Annotated Codes).

"Ad Valorem Taxes" means, for any period, the ad valorem property taxes received by the Agency during such period pursuant to Article XIIIA of the Constitution of the State and Section 95 et seq. of the California Revenue and Taxation Code, excluding any such taxes levied to pay any voter approved general obligation indebtedness of the Agency.

"**Administrative Costs**" means the ordinary and necessary administrative costs and incidental expenses related to the Authority Bonds, the Indenture and the Installment Purchase Agreement, including, but not limited to Trustee fees (including any fees and expenses of its counsel) and indemnification payable by the Authority to the Trustee pursuant to the Indenture, reimbursement of charges, fees, costs and expenses paid or incurred by the Insurer and payable by the Authority to the Insurer pursuant to the Indenture and indemnification payable by the Authority to the Insurer pursuant to the Indenture, costs and expenses incurred in complying with the provisions of the Continuing Disclosure Agreement and costs and expenses incurred in connection with the calculation of arbitrage rebate due to the federal government with respect to the Authority Bonds.

"**Agency**" means the Monterey County Water Resources Agency, a flood control and water agency organized and existing under and by virtue of the laws of the State, and any successor thereto.

"**Annexation Fees**" means annexation fees imposed in connection with one or more parcels of property being annexed into a zone or zones, the parcels of property in which are subject to Assessments.

"**Annual Debt Service**" means, for any Bond Year, the sum of (a) the interest payable on all Outstanding Bonds in such Bond Year, assuming that all Outstanding Serial Bonds are retired as scheduled and that all Outstanding Term Bonds are redeemed or paid from sinking fund payments as scheduled, (b) the principal amount of all Outstanding Serial Bonds maturing by their terms in such Bond Year, and (c) the principal amount of all Outstanding Term Bonds required to be redeemed or paid in such Bond Year.

"**Assessment Ordinance**" means Ordinance No. 04203, adopted by the Board of Supervisors on July 22, 2003, enacted pursuant to Sections 6, 9, 20, 24 and 24.1 of the Act, as originally adopted, as modified by the stipulated judgment in *Salinas Valley Property Owners for Lawful Assessments, et al. v. County of Monterey, et al.* (Case No. M66890), and as it may from time to time be amended or supplemented.

"**Assessments**" means the components of the assessments levied pursuant to the Assessment Ordinance designated therein as the Spillway component and the Diversion Component.

"**Authority**" means the Monterey County Financing Authority, a joint exercise of powers authority organized and existing under and by virtue of the laws of the State, and any successor thereto.

"**Authority Revenues**" means all Installment Payments.

"**Authorized Denominations**" means $5,000 and any integral multiple of $5,000.

"**Authorized Representative**" means (a) with respect to the Agency, General Manager of the Agency, the Assistant General Manager of the Agency and the Finance Manager of the Agency, and any other Person authorized by the Board of Directors of the Agency to act on behalf of the Agency under or with respect to the Indenture, and (b) with respect to the Authority, the Executive Director of the Authority, the Assistant Executive Director of the Authority, the Treasurer of the Authority and the Secretary of the Authority, and any other Person authorized by the Board of Directors of the Authority to act on behalf of the Authority under or with respect to the Indenture.

"**Average Annual Debt Service**" means the average of the Annual Debt Service for all Bond Years, including the Bond Year in which the calculation is made.

"**Board of Directors**" means the Board of Directors of the Agency.

"Board of Supervisors" means the Board of Supervisors of the Agency.

"Bond Counsel" means a firm of attorneys which are nationally recognized as experts in the area of municipal finance.

"Bond Year" means the period from the Closing Date through September 1, 2008 and, thereafter, the twelve-month period commencing on September 2 of each year through and including September 1 of the following year.

"Bonds" means the Monterey County Financing Authority Revenue Bonds, Series A (Salinas Valley Water Project) issued under the Indenture.

"Book-Entry Bonds" means the Bonds registered in the name of the nominee of DTC, or any successor securities depository for the Bonds, as the registered owner thereof pursuant to the terms and provisions of the Indenture.

"Business Day" means a day which is not (a) a Saturday, Sunday or legal holiday in the State, (b) a day on which banking institutions in the State, or in any state in which the Office of the Trustee is located, are required or authorized by law (including executive order) to close, or (c) a day on which the New York Stock Exchange is closed.

"Cede & Co." means Cede & Co., the nominee of DTC, and any successor nominee of DTC with respect to the Bonds.

"Closing Date" means July 30, 2008.

"Code" means the Internal Revenue Code of 1986.

"Continuing Disclosure Agreement" means the Continuing Disclosure Agreement, dated as of the date of the Indenture, by and between the Authority and Union Bank of California, N.A., in its capacity as Trustee and in its capacity as Dissemination Agent, as originally executed and as it may from time to time be amended or supplemented in accordance with the terms thereof.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the Authority or the Agency relating to the authorization, issuance, sale and delivery of the Bonds, including but not limited to printing expenses, rating agency fees, filing and recording fees, initial fees, expenses and charges of the Trustee and its counsel, including the Trustee's first annual administrative fee, fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals, fees and charges for preparation, execution and safekeeping of the Bonds, any premium for bond insurance and any other cost, charge or fee in connection with the original issuance of the Bonds.

"County" means the County of Monterey, county and political subdivision of the State organized and existing under and by virtue of the laws of the State, and any successor thereto.

"Debt Service Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture.

"Defeasance Securities" means (a) Cash (fully insured by the Federal Deposit Insurance Corporation), (b) Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America, (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (d) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (e) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

"DTC" means The Depository Trust Company, a limited-purpose trust company organized under the laws of the State of New York, and its successors as securities depository for the Book-Entry Bonds, including any such successor appointed pursuant to the Indenture.

"Event of Default" means an event described in the Installment Purchase Agreement or the Indenture, as applicable.

"Fiscal Year" means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period selected and designated as the official Fiscal Year of the Agency.

"Hydroelectric Facility" means the facility for the generation of electrical energy located at Nacimiento Dam, owned and operated by the Agency.

"Hydroelectric Facility Maintenance and Operations Costs" means, for any period, the reasonable and necessary costs spent or incurred by the Agency for maintaining, operating, repairing, insuring and administering the Hydroelectric Facility and providing the services of the Hydroelectric Facility, calculated in accordance with generally accepted accounting principles, including, but not limited to (a) all expenses necessary to maintain and preserve the Hydroelectric Facility in good repair and working order, and (b) all administrative costs allocable to the operation of the Hydroelectric Facility, such as salaries and wages of employees, payments to employee retirement systems, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys or engineers and insurance premiums, but excluding in all cases (i) depreciation, replacement and obsolescence charges or reserves therefor, (ii) amortization of intangibles or other bookkeeping entries of a similar nature, and (iii) costs of capital additions, replacements, betterments, extensions or improvements to the System, which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation.

"Hydroelectric Facility Net Revenues" means, for any period, the Hydroelectric Facility Revenues for such period, less the Hydroelectric Facility Maintenance and Operations Costs for such period.

"Hydroelectric Facility Revenues" means, for any period, all income and revenue received by the Agency during such period from the operation or ownership of the Hydroelectric Facility, determined in accordance with generally accepted accounting principles, including all payments received by the Agency from the sale of electrical energy generated by the Hydroelectric Facility, whether pursuant to the Power Purchase Agreement or otherwise.

"Indenture" means the Indenture by and between the Authority and the Trustee, dated as of July 1, 2008, as originally executed and as it may from time to time be amended or supplemented by any Supplemental Indenture.

"Installment Payments" means the Installment Payments required to be made by the Agency pursuant to the Installment Purchase Agreement.

"Installment Purchase Agreement" means the Installment Purchase Agreement, dated as of the date of the Indenture, by and between the Agency and the Authority, as originally executed and as it may from time to time be amended or supplemented in accordance with the terms thereof.

"Interest Payment Date" means March 1 and September 1 of each year, commencing March 1, 2009.

"Insurance Policy" means the financial guaranty insurance policy issued by the Insurer guaranteeing the scheduled payment of the principal of and interest on the Bonds when due.

"Insurer" means Assured Guaranty Corp., a Maryland-domiciled insurance company, or any successor thereto or assignee thereof.

"Insurer Default" means (a) the Insurer shall be in payment default under the Insurance Policy and such failure shall continue for three Business Days, (b) any material provision of the Insurance Policy shall be held to be invalid by a final, non-appealable order of a court of competent jurisdiction, or the validity or enforceability thereof shall be contested by the Insurer, or (c) a proceeding shall have been instituted in a court having jurisdiction in the premises seeking an order for relief, rehabilitation, reorganization, conservation, liquidation or dissolution in respect of the Insurer and such proceeding is not terminated for a period of 90 consecutive days or such court enters an order granting the relief sought in such proceeding.

"Letter of Representations" means the Letter of Representations from the Authority to DTC, or any successor securities depository for Book-Entry Bonds, in which the Authority makes certain representations with respect to issues of its securities for deposit by DTC or such successor depository.

"Maximum Annual Debt Service" means the largest Annual Debt Service for any Bond Year, including the Bond Year the calculation is made.

"Moody's" means Moody's Investors Service, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Authority.

"Office of the Trustee" means the principal corporate trust office of the Trustee in San Francisco, California, provided that for purposes of payment, redemption, exchange, transfer, surrender and cancellation of Bonds, such term means the principal corporate trust office of the Trustee in Los Angeles, California, or such other or additional offices as may be specified to the Authority by the Trustee in writing.

"Outstanding" means, when used as of any particular time with reference to Bonds (subject to the disqualified Bonds provisions of the Indenture), all Bonds theretofore or thereupon executed by the Authority and authenticated and delivered by the Trustee pursuant to the Indenture, except (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation, (b) Bonds paid or deemed to have been paid within the meaning of the Indenture, and (c) Bonds in lieu of or in substitution for which other Bonds shall have been executed by the Authority and authenticated and delivered pursuant to the Indenture.

"Owner" means any Person who shall be the registered owner of any Outstanding Bond, as shown on the Registration Books.

"Participant" means any entity which is recognized as a participant by DTC in the book-entry system of maintaining records with respect to Book-Entry Bonds.

"Participating Underwriter" has the meaning ascribed to such term in the Continuing Disclosure Agreement.

"Payment Dates" means February 25 and August 25 of each year, commencing February 25, 2009.

"Permitted Investments" means any of the following to the extent then permitted by law:

1. (a) Cash (fully insured by the Federal Deposit Insurance Corporation), (b) Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America ("U.S. Treasury Obligations"), (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

   Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

2. Federal Housing Administration debentures.

3. The listed obligations of government-sponsored agencies which are <u>not</u> backed by the full faith and credit of the United States of America:

   a) Federal Home Loan Mortgage Corporation (FHLMC) senior debt obligations and Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)

   b) Farm Credit System (formerly Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives) consolidated system-wide bonds and notes

   c) Federal Home Loan Banks (FHL Banks) consolidated debt obligations

   d) Federal National Mortgage Association (FNMA) senior debt obligations and mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)

4. Unsecured certificates of deposit, time deposits, and bankers' acceptances (having maturities of not more than 365 days) of any bank the short-term obligations of which are rated "A-1+" or better by S&P and "Prime-1" by Moody's.

5. Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation, in banks which have capital and surplus of at least $15 million.

6. Commercial paper (having original maturities of not more than 270 days) rated "A-1+" by S&P and "Prime-1" by Moody's.

7. Money market funds rated "Aam" or "AAm-G" by S&P, or better and if rated by Moody's rated "Aa2" or better, including funds for which the Trustee or an affiliate provides investment advice or other services.

8. "State Obligations", which means:

   a) Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated at least "A3" by Moody's <u>and</u> at least "A-" by S&P, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.

   b) Direct general short-term obligations of any state agency or subdivision or agency thereof described in (a) above and rated "A-1+" by S&P and "MIG-1" by Moody's.

   c) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state or state agency described in (b) above and rated "AA-" or better by S&P and "Aa3" or better by Moody's.

9. Pre-refunded municipal obligations rated "AAA" by S&P and "Aaa" by Moody's meeting the following requirements:

   a) the municipal obligations are (1) not subject to redemption prior to maturity or (2) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

   b) the municipal obligations are secured by cash or U.S. Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

   c) the principal of and interest on the U.S. Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations ("Verification Report");

d) the cash or U.S. Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;

e) no substitution of a U.S. Treasury Obligation shall be permitted except with another U.S. Treasury Obligation and upon delivery of a new Verification Report; and

f) the cash or U.S. Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

10. Repurchase agreements: with (1) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least "A-" by S&P and "A3" Moody's; or (2) any broker-dealer with "retail customers" or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least "A-" by S&P and "A3" by Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (3) any other entity rated at least "A-" by S&P and "A3" Moody's and acceptable to the Insurer (each an "Eligible Provider"), provided that:

a) (i) permitted collateral shall include U.S. Treasury Obligations, or senior debt obligations of GNMA, FNMA or FHLMC (no collateralized mortgage obligations shall be permitted for these providers), and (ii) collateral levels must be at least 102% of the total principal when the collateral type is U.S. Treasury Obligations, 103% of the total principal when the collateral type is GNMA's and 104% of the total principal when the collateral type is FNMA and FHLMC ("Eligible Collateral");

b) the Trustee or a third party acting solely as agent therefore or for the Authority (the "Custodian") has possession of the collateral or the collateral has been transferred to the Custodian in accordance with applicable state and federal laws (other than by means of entries on the transferor's books) and such collateral shall be marked to market;

c) the collateral shall be marked to market on a daily basis and the provider or Custodian shall send monthly reports to the Trustee, the Authority and the Insurer setting forth the type of collateral, the collateral percentage required for that collateral type, the market value of the collateral on the valuation date and the name of the Custodian holding the collateral;

d) the repurchase agreement (or guaranty, if applicable) may not be assigned or amended without the prior written consent of the Insurer;

e) the repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Custodian has a *perfected first priority security interest in the collateral, any substituted* collateral and all proceeds thereof;

f) the repurchase agreement shall provide that if during its term the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A-" by S&P or "A3" by Moody's, as appropriate, the provider must, notify the

Authority, the Trustee and the Insurer within five (5) days of receipt of such notice. Within ten days of receipt of such notice, the provider shall either: (i) provide a written guarantee acceptable to the Insurer, (ii) post Eligible Collateral, or (iii) assign the agreement to an Eligible Provider. If the provider does not perform a remedy within ten business days, the provider shall, at the direction of the Trustee (who shall give such direction if so directed by the Insurer) repurchase all collateral and terminate the repurchase agreement, with no penalty or premium to the Authority or the Trustee.

11. Investment agreements: with a domestic or foreign bank or corporation the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least "AA-" by S&P and "Aa3" by Moody's, and acceptable to the Insurer (each an "Eligible Provider"); provided that:

a) interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the construction fund, construction draws) on the Bonds;

b) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven (7) days' prior notice; the Authority and the Trustee agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

c) the provider shall send monthly reports to the Trustee, the Authority and the Insurer setting forth the balance the Authority or the Trustee has invested with the provider and the amounts and dates of interest accrued and paid by the provider;

d) the investment agreement shall state that is an unconditional and general obligation of the provider, and is not subordinated to any other obligation of, the provider thereof or, if the provider is a bank, the agreement or the opinion of counsel shall state that the obligation of the provider to make payments thereunder ranks pari passu with the obligations of the provider to its other depositors and its other unsecured and unsubordinated creditors;

e) the investment agreement (or guaranty, if applicable) may not be assigned or amended without the prior written consent of the Insurer;

f) the Authority, the Trustee and the Insurer shall receive an opinion of domestic counsel to the provider that such investment agreement is legal, valid, binding and enforceable against the provider in accordance with its terms;

g) the Authority, the Trustee and the Insurer shall receive an opinion of foreign counsel to the provider (if applicable) that (i) the investment agreement has been duly authorized, executed and delivered by the provider and constitutes the legal, valid and binding obligation of the provider, enforceable against the provider in accordance with its terms, (b) the choice of law of the state set forth in the investment agreement is valid under that country's laws and a court in such country would uphold such choice of law, and (c) any judgment rendered by a court in the United States would be recognized and enforceable in such country;

h) the investment agreement shall provide that if during its term:

i) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3", the provider shall, at its option, within ten days of receipt of publication of such downgrade, either (i) provide a written guarantee acceptable to the Insurer, (ii) post Eligible Collateral with the Authority, the Trustee or a third party acting solely as agent therefore (the "Custodian") free and clear of any third party liens or claims, or (iii) assign the agreement to an Eligible Provider, or (iv) repay the principal of and accrued but unpaid interest on the investment;

ii) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3", the provider must, at the direction of the Authority or the Trustee (who shall give such direction if so directed by the Insurer), within ten days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Authority or the Trustee.

i) in the event the provider is required to collateralize, permitted collateral shall include U.S. Treasury Obligations, or senior debt obligations of GNMA, FNMA or FHLMC (no collateralized mortgage obligations shall be permitted for these providers) and collateral levels must be 102% of the total principal when the collateral type is U.S. Treasury Obligations, 103% of the total principal when the collateral type is GNMA's and 104% of the total principal when the collateral type is FNMA and FHLMC ("Eligible Collateral"). In addition, the collateral shall be marked to market on a daily basis and the provider or Custodian shall send monthly reports to the Trustee, the Authority and the Insurer setting forth the type of collateral, the collateral percentage required for that collateral type, the market value of the collateral on the valuation date and the name of the Custodian holding the collateral;

j) the investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the Custodian has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof;

k) the investment agreement must provide that if during its term: (i) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the Authority or the Trustee (who shall give such direction if so directed by the Insurer), be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Authority or the Trustee, as appropriate, and (ii) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Authority or the Trustee, as appropriate.

"Person" means an individual, a corporation, a partnership, an association, a limited liability company, a joint stock company, a trust, any unincorporated organization or a government or political subdivision thereof.

"Power Purchase Agreement" means (a) the Power Purchase Agreement, dated April 15, 1985, by and between Pacific Gas and Electric Company and the Monterey County Flood Control and Water Conservation District, as amended by the Amendment to the Power Purchase Agreement, dated as of July 16, 2007, by and between Pacific Gas and Electric Company and the Agency, and as it may from time to time be further amended or supplemented in accordance with the terms thereof, and (b) any other agreement or contract for the sale of electrical energy generated by the Hydroelectric Facility to, and the purchase of such energy by, a Person, as any such agreement or contract may from time to time be amended or supplemented in accordance with the terms thereof.

"Project" means the Salinas River diversion facility and the spillway modifications at Nacimiento Dam to be acquired, constructed and installed pursuant to the Installment Purchase Agreement, as the same may be modified in accordance thereof.

"Rebate Requirement" has the meaning ascribed to such term in the Tax Certificate.

"Record Date" means the fifteenth day of the month preceding an Interest Payment Date, whether or not such day is a Business Day.

"Registration Books" means the records maintained by the Trustee for the registration of ownership and registration of transfer of the Bonds pursuant to the Indenture.

"Reserve Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture.

"Reserve Requirement" means, as of the date of any calculation, the least of (a) 10% of the original aggregate principal amount of the Bonds, (b) Maximum Annual Debt Service, and (c) 125% of Average Annual Debt Service.

"Revenue Fund" means the Salinas Valley Water Project Revenue Fund established and held by the Agency pursuant to the Installment Purchase Agreement.

"Revenues" means, for any period (a) all Assessments received by the Agency during such period, (b) all Hydroelectric Facility Net Revenues for such period, (c) all Ad Valorem Taxes received by the Agency during such period, and (d) all Annexation Fees received by the Agency during such period.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "S&P" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Authority.

"Serial Bonds" means Bonds designated as Serial Bonds in the Indenture, for which no sinking fund payments are provided.

"State" means the State of California.

"**Supplemental Indenture**" means any supplemental indenture amendatory of or supplemental to the Indenture, but only if and to the extent that such Supplemental Indenture is entered into in accordance with the provisions of the Indenture.

"**Tax Certificate**" means the Tax Certificate executed by the Agency at the time of issuance of the Bonds relating to the requirements of Section 148 of the Code, as originally executed and as it may from time to time be amended or supplemented in accordance with the terms thereof.

"**Term Bonds**" means Bonds designated as Term Bonds in the Indenture, which are payable on or before their specified maturity dates from mandatory sinking fund redemption payments established for that purpose and calculated to retire such Bonds on or before their specified maturity dates.

"**Trustee**" means Union Bank of California, N.A., a national banking association organized and existing under and by virtue of the laws of the United States of America, or any successor thereto as Trustee thereunder substituted in its place as provided in the Indenture.

"**Verification Report**" means, with respect to the deemed payment of Bonds pursuant to the Indenture, a report of a nationally recognized certified public accountant, or firm of such accountants, verifying that the Defeasance Securities and cash, if any, deposited in connection with such deemed payment satisfy the Indenture.

"**Written Certificate**" and "**Written Request**" mean (a) with respect to the Authority, a written certificate or written request, respectively, signed in the name of the Authority by an Authorized Representative of the Authority, and (b) with respect to the Agency, a written certificate or written request, respectively, signed in the name of the Agency by an Authorized Representative of the Agency. Any such certificate or request may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

THE INSTALLMENT PURCHASE AGREEMENT

Representations and Warranties

Agency Representations and Warranties. The Agency makes the following representations and warranties:

(a) The Agency is a flood control and water agency organized and existing under and by virtue of the laws of the State.

(b) The Agency has full legal right, power and authority to enter into the Installment Purchase Agreement and carry out its obligations under the Installment Purchase Agreement and to carry out and consummate all transactions contemplated by the Installment Purchase Agreement, and the Agency has complied with the provisions of applicable law in all matters relating to such transactions.

(c) By proper action, the Agency has duly authorized the execution, delivery and due performance of the Installment Purchase Agreement.

(d) The execution and delivery of the Installment Purchase Agreement and the consummation of the transactions in the Installment Purchase Agreement contemplated will not violate, in a manner that would materially adversely affect the Agency's ability to perform its obligations under the Installment Purchase Agreement, any provision of law, any order of any court or other agency of government, or any indenture, material agreement or other instrument to which the Agency is now a party or by which it or any of its properties or assets is bound, or be in conflict with, result in a breach of or constitute a default (with due notice or the passage of time or both) under any such indenture, agreement or other instrument, which conflict, breach or default would materially adversely affect the Agency's ability to perform its obligations under the Installment Purchase Agreement, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the properties or assets of the Agency which lien, charge or encumbrance would materially adversely affect the Agency's ability to perform its obligations under the Installment Purchase Agreement.

(e) The Agency has determined that it is necessary and proper for Agency uses and purposes within the terms of applicable law that the Agency acquire the Project in the manner provided for in the Installment Purchase Agreement, in order to provide essential services and facilities to the persons residing within the boundaries the Agency.

Authority Representations and Warranties. The Authority makes the following representations and warranties:

(a) The Authority is a joint exercise of powers authority organized and existing under the laws of the State.

(b) The Authority has full legal right, power and authority to enter into the Installment Purchase Agreement and to carry out and consummate all transactions contemplated by the Installment Purchase Agreement, and the Authority has complied with the provisions of applicable law in all matters relating to such transactions.

(c) By proper action, the Authority has duly authorized the execution, delivery and due performance of the Installment Purchase Agreement.

(d) The execution and delivery of the Installment Purchase Agreement and the consummation of the transactions contemplated in the Installment Purchase Agreement will not violate any provision of law, any order of any court or other agency of government, or any indenture, material agreement or other instrument to which the Authority is now a party or by which it or any of its properties or assets is bound, or be in conflict with, result in a breach of or constitute a default (with due notice or the passage of time or both) under any such indenture, agreement or other instrument, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the properties or assets of the Authority.

Acquisition, Construction and Installation of the Project

Acquisition, Construction and Installation of the Project. The Authority agrees to cause the Project to be acquired, constructed and installed by the Agency, as agent of the Authority. The Agency shall enter into contracts and provide for, as agent of the Authority, the complete acquisition, construction and installation of the Project. The Agency shall cause the acquisition, construction and installation of the Project to be diligently performed. It is expressly understood and agreed that, except to the extent of proceeds of the Bonds made available to the Agency on the Closing Date, the Authority shall be under no liability of any kind or character whatsoever for the payment of any cost of the Project. In the event the proceeds of the Bonds so made available are insufficient to complete the acquisition, construction and installation of the Project, the Agency shall cause to be applied from and to the extent of other available Agency funds, an amount equal to that necessary to complete the acquisition, construction and installation of the Project.

Changes to the Project. The Agency may make any changes in the composition and description of the Project or any component thereof whenever the Agency deems such changes to be necessary and appropriate; provided, however, that no such change shall (a) impair the ability of the Agency to make the Installment Payments, (b) cause to be included in the Project any property not constituting property useful in the performance of the Agency's powers, projects and purposes, or (c) cause the Project or any such component thereof to have an estimated useful life materially shorter than the estimated useful life of the Project or such component prior to such change. Any such change shall be implemented by the Agency's filing with the Authority and the Trustee a description of such change and, upon such filing, the description of the Project shall be deemed to have been modified in accordance therewith. No such change shall constitute an amendment, change, modification or alteration of the Installment Purchase Agreement.

Purchase and Sale of Project; Payments

Purchase and Sale of Project. The Agency purchases from the Authority, and the Authority sells to the Agency, for the Installment Payments, the Project in accordance with the provisions of the Installment Purchase Agreement. All right, title and interest in the Project shall immediately vest in the Agency on the Closing Date without further action on the part of the Agency or the Authority.

Installment Payments. The Agency shall pay to the Authority the Installment Payments at the times and in the amounts provided in the Installment Purchase Agreement. The Installment Payments shall be paid from Revenues. The amount of the Installment Payment payable by the Agency on each Payment Date shall be equal to the interest on, or the principal of (including mandatory sinking fund redemptions) and interest on, as applicable, the Bonds due on the immediately following Interest Payment Date. Pursuant to the Indenture, the Installment Payments are to be applied to the payment of the principal of and interest on the Bonds, and the Installment Payments shall be made in amounts that are sufficient, but no more than sufficient, to pay the scheduled payments of principal of (including mandatory sinking fund redemptions) and interest on the Outstanding Bonds. If and to the extent that, on any Payment Date, there are amounts on deposit in the Debt Service Fund, said amounts shall be credited against the Installment Payment due on such date. Each Installment Payment shall be paid to the Trustee, as assignee of the Authority, no later than the applicable Payment Date, in lawful money of the United States of America, in funds which will be available not later than the Business Day following payment.

Late Payments. In the event the Agency fails to make any of the payments required to be made by it under the Installment Purchase Agreement, such payment shall continue as an obligation of the Agency until such amount shall have been fully paid and, to the extent permitted by law, the Agency agrees to pay the same with interest accruing thereon at a rate per annum equal to the highest rate of interest on the Bonds.

Reserve Fund Payments. The Agency shall pay to the Trustee such amounts as are required to make available in the Reserve Fund an amount equal to the Reserve Requirement; provided, however, that such payments shall be payable solely from Revenues. In the event that the Trustee notifies the Agency that the amount on deposit in the Reserve Fund is less than the Reserve Requirement, the Agency shall, as provided in the Installment Purchase Agreement, on or before the Business Day immediately preceding the Payment Date following such notice, withdraw from the Revenue Fund and transfer to the Trustee, for deposit in the Reserve Fund, the amount, if any, necessary to cause the amount on deposit in the Reserve Fund to be equal to the Reserve Requirement.

Obligation Absolute. The obligation of the Agency to make the Installment Payments and other payments required to be made by it under the Installment Purchase Agreement, from Revenues as described in the Installment Purchase Agreement, is absolute and unconditional, and until such time as the

Installment Payments and such other payments shall have been paid in full (or all agreements, covenants and other obligations of the Agency under the Installment Purchase Agreement shall have ceased, terminated and become void and been discharged and satisfied as provided in the Installment Purchase Agreement); the Agency shall not discontinue or suspend any Installment Payments or other payments required to be made by it under the Installment Purchase Agreement when due, whether or not the Project or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such Installment Payments and other payments shall not be subject to reduction whether by offset or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

Pledge, Revenue Fund

Pledge. Subject only to the provisions of the Installment Purchase Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Installment Purchase Agreement, all of the Revenues and any other amounts held in the Revenue Fund are pledged to secure the payment of the Installment Payments in accordance with the provisions of the Installment Purchase Agreement. Said pledge shall constitute a first lien on such assets.

Revenue Fund. (a) The Agency shall establish and maintain within its treasury a fund denominated the "Salinas Valley Water Project Revenue Fund" (the "Revenue Fund"). Subject to the provisions of subsection (c), below, all Revenues received by the Agency shall be deposited as and when received in the Revenue Fund.

(b) On or before the Business Day immediately preceding each Payment Date, the Agency shall withdraw from the Revenue Fund and transfer to the Trustee the amounts set forth below in the following order of priority:

(i) the Agency shall transfer to the Trustee, for deposit in the Debt Service Fund, an amount equal to the Installment Payment due and payable on such Payment Date; and

(ii) the Agency shall transfer to the Trustee, for deposit in the Reserve Fund, the amount, if any, necessary to cause the amount on deposit in the Reserve Fund to be equal to the Reserve Requirement.

(c) In each Bond Year, on the Business Day immediately following the date in such Bond Year on which the amount previously transferred by the Agency to the Trustee pursuant to subsection (b), above is at least equal to the sum of (i) the aggregate amount of the Installment Payments payable in such Bond Year, plus (ii) the amount, if any, necessary to cause the amount on deposit in the Reserve Fund to be equal to the Reserve Requirement (A) the Agency shall withdraw from the Revenue Fund and transfer to such funds or accounts of the Agency as the Agency shall determine, any amount then remaining on deposit in the Revenue Fund, and (B) from and including such date to and including the September 1 that constitutes the last day of such Bond Year, the Agency shall not be required to deposit Revenues received by the Agency in the Revenue Fund.

(d) Moneys in the Revenue Fund may be invested by the Agency in Permitted Investments. The obligations in which moneys in the Revenue Fund are invested shall mature prior to the date on which such moneys are estimated to be required to be paid out under the Installment Purchase Agreement. Any interest, income or profits from the investment of moneys in the Revenue Fund shall be retained therein.

Covenants

Compliance with Installment Purchase Agreement. The Agency shall punctually pay the Installment Payments and other payments required to be made by it under the Installment Purchase Agreement in strict conformity with the terms of the Installment Purchase Agreement, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Installment Purchase Agreement required to be observed and performed by it, and shall not terminate the Installment Purchase Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either or any failure of the Authority to observe or perform any agreement, condition, covenant or term contained in the Installment Purchase Agreement required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected with the Installment Purchase Agreement or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Authority or any force majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lock outs, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

Protection of Security and Rights of the Authority. The Agency shall preserve and protect the security of the Installment Purchase Agreement and the rights of the Authority to the Installment Payments and other payments required to be made by the Agency under the Installment Purchase Agreement and shall warrant and defend such rights against all claims and demands of all Persons.

Prompt Acquisition, Construction and Installation. The Agency shall take all necessary and appropriate steps to acquire, construct and install the Project, as agent of the Authority, with all practicable dispatch and in an expeditious manner and in conformity with law so as to complete the same as soon as possible.

Additional Obligations. The Agency shall not incur any obligations payable from Revenues on a basis senior to or on a parity with the payment of the Installment Payments and payments to replenish the Reserve Fund as provided in the Installment Purchase Agreement. The Agency may from time to time incur obligations payable from Revenues on a basis subordinate to the payment therefrom of the Installment Payments and payments to replenish the Reserve Fund as provided in the Installment Purchase Agreement.

Assessments; Assessment Ordinance. (a) The Agency shall, in accordance with the Act and the Assessment Ordinance, levy the annual Assessments and collect and enforce, or cause the collection and enforcement of, such Assessments. Prior to August 1 of each year, the Agency shall ascertain from the Monterey County Assessor the relevant parcels on which the Assessments are to be levied, taking into account any parcel splits during the preceding and then current year. The Agency shall effect the levy of the Assessments each Fiscal Year in accordance with the Assessment Ordinance by each August 10, or otherwise such that the computation of the levy is complete before the final date on which the Monterey County Auditor will accept the transmission of the Assessment amounts for inclusion on the next real property tax roll. Upon the completion of the computation of the amounts of the levy, the Agency shall prepare or cause to be prepared, and shall transmit to the Monterey County Auditor, such data as said Auditor requires to include the levy of the Assessments on the next real property tax roll.

(b) Subject to the limitations in the Assessment Ordinance as to the purposes for which the Assessments may be levied, the Agency shall levy Assessments annually at the maximum amount specified in the Assessment Ordinance.

(c) The Agency shall not rescind the Assessment Ordinance and shall not amend or supplement the Assessment Ordinance so as to reduce the amount of the Assessments levied thereunder or to reduce the amount of land subject thereto, and the Agency shall not amend or supplement the Assessment Ordinance for any other purpose unless the Board of Supervisors determines by resolution that such amendment or supplement would not materially adversely affect the ability of the Agency to pay the Installment Payments or other payments required to be made by it under the Installment Purchase Agreement, or to perform and observe all of its covenants under the Installment Purchase Agreement.

Hydroelectric Facility Revenues; Power Purchase Agreement. (a) The Agency shall receive and collect the Hydroelectric Facility Revenues as provided in the Installment Purchase Agreement and shall apply the Hydroelectric Facility Net Revenues as provided in the Installment Purchase Agreement.

(b) The Agency shall comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in a Power Purchase Agreement and all other contracts affecting or involving the Hydroelectric Facility Revenues to the extent that the Agency is a party thereto. The Agency shall cause each Person that is party to a Power Purchase Agreement to comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by such Person in such Power Purchase Agreement.

(c) The Agency shall not (i) rescind or terminate, or consent to the rescission or termination of, a Power Purchase Agreement, (ii) enter into an amendment or supplement to a Power Purchase Agreement, or consent to any such amendment or supplement, or (iii) waive any material term of a Power Purchase Agreement unless the Board of Supervisors determines by resolution that such rescission, termination, amendment, supplement or waiver would not materially adversely affect the ability of the Agency to pay the Installment Payments or other payments required to be made by it under the Installment Purchase Agreement, or to perform and observe all of its covenants under the Installment Purchase Agreement.

Ad Valorem Taxes. The Agency shall receive and collect the Ad Valorem Taxes and apply the Ad Valorem Taxes as provided in the Installment Purchase Agreement.

Annexation Fees. The Agency shall collect and enforce, or cause the collection and enforcement of, the Annexation Fees.

Against Encumbrances. The Agency shall not encumber, pledge or place any charge upon the Revenues that would impair the Agency's ability to comply with its obligations under the Installment Purchase Agreement.

Payment of Claims. The Agency shall pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on Revenues or any part thereof or on any funds in the hands of the Agency or the Trustee which might impair the security of the Installment Payments, but the Agency shall not be required to pay such claims if the validity thereof shall be contested in good faith (so long as such nonpayment will not materially adversely affect the Agency's ability to perform its obligations under the Installment Purchase Agreement).

Hydroelectric Facility. (a) The Agency shall not sell, lease or otherwise dispose of the Hydroelectric Facility or any part thereof essential to the proper operation of the Hydroelectric Facility or to the maintenance of Hydroelectric Facility Revenues; provided, however, that any real or personal property which has become non-operative or which is not needed for the efficient and proper operation of the Hydroelectric Facility, or any material or equipment which has become worn out, may be sold if such sale will not materially reduce Hydroelectric Facility Revenues.

(b) The Agency shall maintain and preserve the Hydroelectric Facility in good repair and working order at all times and will operate the Hydroelectric Facility in an efficient and economical manner and will pay all operation and maintenance costs of the Hydroelectric Facility as they become due and payable, but the Agency shall not be required to pay such operation and maintenance costs if the validity thereof shall be contested in good faith (so long as such nonpayment will not materially adversely affect the Agency's ability to perform its obligations under the Installment Purchase Agreement).

(c) The Agency shall procure and maintain or cause to be procured and maintained casualty insurance on the Hydroelectric Facility with responsible insurers, or provide self insurance (which may be provided in the form of risk-sharing pools), in such amounts and against such risks (including accident to or destruction of the Hydroelectric Facility) as are usually covered in connection with hydroelectric generation facilities similar to the Hydroelectric Facility. In the event of any damage to or destruction of the Hydroelectric Facility caused by the perils covered by such insurance or self insurance, the net proceeds thereof shall be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Hydroelectric Facility. The Agency shall begin such reconstruction, repair or replacement promptly after such damage or destruction shall occur, and shall continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and shall pay out of such net proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same shall be completed and the Hydroelectric Facility shall be free and clear of all claims and liens, unless the Agency determines that such property or facility is not necessary to the efficient or proper operation of the Hydroelectric Facility and that the failure to reconstruct, repair or replace such portion of the Hydroelectric Facility will not have a material adverse effect on the amount of Hydroelectric Facility Net Revenues.

Insurance. The Agency shall maintain insurance with respect to its property covering risks and in amounts as is customarily maintained by organizations of similar size and conducting similar operations as the Agency.

Accounting Records. The Agency shall keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Revenues, which records shall be available for inspection by the Authority and the Trustee at reasonable hours and under reasonable conditions.

Tax Covenants. The Agency agrees that it not take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the Bonds under Section 103 of the Code. Without limiting the generality of the foregoing, the Agency agrees that it will comply with the requirements of the Tax Certificate, which is incorporated in the Installment Purchase Agreement as if fully set forth in the Installment Purchase Agreement. This covenant shall survive payment in full or defeasance of the Bonds.

Administrative Costs. The Agency shall pay each charge constituting an Administrative Cost. Administrative Costs shall be paid by the Agency directly to the Person or Persons to whom such amounts shall be payable. The Agency shall pay all such amounts when due or at such later time as such amounts may be paid without penalty or, in any other case, within 30 days after notice in writing from the Trustee to the Agency stating the amount of Administrative Costs then due and payable and the purpose thereof.

Continuing Disclosure. The Agency shall provide the Authority with such financial and operating data and other information with respect to the Agency, at such times, as is necessary or appropriate for the Authority to comply with its undertakings under the Continuing Disclosure Agreement.

Indemnification. To the extent permitted by law, the Agency shall indemnify and hold the Authority and the Trustee, as assignee of the Authority, and their officers and members harmless against any and all liabilities which might arise out of or are related to the Project or any portion thereof and the Agency shall defend the Authority and the Trustee, as assignee of the Authority, and their officers and members in any action arising out of or related to the Project or any portion thereof.

Further Assurances. The Agency shall adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Installment Purchase Agreement and for the better assuring and confirming unto the Authority of the rights and benefits provided to it in the Installment Purchase Agreement.

Right to Redeem, Discharge of Obligations

Right to Redeem. On or after the date specified in the Installment Purchase Agreement, the Agency shall have the right to cause Bonds maturing on or after the date specified in the Installment Purchase Agreement to be redeemed in accordance with the Indenture, by providing the Trustee with funds sufficient for such purpose (which funds may be derived by the Agency from any source) and giving notice as provided in the Installment Purchase Agreement.

Discharge of Obligations. If the Authority shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Outstanding Bonds the interest thereon and the principal thereof and the premiums, if any, thereon or if all Outstanding Bonds shall be deemed to have been paid at the times and in the manner stipulated in the Indenture, then all agreements, covenants and other obligations of the Agency under the Installment Purchase Agreement shall thereupon cease, terminate and become void and be discharged and satisfied.

Events of Default and Remedies of the Authority

Events of Default. The following shall be Events of Default under the Installment Purchase Agreement, and Event of Default shall mean any one or more of the following events:

(a) if default shall be made by the Agency in the due and punctual payment of any Installment Payment as the same shall become due and payable;

(b) If default shall be made by the Agency in the observance of any of the other covenants, agreements of conditions on its part in the Installment Purchase Agreement contained, and such default shall have continued for a period of 30 days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Agency by the Authority, or to the Agency and the Trustee by the Owners of not less than 5% in aggregate principal amount of Bonds Outstanding; provided, however, that if in the reasonable opinion of the Agency the failure stated in the notice can be corrected, but not within such 30 day period, such failure shall not constitute an Event of Default if corrective action is instituted by the Agency within such 30 day period and the Agency shall thereafter diligently and in good faith cure such failure in a reasonable period of time; or

(c) if the Agency shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the Agency seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the Agency or of the whole or any substantial part of its property.

Remedies on Default. Upon the occurrence of an Event of Default, the Authority shall have the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the Agency or any board member, officer or employee thereof, and to compel the Agency or any such board member, officer or employee to perform and carry out his or her duties under applicable law and the agreements and covenants required to be performed by him or her contained in the Installment Purchase Agreement;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Authority; and

(c) by suit in equity require the Agency and its board members, officers and employees to account as the trustee of an express trust.

Application of Revenues After Default. If an Event of Default shall occur and be continuing, all Revenues and any other funds thereafter received by the Authority under any of the provisions of the Installment Purchase Agreement shall be applied as follows and in the following order:

(a) to the payment of the costs and expenses of the Authority if any, in carrying out the provisions of the Installment Purchase Agreement;

(b) to the payment of the entire amount of unpaid Installment Payments, with interest on the overdue installments at the rate or rates of interest applicable thereto, in accordance with the terms of the Installment Purchase Agreement; and

(c) to such other liabilities of the Agency as are then payable.

Non-Waiver. Nothing in the Installment Purchase Agreement shall affect or impair the obligation of the Agency, which is absolute and unconditional, to pay the Installment Payments to the Authority at the respective due dates from Revenues and the other funds in the Installment Purchase Agreement committed for such payment, or shall affect or impair the right of the Authority, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied in the Installment Purchase Agreement.

A waiver of any default or breach of duty or contract by the Authority shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Authority to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Authority by applicable law or by the Installment Purchase Agreement may be enforced and exercised from time to time and as often as shall be deemed expedient by the Authority.

If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned or determined adversely to the Authority, the Agency and the Authority shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. No remedy in the Installment Purchase Agreement conferred upon or reserved to the Authority is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Installment Purchase Agreement or now or hereafter existing in law or in equity, or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by law.

Insurance Policy Provisions

Reporting Requirements. The Agency shall furnish to the Insurer:

(a) the fiscal year budget of the Agency, within 30 days after adoption of such budget;

(b) not later than 180 days after the end of each Fiscal Year, audited financial statements of the Agency prepared by an independent certified public accountant, together with a certificate of the Agency stating that no Event of Default has occurred or is continuing under the Indenture or this Installment Purchase Agreement; and

(c) within 30 days following any litigation or investigation that may have a material adverse affect on the financial position of the Agency, notice of such litigation or investigation.

Discussion of Affairs. The Agency shall permit the Insurer to discuss the affairs, finances and accounts of the Agency or any information the Insurer may reasonably request regarding the security for the Bonds and the Installment Payments with appropriate officers of the Agency, and will use best efforts to enable the Insurer to have access to the facilities, books and records of the Agency on any Business Day upon reasonable prior notice.

Amendments; Effect on Owners. With respect to modifications or amendments to the Installment Purchase Agreement which do not require the consent of the Owners, the Insurer must be given prior written notice of any such modification or amendment. With respect to modifications or amendments to the Installment Purchase Agreement which do require the consent of the Owners, so long as no Insurer Default has occurred and is continuing, the Insurer's prior written consent is required. A copy of any modification or amendment to the Installment Purchase Agreement which is consented to by the Insurer shall be sent to the rating agencies that have assigned a rating to the Authority Bonds.

Consent Rights. (a) Any provision of the Installment Purchase Agreement expressly recognizing or granting rights in or to the Insurer may not be amended in any manner that affects the rights of the Insurer under the Installment Purchase Agreement without the prior written consent of the Insurer.

(b) Wherever the Installment Purchase Agreement requires the consent of Owners, so long as no Insurer Default has occurred and is continuing, the Insurer's consent shall also be required.

(c) Any reorganization or liquidation plan with respect to the Agency must be acceptable to the Insurer. In the event of any reorganization or liquidation, so long as no Insurer Default has occurred and is continuing, the Insurer shall have the right to vote on behalf of all Owners, absent a default by the Insurer under the Policy.

Miscellaneous

Liability of Agency Limited. Notwithstanding anything contained in the Installment Purchase Agreement, the Agency shall not be required to advance any moneys derived from any source of income other than Revenues for the payment of the Installment Payments and other payments required to be made by it under the Installment Purchase Agreement, or for the performance of any agreements or covenants required to be performed by it contained in the Installment Purchase Agreement. The Agency may, however, but in no event shall be obligated to, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the Agency for such purpose.

The obligation of the Agency to make the Installment Payments and other payments required to be made by it under the Installment Purchase Agreement shall be a special obligation of the Agency payable, in the manner provided in the Installment Purchase Agreement, solely from the Revenues and the other assets pledged therefor under the Installment Purchase Agreement. Neither the faith and credit nor the taxing power of the Agency or the State, or any political subdivision thereof, is pledged to the payment of the Installment Payments or other payments required to be made by the Agency under the Installment Purchase Agreement.

Benefits of Installment Purchase Agreement Limited to Parties. Nothing contained in the Installment Purchase Agreement, expressed or implied, is intended to give to any Person other than the Agency, the Authority or the assigns of the Authority any right, remedy or claim under or pursuant to the Installment Purchase Agreement, and any agreement or covenant required in the Installment Purchase Agreement to be performed by or on behalf of the Agency or the Authority shall be for the sole and exclusive benefit of the Agency, the Authority and the assigns of the Authority.

Third-Party Beneficiary. To the extent that the Installment Purchase Agreement confers upon or gives or grants to the Insurer any right, remedy or claim under or by reason of the Installment Purchase Agreement, the Insurer is explicitly recognized as being a third party beneficiary thereunder and may enforce any such right, remedy or claim conferred, given or granted thereunder.

Amendments. (a) The Installment Purchase Agreement and the rights and obligations of the Agency and the Authority under the Installment Purchase Agreement may be modified or amended from time to time and at any time by an amendment to the Installment Purchase Agreement, which the Agency and the Authority may enter into with the written consent of the Owners of at least a majority in aggregate principal amount of Bonds Outstanding pursuant to the Indenture, provided that no such amendment shall (i) extend the payment date of any Installment Payment or reduce the amount of any Installment Payment without the prior written consent of the Owner of each Authority Bond affected thereby, or (ii) reduce the percentage of Bonds the consent of the Owners of which is required for the execution of any amendment of the Installment Purchase Agreement.

(b) The Installment Purchase Agreement and the rights and obligations of the Agency and the Authority under the Installment Purchase Agreement may also be modified or amended from time to time and at any time by an amendment to the Installment Purchase Agreement which the Agency and the Authority may enter into without the written consents of any Owners, but only for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Agency contained in the Installment Purchase Agreement other covenants and agreements thereafter to be observed or to surrender any right or power in the Installment Purchase Agreement reserved to or conferred upon the Agency;

(ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision contained in the Installment Purchase Agreement; and

(iii) in any other respect whatsoever as the Authority and the Agency may deem necessary or desirable, provided that such amendment does not materially adversely affect the interests of the Owners of the Bonds.

Successor Is Deemed Included in all References to Predecessor. Whenever either the Agency or the Authority is named or referred to in the Installment Purchase Agreement, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the Agency or the Authority, and all agreements and covenants required to be performed by or on behalf of the Agency or the Authority shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Waiver of Personal Liability. No official, officer or employee of the Agency shall be individually or personally liable for the payment of the Installment Payments or other payments required to be made by the Agency under the Installment Purchase Agreement, but nothing contained in the Installment Purchase Agreement shall relieve any official, officer or employee of any Agency from the performance of any official duty provided by any applicable provisions of law or by the Installment Purchase Agreement.

Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required by the Installment Purchase Agreement to be performed by or on the part of any Agency or the Authority shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity of the Installment Purchase Agreement.

Assignment. The Installment Purchase Agreement and the right, title and interest of the Authority under the Installment Purchase Agreement may be assigned by the Authority to the Trustee, as a whole or in part, without the necessity of obtaining the prior consent of the Agency.

Law Governing. The Installment Purchase Agreement shall be construed and governed in accordance with the laws of the State.

Effective Date. The Installment Purchase Agreement shall become effective upon its execution and delivery, and shall terminate when all Installment Payments and other payments required to be made under the Installment Purchase Agreement shall have been fully paid or when there are no longer any Bonds Outstanding.

THE INDENTURE

Equal Security

In consideration of the acceptance of the Bonds by the Owners thereof, the Indenture shall be deemed to be and shall constitute a contract among the Authority, the Trustee and the Owners from time to time of all Bonds authorized, executed, issued and delivered under the Indenture and then Outstanding to secure the full and final payment of the interest on and principal of and redemption premiums, if any, on all Bonds which may from time to time be authorized, executed, issued and delivered under the Indenture, subject to the agreements, conditions, covenants and provisions contained in the Indenture; and all agreements and covenants set forth in the Indenture to be performed by or on behalf of the Authority shall be for the equal and proportionate benefit, protection and security of all Owners of the Bonds without distinction, preference or priority as to security or otherwise of any Bonds over any other Bonds by reason of the number or date thereof or the time of authorization, sale, execution, issuance or delivery thereof or for any cause whatsoever, except as expressly provided therein.

Issuance of Bonds

Authorization and Purpose of Bonds. The Authority has reviewed all proceedings heretofore taken relative to the authorization of the Bonds and has found, as a result of such review, and finds and determines that all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in the issuance of the Bonds do exist, have happened and have been performed in due time, form and manner as required by law, and that the Authority is now duly authorized to issue the Bonds in the form and manner provided in the Indenture for the purpose of providing funds to finance the costs of the acquisition, construction and installation of the Project, and that the Bonds shall be entitled to the benefit, protection and security of the provisions of the Indenture.

The Authority may, at any time, execute the Bonds for issuance under the Indenture and deliver the same to the Trustee, and thereupon the Bonds shall be authenticated and delivered by the Trustee to the purchaser thereof in accordance with a Written Request of the Authority and upon receipt of payment therefor from the purchaser thereof.

Transfer and Exchange of Bonds. Any Bond may, in accordance with its terms, be transferred upon the Registration Books by the Person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. Whenever any Bond or Bonds shall be surrendered for transfer, the Authority shall execute and the Trustee shall authenticate and shall deliver a new Bond or Bonds of the same maturity in a like aggregate principal amount, in any Authorized Denomination. The Trustee shall require the Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

The Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of Bonds of the same maturity of other Authorized Denominations. The Trustee shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee shall not be obligated to make any transfer or exchange of Bonds pursuant to this caption during the period established by the Trustee for the selection of Bonds for redemption, or with respect to any Bonds selected for redemption.

Bond Registration Books. The Trustee will keep at its office sufficient books for the registration and transfer of the Bonds which shall at all times be open to inspection by the Authority during normal business hours with reasonable prior notice, and upon presentation for such purpose the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer the Bonds in such books as provided in the Indenture.

Mutilated, Destroyed, Stolen or Lost Bonds. If any Bond shall become mutilated, the Trustee, at the expense of the Owner thereof, shall thereupon authenticate and deliver a new Bond of like maturity and Authorized Denomination in exchange and substitution for the Bond so mutilated, but only upon surrender, at the Office of the Trustee, of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be canceled by the Trustee and delivered to, or upon the order of, the Authority.

If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence be satisfactory to the Trustee and indemnity satisfactory to the Trustee shall be given, the Trustee, at the expense of the Owner, shall thereupon authenticate and deliver a new Bond of like maturity and Authorized Denomination in lieu of and in substitution for the Bond so lost, destroyed or stolen.

The Trustee may require payment of a reasonable sum for each new Bond issued under this caption and of the expenses which may be incurred by the Authority and the Trustee in the premises. Any Bond issued under the provisions of this caption in lieu of any Bond alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of the Indenture with all other Bonds secured by the Indenture. Neither the Authority nor the Trustee shall be required to treat both the original Bond and any replacement Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be issued under the Indenture or for the purpose of determining any percentage of Bonds Outstanding under the Indenture, but both the original and replacement Bond shall be treated as one and the same.

Temporary Bonds. The Bonds issued under the Indenture may be initially issued in temporary form exchangeable for definitive Bonds when ready for delivery. The temporary Bonds may be printed, lithographed or typewritten, shall be of such Authorized Denominations as may be determined by the Authority, shall be in fully registered form and may contain such reference to any of the provisions of the Indenture as may be appropriate. Every temporary Bond shall be executed and authenticated in accordance with the terms of the Indenture. If the Authority issues temporary Bonds it will execute and furnish definitive Bonds without delay and thereupon the temporary Bonds shall tie surrendered, for cancellation, at the Office of the Trustee, and the Trustee shall deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of Authorized Denominations. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under the Indenture as definitive Bonds delivered under the Indenture.

Book-Entry Bonds. (a) The Bonds shall initially be issued as Book-Entry Bonds and the Bonds of each maturity shall be in the form of a separate single fully registered Bond (which may be typewritten).

Except as provided in paragraph (c) below, the registered Owner of all of the Book-Entry Bonds shall be DTC and the Book-Entry Bonds shall be registered in the name of Cede & Co., as nominee of DTC. Notwithstanding anything to the contrary contained in the Indenture, payment of interest with respect to any Book-Entry Bond registered as of each Record Date in the name of Cede & Co. shall be made by wire transfer of same-day funds to the account of Cede & Co. on the payment date for the Book-Entry Bonds at the address indicated on the Record Date for Cede & Co. in the Registration Books or as otherwise provided in the Letter of Representations.

(b) The Trustee and the Authority may treat DTC (or its nominee) as the sole and exclusive Owner of the Book-Entry Bonds registered in its name for the purposes of payment of the principal, premium, if any, or interest with respect to the Book-Entry Bonds, selecting the Book-Entry Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Owners of Book-Entry Bonds under the Indenture, registering the transfer of Book-Entry Bonds, obtaining any consent or other action to be taken by Owners of Book-Entry Bonds and for all other purposes whatsoever, and neither the Trustee nor the Authority shall be affected by any notice to the contrary. Neither the Trustee nor the Authority shall have any responsibility or obligation to any Participant, any person claiming a beneficial ownership interest in the Book-Entry Bonds under or through DTC or any Participant, or any other person which is not shown on the Registration Books as being an Owner, with respect to the accuracy of any records maintained by DTC or any Participant, the payment by DTC or any Participant of any amount in respect of the principal, premium, if any, or interest with respect to the Book-Entry Bonds, any notice which is permitted or required to be given to Owners of Book-Entry Bonds under the Indenture, the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the Book-Entry Bonds, or any consent given or other action taken by DTC as Owner of Book-Entry Bonds. The Trustee shall pay all principal, premium, if any and interest with respect to the Book-Entry Bonds, only to DTC, and all such payments shall be valid and effective to fully satisfy and discharge the Authority's obligations with respect to the principal, premium, if any, and interest with respect to the Book-Entry Bonds to the extent of the sum or sums so paid. Except under the conditions of paragraph (c) below, no person other than DTC shall receive an executed Book-Entry Bond for each separate stated maturity. Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions in the Indenture with respect to record dates, the term "Cede & Co." in the Indenture shall refer to such new nominee of DTC.

(c) In the event (i) DTC, including any successor as securities depository the Bonds, determines not to continue to act as securities depository for the Bonds, or (ii) the Authority determines that the incumbent securities depository shall no longer so act, and delivers a written certificate to the Trustee to that effect, then the Authority will discontinue the book-entry system with the incumbent securities depository for the Bonds. If the Authority determines to replace the incumbent securities depository for the Bonds with another qualified securities depository, the Authority shall prepare or direct the preparation of a new single, separate fully registered Bond for the aggregate outstanding principal amount of Bonds of each maturity, registered in the name of such successor or substitute qualified securities depository, or its nominee, or make such other arrangement acceptable to the Authority, the Trustee and the successor securities depository for the Bonds as are not inconsistent with the terms of the Indenture. If the Authority fails to identify another qualified successor securities depository for the Bonds to replace the incumbent securities depository, then the Bonds shall no longer be restricted to being registered in the Registration Books in the name of the incumbent securities depository or its nominee, but shall be registered in whatever name or names the incumbent securities depository for the Bonds, or its nominee, shall designate. In such event the Authority shall execute, and deliver to the Trustee, a sufficient quantity of Bonds to carry out the transfers and exchanges provided in the Indenture. All such Bonds shall be in fully registered form in denominations authorized by the Indenture.

(d) Notwithstanding any other provision of the Indenture to the contrary, so long as any Book-Entry Bond is registered in the name of DTC, or its nominee, all payments with respect to the principal, premium, if any, and interest with respect to such Book-Entry Bond and all notices with respect to such Book-Entry Bond shall be made and given, respectively, as provided in the Letter of Representations.

(e) In connection with any notice or other communication to be provided to Owners of Book-Entry Bonds pursuant to the Indenture by the Authority or the Trustee with respect to any consent or other action to be taken by Owners, the Authority or the Trustee, as the case may be, shall establish a record date for such consent or other action and give DTC notice of such record date not less than 15 calendar days in advance of such record date to the extent possible.

Establishment of Funds

Establishment of Fund and Accounts. The Trustee shall establish and maintain the following special trust funds to be held by the Trustee: the "Monterey County Financing Authority Revenue Bonds, Series A (Salinas Valley Water Project) Costs of Issuance Fund" (the "Costs of Issuance Fund"), the "Monterey County Financing Authority Revenue Bonds, Series A (Salinas Valley Water Project) Acquisition Fund" (the "Acquisition Fund"), the "Monterey County Financing Authority Revenue Bonds, Series A (Salinas Valley Water Project) Debt Service Fund" (the "Debt Service Fund"), the "Monterey County Financing Authority Revenue Bonds, Series A (Salinas Valley Water Project) Reserve Fund" (the "Reserve Fund"), the "Monterey County Financing Authority Revenue Bonds, Series A (Salinas Valley Water Project) Redemption Fund" (the "Redemption Fund") and the "Monterey County Financing Authority Revenue Bonds, Series A (Salinas Valley Water Project) Rebate Fund" (the "Rebate Fund"). Within the Debt Service Fund the Trustee shall establish and maintain an Interest Account (the "Interest Account") and a Principal Account (the "Principal Account").

Use of Moneys in the Costs of Issuance Fund. (a) On the Closing Date, the Trustee shall deposit in the Costs of Issuance Fund the amount required to be deposited therein pursuant to the Indenture.

(b) The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee from time to time to pay Costs of Issuance upon submission of a Written Request of the Agency stating (i) the Person to whom payment is to be made, (ii) the amount to be paid, (iii) the purpose for which the obligation was incurred, (iv) that such payment is a proper charge against the Costs of Issuance Fund, and (v) that such amounts have not been the subject of a prior disbursement from the Costs of Issuance Fund, in each case together with a statement or invoice for each amount requested thereunder. On the date that is six months after the Closing Date, any amount remaining on deposit in the Costs of Issuance Fund shall be withdrawn by the Trustee and transferred to the Acquisition Fund.

Use of Moneys in the Acquisition Fund. (a) On the Closing Date, the Trustee shall deposit in the Acquisition Fund the amount required to be deposited therein pursuant to the Indenture. The moneys in the Acquisition Fund shall be disbursed from time to time by the Trustee to pay Acquisition Costs.

(b) The moneys in the Acquisition Fund shall be used and withdrawn by the Trustee from time to time to pay the costs of the Project upon submission to the Trustee of a Written Request of the Agency stating (i) the Person to whom payment is to be made, (ii) the amount to be paid, (iii) the purpose for which the obligation was incurred, (iv) that such payment constitutes a cost of the Project and is a proper charge against the Acquisition Fund, and (v) that such amounts have not been the subject of a prior disbursement from the Acquisition Fund.

(c) Upon the filing of a Written Certificate of the Agency stating (i) that the portion of the Project to be financed from the Acquisition Fund has been completed and that all costs of such Project have been paid, or (ii) that such portion of the Project has been substantially completed and that all remaining costs of such portion of the Project have been determined and specifying the amount to be retained therefor, the Trustee shall (A) if the amount remaining in the Acquisition Fund (less any such retention) is equal to or greater than $25,000, transfer the portion of such amount equal to the largest integral multiple of $5,000 that is not greater than such amount to the Redemption Fund, to be applied to the redemption of Bonds, and (B) after making the transfer, if any, required to be made pursuant to the preceding clause (A), transfer all of the amount remaining in the Acquisition Fund (less any such retention) to the Bond Fund, to be applied to the payment of interest on the Bonds.

Authority Revenues

Pledge and Assignment. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, all of the Authority Revenues and any other amounts (including proceeds of the sale of the Bonds) held in the Debt Service Fund, the Reserve Fund and the Redemption Fund are pledged to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms and the provisions of the Indenture. Said pledge shall constitute a first lien on such assets.

In order to secure the pledge of the Authority Revenues contained under this caption, the Authority transfers, conveys and assigns to the Trustee, for the benefit of the Owners, all of the Authority's rights, title and interest under the Installment Purchase Agreement (excepting its right to indemnification and its right to receive notices thereunder), including the right to receive Installment Payments and the right to exercise any remedies provided therein in the event of a default by the Agency thereunder. The Trustee accepts said assignment for the benefit of the Owners subject to the provisions of the Indenture.

The Trustee shall be entitled to and shall receive all of the Authority Revenues, and any Authority Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as agent of the Trustee and shall forthwith be paid by the Authority to the Trustee.

Debt Service Fund. (a) All Authority Revenues shall, upon receipt thereof by the Trustee, be deposited by the Trustee in the Debt Service Fund. All money in the Debt Service Fund, and the accounts therein, shall be applied by the Trustee as provided under this caption. On the Closing Date, the Trustee shall deposit in the Interest Account the amount required to be deposited therein pursuant to the Indenture.

(b) On each Interest Payment Date, the Trustee shall transfer from the Debt Service Fund and deposit in the Interest Account the amount, if any, necessary to cause the amount on deposit therein to be equal to the aggregate amount of interest becoming due and payable on all Outstanding Bonds on such Interest Payment Date. On each Interest Payment Date, the Trustee shall withdraw from the Interest Account for payment to the Owners of the Bonds the interest on the Outstanding Bonds then due and payable.

(c) On each Interest Payment Date on which principal of the Bonds is due and payable, including principal due and payable by reason of mandatory sinking fund redemption of Term Bonds, the Trustee shall transfer from the Debt Service Fund and deposit in the Principal Account the amount, if any, necessary to cause the amount on deposit therein to be equal to the aggregate amount of principal becoming due and payable on all Outstanding Bonds on such Interest Payment Date, including principal due and payable by reason of mandatory sinking fund redemption of Term Bonds. On each such Interest Payment Date, the Trustee shall withdraw from the Principal Account for payment to the Owners of the Bonds the principal of the Outstanding Bonds then due and payable, including principal due and payable by reason of mandatory sinking fund redemption of Term Bonds.

Reserve Fund. (a) On the Closing Date, the Trustee shall deposit in the Reserve Fund the amount required to be deposited therein pursuant to the Indenture. There shall also be deposited in the Reserve Fund payments made by the Agency pursuant to the Installment Purchase Agreement. The Trustee shall promptly notify the Agency if the amount on deposit in the Reserve Fund is less than the Reserve Requirement.

(b) If, on any Interest Payment Date, the amount on deposit in the Debt Service Fund is not sufficient to make the transfers required to be made therefrom pursuant to the Indenture, the Trustee shall, to the extent that amounts are available therein, transfer from the Reserve Fund and deposit in the Debt Service Fund an amount sufficient to eliminate such deficiency.

(c) If, as a result of the payment of principal of or interest on the Bonds, the Reserve Requirement is reduced, the Trustee shall transfer from the Reserve Fund to the Debt Service Fund an amount equal to the amount by which the amount on deposit in the Reserve Fund exceeds the Reserve Requirement.

(d) Whenever the balance in the Reserve Fund exceeds the amount required to redeem or pay the Outstanding Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Trustee shall, upon receipt of a Written Request of the Authority, transfer the amount in the Reserve Fund to the Debt Service Fund or Redemption Fund, as applicable, to be applied, on the next succeeding Interest Payment Date to the payment and redemption of all of the Outstanding Bonds.

(e) Whenever Bonds are to be redeemed pursuant to the Indenture, a proportionate share, determined as provided below, of the amount on deposit in the Reserve Fund shall, on the date on which amounts to redeem such Bonds are deposited in the Redemption Fund or otherwise deposited with the Trustee pursuant to the Indenture, be transferred by the Trustee from the Reserve Fund to the Redemption Fund or to such deposit held by the Trustee and shall be applied to the redemption of said Bonds; provided, however, that such amount shall be so transferred only if and to the extent that the amount remaining on deposit in the Reserve Fund will be at least equal to the Reserve Requirement (excluding from the calculation thereof said Bonds to be redeemed). Such proportionate share shall be equal to the largest integral multiple of $5,000 that is not larger than the amount equal to the product of (i) the amount on deposit in the Reserve Fund on the date of such transfer, times (ii) a fraction, the numerator of which is the principal amount of Bonds to be so redeemed and the denominator of which is the principal amount of Bonds to be Outstanding on the day prior to the date on which such Bonds are to be so redeemed.

Redemption Fund. Any moneys which, pursuant to the Installment Purchase Agreement, are to be used to redeem Bonds pursuant the Indenture shall be deposited by the Trustee in the Redemption Fund. The Trustee shall, on the scheduled redemption date, withdraw from the Redemption Fund and pay to the Owners entitled thereto an amount equal to the redemption price of the Bonds to be redeemed on such date.

Rebate Fund. (a) There shall be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Tax Certificate, as specified in a Written Request of the Authority. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the United States of America. Notwithstanding defeasance of the Bonds pursuant to the Indenture or anything to the contrary contained in the Indenture, all amounts required to be deposited into or on deposit in the Rebate Fund shall be governed exclusively by the provisions of the Indenture summarized under this caption and by the Tax Certificate (which is incorporated in the Indenture by reference). The Trustee shall be deemed conclusively to have complied with such provisions if it follows the written directions of the Authority, and shall have no liability or responsibility to enforce compliance by the Authority with the terms of the Tax Certificate. The Trustee may conclusively rely upon the Authority's determinations, calculations and certifications required by the Tax Certificate. The Trustee shall have no responsibility to independently make any calculation or determination or to review the Authority's calculations.

(b) Any funds remaining in the Rebate Fund after payment in full of all of the Bonds and after payment of any amounts described in the provisions of the Indenture summarized under this caption, shall, upon receipt by the Trustee of a Written Request of the Authority, be withdrawn by the Trustee and remitted to the Authority.

Investment of Moneys in Funds and Accounts. Except as otherwise provided in the Indenture, all moneys in any of the funds or accounts established pursuant to the Indenture and held by the Trustee shall be invested by the Trustee solely in Permitted Investments, as directed in a Written Request of the Authority received by the Trustee two Business Days prior to the making of such investment. Moneys in all funds and accounts held by the Trustee shall be invested in Permitted Investments maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in the

Indenture; provided, however, that Permitted Investments in which moneys in the Reserve Fund are so invested shall mature no later than the earlier of five years from the date of investment or the final maturity date of the Bonds; provided, further, that if such Permitted Investments may be redeemed at par so as to be available on each Interest Payment Date, any amount in the Reserve Fund may be invested in such redeemable Permitted Investments maturing on any date on or prior to the final maturity date of the Bonds. Absent timely written direction from the Authority, the Trustee shall invest any funds held by it in Permitted Investments described in clause (7) of the definition thereof.

Subject to the Rebate Fund provisions of the Indenture, all interest, profits and other income received from the investment of moneys in any fund or account established pursuant to the Indenture (other than the Reserve Fund) shall be retained therein. Subject to the Rebate Fund provisions of the Indenture, all interest, profits or other income received from the investment of moneys in the Reserve Fund shall, prior to the date on which a Written Certificate of the Agency is delivered to the Trustee pursuant to the Indenture, be transferred to the Acquisition Fund and, thereafter, shall be deposited in the Debt Service Fund; provided, however, that, notwithstanding the foregoing, any such transfer shall be made only if and to the extent that, after such transfer, the amount on deposit in the Reserve Fund is at least equal to the Reserve Requirement.

Permitted Investments acquired as an investment of moneys in any fund or account established under the Indenture shall be credited to such fund or account. For the purpose of determining the amount in any fund or account, all Permitted Investments credited to such fund shall be valued by the Trustee at the market value thereof, such valuation to be performed not less frequently than semiannually on or before each February 15 and August 15. The Trustee may utilize and rely upon securities pricing services available to it for such valuations, including those available through the Trustee's accounting system.

The Trustee or an affiliate may act as principal or agent in the making or disposing of any investment. The Trustee shall sell or present for redemption any Permitted Investments so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investments is credited, and the Trustee shall not be liable or responsible for any loss resulting from any investment made or sold pursuant to the provisions of the Indenture summarized under this caption. For purposes of investment, the Trustee may commingle moneys in any of the funds and accounts established under the Indenture. The Trustee shall furnish the Authority periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Indenture.

Covenants

Punctual Payment and Performance. The Authority shall punctually pay or cause to be paid the principal, premium, if any, and interest to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of the Authority Revenues and other assets pledged for such payment as provided in the Indenture and received by the Authority or the Trustee.

Extension of Payment of Bonds. The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in the provisions of the Indenture summarized under this caption shall be deemed to limit the right of the Authority to issue bonds or other obligations for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

Against Encumbrances. The Authority shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Authority Revenues and other assets pledged under the Indenture while any of the Bonds are Outstanding, except as permitted by the Indenture.

Protection of Pledge. The Authority and the Trustee (subject to the provisions of the Indenture) shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Authority Revenues and other assets pledged under the Indenture and all the rights of the Owners under the Indenture against all claims and demands of all Persons whomsoever.

Accounting Records and Financial Statements. The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with prudent corporate trust industry standards, in which accurate entries shall be made of all transactions made by it relating to the proceeds of the Bonds, the Authority Revenues and all funds and accounts established by it pursuant to the Indenture. Such books of record and account shall be available for inspection by the Authority, during regular business hours and upon reasonable notice and under reasonable circumstances as agreed to by the Trustee. The Trustee shall deliver to the Authority a monthly accounting of the funds and accounts it holds under the Indenture; provided, however, that the Trustee shall not be obligated to deliver an accounting for any fund or account that (a) has a balance of zero, and (b) has not had any activity since the last reporting date.

Collection of Authority Revenues. Subject to the provisions of the Indenture, the Trustee shall collect and cause to be paid to it all Authority Revenues promptly as such Authority Revenues become due and payable, and shall enforce and cause to be enforced all rights of the Trustee under and with respect to the Installment Purchase Agreement.

Tax Covenants. (a) The Authority shall not take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the Bonds under Section 103 of the Code. Without limiting the generality of the foregoing, the Authority shall comply with the requirements of the Tax Certificate, which is incorporated in the Indenture as if fully set forth in the Indenture. This covenant shall survive payment in full or defeasance of the Bonds.

(b) In the event that at any time the Authority is of the opinion that for purposes of this caption it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee in any of the funds or accounts established under the Indenture, the Authority shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

(c) Notwithstanding any provisions of the Indenture summarized under this caption, if the Authority shall provide to the Trustee a written opinion of Bond Counsel to the effect that any specified action required under the provisions of the Indenture summarized under this caption is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Bonds, the Trustee may conclusively rely on such opinion in complying with the requirements of the provisions of the Indenture summarized under this caption and of the Tax Certificate, and the covenants under the Indenture shall be deemed to be modified to that extent.

Continuing Disclosure. Each of the Authority and the Trustee shall comply with and carry out all of the provisions of the Continuing Disclosure Agreement applicable to it. Notwithstanding any other provision of the Indenture, failure of the Authority or the Trustee to comply with the Continuing

Disclosure Agreement shall not be considered an Event of Default; provided, however, that the Trustee may (and, at the written direction of any Participating Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Bonds, and upon indemnification of the Trustee to its reasonable satisfaction, shall) or any holder or beneficial owner of the Bonds may, take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Further Assurances. Whenever and so often as requested to do so by the Trustee, the Authority shall promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments, and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Owners all rights, interests, powers, benefits, privileges and advantages conferred or intended to be conferred upon them by the Indenture.

The Trustee

Duties, Immunities and Liabilities of Trustee. (a) The Trustee shall, prior to an Event of Default, and after the curing or waiver of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in the Indenture. The Trustee shall, during the existence of any Event of Default which has not been cured or waived, exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) So long as no Event of Default has occurred and is continuing, the Authority may remove the Trustee at any time, and the Authority shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of Bonds then Outstanding or if at any time the Trustee shall become incapable of acting, or shall commence a case under any bankruptcy, insolvency or similar law, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take control or charge of the Trustee or its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee, and thereupon shall appoint a successor Trustee by an instrument in writing.

(c) The Trustee may resign by giving written notice of such resignation to the Authority and by giving notice of such resignation by mail, first class postage prepaid, to the Owners at the addresses listed in the Registration Books. Upon receiving such notice of resignation, the Authority shall promptly appoint a successor Trustee by an instrument in writing.

(d) Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and shall have accepted appointment within 60 days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee, at the expense of the Authority, or any Owner (on behalf of himself and all other Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture shall signify its acceptance of such appointment by executing and delivering to the Authority and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless, at the written request of the Authority or of the successor

Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and shall pay oven, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth in the Indenture. Upon request of the successor Trustee, the Authority shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this paragraph, such successor Trustee shall mail a notice of the succession of such Trustee to the trusts under the Indenture by first class mail, postage prepaid, to the Owners at their addresses listed in the Registration Books.

(e) The Trustee shall be a trust company, national banking association or bank having trust powers in good standing in or incorporated under the laws of the United States or any state thereof, having (or if such bank or trust company is a member of a bank holding company system, its parent bank holding company shall have) a combined capital and surplus of at least $75,000,000, and subject to supervision or examination by federal or state agency. If such bank, national banking association or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining agency above referred to, then for the purpose of this paragraph the combined capital and surplus of such bank, national banking association or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this paragraph (e), the Trustee shall resign promptly in the manner and with the effect specified under this caption.

(f) No provision in the Indenture shall require the Trustee to risk or expend its own funds or otherwise incur any financial liability in the performance of any of its duties under the Indenture.

(g) The Trustee shall not be accountable for the use or application by the Authority, the Agency or any other party of any funds which the Trustee has released under the Indenture.

(h) The Trustee shall not be responsible for the sufficiency, timeliness or enforceability of the Authority Revenues.

(i) The Trustee may employ attorneys, agents or receivers in the performance of any of its duties under the Indenture and shall not be answerable for the misconduct of any such attorney, agent or receiver selected by it with reasonable care.

Merger or Consolidation. Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such company shall be eligible under the provisions of the Indenture summarized by paragraph (e) under caption "– Duties, Immunities and Liabilities of Trustee,", shall succeed to the rights and obligations of such Trustee without the execution or filing of any paper or any further act, anything in the Indenture to the contrary notwithstanding.

Compensation and Indemnification. The Authority shall pay the Trustee, or cause the Trustee to be paid, reasonable compensation for its services rendered under the Indenture and shall reimburse the Trustee for reasonable expenses incurred by the Trustee in the performance of its obligations under the Indenture.

The Authority agrees, to the extent permitted by law, to indemnify the Trustee and its respective officers, directors, members, employees, attorneys and agents for, and to hold them harmless against, any loss, liability or expense (including attorneys' fees) incurred without negligence or misconduct on their part arising out of or in connection with the acceptance or administration of the trusts imposed by the Indenture, including performance of their duties under the Indenture, including the costs and expenses of defending themselves against any claims or liability in connection with the exercise or performance of any of their powers or duties under the Indenture. Such indemnity shall survive the termination or discharge of the Indenture and resignation or removal of the Trustee.

Liability of Trustee. (a) The recitals of facts in the Indenture and in the Bonds contained shall be taken as statements of the Authority, and the Trustee assumes no responsibility for the correctness of the same, and makes no representations as to the validity or sufficiency of the Indenture, the Installment Purchase Agreement or of the Bonds, and shall incur no responsibility in respect thereof, other than in connection with the duties or obligations in the Indenture or in the Bonds assigned to or imposed upon it. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee shall not be liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful misconduct. The Trustee may become the Owner of Bonds with the same rights it would have if it were not Trustee or and, to the extent permitted by law, may act as depositary for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners, whether or not such committee shall represent the Owners of a majority in aggregate principal amount of Bonds then Outstanding.

(b) The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer, unless the Trustee shall have been negligent in ascertaining the pertinent facts.

(c) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate principal amount of Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture.

(d) The Trustee shall not be liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Indenture, except for actions arising from the negligence or willful misconduct of the Trustee. The permissive right of the Trustee to do things enumerated under the Indenture shall not be construed as a mandatory duty.

(e) The Trustee shall have no responsibility or liability with respect to any information, statements or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of the Bonds.

(f) The Trustee shall not be deemed to have knowledge of any default or Event of Default under the Indenture or under the Installment Purchase Agreement unless it has actual knowledge thereof.

Right to Rely on Documents. The Trustee shall be protected in acting upon any notice, resolution, request, requisition, consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel of or to the Authority, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith and in accordance therewith.

The Trustee may rely upon a facsimile transmission of a Written Request of the Authority, Written Request of the Agency with regard to any instruction for any transfer, disbursement or investment of funds held by the Trustee. The Authority or the Agency, as applicable, shall confirm such transmission promptly in writing by mail.

Whenever in the administration of the trusts imposed upon it by the Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof be specifically prescribed in the Indenture) may be deemed to be conclusively proved and established by an Written Certificate of the Authority, and such Written Certificate of the Authority shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Indenture in reliance upon such Written Certificate of the Authority, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

Preservation and Inspection of Documents. *All documents received by the Trustee under the* provisions of the Indenture shall be retained in its possession and shall be subject at all reasonable times to the inspection of the Authority, the Agency and any Owner, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

Supplemental Indentures

Supplemental Indentures. (a) The Indenture and the rights and obligations of the Authority, the Owners of the Bonds and the Trustee may be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority and the Trustee may enter into with the written consent *the Owners of a majority in aggregate principal amount of all Bonds then Outstanding, which shall have* been filed with the Trustee. No such modification or amendment shall (i) extend or have the effect of extending the fixed maturity of any Bond or reducing the amount of principal thereof or reducing any premium payable upon the redemption thereof or modifying the rights of redemption with respect thereto; without the express consent of the Owner of such Bond, (ii) reduce or have the effect of reducing the interest rate on any Bond or extending the time of payment of interest thereon, without the express consent of the Owner of such Bond, (iii) reduce or have the effect of reducing the percentage of the principal amount of Bonds required for the affirmative vote or written consent to an amendment or modification of any of the Indenture, or (iv) modify any of the rights or obligations of the Trustee without its written assent thereto.

(b) The Indenture and the rights and obligations of the Authority, the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority and the Trustee may enter into without the consent of any Owners for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Authority in the Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds, or to surrender any right or power reserved to or conferred upon the Authority in the Indenture;

(ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision contained in the Indenture;

(iii) so as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;

(iv) so as to cause interest on the Bonds to be excludable from gross income for purposes of federal income taxation by the United States of America; and

(v) in any other respect whatsoever as the Authority may deem necessary or desirable, provided that such modification or amendment does not materially adversely affect the interests of the Owners under the Indenture.

(c) Promptly after the execution by the Authority and the Trustee of any Supplemental Indenture, the Trustee shall mail a notice (the form of which shall be furnished to the Trustee by the Authority), by first class mail postage prepaid, setting forth in general terms the substance of such Supplemental Indenture, to the Owners of the Bonds at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to the Indenture, the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the Trustee and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Endorsement of Bonds; Preparation of New Bonds. Bonds delivered after the execution of any Supplemental Indenture pursuant to the Indenture may, and if the Authority so determines shall, bear a notation by endorsement or otherwise in form approved by the Authority and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand of the Owner of any Bonds Outstanding at the time of such execution and presentation of such Owner's Bonds for the purpose at the Office of the Trustee a suitable notation shall be made on such Bonds. If the Supplemental Indenture shall so provide, new Bonds so modified as to conform, in the opinion of the Authority and the Trustee, to any modification or amendment contained in such Supplemental Indenture, shall be prepared and executed by the Authority and authenticated by the Trustee, and upon demand of the Owners of any Bonds then Outstanding shall be exchanged at the Office of the Trustee, without cost to any Owner, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amount of the same interest rate and maturity.

Amendment of Particular Bonds. The provisions of the provisions relating to Supplemental Indentures of the Indenture shall not prevent any Owner from accepting any amendment as to the particular Bonds held by such Owner.

Events of Default and Remedies

Events of Default. The following shall be Events of Default under the Indenture, and Event of Default shall mean any one or more of the following events:

(a) if default shall be made in the due and punctual payment of the interest on any Bond when and as the same shall become due and payable;

(b) if default shall be made in the due and punctual payment of the principal of or premium, if any, on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed or by proceedings for redemption;

(c) If default shall be made by the Authority in the observance of any of the other covenants, agreements of conditions on its part in the Indenture or in the Bonds contained, and such default shall have continued for a period of 30 days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority by the Trustee, or to the Authority and the Trustee by the Owners of not less than 5% in aggregate principal amount of Bonds Outstanding; provided, however, that if in the reasonable opinion of the Authority the failure stated in the notice can be corrected, but not within such 30 day period, such failure shall not constitute an Event of Default if corrective action is instituted by the Authority within such 30 day period and the Authority shall thereafter diligently and in good faith cure such failure in a reasonable period of time;

(d) if any Event of Default shall have occurred and be continuing under the Installment Purchase Agreement; or

(e) if the Authority shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the Authority seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of its property.

Proceeding by Trustee. Upon the happening and continuance of any Event of Default, the Trustee in its discretion may, and at the written request of the Owners of not less than a majority in aggregate amount of Bonds Outstanding shall (but only to the extent indemnified to its satisfaction from fees and expenses, including attorneys' fees), do the following:

(a) by mandamus, suit, action or proceeding, to compel the Authority and its officers, agents or employees to perform each and every term, provision and covenant contained in the Indenture and in the Bonds, and to require the carrying out of any or all such covenants and agreements of the Authority and the fulfillment of all duties imposed upon it by the Indenture,

(b) by suit, action or proceeding in equity, to enjoin any acts or things which are unlawful, or the violation of any of the Trustee's or Bond Owner's rights; and

(c) by suit, action or proceeding in any court of competent jurisdiction, to require the Authority and its officers and employees to account as if it and they were the trustees of an express trust.

Application of Revenues After Default. If an Event of Default shall occur and be continuing, all Authority Revenues and any other funds thereafter received by the Trustee under any of the provisions of the Indenture shall be applied by the Trustee as follows and in the following order:

(a) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture;

(b) To the payment of the principal of and interest then due with respect to the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, as follows:

First: To the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installments and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by call for redemption, with interest on the overdue principal at the rate borne by the respective Bonds on the date of maturity or redemption, and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the Persons entitled thereto, without any discrimination or preference.

(c) Any remaining funds shall be transferred by the Trustee to the Debt Service Fund.

Power of Trustee to Enforce. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of the Owners of such Bonds, subject to the provisions of the Indenture.

Bond Owners Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Owners not parties to such direction.

Rights of Owners. No Owner of any Bonds shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture or applicable law with respect to such Bonds, unless (a) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default, (b) the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name, (c) such Owner or said Owners shall have tendered to the Trustee indemnity against the costs, expenses and liabilities to be incurred in compliance with such request, and (d) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Bonds, the Indenture or applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Absolute Obligation. Nothing in the Indenture or in the Bonds contained shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the principal of and interest on the Bonds to the respective Owners of the Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, but only out of the Authority Revenues and other assets pledged in the Indenture therefor and received by the Authority or the Trustee, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

Termination of Proceedings. In case any proceedings taken by the Trustee or any one or more Bond Owners on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bond Owners, then in every such case the Authority, the Trustee and the Bond Owners, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee and the Bond Owners shall continue as though no such proceedings had been taken.

Remedies Not Exclusive. No remedy in the Indenture conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy given by the Indenture to the Trustee or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

Defeasance

Discharge of Bonds. (a) If the Authority shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Outstanding Bonds the interest thereon and the principal thereof and the redemption premiums, if any, thereon at the times and in the manner stipulated therein, then the Owners of such Bonds shall cease to be entitled to the pledge of the Authority Revenues as provided in the Indenture, and all agreements, covenants and other obligations of the Authority to the Owners of such Bonds under the Indenture shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the Authority all money or securities held by it pursuant to the Indenture which are not required for the payment of the interest on and principal of and redemption premiums, if any, on such Bonds.

Subject to the provisions of the above paragraph, when any of the Bonds shall have been paid and if, at the time of such payment, the Authority shall have kept, performed and observed all the covenants and promises in such Bonds and in the Indenture required or contemplated to be kept, performed and observed by the Authority or on its part on or prior to that time, then the Indenture shall be considered to have been discharged in respect of such Bonds and such Bonds shall cease to be entitled to the lien of the Indenture and such lien and all covenants, agreements and other obligations of the Authority under the Indenture shall cease, terminate become void and be completely discharged as to such Bonds.

Notwithstanding the satisfaction and discharge of the Indenture or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture relating to the maturity of the Bonds, interest payments and dates thereof, exchange and transfer of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, nonpresentment of Bonds, and the duties of the Trustee in connection with all of the foregoing, remain in effect and shall be binding upon the Trustee and the Owners of the Bonds and the Trustee shall continue to be obligated to hold in trust any moneys or investments then held by the Trustee for the payment of the principal of, redemption premium, if any, and interest on the Bonds, to pay to the Owners of Bonds the funds so held by the Trustee as and when such payment becomes due. Notwithstanding the satisfaction and discharge of the Indenture or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture relating to the compensation of the Trustee shall remain in effect and shall be binding upon the Trustee and the Authority.

(b) Any Outstanding Bonds shall prior to the maturity date or redemption date thereof be deemed to have been paid within the meaning of and with the effect expressed in paragraph (a) above if (i) in case any of such Bonds are to be redeemed on any date prior to their maturity date, the Authority shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail, on a date in accordance with the provisions of the Indenture, notice of redemption of such Bonds on said redemption date, said notice to be given in accordance with the Indenture, (ii) there shall have been deposited with the Trustee either (A) money in an amount which shall be sufficient, or (B) Defeasance Securities, the interest on and principal of which when paid will provide money which, together with the money, if any, deposited with the Trustee at the same time, shall, as verified by an independent certified public accountant, be sufficient to pay when due the interest to become due on such Bond on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of and redemption premiums, if any, on such Bonds, and (iii) in the event such Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority shall have given the Trustee in form satisfactory to it irrevocable instructions to mail as soon as practicable, a notice to the Owners of such Bonds that the deposit required by clause (ii) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with this caption and stating the maturity date or redemption date upon which money is to be available for the payment of the principal of and redemption premiums, if any, on such Bonds.

(c) No Bond shall be deemed to have been paid pursuant to clause (ii) of paragraph (b) above unless the Authority shall have caused to be delivered (i) an executed copy of a Verification Report with respect to such deemed payment, addressed to the Authority, the Agency, the Trustee and the Insurer, in form and in substance acceptable to the Authority, the Agency, the Trustee and the Insurer, (ii) a copy of the escrow agreement entered into in connection with the deposit pursuant to clause (ii)(B) of paragraph (b) above resulting in such deemed payment, which escrow agreement shall provide (A) that no substitution of Defeasance Securities shall be permitted except with other Defeasance Securities and upon delivery of a new Verification Report and no reinvestment of Defeasance Securities shall be permitted except as contemplated by the original Verification Report or upon delivery of a new Verification Report, and shall be acceptable in form and substance to the Insurer, (B) that the Authority will not exercise any optional redemption of Bonds secured by the escrow agreement or any other redemption other than mandatory sinking fund redemptions unless (I) the right to make any such redemption has been expressly reserved in the escrow agreement and such reservation has been disclosed in detail in the official statement for the refunding bonds, and (II) as a condition of any such redemption there shall be provided to the Insurer a Verification Report as to the sufficiency of escrow receipts without reinvestment to meet the escrow requirements remaining following such redemption, and (C) the Authority shall not amend the escrow agreement or enter into a forward purchase agreement or other agreement with respect to rights in the escrow without the prior written consent of the Insurer, and (iii) a copy of an Opinion of Counsel, dated the date of such deemed payment and addressed to the Authority, the Agency, the Trustee and the Insurer, in form and in substance acceptable to the Authority, the Agency, the Trustee and the Insurer, to the effect that (A) such Bond has been paid within the meaning and with the effect expressed in the Indenture, and all agreements, covenants and other obligations of the Authority under the Indenture as to such Bond have ceased, terminated, become void and been completely discharged and satisfied, (B) the defeasance of such Bond will not, in and of itself, cause interest on the Bonds or the refunding bonds to be included in gross income for federal income tax purposes, and (C) such escrow agreement constitutes the valid and binding obligation of the Authority, enforceable in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors rights and by the application of equitable principles and by the exercise of judicial discretion in appropriate cases and subject to the limitations on legal remedies against governmental entities such as the Authority in the State.

Unclaimed Money. Anything contained in the Indenture to the contrary notwithstanding, the Trustee shall notify the Authority of any money held by the Trustee in trust for the payment and discharge of any of the Bonds which has remained unclaimed for two years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for redemption prior to maturity, if such money was held by the Trustee at such date, or for two years after the date of deposit of such money if deposited with the Trustee. The Trustee shall repay such money to the Authority as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the Authority for the payment of such Bonds.

Insurance Policy Provisions

Notices and Other Information. (a) Any notice that is required to be given to the Owners or to the Trustee pursuant to the Indnture shall also be provided to the Insurer, simultaneously with the sending of such notices. The Authority shall provide or cause to be provided to the Insurer each Annual Report (as defined in the Continuing Disclosure Agreement) and each notice given pursuant to the Continuing Disclosure Agreement regarding the occurrence of any of the events specified therein, simultaneously with the filing of such Annual Report pursuant to the Continuing Disclosure Agreement or the giving of such notice pursuant thereto.

(b) The Insurer shall have the right to receive such additional information as it may reasonably request.

(c) The Trustee shall notify the Insurer of any failure of the Authority or the Agency to provide notices, certificates and other information under the Indenture or the Installment Purchase Agreement. The Trustee shall immediately notify the Insurer of any draw on the Reserve Fund.

Bonds to Remain Outstanding. In the event that the principal or interest due on the Bonds shall be paid by the Insurer pursuant to the Insurance Policy, the Bonds shall remain outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Authority, and the pledge of the assets under the Indenture and all covenants, agreements and other obligations of the Authority to the Owners shall continue to exist and shall run to the benefit of the Insurer, and the Insurer shall be subrogated to the rights of such Owners, including, without limitation, to the extent permitted by law, any rights that such Owners may have in respect of securities law violations arising from the offer and sale of the Bonds.

Trustee. (a) The Insurer shall receive prior written notice of any name change of the Trustee or the resignation, removal or termination of the Trustee.

(b) No resignation, removal or termination of the Trustee shall take effect until a successor, acceptable to the Insurer, shall be appointed.

(c) The Trustee may be removed at any time at the request of the Insurer for any breach of its obligations under the Indenture.

Supplemental Indentures; Effect on Owners. With respect to Supplemental Indentures which do not require the consent of the Owners, the Insurer must be given prior written notice of any such Supplemental Indenture. With respect to Supplemental Indentures which do require the consent of the Owners, so long as no Insurer Default has occurred and is continuing, the Insurer's prior written consent is required. A copy of any Supplemental Indenture which is consented to by the Insurer shall be sent to the rating agencies that have assigned a rating to the Bonds. Notwithstanding any other provision of the Indenture, in determining whether the rights of Owners will be adversely affected by any action taken pursuant to the terms and provisions of the Indenture, the Trustee shall consider the effect on the Owners as if there were no Insurance Policy.

Control Rights. (a) So long as no Insurer Default has occurred and is continuing, the Insurer shall be deemed to be the Owner of all of the Bonds for purposes of (i) exercising all remedies and directing the Trustee to take actions or for any other purposes following an Event of Default, and (ii) granting any consent, direction or approval or taking any action permitted by or required under the Indenture to be granted or taken by the Owners.

(b) Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default, so long as no Insurer Default has occurred and is continuing, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners or the Trustee for the benefit of the Owners under the Indenture.

Consent Rights. (a) Any provision of the Indenture expressly recognizing or granting rights in or to the Insurer may not be amended in any manner that affects the rights of the Insurer under the Indenture without the prior written consent of the Insurer.

(b) Wherever the Indenture requires the consent of Owners, so long as no Insurer Default has occurred and is continuing, the Insurer's consent shall also be required.

(c) Any reorganization or liquidation plan with respect to the Authority must be acceptable to the Insurer. In the event of any reorganization or liquidation, so long as no Insurer Default has occurred and is continuing, the Insurer shall have the right to vote on behalf of all Owners, absent a default by the Insurer under the Policy.

Payment Procedures under the Insurance Policy. (a) At least two Business Days prior to each payment date on the Bonds, the Trustee shall determine whether there will be sufficient funds to pay all principal of and interest on the Bonds due on the related payment date and shall immediately notify the Insurer or its designee on the same Business Day by telephone or electronic mail, confirmed in writing by registered or certified mail, of the amount of any deficiency. Such notice shall specify the amount of the anticipated deficiency, the Bonds to which such deficiency is applicable and whether such Bonds will be deficient as to principal or interest or both. If the deficiency is made up in whole or in part prior to or on the payment date, the Trustee shall so notify the Insurer or its designee.

(b) The Trustee shall, after giving notice to the Insurer as provided above, make available to the Insurer and, at the Insurer's direction, to any fiscal agent designated by the Insurer (a "Fiscal Agent"), the Registration Books and all records relating to the funds maintained under the Indenture.

(c) The Trustee shall provide the Insurer and any Fiscal Agent with a list of Owners entitled to receive principal or interest payments from the Insurer under the terms of the Insurance Policy, and shall make arrangements with the Insurer, such Fiscal Agent or another designee of the Insurer to (i) mail checks or drafts to the Owners entitled to receive full or partial interest payments from the Insurer, and

(ii) pay principal upon Bonds surrendered to the Insurer, the Fiscal Agent or another designee of the Insurer by the Owners entitled to receive full or partial principal payments from the Insurer.

(d) The Trustee shall, at the time it provides notice to the Insurer of any deficiency pursuant to paragraph (a) above, notify each Owner entitled to receive the payment of principal or interest thereon from the Insurer (i) as to such deficiency and its entitlement to receive principal or interest, as applicable, (ii) that the Insurer will remit to such Owner all or a part of the interest payments due on the related payment date upon proof of such Owner's entitlement thereto and delivery to the Insurer or any Fiscal Agent, in form satisfactory to the Insurer, of an appropriate assignment of such Owner's right to payment, (iii) that, if such Owner is entitled to receive partial payment of principal from the Insurer, such Owner must surrender its Bond for payment first to the Trustee, which will note on such Bond the portion of the principal paid by the Trustee and second to the Insurer or its designee, together with an appropriate assignment, in form satisfactory to the Insurer, to permit ownership of such Bond to be registered in the name of the Insurer, which will then pay the unpaid portion of principal, and (iv) that, if such Owner is entitled to receive full payment of principal from the Insurer, such Owner must surrender its Bond for payment to the Insurer or its designee, rather than the Trustee, together with the an appropriate assignment, in form satisfactory to the Insurer, to permit ownership of such Bond to be registered in the name of the Insurer.

(e) If the Trustee has notice that any Owner has been required to disgorge payments of principal of or interest on the Bonds previously Due for Payment (as defined in the Insurance Policy) pursuant to a final non-appealable order by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy laws, then the Trustee shall notify the Insurer or its designee of such fact by telephone or electronic notice, confirmed in writing by registered or certified mail.

(f) The Trustee is irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for the Owners as follows:

(i) if and to the extent there is a deficiency in amounts required to pay interest on the Bonds, the Trustee shall (A) execute and deliver to the Insurer, in form satisfactory to the Insurer, an instrument appointing the Insurer as agent for such Owners in any legal proceeding related to the payment of such interest and an assignment to the Insurer of the claims for interest to which such deficiency relates and which are paid by the Insurer, (B) receive as designee of the respective Owners (and not as Trustee) in accordance with the tenor of the Insurance Policy payment from the Insurer with respect to the claims for interest so assigned, and (C) disburse the same to such respective Owners; and

(ii) If and to the extent of a deficiency in amounts required to pay principal of the Bonds, the Trustee shall (A) execute and deliver to the Insurer, in form satisfactory to the Insurer, an instrument appointing the Insurer as agent for such Owner in any legal proceeding related to the payment of such principal and an assignment to the Insurer of the Bond surrendered to the Insurer in an amount equal to the principal amount thereof as has not previously been paid or for which moneys are not held by the Trustee and available for such payment (but such assignment shall be delivered only if payment from the Insurer is received), (B) receive as designee of the respective Owners (and not as Trustee) in accordance with the tenor of the Insurance Policy payment therefore from the Insurer, and (C) disburse the same to such Owners.

(g) Payments with respect to claims for principal of and interest on Bonds disbursed by the Trustee from proceeds of the Insurance Policy shall not be considered to discharge the obligation of the Authority with respect to such Bonds, and the Insurer shall become the owner of such unpaid Bond and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of this paragraph or otherwise:.

(h) Irrespective of whether any such assignment is executed and delivered, the Authority and the Trustee agree for the benefit of the Insurer that:

(i) they recognize that to the extent the Insurer makes payments directly or indirectly (*e.g.*, by paying through the Trustee), on account of principal of or interest on the Bonds, the Insurer will be subrogated to the rights of the Owners thereof to receive the amount of such principal and interest from the Authority, with interest thereon as provided and solely from the sources stated in this Indenture and the Bonds; and

(ii) they will accordingly pay to the Insurer the amount of such principal and interest, with interest thereon as provided in this Indenture and the Bonds, but only from the sources and in the manner provided herein for the payment of principal of and interest on the Bonds to Owners, and will otherwise treat the Insurer as the owner of such rights to the amount of such principal and interest.

(i) The Authority shall reimburse the Insurer, or cause the Insurer to be reimbursed, for any and all charges, fees, costs and expenses which the Insurer may reasonably pay or incur in connection with the administration, enforcement, defense or preservation of any of the Insurer's rights or obligations under the Indenture, the Installment Purchase Agreement or the Insurance Policy. The Authority agrees, to the extent permitted by law, to indemnify the Insurer and its respective officers, directors, members, employees, attorneys and agents for, and to hold them harmless against, any loss, liability or expense (including attorneys' fees) incurred without negligence or misconduct on their part arising out of or in connection with the administration, enforcement, defense or preservation of any of the Insurer's rights or obligations under this Indenture, the Installment Purchase Agreement or the Insurance Policy, including the costs and expenses of defending themselves against any claims or liability in connection with the exercise or performance of any of their rights or obligations thereunder.

(j) The Insurer shall, to the extent it makes any payment of principal of or interest on the Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Insurance Policy, and to evidence such subrogation (i) in the case of claims for interest, the Trustee shall note the Insurer's rights as subrogee on the Registration Books, upon receipt of proof of payment of interest thereon to the Owners of the Bonds, and (ii) in the case of claims for principal, the Trustee, if any, shall note the Insurer's rights as subrogee on the Registration Books, upon surrender of the Bonds together with receipt of proof of payment of principal thereof.

Miscellaneous

Liability of Authority Limited to Authority Revenue. Notwithstanding anything contained in the Indenture, the Authority shall not be required to advance any money derived from any source of income other than the Authority Revenues as provided in the Indenture for the payment of the interest on or principal of or redemption premiums, if any, on the Bonds or for the performance of any agreements or covenants contained in the Indenture. The Authority may, however, advance funds for any such purpose so long as such funds are derived from a source legally available for such purpose without incurring an indebtedness.

The Bonds shall be special obligations of the Authority, payable solely from the Authority Revenues and the other assets pledged therefor under the Indenture. Neither the faith and credit nor the taxing power of the Authority, the Agency or the State, or any political subdivision thereof, is pledged to the payment of the Bonds.

Benefits of the Indenture Limited. Nothing contained in the Indenture, expressed or implied, is intended to give to any Person other than the Authority, the Trustee and the Owners any right, remedy or claim under or by reason of the Indenture. Any agreement or covenant required in the Indenture to be performed by or on behalf of the Authority or any member, officer or employee thereof shall be for the sole and exclusive benefit of the Trustee and the Owners.

Third-Party Beneficiary. To the extent that the Indenture confers upon or gives or grants to the Insurer any right, remedy or claim under or by reason of the Indenture, the Insurer is explicitly recognized as being a third party beneficiary thereunder and may enforce any such right, remedy or claim conferred, given or granted thereunder.

Successor Is Deemed Included In All References To Predecessor. Whenever in the Indenture either the Authority or any member, officer or employee thereof is named or referred to, such reference shall be deemed to include the successor to the powers, duties and functions of the Authority or such member, officer or employee, and all agreements and covenants required by the Indenture to be performed by or on behalf of the Authority or any member, officer or employee thereof shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Execution of Documents by Owners. Any declaration, request or other instrument which is permitted or required in the Indenture to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any Owner or his attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to make acknowledgments of deeds to be recorded in the state or territory in which he purports to act that the Person signing such declaration, request or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer. The ownership of any Bonds and the amount, maturity, number and date of holding the same may be proved by the Registration Books.

Any declaration, request or other instrument or writing of the Owner of any Bond shall bind all future Owners of such Bond with respect to anything done or suffered to be done by the Authority in good faith and in accordance therewith.

Waiver of Personal Liability. No member, officer employee of the Authority shall be individually or personally liable for the payment of the interest on or principal of or redemption premiums, if any, on the Bonds by reason of their issuance, but nothing contained in the Indenture shall relieve any member, officer or employee of the Authority from the performance of any official duty provided by any applicable provisions of law or by the Indenture.

Acquisition of Bonds by Authority. All Bonds acquired by the Authority, whether by purchase or gift or otherwise, shall be surrendered to the Trustee for cancellation.

Destruction of Cancelled Bonds. Whenever provision is made for the return to the Authority of any Bonds which have been cancelled pursuant to the provisions of the Indenture, Trustee shall destroy such Bonds and furnish to the Authority a certificate of such destruction.

Accounts and Funds. Any account or fund required in the Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to all such accounts and funds shall at all times be maintained in accordance with sound industry practice and with due regard for the protection of the security of the Beads and the rights of the Owners.

Payment on Non-Business Days. In the event any payment is required to be made under the Indenture on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day with the same effect as if made on such non-Business Day.

Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required by the Indenture to be performed by or on the part of the Authority or the Trustee shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity of the Indenture or of the Bonds, and the Owners shall retain all the benefit, protection and security afforded to them under the Indenture or any applicable provisions of law. The Authority and the Trustee declare that they would have executed and delivered the Indenture and each and every other Article, Section, paragraph, subdivision, sentence, clause and phrase of the Indenture and would have authorized the issuance of the Bonds pursuant to the Indenture irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases of the Indenture or the application thereof to any Person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Disqualified Bonds. In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, Bonds which are known by the Trustee to be owned or held by or for the account of the Authority or the Agency, or by any other obligor on the Bonds, or by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or the Agency or any other obligor on the Bonds, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this caption if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or the Agency or any other obligor on the Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee. Upon request of the Trustee, the Authority shall specify to the Trustee those Bonds disqualified pursuant to this caption.

Law Governing. The Indenture shall be governed exclusively by the provisions of the Indenture and by the laws of the State as the same from time to time exist.

APPENDIX D

FORM OF BOND COUNSEL OPINION

Upon issuance of the Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel, proposes to render its final approving opinion with respect to the Bonds in substantially the following form:

[Date of Delivery]

Monterey County Financing Authority
Salinas, California

Monterey County Financing Authority
Revenue Bonds, Series A
(Salinas Valley Water Project)
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Monterey County Financing Authority (the "Authority") in connection with the issuance of its Monterey County Financing Authority Revenue Bonds, Series A (Salinas Valley Water Project) (the "Bonds"), in the aggregate principal amount of $32,855,000. In such connection, we have reviewed the Indenture, dated as of July 1, 2008 (the "Indenture"), by and between the Authority and Union Bank of California, N.A., as trustee (the "Trustee"), the Installment Purchase Agreement, dated as of July 1, 2008 (the "Installment Purchase Agreement"), by and between Monterey County Water Resources Agency (the "Agency") and the Authority, the Tax Certificate of the Agency, dated the date hereof (the "Tax Certificate"), opinions of counsel to the Authority, the Agency and the Trustee, certificates of the Authority, the Agency, the Trustee and others and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture or, if not defined therein, in the Installment Purchase Agreement.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority and the Agency. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the first paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Installment Purchase Agreement and the Tax Certificate, including, without limitation, covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest on the Bonds to be included in gross income for federal income tax purposes.

In addition, we call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Installment Purchase Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against governmental entities such as the Authority and the Agency in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Indenture or the Installment Purchase Agreement or the accuracy or sufficiency of the description contained therein of any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding special obligations of the Authority payable solely from the Authority Revenues and the other assets pledged therefor under the Indenture.

2. The Indenture has been duly executed and delivered by, and constitutes a valid and binding obligation of, the Authority. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, the Indenture creates a valid pledge, to secure the payment of the principal of, premium, if any, and interest on the Bonds, of the Authority Revenues and any other amounts held in the Debt Service Fund, the Reserve Fund and the Redemption Fund.

3. The Installment Purchase Agreement has been duly executed and delivered by, and constitutes a valid and binding obligation of, the Agency. The obligation of the Agency to make Installment Payments and other payments required to be made by it under the Installment Purchase Agreement is a special obligation of such Agency payable, in the manner provided therein, solely from the Revenues and the other assets pledged therefor under the Installment Purchase Agreement. Subject only to the provisions of the Installment Purchase Agreement permitting the application thereof for the purposes and on the terms and conditions set forth therein, the Installment Purchase Agreement creates a valid pledge, to secure the payment of the Installment Payments, of the Revenues and any other amounts held in the Revenue Fund.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings in calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

CONTINUING DISCLOSURE AGREEMENT

by and among

MONTEREY COUNTY FINANCING AUTHORITY

and

**UNION BANK OF CALIFORNIA, N.A.,
AS TRUSTEE**

and

**UNION BANK OF CALIFORNIA, N.A.,
AS DISSEMINATION AGENT**

Dated as of July 1, 2008

**Monterey County Financing Authority
Revenue Bonds, Series A
(Salinas Valley Water Project)**

CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT (this "Disclosure Agreement"), dated as of July 1, 2008, is by and among MONTEREY COUNTY FINANCING AUTHORITY, a joint exercise of powers authority organized and existing under and by virtue of the laws of the State of California (the "Authority"), and UNION BANK OF CALIFORNIA, N.A., a national banking association organized and existing under the laws of the United States of America (the "Bank"), in its capacity as Dissemination Agent (the "Dissemination Agent") and in its capacity as trustee (the "Trustee").

WITNESSETH:

WHEREAS, pursuant to the Indenture, dated as of July 1, 2008 (the "Indenture"), by and between the Authority and the Trustee, the Authority has issued the Monterey County Financing Authority Revenue Bonds, Series A (Salinas Valley Water Project) (the "Bonds"), in the aggregate principal amount of $32,855,000;

WHEREAS, the Bonds are payable from and secured by installment payments to be made by the Monterey County Water Resources Agency (the "Agency") pursuant to an Installment Purchase Agreement, dated as of July 1, 2008 (the "Installment Purchase Agreement"), by and between the Authority and the Agency; and

WHEREAS, this Disclosure Agreement is being executed and delivered by the Authority and the Bank for the benefit of the holders and beneficial owners of the Bonds and in order to assist the underwriter of the Bonds in complying with Securities and Exchange Commission Rule 15c2-12(b)(5);

NOW, THEREFORE, for and in consideration of the mutual premises and covenants herein contained, the parties hereto agree as follows:

Section 1. Definitions. Capitalized undefined terms used herein shall have the meanings ascribed thereto in the Indenture or, if not defined in the Indenture, in the Installment Purchase Agreement. In addition, the following capitalized terms shall have the following meanings:

"Annual Report" means any Annual Report provided by the Authority pursuant to, and as described in, Sections 2 and 3 hereof.

"Annual Report Date" means the date in each year that is nine months after the end of the Authority's fiscal year, which date, as of the date of this Disclosure Agreement, is April 1.

"Disclosure Representative" means the Executive Director of the Authority, or his or her designee, or such other person as the Authority shall designate in writing to the Trustee from time to time.

"Dissemination Agent" means the Bank, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Authority and which has filed with the Trustee a written acceptance of such designation.

"Listed Events" means any of the events listed in Section 4(a) hereof.

"National Repository" means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The Nationally Recognized Municipal Securities Information Repository for purposes of the Rule are identified in the Securities and Exchange Commission website located at *http://www.sec.gov/info/municipal/nrmsir.htm.*

"Official Statement" means the Official Statement, dated July 16, 2008, relating to the Bonds.

"Participating Underwriter" means any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" means each National Repository and each State Repository.

"Rule" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State Repository" means any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

Section 2. Provision of Annual Reports. (a) The Authority shall or, upon furnishing the Annual Report to the Dissemination Agent, shall cause the Dissemination Agent to, provide to each Repository an Annual Report which is consistent with the requirements of Section 3 hereof, not later than the Annual Report Date, commencing with the report for the 2007-08 fiscal year. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 3 hereof; provided, however, that the audited financial statements of the Authority and the Agency, if any, may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the Authority's or the Agency's fiscal year changes, the Authority shall give notice of such change in the same manner as for a Listed Event under Section 4(f) hereof.

(b) Not later than 15 business days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the Authority shall provide the Annual Report (in a form suitable for reporting to the Repositories) to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date, the Trustee has not received a copy of the Annual Report, the Trustee shall contact the Disclosure Representative and the Dissemination Agent to inquire if the Authority is in compliance with the first sentence of this subsection (b).

(c) If the Trustee is unable to verify that an Annual Report has been provided to Repositories by the date required in subsection (a), the Trustee shall send a notice to the Municipal Securities Rulemaking Board and the appropriate State Repository, if any, in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any;

(ii) provide any Annual Report received by it to each Repository, as provided herein; and

(iii) file a report with the Authority and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

Section 3. <u>Content of Annual Reports</u>. The Authority's Annual Report shall contain or incorporate by reference the following:

(a) The Authority's audited financial statements, if any, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Authority's audited financial statements, if any, are not available by the time the Annual Report is required to be filed pursuant to Section 2(a) hereof, the Annual Report shall contain unaudited financial statements in a format similar to that used for the Authority's audited financial statements, and the audited financial statements, if any, shall be filed in the same manner as the Annual Report when they become available.

(b) The Agency's audited financial statements, if any, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Agency's audited financial statements, if any, are not available by the time the Annual Report is required to be filed pursuant to Section 2(a) hereof, the Annual Report shall contain unaudited financial statements in a format similar to that used for the Agency's audited financial statements, and the audited financial statements, if any, shall be filed in the same manner as the Annual Report when they become available. The parties hereto acknowledge that, presently, separate audited financial statements are not prepared for the Agency but, rather, the financial statements for the Agency are consolidated with the audited financial statements for the County of Monterey. So long as separate audited financial statements are not prepared for the Agency, the Authority's Annual Report shall contain or incorporate by reference the audited consolidated financial statements for the County of Monterey.

(c) The following information:

(i) The principal amount of Bonds Outstanding as of the December 31 next preceding the Annual Report Date.

(ii) The balance in the Reserve Fund, and a statement of the Reserve Requirement, as of the December 31 next preceding the Annual Report Date.

(iii) An update, for the most recently ended fiscal year, of the information contained in the Official Statement in Table Nos. 3, 5, 7, 8 and 11.

(d) In addition to any of the information expressly required to be provided under paragraphs (a), (b) and (c) of this Section, the Authority shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Authority or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Authority shall clearly identify each such other document so included by reference.

Section 4. Reporting of Significant Events. (a) Pursuant to the provisions of this Section, the Authority shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds or the Installment Purchase Agreement, if material:

(i) Principal and interest payment delinquencies.

(ii) Non-payment related defaults.

(iii) Unscheduled draws on debt service reserves reflecting financial difficulties.

(iv) Unscheduled draws on credit enhancements reflecting financial difficulties.

(v) Substitution of credit or liquidity providers, or their failure to perform.

(vi) Adverse tax opinions or events affecting the tax-exempt status of the security.

(vii) Modifications to rights of security holders.

(viii) Contingent or unscheduled bond calls.

(ix) Defeasances.

(x) Release, substitution, or sale of property securing repayment of the securities.

(xi) Rating changes.

(b) The Trustee shall, within five business days of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the Authority promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f). The Trustee shall have no responsibility for determining the materiality of any of the Listed Events.

(c) Whenever the Authority obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to subsection (b) or otherwise, the Authority shall as soon as possible determine if such event would be material under applicable Federal securities law.

(d) If the Authority determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the Authority shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f). The Authority shall provide the Dissemination Agent with a form of notice of such event in a format suitable for reporting to the Municipal Securities Rulemaking Board and each State Repository, if any.

(e) If in response to a request under subsection (b), the Authority determines that the Listed Event would not be material under applicable Federal securities law, the Authority shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the Authority to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds pursuant to the Indenture.

Section 5. <u>Electronic Filing</u>. Submission of Annual Reports and notices of Listed Events to DisclosureUSA.org or another "Central Post Office" designated and accepted by the Securities and Exchange Commission shall constitute compliance with the requirement of filing such reports and notices with each Repository hereunder; and the Authority may satisfy its obligations hereunder to file any notice, document or information with a Repository by filing the same with any dissemination agent or conduit, including DisclosureUSA.org or another "Central Post Office" or similar entity, assuming or charged with responsibility for accepting notices, documents or information for transmission to such Repository, to the extent permitted by the Securities and Exchange Commission or Securities and Exchange Commission staff or required by the Securities and Exchange Commission. For this purpose, permission shall be deemed to have been granted by the Securities and Exchange Commission staff if and to the extent the agent or conduit has received an interpretive letter, which has not been revoked, from the Securities and Exchange Commission staff to the effect that using the agent or conduit to transmit information to the Repository will be treated for purposes of the Rule as if such information were transmitted directly to the Repository.

Section 6. Termination of Reporting Obligation. The Authority's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Authority shall give notice of such termination in the same manner as for a Listed Event under Section 4(f) hereof.

Section 7. Dissemination Agent. The Authority may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty days' written notice to the Authority and the Trustee. The Dissemination Agent shall have no duty to prepare or review the Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the Authority in a timely manner and in a form suitable for filing. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. Any company succeeding to all or substantially all of the Dissemination Agent's business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any paper or any further act.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Authority, the Trustee and the Dissemination Agent may amend this Disclosure Agreement (and the Trustee and the Dissemination Agent shall agree to any amendment so requested by the Authority, so long as such amendment does not adversely affect the rights or obligations of the Trustee or the Dissemination Agent), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to Sections 2(a), 3 or 4(a) hereof it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver (i) is approved by holders of Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of holders.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial statements or information, in order to provide information to investors to enable them to evaluate the ability of the Authority to meet its obligations, including its obligation to pay debt service on the Bonds. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 4(f) hereof.

Section 9. <u>Additional Information</u>. Nothing in this Disclosure Agreement shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Authority chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Authority shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. <u>Default</u>. In the event of a failure of the Authority or the Trustee to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the written direction of any Participating Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Bonds, shall, upon receipt of indemnification reasonably satisfactory to the Trustee), or any holder or beneficial owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Authority or the Trustee, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Authority or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. <u>Duties, Immunities and Liabilities of Trustee and Dissemination Agent</u>. Article VII of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture, and the Trustee and the Dissemination Agent shall be entitled to the protections, limitations from liability and indemnities afforded to the Trustee thereunder. The Dissemination Agent and the Trustee shall have only such duties hereunder as are specifically set forth in this Disclosure Agreement. This Disclosure Agreement does not apply to any other securities issued or to be issued by the Authority. The Dissemination Agent shall have no obligation to make any disclosure concerning the Bonds, the Authority or any other matter except as expressly set out herein, provided that no provision of this Disclosure Agreement shall limit the duties or obligations of the Trustee under the Indenture. The Dissemination Agent shall have no responsibility for the preparation, review, form or content of any Annual Report or any notice of a Listed Event. The fact that the Trustee has or may have any banking, fiduciary or other relationship with the Authority or any other party, apart from the relationship created by the Indenture and this Disclosure Agreement, shall not be construed to mean that the Trustee has knowledge or notice of any event or condition relating to the Bonds or the Authority except in its respective capacities under such agreements. No provision of this Disclosure Agreement shall require or be construed to require the Dissemination Agent to interpret or provide an opinion concerning any information disclosed hereunder. Information disclosed hereunder by the Dissemination Agent may contain such disclaimer language concerning the Dissemination Agent's responsibilities hereunder with respect thereto as the Dissemination Agent may deem appropriate. The Dissemination Agent may conclusively rely on the determination of the Authority as to the materiality of any event for purposes of Section 4 hereof. Neither the Trustee nor the Dissemination Agent make any representation as to the sufficiency of this Disclosure Agreement for purposes of the Rule. The Dissemination Agent shall be paid compensation by the Authority for its services provided hereunder in accordance with its schedule of fees, as amended from time to time, and all expenses, legal fees and advances made or incurred by the Dissemination in the performance of its duties hereunder. The Authority's obligations under this Section shall survive the termination of this Disclosure Agreement.

Section 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Authority, the Trustee, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 13. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Disclosure Agreement as of the date first above written.

MONTEREY COUNTY FINANCING AUTHORITY

By: ______________________________
Executive Director

UNION BANK OF CALIFORNIA, N.A., AS TRUSTEE

By: ______________________________
Authorized Officer

UNION BANK OF CALIFORNIA, N.A., AS DISSEMINATION AGENT

By: ______________________________
Authorized Officer

EXHIBIT A

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Monterey County Financing Authority
Name of Bond Issue:	Monterey County Financing Authority Revenue Bonds, Series A (Salinas Valley Water Project)
Date of Issuance:	July 30, 2008

NOTICE IS HEREBY GIVEN that Monterey County Financing Authority (the "Authority") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of July 1, 2008, by and among the Authority and Union Bank of California, N.A., in its capacity as Trustee and in its capacity as Dissemination Agent. [The Authority anticipates that the Annual Report will be filed by ______________.]

Dated: ________________

Union Bank of California, N.A., as Trustee, on behalf of the Monterey County Financing Authority

cc: Monterey County Financing Authority

APPENDIX F

DTC BOOK-ENTRY ONLY SYSTEM

The description that follows of the procedures and recordkeeping with respect to beneficial ownership interests in the Bonds, payment of principal of, premium, if any, and interest on the Bonds to Participants or beneficial owners, confirmation and transfer of beneficial ownership interests in the Bonds, and other related transactions by and between DTC, Participants and beneficial owners, is based on information furnished by DTC which the Authority believes to be reliable, but the Authority does not take responsibility for the completeness or accuracy thereof. The Authority cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the beneficial owners either (i) payments of principal, premium, if any, and interest with respect to the Bonds or (ii) certificates representing ownership interests in or other confirmation of ownership interests in the Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate for each maturity of the Bonds will be issued for the Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that its participants ("Direct Participants") deposit with DTC. DTC also facilitates post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange, LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (i.e., the beneficial owner) is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial owners will not receive written confirmation from DTC of their purchase. Beneficial owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the beneficial owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. do not effect any change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the beneficial owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail, information from the Authority on a payable date in accordance with their respective holdings shown on DTC records. Payments by Participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of each Participant and not of DTC or its nominee, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the beneficial owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered to DTC.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY-ONLY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES ONLY TO CEDE & CO., OR ITS SUCCESSOR AS DTC'S PARTNERSHIP NOMINEE. ANY FAILURE OF CEDE & CO., OR ITS SUCCESSOR AS DTC'S PARTNERSHIP NOMINEE TO ADVISE ANY PARTICIPANT, OR OF ANY PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

ASSURED GUARANTY
ENDURING FINANCIAL STRENGTH
AAA S&P • Aaa Moody's • AAA Fitch

Financial Guaranty Insurance Policy

Issuer: **Policy No.:**

Obligations: **Premium:**

Effective Date:

Assured Guaranty Corp., a Maryland corporation (**"Assured Guaranty"**), in consideration of the payment of the Premium and on the terms and subject to the conditions of this Policy (which includes each endorsement hereto), hereby unconditionally and irrevocably agrees to pay to the trustee (the **"Trustee"**) or the paying agent (the **"Paying Agent"**) for the Obligations (as set forth in the documentation providing for the issuance of and securing the Obligations) for the benefit of the Holders, that portion of the Insured Payments which shall become Due for Payment but shall be unpaid by reason of Nonpayment.

Assured Guaranty will make such Insured Payments to the Trustee or the Paying Agent on the later to occur of (i) the date applicable principal or interest becomes Due for Payment, or (ii) the Business Day next following the day on which Assured Guaranty shall have Received a completed Notice of Nonpayment. If a Notice of Nonpayment by Assured Guaranty is incomplete or does not in any instance conform to the terms and conditions of this Policy, it shall be deemed not Received, and Assured Guaranty shall promptly give notice to the Trustee or the Paying Agent. Upon receipt of such notice, the Trustee or the Paying Agent may submit an amended Notice of Nonpayment. The Trustee or the Paying Agent will disburse the Insured Payments to the Holders only upon receipt by the Trustee or the Paying Agent, in form reasonably satisfactory to it of (i) evidence of the Holder's right to receive such payments, and (ii) evidence, including without limitation any appropriate instruments of assignment, that all of the Holder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Assured Guaranty. Upon and to the extent of such disbursement, Assured Guaranty shall become the Holder of the Obligations, any appurtenant coupon thereto and right to receipt of payment of principal thereof or interest thereon, and shall be fully subrogated to all of the Holder's right, title and interest thereunder, including without limitation the right to receive payments in respect of the Obligations. Payment by Assured Guaranty to the Trustee or the Paying Agent for the benefit of the Holders shall discharge the obligation of Assured Guaranty under this Policy to the extent of such payment.

This Policy is non-cancelable by Assured Guaranty for any reason. The Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment premium or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Assured Guaranty, nor against any risk other than Nonpayment.

Except to the extent expressly modified by any endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. **"Avoided Payment"** means any amount previously distributed to a Holder in respect of any Insured Payment by or on behalf of the Issuer, which amount has been recovered from such Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such Holder. **"Business Day"** means any day other than (i) a Saturday or Sunday, (ii) any day on which the offices of the Trustee, the Paying Agent or Assured Guaranty are closed, or (iii) any day on which banking institutions are authorized or required by law, executive order or governmental decree to be closed in the City of New York or in the State of Maryland. **"Due for Payment"** means (i) when referring to the principal of an Obligation, the stated maturity date thereof, or the date on which such Obligation shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless Assured Guaranty in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and (ii) when referring to interest on an Obligation, the stated date for payment of such interest. **"Holder"** means, in respect of any Obligation, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Obligation to payment of principal or interest thereunder, except that Holder shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Obligations. **"Insured Payments"** means that portion of the principal of and interest on the Obligations that shall become Due for Payment but shall be unpaid by reason of Nonpayment. Insured Payments shall not include any additional amounts owing by the Issuer solely as a result of the failure by the Trustee or the Paying Agent to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee or the Paying Agent by reason of such failure. **"Nonpayment"** means, in respect of an Obligation, the failure of the Issuer to have provided sufficient funds to the Trustee or the Paying Agent for payment in full of all principal and interest Due for Payment on such Obligation. It is further understood that the term "Nonpayment" in respect of an Obligation includes any Avoided Payment. **"Receipt"** or **"Received"** means actual receipt or notice of or, if notice is given by overnight or other delivery service, or by certified or registered United States mail, by a delivery receipt signed by a person authorized to accept delivery on behalf of the person to whom the notice was given. Notices to Assured Guaranty may be mailed by registered mail or personally delivered or telecopied to it at 1325 Avenue of the Americas, New York, New York 10019, Telephone Number: (212) 974-0100, Facsimile Number: (212) 581-3268, Attention: Risk Management Department - Public Finance Surveillance, with a copy to the General Counsel, or to such other address as shall be specified by Assured Guaranty to the Trustee or the Paying Agent in writing. A Notice of Nonpayment will be deemed to be Received by Assured Guaranty on a given Business Day if it is Received prior to 12:00 noon (New York City time) on such Business Day; otherwise it will be deemed Received on the next Business Day. **"Term"** means the period from and including the Effective Date until the earlier of (i) the maturity date for the Obligations, or (ii) the date on which the Issuer has made all payments required to be made on the Obligations.

At any time during the Term of this Policy, Assured Guaranty may appoint a fiscal agent (the **"Fiscal Agent"**) for purposes of this Policy by written notice to the Trustee or the Paying Agent, specifying the name and notice address of such Fiscal Agent. From and after the date of Receipt of such notice by the Trustee or the Paying Agent, copies of all notices and documents required to

(Revised 05/08)

be delivered to Assured Guaranty pursuant to this Policy shall be delivered simultaneously to the Fiscal Agent and to Assured Guaranty. All payments required to be made by Assured Guaranty under this Policy may be made directly by Assured Guaranty or by the Fiscal Agent on behalf of Assured Guaranty. The Fiscal Agent is the agent of Assured Guaranty only, and the Fiscal Agent shall in no event be liable to the Trustee or the Paying Agent for any acts of the Fiscal Agent or any failure of Assured Guaranty to deposit, or cause to be deposited, sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Assured Guaranty hereby waives, in each case for the benefit of the Holders only, all rights and defenses of any kind (including, without limitation, the defense of fraud in the inducement or in fact or any other circumstance that would have the effect of discharging a surety, guarantor or any other person in law or in equity) that may be available to Assured Guaranty to deny or avoid payment of its obligations under this Policy in accordance with the express provisions hereof. Nothing in this paragraph will be construed (i) to waive, limit or otherwise impair, and Assured Guaranty expressly reserves, Assured Guaranty's rights and remedies, including, without limitation: its right to assert any claim or to pursue recoveries (based on contractual rights, securities law violations, fraud or other causes of action) against any person or entity, in each case, whether directly or acquired as a subrogee, assignee or otherwise, subsequent to making any payment to the Trustee or the Paying Agent, in accordance with the express provisions hereof, and/or (ii) to require payment by Assured Guaranty of any amounts that have been previously paid or that are not otherwise due in accordance with the express provisions of this Policy.

This Policy (which includes each endorsement hereto) sets forth in full the undertaking of Assured Guaranty with respect to the subject matter hereof, and may not be modified, altered or affected by any other agreement or instrument, including, without limitation, any modification thereto or amendment thereof. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. This Policy will be governed by, and shall be construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, Assured Guaranty has caused this Policy to be affixed with its corporate seal, to be signed by its duly authorized officer, and to become effective and binding upon Assured Guaranty by virtue of such signature.

ASSURED GUARANTY CORP.

(SEAL)

By:________________________
Authorized Officer

Signature attested to by:

____
Counsel

(Revised 05/08)