

In the opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes, such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings, and the Bonds are "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "LEGAL MATTERS—Tax Matters" herein.

**\$7,000,000**  
**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**  
 (Monterey County, California)  
**GENERAL OBLIGATION BONDS, ELECTION OF 2002, SERIES A**  
 (Bank Qualified)

Dated: June 1, 2003

Due: August 1, as shown below

The North Monterey County Unified School District General Obligation Bonds, Election of 2002, Series A (the "Bonds"), in the aggregate principal amount of \$7,000,000, are being issued by the Board of Supervisors (the "Board") of Monterey County, California (the "County") in the name of the North Monterey County Unified School District, Monterey County, California (the "District") to provide funds to finance capital projects for the District. The Bonds represent the first issue of bonds of a total authorization of \$20,750,000, approved by the qualified voters of the District on November 5, 2002.

The Bonds represent the general obligation of the District, payable from the proceeds of *ad valorem* property taxes that the Board is obligated to levy and collect, without limitation as to rate or amount on all property subject to taxation by the Board on behalf of the District for the payment of the Bonds. See "THE BONDS—Security for Payment" herein.

The Bonds are being issued as fully registered bonds, without coupons, 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. Individual purchases of the Bonds will be made in book-entry form only and only in authorized denominations, as described in this Official Statement. So long as Cede & Co. is the registered owner of the Bonds, principal of and interest on the Bonds will be payable to Cede & Co., as nominee for DTC, which is obligated to remit such amounts to the DTC Participants for subsequent disbursement to the Owners of the Bonds. See "THE BONDS—DTC Book-Entry Only" herein.

Interest on the Bonds is payable semiannually on each February 1 and August 1, commencing February 1, 2004. The Bonds are subject to optional and mandatory redemption prior to maturity as described herein.

The scheduled payment of principal and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by FINANCIAL SECURITY ASSURANCE INC.



THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT INTENDED TO BE A SUMMARY OF ALL FACTORS RELEVANT TO AN INVESTMENT IN THE BONDS. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION. CAPITALIZED TERMS USED ON THIS COVER PAGE NOT OTHERWISE DEFINED WILL HAVE THE MEANINGS SET FORTH HEREIN.

**MATURITY SCHEDULE**

**\$5,560,000 Serial Bonds**  
**CUSIP Prefix: 661190**

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	CUSIP Suffix	Maturity Date (August 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP Suffix
2004	\$1,170,000	2.500%	1.000%	CR7	2014	\$225,000	3.500%	3.300%*	DB1
2005	170,000	2.500	1.150	CS5	2015	230,000	3.750	3.400*	DC9
2006	170,000	3.000	1.350	CT3	2016	240,000	3.750	3.500*	DD7
2007	175,000	3.000	1.750	CU0	2017	250,000	4.000	3.650*	DE5
2008	180,000	3.000	2.050	CV8	2018	260,000	4.000	3.750*	DF2
2009	190,000	3.500	2.300	CW6	2019	270,000	4.000	3.900*	DG0
2010	195,000	3.500	2.700	CX4	2020	285,000	4.000	100	DH8
2011	200,000	3.500	2.950	CY2	2021	295,000	4.100	100	DJ4
2012	210,000	3.500	3.050	CZ9	2022	310,000	4.200	100	DK1
2013	215,000	3.500	3.200	DA3	2023	320,000	4.250	100	DL9

**\$1,440,000 5.00% Term Bond maturing August 1, 2027; Price 106.110\*, to Yield 4.25%—CUSIP 661190 DM7**

(Plus accrued interest from June 1, 2003)

The Bonds will be offered when, as and if issued by the District and received by the Underwriter, subject to approval as to legality by Quint & Thimmig LLP, San Francisco, California, Bond Counsel. Certain matters will be passed upon for the District by the Monterey County Counsel, as counsel to the District, for the County by the Monterey County Counsel, and by Quint & Thimmig LLP, San Francisco, California, as Disclosure Counsel. It is anticipated that the Bonds, in definitive form, will be available for delivery through the facilities of DTC in New York, New York on or about June 19, 2003.

**Citigroup**

Dated: June 5, 2003

\*Priced to first par call date of August 1, 2013.



**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**  
**(Monterey County, California)**  
**General Obligation Bonds, Election of 2002, Series A**

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**COUNTY BOARD OF SUPERVISORS**

Fernando Armenta, 1st District Supervisor, *Chair*  
Louis R. Calcagno, 2nd District Supervisor, *Vice Chair*  
WB "Butch" Lindley, 3rd District Supervisor  
Edith Johnsen, 4th District Supervisor  
Dave Potter, 5th District Supervisor

**COUNTY OFFICIALS**

Sally R Reed, *County Administrative Officer*  
Charles McKee, *County Counsel*  
Louis G. Solton, *Treasurer-Tax Collector*  
Michael J. Miller, *Auditor-Controller*  
Ann D. Anderson, *Clerk to the Board*

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**DISTRICT BOARD OF TRUSTEES**

Diana Jimenez, *President*  
Samuel Laage, *Vice President*  
Larry Calhoun, *Clerk*  
Robert Taniguchi, *Parliamentarian*  
Rachelle Morgan-Lewis, *Member*

**DISTRICT OFFICIALS**

Leo St. John, *Superintendent*  
Thomas Woodruff, *Assistant Superintendent, Business*  
Carolyn Post, *Assistant Superintendent, Curriculum*  
Nancy Braughton, *Assistant Superintendent, Human Resources*

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**PROFESSIONAL SERVICES**

*Bond Counsel and Disclosure Counsel*  
Quint & Thimmig LLP  
San Francisco, California

*Paying Agent*  
Union Bank of California, N.A.  
San Francisco, California

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

The information set forth in this Official Statement (which includes the cover page, the table of contents and the Appendices) has been obtained from the District and from sources other than the District which are believed to be reliable. No representation or guarantee is made by the District or the Underwriter as to the accuracy or completeness of such information from other sources and nothing contained in this Official Statement is, or shall be construed as a representation or relied upon as, a promise or representation by the District or the Underwriter. This Official Statement is submitted in connection with the sale of the Bonds described herein and may not be reproduced, quoted or used, in whole or in part, for any other purposes.

References herein to statutes, laws, rules, regulations, resolutions, agreements, reports and legal and other documents do not purport to be comprehensive or definitive. All references to such documents are qualified in their entirety by reference to the provisions of the particular document, the full text of which may contain qualifications and exceptions to statements made herein. 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 described herein, are intended solely as such and are not to be construed as representations of fact.

The Underwriter has submitted the following statement 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.

The information and expression of opinion herein are subject to change without notice, and neither 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 District or Financial Security Assurance Inc. ("Financial Security") 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.

Other than with respect to information concerning Financial Security contained under the caption "Municipal Bond Insurance" and "Appendix D—Specimen Municipal Bond Insurance Policy" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT 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. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENTS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.



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**\$7,000,000**  
**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**  
**(Monterey County, California)**  
**GENERAL OBLIGATION BONDS, ELECTION OF 2002, SERIES A**

**INTRODUCTION**

*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 and the documents summarized or described herein. The offering of the Bonds (hereinafter defined) to potential investors is made only by means of the entire Official Statement.*

**General**

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to provide certain information with respect to the sale of \$7,000,000 in aggregate principal amount of North Monterey County Unified School District (Monterey County, California) General Obligation Bonds, Election of 2002, Series A (the "Bonds"), being issued by the Board of Supervisors (the "County Board") of Monterey County, California (the "County"), in the name of the North Monterey County Unified School District (the "District"). The Bonds are being issued under and pursuant to a resolution of the Board of Trustees (the "District Board") of the District, adopted on May 8, 2003 (the "District Resolution"), and a resolution of the County Board, adopted on May 20, 2003 (the "County Resolution" and, with the District Resolution, the "Resolutions"). The Bonds are being issued to provide funds to finance capital projects for the District. The Bonds represent the first issue of bonds of a total authorization of \$20,750,000 approved by the qualified voters of the District on November 5, 2002.

The Bonds represent the general obligation of the District, payable from the proceeds of ad valorem property taxes that the County Board is obligated to levy and collect without limitation as to rate or amount on all property subject to taxation by the County Board on behalf of the District for the payment of the Bonds. See "THE BONDS—Security for Payment" herein.

Capitalized terms used herein and not defined herein shall have the meanings prescribed for such terms by the Resolutions. This Official Statement contains brief descriptions of, among other things, the Bonds, the use of the proceeds of the Bonds, the security for the Bonds, the District and other information together with summaries of certain provisions of the Bonds and certain legal documents (all as defined and described herein) pertaining thereto. Such descriptions and information do not purport to be comprehensive or definitive.

**The District**

The boundaries of the District encompass an area of approximately 70 square miles within the County. The territory of the District includes the unincorporated towns of Prunedale and Castroville as well as other adjacent unincorporated areas of the County. The District was organized on July 1, 1977, following a unification election in the former North Monterey County Union School District. The District consists of four elementary schools, two middle schools, one high school, two continuation schools and one alternative school. In total, the District facilities represent 435,000 square feet of buildings, which includes 216 classrooms (166 permanent/50 relocatables). The District is governed by a five member Board of Trustees. The District's average daily attendance for fiscal year 2001-02 was 5,154 and its projected average daily attendance for

fiscal year 2002-03 is 5,183. The District has a 2002-03 assessed valuation of \$2,753,065,946. See "THE DISTRICT" herein.

### **Authority for Issuance of the Bonds**

The Bonds are issued pursuant to certain provisions of the California Education Code and pursuant to the Resolutions. See "THE BONDS—Authority for Issuance" herein.

### **Security and Source of Payment for the Bonds**

The Bonds are general obligations of the District. The County Board has the power and is obligated to annually levy ad valorem taxes upon all property subject to taxation by the District, without limitation as to rate or amount, for the payment of principal of and interest on the Bonds (except for certain personal property which is taxable at limited rates). See "THE BONDS—Security and Source of Payment" and "THE DISTRICT" herein.

### **Municipal Bond Insurance**

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy (the "Municipal Bond Insurance Policy") to be issued concurrently with the delivery of the Bonds by Financial Security Assurance Inc. ("Financial Security"). See "MUNICIPAL BOND INSURANCE" herein.

### **Description of the Bonds**

*Denomination.* The Bonds will be issued in fully registered form only, without coupons, and will be in denominations of \$5,000 each or integral multiples thereof ("Authorized Denominations").

*Payments.* Interest on the Bonds will be payable from June 1, 2003, at the rates set forth on the cover page of this Official Statement, payable semiannually on each February 1 and August 1 (each, an "Interest Payment Date"), commencing February 1, 2004. The Bonds and the interest thereon are payable in lawful money of the United States of America, interest being payable by check mailed to the registered owners thereof at the address shown on the Bond registration books maintained by Union Bank of California, N.A., as paying agent (the "Paying Agent"), on the 15th day of the month preceding an Interest Payment Date. Principal will be payable upon surrender at the principal corporate trust office of the Paying Agent in San Francisco, California. Interest on the Bonds is payable to DTC for subsequent disbursement to DTC Participants who will remit payments to the beneficial owners of the Bonds. See "THE BONDS—General Provisions" herein.

*Redemption.* Bonds maturing on or before August 1, 2013, are not subject to redemption prior to their respective stated maturities. The Bonds maturing on or after August 1, 2014, are subject to redemption prior to maturity at the option of the District and from any available source of funds, in whole or in part on any date, on or after August 1, 2013, at the redemption prices described herein. See "THE BONDS—Optional Redemption" herein.

*Registration.* The Bonds will be initially delivered in fully registered form only, without coupons, registered in the name of Cede & Co., as nominee of DTC, and will be available to actual purchasers of the Bonds (the "Beneficial Owners") in Authorized Denominations, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Bonds. See "THE BONDS—Book-Entry Only System" herein. In the event that the book-

entry only system described below is no longer used with respect to the Bonds, the Bonds will be registered in accordance with the County Resolution. See "THE BONDS—Registration, Transfer and Exchange of Bond."

### **Tax Matters**

In the opinion of Quint & Thimmig LLP, San Francisco, California ("Bond Counsel"), subject to certain qualifications described herein, under existing law, interest on the Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of computing the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings and the Bonds are "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986 (the "Code") such that, in the case of certain financial institutions (within the meaning of section 265(b)(5) of the Code), a deduction for federal income tax purposes is allowed for 80 percent of that portion of such financial institution's interest expense allocable to interest payable on the Bonds. In the further opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxes imposed by the State of California See "LEGAL MATTERS-Tax Matters" herein.

### **Bondowner's Risks**

The Bonds are general obligations of the District payable from *ad valorem* taxes which may be levied without limitation as to rate or amount (except with respect to certain personal property which is taxable at limited rates) on all taxable property in the District. For more complete information regarding the District's financial condition and taxation of property within the District, see "THE DISTRICT" herein.

### **Continuing Disclosure**

In order to assist the underwriter in complying with S.E.C. Rule 15c2-12(b)(5), the District will undertake, pursuant to the District Resolution and a continuing disclosure certificate, to provide certain annual financial information and notices of the occurrence of certain events, if material. See "MISCELLANEOUS—Continuing Disclosure" herein.

### **Professionals Involved in the Offering**

Citigroup Global Markets Inc. will act as Underwriter of the Bonds (the "Underwriter"). All proceedings in connection with the issuance of the Bonds are subject to the approval of Quint & Thimmig LLP, San Francisco, California, Bond Counsel. Certain matters will be passed upon for the District by the Monterey County Counsel, as counsel to the District, for the County by the Monterey County Counsel, and by Quint & Thimmig LLP, San Francisco, California, as Disclosure Counsel. Citigroup Global Markets Inc., Quint & Thimmig LLP and Union Bank of California, N.A., as Paying Agent, will receive compensation solely from the proceeds of and contingent upon the sale and delivery of the Bonds.

### **Offering and Delivery of the Bonds**

The Bonds are offered when, as and if issued, subject to approval as to their legality by Bond Counsel. It is anticipated that the Bonds in book-entry form will be available for delivery through the facilities of DTC in New York, New York on or about June 19, 2003.

## **Other Information**

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

Copies of documents referred to herein and information concerning the Bonds are available from the Office of the Superintendent, North Monterey County Unified School District, 8142 Moss Landing Road, Moss Landing, CA 95039, Telephone: (831) 633-3343. The District may impose a charge for copying, mailing and handling.

## **THE BONDS**

### **General Provisions**

Interest will be payable on the Bonds at the rates and the Bonds will mature in the amounts and on the dates set forth on the cover page of this Official Statement. The Bonds will be issued in fully registered form, in Authorized Denominations. The Bonds will be delivered in book-entry form only and will be initially delivered and registered in the name of Cede & Co., as nominee for DTC. Purchasers will not receive certificates representing their interest in the Bonds. The Paying Agent will maintain at its principal office in San Francisco, California, books for the registration, exchange and transfer of the Bonds.

Interest on the Bonds will be payable semiannually on each Interest Payment Date by check of the Paying Agent mailed via first class mail on each Interest Payment Date to the Owners whose names appear on the registration books of the Paying Agent as of the close of business on the fifteenth calendar day of the month preceding each Interest Payment Date (a "Record Date"), whether or not such Record Date is a Business Day, or at such other address as such an Owner may have filed with the Paying Agent for purposes of receiving interest on the Bonds. Principal of and interest on the Bonds is payable in lawful money of the United States of America, at maturity or on any date established for redemption of principal upon presentation and surrender thereof at the principal trust office of the Paying Agent in San Francisco, California.

The Bonds will be dated as of June 1, 2003, and interest thereon (calculated on the basis of a 360-day year comprised of twelve 30-day months) will be payable from the Interest Payment Date next preceding the date of registration and authentication thereof, unless (i) it is registered and authenticated as of an Interest Payment Date, in which event it will bear interest from such date, or (ii) it is registered and authenticated prior to an Interest Payment Date, in which event it will bear interest from such Interest Payment Date, or (iii) it is registered and authenticated prior to January 15, 2004, in which event it will bear interest from June 1, 2003. However, if at the time of authentication of any Bond, interest is in default hereon, such Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

## Estimated Sources and Uses of Funds

The proceeds of the Bonds, including accrued interest, are expected to be applied as follows:

### Estimated Sources of Funds

Principal Amount of Bonds	\$7,000,000.00
Plus: Original Issue Premium	212,202.35
Less: Underwriter's Discount	(90,977.50)
Plus: Accrued Interest	<u>13,170.75</u>
Total Sources	<u>\$7,134,395.60</u>

### Estimated Uses of Funds

Deposit to Building Fund (1)	\$7,000,000.00
Deposit to Interest and Sinking Fund	28,478.96
Deposit to Costs of Issuance Fund (1)	<u>105,916.64</u>
Total Uses	<u>\$7,134,395.60</u>

(1) Includes municipal bond insurance premium, fees of Bond Counsel, Disclosure Counsel and Paying Agent, plus printing and similar fees and expenses.

## Authority for Issuance

The Bonds are issued under Chapter 1.5 of Part 10 of Division 1 of Title 1 of the California Education Code (the "Act") and pursuant to the Resolutions. The District received its authorization to issue \$20,750,000 principal amount of general obligation bonds at an election held on November 5, 2002, by more than the required 55% of the votes cast by eligible voters within the District. The Bonds represent the first issue of bonds under such authorization.

## Security For and Sources of Payment of Bonds

The Bonds are general obligations of the District and are payable from *ad valorem* taxes. The County Board is empowered and is obligated to levy *ad valorem* taxes, without limitation as to rate or amount, for the payment of the interest on and principal of the Bonds upon all property subject to taxation by the District (except certain personal property which is taxable at limited rates).

Specifically, the County Resolution provides and requires that there shall be levied by the County on all the taxable property in the District, in addition to all other taxes, a continuing direct and *ad valorem* tax annually during the period the Bonds are Outstanding in an amount sufficient to pay the principal of and interest on the Bonds when due, which moneys, when collected, will be placed in the Interest and Sinking Fund of the District and which fund is irrevocably pledged for the payment of the principal of and interest on the Bonds when and as the same fall due. The moneys so deposited in the Interest and Sinking Fund, to the extent necessary to pay the principal of and interest on the Bonds as the same become due and payable, will be transferred by the County to the Paying Agent, in amounts as shall be necessary and required from time to time to pay the principal of and interest on the Bonds. For further information regarding the District's tax base, tax rates, overlapping debt and other matters concerning taxation, see "THE DISTRICT" herein.

## Paying Agent

As long as DTC's book-entry method is used for the Bonds, the Paying Agent will send any notice of redemption or other notices to Owners only to Cede & Co., as nominee of DTC. Any

failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the redemption of Bonds called for redemption or of any other action premised on such notice.

The Paying Agent, the District and the Underwriter have no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership, of interests in the Bonds.

So long as the Outstanding Bonds are registered in the name of Cede & Co. or its registered assigns, the Paying Agent and the District will cooperate with Cede & Co., as sole registered owner, or its registered assigns in effecting payment of the principal of and interest on the Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made immediately available on the date they are due.

**Annual Debt Service**

The annual debt service for the Bonds, consisting of payments of principal and interest on the Bonds, assuming no early redemptions of principal of the Bonds are made, is shown in the following table:

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT  
Annual Debt Service**

<u>Maturity (August 1)</u>	<u>Principal*</u>	<u>Interest</u>	<u>Total</u>
2004	\$1,170,000	\$307,317.50	\$1,477,317.50
2005	170,000	234,165.00	404,165.00
2006	170,000	229,915.00	399,915.00
2007	175,000	224,815.00	399,815.00
2008	180,000	219,565.00	399,565.00
2009	190,000	214,165.00	404,165.00
2010	195,000	207,515.00	402,515.00
2011	200,000	200,690.00	400,690.00
2012	210,000	193,690.00	403,690.00
2013	215,000	186,340.00	401,340.00
2014	225,000	178,815.00	403,815.00
2015	230,000	170,940.00	400,940.00
2016	240,000	162,315.00	402,315.00
2017	250,000	153,315.00	403,315.00
2018	260,000	143,315.00	403,315.00
2019	270,000	132,915.00	402,915.00
2020	285,000	122,115.00	407,115.00
2021	295,000	110,715.00	405,715.00
2022	310,000	98,620.00	408,620.00
2023	320,000	85,600.00	405,600.00
2024	335,000	72,000.00	407,000.00
2025	350,000	55,250.00	405,250.00
2026	370,000	37,750.00	407,750.00
2027	385,000	19,250.00	404,250.00

\*Includes mandatory sinking fund installments.



## Investment of Bond Proceeds and Amounts Held in Debt Service Fund

On the date of delivery of the Bonds, the proceeds of sale of the Bonds will be paid to the County Treasurer-Tax Collector. Moneys held by the County Treasurer-Tax Collector for the benefit of the District will be invested in any one or more investments generally permitted to school districts under the laws of the State of California.

### Redemption

*Optional Redemption.* The Bonds maturing on or before August 1, 2013, are not subject to redemption prior to maturity. The Bonds maturing on or after August 1, 2014, are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part at the direction of the District, on any date on or after August 1, 2013, at the redemption price of par, together with interest accrued thereon to the date of redemption, without premium.

*Mandatory Sinking Fund Redemption.* The Bonds maturing on August 1, 2027 (the "Term Bonds") are also subject to mandatory sinking fund redemption on August 1 in the years, and in the amounts, as set forth in the following table, at a redemption price equal to one hundred percent (100%) of the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption; provided, however, that if some but not all of the Term Bonds have been redeemed pursuant to the preceding paragraph, the aggregate principal amount of Term Bonds to be redeemed under this paragraph shall be reduced on a pro rata basis in integral multiples of \$5,000, as shall be designated pursuant to written notice filed by the District with the Paying Agent:

Sinking Fund Redemption Date (August 1)	Principal Amount to be Redeemed
2024	\$335,000
2025	350,000
2026	370,000
2027+	385,000

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†Maturity.

*Selection of Bonds for Redemption.* The County Resolution provides that if less than all of the Bonds are called for redemption, the particular Bonds or portions thereof to be redeemed will be called in such order as shall be directed by the District, and, in lieu of such direction, on a pro rata basis among maturities. Within a maturity, the Paying Agent will select the Bonds for redemption by lot; provided, however, that the portion of any Bond to be redeemed shall be in an Authorized Denomination and that, in selecting Bonds for redemption, the Paying Agent will treat each Bond as representing that number of Bonds which is obtained by dividing the principal amount of such Bond by five thousand dollars (\$5,000).

While the Bonds are subject to DTC's book-entry system, the Paying Agent will be required to give notice of redemption only to Cede & Co., as nominee of DTC as provided in the letter of representations executed by the District and received and accepted by DTC. DTC and the Participants will have sole responsibility for providing any such notice of redemption to the Beneficial Owners of the Bonds to be prepaid. Any failure of DTC to notify any Participant, or any failure of Participants to notify the Beneficial Owner of any Bonds to be redeemed, of a notice of redemption or its content or effect will not affect the validity of the notice of redemption, or alter the effect of redemption. If the book-entry system for the Bonds is discontinued at any time while

Bonds are Outstanding, then any notice of redemption of the Bonds will be given to all registered Owners of the Bonds affected by such redemption.

*Notice of Redemption.* The Paying Agent will give notice of the redemption of the Bonds at the expense of the District. Such notice will specify: (a) that the Bonds or a designated portion thereof are to be redeemed, (b) the numbers and CUSIP numbers of the Bonds to be redeemed, (c) the date of notice and the date of redemption, (d) the place or places where the redemption will be made, and (e) descriptive information regarding the Bonds including their dated date, interest rate and stated maturity date. Such notice will further state that on the specified date there will become due and payable upon each Bond to be redeemed, the portion of the principal amount of such Bond to be redeemed, together with interest accrued to said date, and redemption premium, if any, and that from and after such date interest with respect thereto will cease to accrue and be payable.

Notice of redemption will be by registered or otherwise secured mail or delivery service, postage prepaid to each registered Owner of the Bonds, or if the registered Owner is a syndicate, to the managing member of such syndicate, to a municipal registered securities depository and to a national information service that disseminates securities redemption notices, and by first class mail, postage prepaid, to the District and, with notices to the respective Owners of any registered Bonds designated for redemption to be mailed to their addresses appearing on the Bond registration books, in every case at least thirty (30) days, but not more than sixty (60) days, prior to the redemption date; provided that neither failure to receive such notice nor any defect in any notice so mailed will affect the sufficiency of the proceedings for the redemption of such Bonds.

*Partial Redemption of Bonds.* Upon the surrender of any Bond redeemed in part only, the Paying Agent will execute and deliver to the registered Owner thereof a new Bond of like tenor and maturity and of Authorized Denominations equal in aggregate principal amount to the unredeemed portion of the Bonds surrendered. Such partial redemption shall be valid upon payment of the amount required to be paid to such registered Owner, and the Paying Agent and the District shall be released and discharged thereupon from all liability to the extent of such payment and partial redemption.

*Effect of Redemption.* The County Resolution provides that notice having been given as aforesaid, and the moneys for the redemption (including the interest to the applicable date of redemption) having been set aside for such purpose, the Bonds to be redeemed will become due and payable on such date of redemption. If on such redemption date, the money for the redemption of all of the Bonds to be redeemed, together with interest to such redemption date, shall be held by the County Treasurer-Tax Collector so as to be available therefore on such redemption date, and if notice of redemption thereof was given as aforesaid, then from and after such redemption date, interest with respect to the Bonds to be redeemed will cease to accrue and become payable. All money held by or on behalf of the County Treasurer-Tax Collector for the redemption of Bonds will be held in trust for the account of the registered Owners of the Bonds so to be redeemed.

Bonds (or portions thereof), which have been duly called for redemption prior to maturity under the provisions of the County Resolution, or with respect to which irrevocable instructions to call for redemption prior to maturity at the earliest redemption date have been given to the Paying Agent, in form satisfactory to it, and if sufficient moneys are held by the County Treasurer-Tax Collector irrevocably in trust for the payment of the redemption price of such Bonds or portions thereof, all as provided in the County Resolution, then such Bonds to be redeemed will no longer be deemed Outstanding under the County Resolution and will be surrendered to the Paying Agent for cancellation.

## Defeasance

The County Resolution provides that the Bonds may be paid and discharged in any one or more of the following ways (and provided the District also pays or causes to be paid any other sums required to be paid by the District pursuant to the provisions of the County Resolution):

(a) by paying or causing to be paid the principal or redemption price of and interest on the Bonds Outstanding, as and when the same become due and payable; or

(b) by depositing in trust, at or before maturity, moneys or securities on the remaining amounts (as described below) to pay or redeem Bonds Outstanding; or

(c) by delivery to the Paying Agent, for cancellation by it, Bonds Outstanding.

Whenever it is provided or permitted by the County Resolution that there be deposited with or held in trust by the Paying Agent money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Paying Agent in the funds and accounts established pursuant to the County Resolution which shall be:

(i) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption was given as provided in the County Resolution or provision satisfactory to the Paying Agent was made for the giving of such notice, the amount to be deposited or held shall be the principal amount or redemption price of such Bonds and all unpaid interest thereon to the redemption date; or

(ii) Federal Securities (not callable by the issuer thereof prior to maturity) the principal of and interest on which when due, in the opinion of a certified public accountant delivered to the District, will provide money sufficient to pay the principal or redemption price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or redemption price and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption was given as provided in the County Resolution or provision satisfactory to the Paying Agent was made for the giving of such notice; and

provided, in each case, that the Paying Agent was irrevocably instructed (by the terms of the Resolution or by request of the District) to apply such money to the payment of such principal or redemption price and interest with respect to such Bonds.

Upon the deposit, in trust at or before maturity, of money or securities in the necessary amount (as described in the foregoing paragraph) to pay or redeem any Bond (whether upon or prior to its maturity or the redemption date of such Bond), and, in the case of a Bond to be redeemed prior to maturity, notice of such redemption was given provided for in the County Resolution or provision satisfactory to the Paying Agent was made for the giving of such notice, then all liability of the District in respect of such Bond will cease and be completely discharged, except only that thereafter the Owner thereof will be entitled only to payment of the principal of and interest on such Bond by the District, and the District will remain liable for such payment, but only out of such money or securities deposited with the Paying Agent as aforesaid for such payment. The District may at any time surrender to the Paying Agent for cancellation by it any Bonds previously issued and delivered, which the District may have acquired in any manner

whatsoever, and such Bonds, upon such surrender and cancellation, will be deemed to be paid and retired.

If the District pays all Bonds outstanding and also pays or causes to be paid all other sums payable by the District pursuant to the requirements of the County Resolution, then and in that case, at the election of the District (evidenced by a certificate of a District Representative, filed with the Paying Agent, signifying the intention of the District to discharge all such indebtedness and the County Resolution), and notwithstanding that any Bonds shall not have been surrendered for payment, the County Resolution and other assets made under the Resolution and all covenants, agreements and other obligations of the District under the County Resolution will cease, terminate, become void and be completely discharged and satisfied, except only to the extent provided in the County Resolution. In such event, upon request of the District, the Paying Agent will cause an accounting for such period or periods as may be requested by the District to be prepared and filed with the District and will execute and deliver to the District all such instruments as may be necessary to evidence such discharge and satisfaction, and the Paying Agent will pay over, transfer, assign or deliver to the District all moneys or securities or other property held by it pursuant to the County Resolution which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

Any funds held in trust, at the time of discharge of all Bonds as a result of one of the events described in paragraphs (a) or (b) above, which are not required for the payments to be made to Owners, will, upon payment in full of all fees and expenses of the Paying Agent and other sums payable by the District pursuant to the Resolution paid and then due, be paid over to the District.

### **Book-Entry Only System**

The following information has been provided by DTC for use in securities offering documents, and the District takes responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute the Beneficial Owners either (a) payments of interest, principal or premium, if any, with respect to the Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Bonds, or that they will so do on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this Official Statement.

1. DTC will act as securities depository for the Bonds (the "Securities"). The Securities 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 Security certificate will be issued for each maturity of the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC.

2. DTC, the world's largest 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 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the 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, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, 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 its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("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 Securities 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 Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities 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 Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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.

5. 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.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities 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 District or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's 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 such Participant and not of DTC nor its nominee, the Paying Agent or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the District or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered.

## **MUNICIPAL BOND INSURANCE**

### **Municipal Bond Insurance Policy**

Concurrently with the issuance of the Bonds, Financial Security will issue the Municipal Bond Insurance Policy. The Municipal Bond Insurance Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Municipal Bond Insurance Policy included as Appendix D to this Official Statement.

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

### **Financial Security Assurance Inc.**

Financial Security is a New York domiciled insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At March 31, 2003, Financial Security's total policyholders' surplus and contingency reserves were approximately \$1,932,647,000 and its total unearned premium reserve was approximately \$1,077,095,000 in accordance with statutory accounting practices. At March 31, 2003, Financial Security's total shareholders' equity was approximately \$2,043,103,000 and its total net unearned premium reserve was approximately \$904,700,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by

reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Municipal Bond Insurance Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the District the information presented under this caption for inclusion in this Official Statement.

### COUNTY INVESTMENT POOL

*This section provides a general description of the County's investment policy, current portfolio holdings, and valuation procedures. The information has been adapted from material prepared by the County for inclusion in this Official Statement. The District makes no representation as to the accuracy or completeness of such information. Further information may be obtained from the office of the Treasurer-Tax Collector of the County of Monterey, 240 Church Street, Room 201, Salinas, CA 93901, telephone (831) 755-5015.*

Under California law, the District is required to pay all monies received from any source into the Monterey County Treasury to be held on behalf of the District. The Treasurer-Tax Collector of the County (the "Treasurer") has authority to implement and oversee the investment of funds on deposit in commingled funds of the Treasury (the "Treasury Pool"). As of December 31, 2002, investments in the Treasury Pool were held for local agencies in the following amounts:

<u>Local Agency</u>	<u>Invested Funds</u>
County of Monterey and Special Districts	\$243,232,544
School districts and community colleges	319,531,819

Of these entities, the County, schools and community colleges, and statutorily defined special districts are the only involuntary participants and account for 100% of the total.

Decisions on the investment of funds in the Treasury Pool are made by the Treasurer and his deputies in accordance with established policy guidelines. In the County, investment decisions are governed by California Government Code Sections 53601 and 53635, et seq., which govern legal investments by local agencies in the State of California, and a more restrictive Investment Policy proposed by the Treasurer and adopted by the County Board on an annual basis.

The Investment Policy provides first for the safety and liquidity of funds on deposit, restricts the weighted average maximum maturity to two years, limits reverse repurchase agreement maturities to 100 days, requires matched maturities on reverse repurchase agreement reinvestments, forbids acceptance of gifts from brokers and dealers, authorizes purchases only from primary dealers, requires third-party safekeeping of all investments, and provides for marking to market on a quarterly basis.

On March 31, 2003 the Treasury Pool contained a cost basis of \$534,740,329 spread among 62 separate instruments. The market value was \$534,156,354, or 100.238% of par value, and was 99.891% of the cost basis. Securities purchased at a discount are valued at their purchase price. The

portfolio duration was 113 days with \$312,021,951 or 64.646% maturing within 90 days. The Treasury Pool's annualized rate of return on March 31, 2003 was 1.668%. The weighted average maturity of the portfolio is 155 days or .425 years. The Treasury Pool is in compliance with all provisions of the adopted investment policy and with applicable provisions of State statutes. The sources of market values and prices include Bear Stearns, Credit Suisse First Boston, Morgan Stanley Dean Witter, and Bloomberg LLP. The pricing data was compiled by Government Perspectives, LLC, Lafayette, CA.

Neither the District nor the Underwriter have made an independent investigation of the investments in the Treasury Pool and has made no assessment of the current County investment policy. The value of the various investments in the Treasury Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Additionally, the Treasurer, with the consent of the Treasury Oversight Committee and the County Board of Supervisors may change the County investment policy at any time. Therefore, there can be no assurance that the values of the various investments in the Treasury Pool will not vary significantly from the values described herein.

## **CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS**

### **Article XIII A of the California Constitution**

On June 6, 1978, California voters approved Proposition 13, which added Article XIII A to the California Constitution ("Article XIII A"). Article XIII A limits the amount of any ad valorem taxes on real property to 1% of the full cash value thereof, except that additional ad valorem taxes may be levied to pay debt service on indebtedness approved by the voters prior to August 1, 1978 and (as a result of an amendment to Article XIII A approved by California voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after August 1, 1978 by two-thirds of the voters voting on such indebtedness. Article XIII A defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." This full cash value may be increased at a rate not to exceed 2% per year until new construction or a change of ownership occurs.

Article XIII A has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by substantial damage, destruction or other factors, to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster, and in various other minor or technical ways.

### **Legislation Implementing Article XIII A**

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the County and distributed according to a formula among taxing agencies.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the annual adjustment not to exceed 2% are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.



All taxable property is shown at 100% of assessed value on the tax rolls. Consequently, the tax rate is expressed as \$1 per \$100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of taxable value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

### **Article XIII B of the California Constitution**

An initiative to amend the California Constitution entitled "Limitation of Government Appropriations," was approved on November 6, 1979, thereby adding Article XIII B to the California Constitution ("Article XIII B"). Under Article XIII B, state and local governmental entities have an annual "appropriations limit" and are not permitted to spend certain moneys which are called "appropriations subject to limitation" (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the appropriations limit. Article XIII B does not affect the appropriation of moneys which are excluded from the definition of "appropriations subject to limitation," including appropriations for debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the appropriations limit was originally to be based on certain fiscal year 1978-79 expenditures, and adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIII B, if these entities' revenues in any consecutive two-year period exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years. In the event the District receives any proceeds of taxes in excess of the allowable limit in any fiscal year, the District may implement a statutory procedure to concurrently increase the District's appropriations limit and decrease the State's allowable limit, thus nullifying the need for any return. Certain features of Article XIII B were modified by Proposition 111 in 1990 (see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS-Proposition 111").

### **Unitary Property**

Some amount of property tax revenue of the District is derived from utility property which is considered part of a utility system with components located in many taxing jurisdictions, ("unitary property"). Under the State Constitution, such property is assessed by the State Board of Equalization ("SBE") as part of a "going concern" rather than as individual pieces of real or personal property. State-assessed unitary and certain other property is allocated to the counties by SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the District) according to statutory formulae generally based on the distribution of taxes in the prior year.

Until fiscal year 2001-02, SBE assessment of investor-owned gas and electric companies, incumbent local exchange companies, AT&T Corp., and AT&T Communications of California, Inc., will be subject to a court-approved agreement dated May 1, 1992 (the "Settlement Agreement"), among those companies, the SBE and all California counties. The Settlement Agreement arose from litigation against SBE in which the court held that the SBE's valuation approaches had overvalued AT&T's unitary property, and ordered AT&T's statewide assessed value to be reduced from approximately \$1.75 billion to approximately \$1.1 billion. The Settlement Agreement provides that its valuation method is not intended to be precedent for calculating fair market value of unitary property in years following its expiration.

While the Settlement Agreement has been in effect, the California electric utility industry has been undergoing significant changes in its structure and in the way in which components of the industry are regulated. Sale of electric generation assets to largely unregulated, nonutility

companies may affect how those assets are assessed following the expiration of the Settlement Agreement, and which local agencies are to receive the property taxes. The District is unable to predict the impact of these changes on its utility property tax revenues, or whether legislation may be proposed or adopted in response to industry restructuring, or whether any future litigation may affect the State's methods of assessing utility property and the allocation of assessed value to local taxing agencies, including the District. Because the District is not a basic aid district, taxes lost through any reduction in assessed valuation will be compensated by the State as equalization aid under the State's school financing formula. See "DISTRICT FINANCIAL INFORMATION" herein.

### **Proposition 62**

On November 4, 1986, California voters approved Proposition 62, an initiative statute limiting the imposition of new or higher taxes by local agencies. The statute (a) requires new or higher general taxes to be approved by two-thirds of the local agency's governing body and a majority of its voters, and requires new or higher special taxes to be approved by two-thirds of both such local agency's governing body and such local agency's voters; (b) requires the inclusion of specific information in all local ordinances or resolutions proposing new or higher general or special taxes; (c) penalizes local agencies that fail to comply with the foregoing.

Most of the provisions of Proposition 62 were affirmed by the 1995 California Supreme Court decision in *Santa Clara County Local Transportation Authority v. Guardino* ("Guardino") which invalidated a special sales tax for transportation purposes because fewer than two-thirds of the voters voting on the measure had approved the tax. Although by its terms, Proposition 62 applies to school districts, because the District does not receive any material amount of tax revenues from any tax levied in contradiction to Proposition 62, the District has not experienced nor does it expect to experience any substantive adverse financial impact as a result of the passage of this initiative or the *Guardino* decision. The requirements of Proposition 62 have generally been superseded by the enactment of Article XIIC of the California Constitution (Proposition 218) in 1996.

### **Proposition 98**

On November 8, 1988, California voters approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" (the "Accountability Act"). Certain provisions of the Accountability Act, have, however, been modified by Proposition 111, discussed below, the provisions of which became effective on August 1, 1990. The Accountability Act changes State funding of public education below the university level and the operation of the State's appropriations limit. The Accountability Act guarantees State funding for K-12 school districts and community college districts (hereinafter referred to collectively as "K-14 school districts") at a level equal to the greater of (a) the same percentage of General Fund revenues as the percentage appropriated to such districts in 1986-87, and (b) the amount actually appropriated to such districts from State general fund in the previous fiscal year, adjusted for increases in enrollment and changes in the cost of living. The Accountability Act permits the Legislature to suspend this formula for a one-year period. The current level of guaranteed funding pursuant to Proposition 98 is 34.55% of the State general fund.

The Accountability Act also changes how tax revenues in excess of the State appropriations limit are distributed. Any excess State tax revenues up to a specified amount would, instead of being returned to taxpayers, is transferred to K-14 school districts. Any such transfer to K-14 school districts would be excluded from the appropriations limit for K-14 school districts and the K-14 school district appropriations limit for the next year would automatically be increased by the

amount of such transfer. These additional moneys would enter the base funding calculation for K-14 school districts for subsequent years, creating further pressure on other portions of the State budget, particularly if revenues decline in a year following an Article XIII B surplus. The maximum amount of excess tax revenues which could be transferred to K-14 school districts is 4% of the minimum State spending for education mandated by the Accountability Act.

Since the Accountability Act is unclear in some details, there can be no assurances that the Legislature or a court might not interpret the Accountability Act to require a different percentage of State general fund revenues to be allocated to K-14 school districts, or to apply the relevant percentage to the State's budgets in a different way than is proposed in the Governor's Budget.

### **Proposition 111**

On June 5, 1990, the voters of California approved the "Traffic Congestion Relief and Spending Limitation Act of 1990 ("Proposition 111"), which modified the State Constitution to alter the Article XIII B spending limit and the education funding provisions of Proposition 98. Proposition 111 took effect on August 1, 1990.

The most significant provisions of Proposition 111 are summarized as follows:

a. *Annual Adjustments to Spending Limit.* The annual adjustments to the Article XIII B spending limit were liberalized to be more closely linked to the rate of economic growth.

Instead of being tied to the Consumer Price Index, the "change in the cost of living" is now measured by the change in California per capita personal income. The definition of "change in population" specifies that a portion of the State's spending limit is to be adjusted to reflect changes in school attendance.

b. *Treatment of Excess Tax Revenues.* "Excess" tax revenues with respect to Article XIII B are now determined based on a two-year cycle, so that the State can avoid having to return to taxpayers excess tax revenues in one year if its appropriations in the next fiscal year are under its limit. In addition, the Proposition 98 provision regarding excess tax revenues was modified. After any two-year period, if there are excess State tax revenues, 50% of the excess are to be transferred to K-14 school districts with the balance returned to taxpayers; under prior law, 100% of excess State tax revenues went to K-14 school districts, but only up to a maximum of 4% of the schools' minimum funding level. Also, reversing prior law, any excess State tax revenues transferred to K-14 school districts are not built into the school districts' base expenditures for calculating their entitlement for State aid in the next year, and the State's appropriations limit are not to be increased by this amount.

c. *Exclusions from Spending Limit.* Two new exceptions have been added to the calculation of appropriations which are subject to the Article XIII B spending limit. First, there are excluded all appropriations for "qualified capital outlay projects" as defined by the Legislature. Second, there are excluded any increases in gasoline taxes above their current nine cents per gallon level, sales and use taxes on such increment in gasoline taxes, and increases in receipts from vehicle weight fees above the levels in effect on January 1, 1990.

d. *Recalculation of Appropriations Limit.* The Article XIII B appropriations limit for each unit of government, including the State, is to be recalculated beginning in fiscal year 1990-91. It is based on the actual limit for fiscal year 1986-87, adjusted forward to 1990-91 as if Proposition 111 had been in effect.

e. *School Funding Guarantee*. There is a complex adjustment in the formula enacted in Proposition 98 which guarantees K-14 school districts a certain amount of State general fund revenues. Under prior law, K-14 school districts were guaranteed the greater of (1) a certain percentage of State general fund revenues (the "first test") or (2) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIII B by reference to per capita personal income) and enrollment (the "second test"). Under Proposition 111, schools will receive the greater of (1) the first test, (2) the second test, or (3) a third test, which will replace the second test in any year when growth in per capita State general fund revenues from the prior year is less than the annual growth in California per capita personal income. Under the third test, schools will receive the amount appropriated in the prior year adjusted for change in enrollment and per capita State general fund revenues, plus an additional small adjustment factor. If the third test is used in any year, the difference between the third test and the second test will become a "credit" to schools which will be paid in future years when State general fund revenue growth exceeds personal income growth.

### **Proposition 187**

On November 8, 1994, California voters approved a statutory initiative ("Proposition 187") generally directed at curbing taxpayer spending for various public programs, including public education, to the extent those programs benefit illegal aliens. Among other things, Proposition 187 would have required school officials to verify the legal status of each student and to deny education services to illegal aliens. Enforcement costs to local districts were potentially large. A number of lawsuits filed in state and federal court challenging the validity of Proposition 187 under the California and U.S. Constitutions were consolidated for trial in the U.S. District Court. In November 1995, the District Court ruled various provisions of the initiative unconstitutional, particularly those affecting public schools. In February 1998, the court overturned the remaining provisions of Proposition 187. An appeal was filed by the former California State Attorney General in the U.S. Court of Appeals in the 9th Circuit on February 25, 1998. On April 15, 1999, Governor Davis announced that he would seek a mediated settlement of the suit. On April 26, 1999, the 9th Circuit granted the Governor's request for mediation and suspended action on the State's appeal until June 18, 1999. The District cannot predict what will be the ultimate outcome of this litigation or what the ultimate fiscal impact may be on the District.

### **Proposition 218**

An initiative measure entitled "Right to Vote on Taxes Act," also known as Proposition 218 ("Proposition 218"), was approved by California voters at the November 5, 1996, statewide general election, and became effective on November 6, 1996. Proposition 218 added Articles XIII C and XIII D to the California Constitution, and all references herein to Articles XIII C and XIII D are references to the text as set forth in Proposition 218.

Among other things, Article XIII C establishes that every tax imposed by a local government is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes), and prohibits special purpose government agencies such as school districts from levying general taxes.

Article XIII C also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. The State Constitution and the laws of the State impose a mandatory, statutory duty on the County to levy a property tax sufficient to pay debt service on general obligation bonds coming due in each year. The initiative power cannot be used to reduce or repeal the authority and obligation to levy such taxes which are pledged as security for payment of general obligation bonds or to otherwise interfere with performance of the mandatory, statutory duty of the County with respect to such taxes which are

pledged as security for payment of general obligation bonds. Legislation adopted in 1997 provides that Article XIIC 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.

Article XIID deals with assessments and property-related fees and charges. Article XIID explicitly provides that nothing in Article XIIC or XIID shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development; however, it is not clear whether the initiative power is therefore unavailable to repeal or reduce developer and mitigation fees imposed by the District.

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.

### **Future Initiatives**

Article XIII A, Article XIII B and Propositions 62, 98, 111, 187 and 218 were each adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time, other initiative measures could be adopted, further affecting District revenues or the ability of the District to expend revenues.

## **STATE OF CALIFORNIA FINANCES AND SUPPORT OF SCHOOL EDUCATION**

*The information in this section concerning the state funding of public education is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from State revenues. The Bonds are payable from ad valorem taxes to be levied upon all taxable property within the District, as described herein.*

### **General**

The State of California (the "State") requires that from all State revenues there shall first be set apart the moneys to be applied for support of the public school systems and public institutions of higher education. These public education entities receive a significant portion of their funding from State appropriations. As a result, decreases in State revenues may significantly affect appropriations made by the State Legislature and consequently, significantly affect the funding levels for both public school systems and public institutions of higher education. The District Board of the District acts as the governing board for the District and adopts a budget for the District.

### **Aggregate State Education Funding**

Public school districts in California are dependent on revenues from the State for a large portion of their operating budgets. California school districts receive an average of about 55 percent of their operating revenues from various State sources. The primary source of funding for school districts is the revenue limit, which is a combination of State funds and local property taxes (see "DISTRICT FINANCIAL INFORMATION-State Funding of Education and Revenue Limitations" herein). State funds typically make up the majority of a district's revenue limit. School districts also receive substantial funding from the State for various categorical programs. Revenues received by the District from all State sources accounted for about 76.3 percent of total general fund revenues in 2001-02 and 75.0 percent in 2002-03 (estimated).

The availability of State funds for public education is a function of constitutional provisions affecting school district revenues and expenditures (see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS"), the condition of the State economy (which affects total revenue available to the State general fund), and the annual State budget process.

The State requires that from all State revenues there first shall be set apart the moneys to be applied for support of the public school system and public institutions of higher education. California school districts receive a significant portion of their funding from State appropriations. As a result, decreases in State revenues may significantly affect appropriations made by the legislature to school districts.

*The following information concerning the State's budgets for the current and most recent preceding years has been compiled from publicly-available information provided by the State. Neither the District nor the Underwriter is responsible for the information relating to the State's budgets provided in this section. Further information is available from the Public Finance Division of the State Treasurer's Office.*

*The Budget Process.* The State's fiscal year begins on July 1 and ends on June 30. The annual budget is proposed by the Governor by January 10 of each year for the next fiscal year (the "Governor's Budget"). Under State law, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of projected revenues and balances available from prior fiscal years. Following the submission of the Governor's Budget, the Legislature takes up the proposal.

Under the State Constitution, money may be drawn from the Treasury only through an appropriation made by law. The primary source of the annual expenditure authorizations is the Budget Act as approved by the Legislature and signed by the Governor. The Budget Act must be approved by a two-thirds majority vote of each House of the Legislature. The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line-item vetoes are subject to override by a two-thirds majority vote of each House of the Legislature.

Appropriations also may be included in legislation other than the Budget Act. Bills containing appropriations (except for K-14 education) must be approved by a two-thirds majority vote in each House of the Legislature and be signed by the Governor. Bills containing K-14 education appropriations only require a simple majority vote. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution.

Funds necessary to meet an appropriation need not be in the State Treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

*Recent State Budgets.* Certain information about the State budgeting process and the State Budget is available through several State of California sources. A convenient source of information is the State's website, where recent official statements for State bonds are posted. The references to internet websites shown below are shown for reference and convenience only, the information contained within the websites has not been reviewed by the District and is not incorporated herein by reference.

- (i) The California State Treasurer Internet home page at [www.treasurer.ca.gov](http://www.treasurer.ca.gov), under the heading "Bond Information," posts various State of California Official Statements, many of which contain a summary of the current State Budget, past State Budgets, and the impact of those budgets on school districts in the State.

- (ii) The California State Treasurer's Office Internet home page at [www.treasurer.ca.gov](http://www.treasurer.ca.gov), under the heading "Financial Information," posts the State's audited financial statements. In addition, the "Financial Information" section includes the State's Rule 15c2-12 filings for State bond issues. The "Financial Information" section also includes the "Overview of the State Economy and Government, State Finances, State Indebtedness, Litigation" from the State's most current Official Statement, which discusses the State budget and its impact on school districts.
- (iii) The California Department of Finance's Internet home page at [www.dof.ca.gov](http://www.dof.ca.gov), under the heading "California Budget," includes the text of proposed and adopted State Budgets.
- (iv) The State Legislative Analyst's Office prepares analyses of the proposed and adopted State budgets. The analyses are accessible on the Legislative Analyst's Internet home page at [www.lao.ca.gov](http://www.lao.ca.gov) under the heading "Products".

THE STATE HAS NOT ENTERED INTO ANY CONTRACTUAL COMMITMENT WITH THE DISTRICT, THE PAYING AGENT OR THE OWNERS OF THE BONDS TO PROVIDE STATE BUDGET INFORMATION TO THE DISTRICT OR THE OWNERS OF THE BONDS. ALTHOUGH THEY BELIEVE THE STATE SOURCES OF INFORMATION LISTED ABOVE ARE RELIABLE, THE DISTRICT ASSUMES NO RESPONSIBILITY FOR THE ACCURACY OF THE STATE BUDGET INFORMATION SET FORTH HEREIN OR INCORPORATED BY REFERENCE HEREIN.

## THE DISTRICT

### General Information

The boundaries of the District encompass an area of approximately 70 square miles within the County. The territory of the District includes the unincorporated towns of Prunedale and Castroville as well as other adjacent unincorporated areas of the County.

The District was organized on July 1, 1977, following a unification election in the former North Monterey County Union School District. The District consists of four elementary schools, two middle schools, one high school, two continuation schools and one alternative school. In total, the District facilities represent 435,000 square feet of buildings, which includes 216 classrooms (166 permanent/50 relocatables). The average daily attendance for fiscal year 2002-2003 is estimated at 5,183.

### Board of Trustees

The District is governed by a five-member Board of Trustees, each member of which is elected to a four-year term. Elections for positions to the District Board are held every two years, alternating between three and two available positions. The current members of the District Board together with the expiration of their terms are as follows:

<u>Name</u>	<u>Position</u>	<u>Expiration of Term</u>
Diana Jimenez	President	December 2003
Samuel Laage	Vice President	December 2005
Larry Calhoun	Clerk	December 2005
Robert Taniguchi	Parliamentarian	December 2003
Rachelle Morgan-Lewis	Member	December 2003

## Schools and Enrollment

The District is a unified school district providing education for students in grades K-12. The District currently operates four elementary schools, two middle schools, one high school, two continuation schools and one alternative school. The District currently employs 320 certificated employees and 215 classified employees.

Total average daily attendance within the District has increased moderately since fiscal year 1992-93 and is anticipated to grow moderately in the future. Enrollment in grades K-12 is shown in the table below.

### GRADES K-12 AVERAGE DAILY ATTENDANCE FISCAL YEAR 1992-93 THROUGH 2002-2003 North Monterey County Unified School District

<u>Year</u>	<u>Average Daily Attendance</u> <sup>(1)(2)(3)</sup>	<u>Annual Change</u>	<u>Annual % Change</u>
1992-93	5,085	(27)	(0.5)
1993-94	5,229	144	2.8
1995-96	5,569	185	3.4
1996-97	5,536	(33)	(0.6)
1997-98	5,439	997	(1.8)
1998-99	5,294	(145)	(2.7)
1999-00	5,231	(63)	(1.2)
2000-01	5,300	69	1.3
2001-02	5,154	(146)	(2.8)
2002-03	5,183	29	0.6

Source: North Monterey County Unified School District, based on October CBEDS.

(1) Includes continuation school, regional occupational center and adult education.

(2) Beginning in fiscal year 1997-98, charter school attendance is not considered attendance for District purposes. This change resulted in a reduction of approximately 126 in average daily attendance.

(3) Attendance drop in 1998-99 reflects the revised State policy whereby excused absences are no longer compensated.

## Employee Relations

In the fall of 1974, the California State Legislature enacted a public employee collective bargaining law, known as the "Rodda Act," which became effective 1976. This law provides that employees are to be divided into appropriate bargaining units which are to be represented by an exclusive bargaining agent.

The teachers of the District have selected the California Federation of Teachers as their exclusive bargaining unit. The current agreement has elapsed; however, negotiations are underway to renew the agreement.

The California School Employees Association has been selected as the exclusive bargaining agent for classified personnel. The current agreement has elapsed; however, negotiations are underway to renew the agreement.

## District Retirement System

Qualified certificated and classified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS) and classified employees are members of the Public Employees' Retirement System (PERS).



*All full-time certificated employees participate in STRS, a cost-sharing multiple-employer contributory public employee retirement system. STRS provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.*

All full-time and some part-time classified employees participate in PERS, an agent multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. The District is part of a "cost-sharing" pool within PERS. One actuarial valuation is performed for those employers participating in the pool, and the same contribution rate applies to each.

The District is required by statute to contribute 8.25% of gross salary expenditures to STRS, and 6.033% to PERS. Participants are required to contribute 8% and 7% of applicable gross salary to STRS and PERS, respectively. The District's employer contributions to STRS and to PERS met the required contribution rates established by law.

The District contributed \$1,258,561, \$1,468,399 and \$1,552,187, respectively, to STRS for the fiscal years ended June 30, 2000, 2001 and 2002. The District contributed \$0, \$369,166 and \$0, respectively, to PERS for the fiscal years ended June 30, 2000, 2001 and 2002.

### **Insurance Program**

The District participates in one joint venture under joint powers agreements (JPAs): the Monterey County Property Liability Self-Insurance Fund. The relationship between the District and the JPAs are such that none is a component unit of the others for financial reporting purposes, although the District is represented on the Board of Directors of the JPA.

The JPA is governed by a board consisting of a representative from each member district. The governing board controls the operations of the JPA independent of any influence by the District beyond its representation on the board.

*The JPA is independently accountable for its fiscal matters. Budgets are not subject to any approval other than that of the governing board. Member districts share surpluses and deficits proportionate to their participation in the JPA.*

## **DISTRICT FINANCIAL INFORMATION**

### **Accounting Practices**

The accounting practices of the District conform to generally accepted accounting principles in accordance with policies and procedures of the California School Accounting Manual. This manual, according to Section 41010 of the California Education Code is to be followed by all California school districts.

The District's expenditures are accrued at the end of the fiscal year to reflect the receipt of goods and services in that year. Revenues generally are recorded on a cash basis, except for items that are susceptible to accrual (measurable and/or available to finance operations). Current taxes are considered susceptible to accrual. Delinquent taxes not received after the fiscal year end are

not recorded as revenue until received. Revenues from specific state and federally funded projects are recognized when qualified expenditures have been incurred. State block - apportionments are accrued to the extent that they are measurable and predictable. The State Department of Education sends the District updated information from time to time explaining the acceptable accounting treatment of revenue and expenditure categories.

The District's accounting is organized on the basis of fund groups, with each group consisting of a separate set of self-balancing accounts containing assets, liabilities, fund balances, revenues and expenditures. The major fund classification is the General Fund which accounts for all financial resources not requiring a special type of fund. The District's fiscal year begins on July 1 and ends on June 30.

### **Financial Statements**

The District's general fund finances the legally authorized activities of the District for which restricted funds are not provided. General fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. Audited financial statements for the District for the fiscal year ended June 30, 2002, and prior fiscal years are on file with the District and available for public inspection at the office of the Superintendent of the District, 8142 Moss Landing Road, Moss Landing, CA, 95039, telephone number (831) 633-3343. Copies of such financial statements will be mailed to prospective investors and their representatives upon request directed to the District at such address. The audited financial statements for the year ended June 30, 2002, are included in Appendix A hereto.

**COMPARATIVE FINANCIAL DATA - GENERAL FUND  
FISCAL YEAR ENDING JUNE 30, 2000, 2001 AND 2002  
North Monterey County Unified School District**

**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**

<u>Revenues</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Revenue Limit sources			
State apportionments	\$ 8,550,599	\$ 10,848,869	\$ 11,418,746
Local sources	12,658,025	13,423,073	14,346,719
Total Revenue Limit	21,208,624	24,271,942	25,765,465
Federal Sources	2,244,196	3,148,897	4,032,844
Other State Sources	7,825,148	10,082,891	8,090,766
Other Local Sources	<u>1,438,869</u>	<u>1,891,805</u>	<u>1,503,740</u>
Total Revenues	<u>32,716,837</u>	<u>39,395,535</u>	<u>40,211,816</u>
Expenditures			
Certificated Salaries	16,017,334	18,763,618	19,892,423
Classified Salaries	4,849,314	5,809,059	6,289,107
Employee Benefits	4,858,489	5,645,343	7,008,185
Books and supplies	1,825,908	1,989,214	2,714,622
Contract Services and Operating Expenses	2,172,411	2,870,813	3,033,876
Capital Outlay	627,943	1,519,765	102,664
Other Outgo	1,986,640	37,771	624,851
Direct Support/Indirect Costs	<u>48,155</u>	<u>0</u>	<u>0</u>
Total Expenditures	<u>32,289,884</u>	<u>36,635,583</u>	<u>39,665,729</u>
Excess (deficiency) of Revenue Over (under)			
Expenditures	426,953	2,759,952	546,087
Operating Transfers In (Out)	(150,000)	(2,693,462)	(2,042,281)
Other sources (Uses)	0	5,715,000 (1)	(1,043,735)
Excess of revenues and other financing			
Sources over (under) expenditures and other uses	276,953	5,781,490	(2,539,929)
Fund Balance, July 1	5,103,803	5,380,756	11,162,246
Fund Balance, June 30	5,380,756	11,162,246	8,622,317

Source: North Monterey County Unified School District.

(1) Represents the proceeds from the sale of the District's 2000 Certificates of Participation.

### Budget Process

The District is required by provisions of the State Education Code to maintain a balanced budget each year, in which the sum of expenditures and the ending fund balance cannot exceed the sum of revenues and the carry-over fund balance from the previous year. The State Department of Education imposes a uniform budgeting and accounting format for school districts. The budget process for school districts was substantially amended by Assembly Bill 1200 ("AB 1200"), which became State law on October 14, 1991. Portions of AB 1200 are summarized below.

School districts must adopt a budget on or before July 1 of each year. The budget must be submitted to the county superintendent within five days of adoption or by July 1, whichever occurs first. A district may be on either a dual or single budget cycle. The dual budget option requires a revised and readopted budget by May 8 that is subject to State-mandated standards and criteria. The revised budget must reflect changes in projected income and expenses subsequent to July 1. The single budget is only readopted if it is disapproved by the county office of education, or as needed. The District is on a single budget cycle and adopts its budget on or before July 1.

For both dual and single budgets submitted on July 1, the county superintendent will examine the adopted budget for compliance with the standards and criteria adopted by the State

Board of Education and identify technical corrections necessary to bring the budget into compliance, will determine if the budget allows the district to meet its current obligations and will determine if the budget is consistent with a financial plan that will enable the district to meet its multi-year financial commitments. On or before May 15, the county superintendent will approve or disapprove the adopted budget for each school district. Budgets will be disapproved if they fail the above standards. The district board must be notified by May 15 of the county superintendent's recommendations for revision and reasons for the recommendations. The county superintendent may assign a fiscal advisor or appoint a committee to examine and comment on the superintendent's recommendations. The committee must report its findings no later than May 20. Any recommendations made by the county superintendent must be made available by the district for public inspection. The law does not provide for conditional approvals; budgets must be either approved or disapproved. No later than May 22, the county superintendent must notify the Superintendent of Public Instruction of all school districts whose budget may be disapproved.

For all dual budget options and for single and dual budget option districts whose budgets have been disapproved, the district must revise and readopt its budget by May 8, reflecting changes in projected income and expense since July 1, including responding to the county superintendent's recommendations. The county superintendent must determine if the budget conforms with the standards and criteria applicable to final district budgets and not later than October 8, will approve or disapprove the revised budgets. If the budget is disapproved, the county superintendent will call for the formation of a budget review committee pursuant to Education Code Section 42127.1. Until a district's budget is approved, the district will operate on the lesser of its proposed budget for the current fiscal year or the last budget adopted and reviewed for the prior fiscal year.

The District has never had an adopted budget disapproved by the county superintendent of schools, however, the District did receive a qualified second Interim Financial Report pursuant to AR 1200 for the period ending January 31, 2003.

## General Fund Budget

The District's adopted general fund budget for the fiscal year ending June 30, 2003 and the audited actuals for the fiscal year ended June 30, 2002, are set forth below:

**GENERAL FUND BUDGET**  
**FISCAL YEARS ENDING JUNE 30, 2002 and 2003**  
**North Monterey County Unified School District**

	<u>Audited Actual 2002</u>	<u>Adopted Budget 2003</u>
<b>REVENUES</b>		
Revenue Limit Sources	\$ 25,765,465	\$ 26,827,412
Federal Revenue	4,032,844	3,459,811
Other State Revenues	8,909,766	8,050,701
Other Local Revenues	<u>1,503,740</u>	<u>1,744,196</u>
Total Revenues	<u>40,211,816</u>	<u>40,082,120</u>
<b>EXPENDITURES</b>		
Certificated Salaries	19,892,423	19,678,964
Classified Salaries	6,289,107	5,989,893
Employee Benefits	7,008,183	7,317,787
Books and supplies	2,714,623	1,731,653
Services and Other Operating Expenses	3,033,876	2,914,383
Capital Outlay	102,664	231,522
Other Outgo	624,851	2,457,411
Direct Support/Indirect Costs	<u>0</u>	<u>(123,667)</u>
Total Expenditures	<u>39,665,729</u>	<u>40,197,946</u>
Excess (Deficiency) of Revenues Over Expenditures	546,087	(115,826)
Other Financing Sources/(Uses)	(3,086,016)	(5,621,354) (1)
Net Increase (Decrease) in Fund Balance	(2,539,929)	(5,737,180)
Beginning Fund Balance (July 1)	11,162,246	8,622,317
Ending Fund Balance (June 30)	8,622,317	2,885,137

Source: North Monterey County Unified School District

(1) Includes approximately \$5.4 million used to defease all of the District's outstanding Certificates of Participation.

## Revenue Sources

The District categorizes its general fund revenues into four sources: (1) revenue limit sources (consisting of a mix of State and local revenues), (2) federal revenues, (3) other State revenues and (4) other local revenues. Each of these revenue sources is described below.

*Revenue Limit Sources.* Since fiscal year 1973-74, California school districts have operated under general purpose revenue limits established by the State Legislature. In general, revenue limits are calculated for each school district by multiplying (1) the average daily attendance ("ADA") for such district by (2) a base revenue limit per unit of ADA. The revenue limit calculations are adjusted annually in accordance with a number of factors designated primarily to provide cost of living increases and to equalize revenues among all California school districts of the same type.

Funding of the District's revenue limit is provided by a mix of (1) local property taxes and (2) State apportionments of basic and equalization aid. Generally, the State apportionments will amount to the difference between the District's revenue limit and its local property tax revenues.

The revenue limit revenues comprised approximately 64% of general fund revenues in 2001-02 and are budgeted to equal approximately 67% of such revenues in 2002-03.

Beginning in 1978-79, Proposition 13 and its implementing legislation provided for each county to levy (except for levies to support prior voter-approved indebtedness) and collect all property taxes, and prescribed how levies on county-wide property values are to be shared with local taxing entities within each county.

Taxes are levied by the county for each fiscal year on taxable real and personal property which is situated in the county as of the preceding March 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed public utilities property and the property taxes on which are a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll".

Property taxes on the secured roll are due in two installments, on November 1 and August 1 of each fiscal year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. Property on the secured roll with respect to which taxes are delinquent is declared to be tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of a penalty of 1.5% per month to the time of redemption, plus costs and a redemption fee. If taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the county treasurer.

Property taxes on the unsecured roll are due as of the March 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5:00 p.m. on October 31, an additional penalty of 1.5% attaches to them on the first day of each month until paid. The taxing authority has four ways of collecting delinquent unsecured personal property taxes: (1) bringing a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the county clerk and county recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizing and selling personal property, improvements or possessory interests belonging or assessed to the assessee.

*Federal Revenues.* The federal government provides funding for several programs of the District, including special education programs, programs under the Educational Consolidation and Improvement Act, and specialized programs such as Drug Free Schools, and Education for Economic Security. The federal revenues, most of which are restricted, comprised approximately 10% of general fund revenues in 2001-02 and are budgeted to equal approximately 8.6% of such revenues in 2002-03.

*Other State Revenues.* As discussed above, the District receives State apportionment of basic and equalization aid in an amount equal to the difference between the revenue limit of the District and its property tax revenues. In addition to such apportionment revenue, the District receives substantial other State revenues.

These other State revenues are primarily restricted revenues funding items such as the Special Education Master Plan, Economic Impact Aid, home-to-school transportation, instructional materials and mentor teachers. The other State revenues comprised approximately 22% of general fund revenues in 2001-02 and are budgeted to equal approximately 20% of such revenues in 2002-03.

The District receives State aid from the California State Lottery (the "Lottery"), which was established by a constitutional amendment approved in the November 1984 general election. Lottery revenues must be used for the education of students and cannot be used for non-instructional purposes such as real property acquisition, facility construction, or the financing of research. Lottery revenues comprised approximately 1.8% of general fund revenues in 2001-02 and are budgeted to equal approximately 1.7% of such revenues in 2002-03.

*Other Local Revenues.* In addition to property taxes, the District receives additional local revenues from items such as interest earnings, transportation fees, leases and rentals, and other local sources. Other local revenues comprised approximately 3.7% of general fund revenues in 2001-02 and are estimated to equal approximately 4.3% of general fund revenues in 2002-03.

### **Ad Valorem Property Taxation**

Taxes are levied by the County for each fiscal year on taxable real and personal property which is situated in the District as of the preceding January 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed public utilities property and real property having a tax lien which is sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in two installments, on November 1 and November 1 of each fiscal year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. Property on the secured roll with respect to which taxes are delinquent becomes tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of a penalty of 1.5% per month to the time of redemption, plus costs and a redemption fee. If taxes are unpaid for a period of five years or more, the property is subject to sale by the County Treasurer.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid on October 31, an additional penalty of 1.5% attaches to them on the first day of each month until paid. The taxing authority has four ways of collecting delinquent unsecured personal property taxes: (1) bringing a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Clerk and County Recorder's office in order to obtain a lien on certain property of the taxpayer and (4) seizing and selling personal property, improvements, or possessory interests belonging or assessed to the assessee.

The following table shows the secured tax charges and delinquencies for secured taxes collected by the County on taxable property within the District.

**SECURED TAX CHARGES AND DELINQUENCIES**  
**North Monterey County Unified School District**  
**Fiscal Years 1997-98 to 2001-02**

<u>Fiscal Year</u>	<u>Secured Tax Charge (1)</u>	<u>Amount Delinquent June 30</u>	<u>Percentage Delinquent June 30</u>
1997-98	\$6,506,591.00	\$ 95,856.65	1.47%
1998-99	6,736,018.00	83,424.22	1.24
1999-00	8,418,586.00	109,173.66	1.30
2000-01	8,775,825.00	111,048.00	1.27
2001-02	9,486,258.00	140,673.65	1.48

Source: California Municipal Statistics, Inc.  
(1) 1% General Fund apportionment.

The following table shows the typical total tax rate for taxable property within the District for fiscal years 1998-99 through 2002-03.

Typical Total Tax Rate (TRA 99-23)

	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>
County-Wide	1.00000	1.00000	1.00000	1.00000	1.00000
North Monterey County Unified School District	.01980	.01436	.01587		
Total All Property Tax Rate	1.01980	1.01436	1.01587	1.00000	1.00000
MCWRA, Zone 2A	.00364	.00354	.00329		
Total Land and Improvement Tax Rate	.00364	.00354	.00329		

Source: California Municipal Statistics, Inc.

**Assessed Valuation**

The assessed valuation of property in the District is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the "full value" of the property, as defined in Article XIII A of the California Constitution. Prior to 1981-82, assessed valuations were reported at 25% of the full value of property. For a discussion of how properties currently are assessed, see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS."

Certain classes of property, such as churches, colleges, not-for-profit hospitals, and charitable institutions, are exempt from property taxation and do not appear on the tax rolls. No reimbursement is made by the State for such exemptions.



Property within the District had a net taxable assessed valuation for fiscal year 2002-2003 of \$2,753,065,946. Shown in the following table are the assessed valuations for the District.

**ASSESSED VALUATION  
North Monterey County Unified School District  
Fiscal Year 1993-94 to 2002-2003**

<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total Before Redevelopment Increment</u>
1993-94	\$1,021,010,128	\$1,252,960	\$48,528,761	\$1,070,791,849
1994-95	1,069,099,105	782,568	50,659,196	1,120,540,869
1995-96	1,101,913,582	819,516	60,424,139	1,163,157,237
1996-97	1,156,645,539	776,929	47,501,005	1,204,923,473
1997-98	1,224,461,855	1,241,942	53,656,416	1,279,360,213
1998-99	1,288,971,677	1,326,178	57,530,930	1,347,828,785
1999-00	1,734,963,643	1,174,507	61,878,219	1,798,016,369
2000-01	1,836,151,639	1,710,674	66,429,746	1,904,292,059
2001-02	2,009,995,976	1,737,834	64,433,928	2,076,167,738
2002-03	2,677,659,657	1,772,795	73,633,494	2,753,065,946

Source: California Municipal Statistics, Inc.

- (1) The increase in assessed valuation from fiscal year 1998-99 to fiscal year 1999-2000 is due in large part to the acquisition of the Moss Landing Power Plant site by Duke Energy Moss Landing LLC. The increase in assessed valuation from fiscal year 2001-2002 to fiscal year 2002-2003 is due in large part to the addition of a new power plant being placed on line at Moss Landing by Duke Energy.

## Largest Property Owners

The following table shows the 20-largest owners of taxable property in the District as determined by secured assessed valuation in fiscal year 2002-2003.

### LARGEST 2002-2003 LOCAL SECURED PROPERTY TAXPAYERS North Monterey County Unified School District

	<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2002-03 Assessed Valuation</u>	<u>% of Total (1)</u>
1.	Duke Energy Moss Landing LLC	Power Plant	\$1,012,333,702	37.81%
2.	California Artichoke & Vegetable Growers	Food Processing	43,521,598	1.63
3.	Bud Antle Inc.	Food Processing	42,175,489	1.58
4.	GMS Realty LLC	Shopping Center	15,402,520	0.58
5.	D'Arrigo Bros. Company of California	Food Processing	15,147,500	0.57
6.	MHC Operating LP	Mobilehome Park	14,471,239	0.54
7.	Lonestar California Inc.	Mining	7,598,125	0.28
8.	Aladdin Properties	Food Processing	7,464,480	0.28
9.	Prunedale Shopping Center	Shopping Center	7,015,444	0.26
10.	Bank of America	Industrial	6,501,679	0.24
11.	National Refractories	Industrial	6,246,150	0.23
12.	Central Cold Storage Corporation	Food Processing	6,145,870	0.23
13.	Salyer American Cooling	Industrial	5,832,125	0.22
14.	Ione N. and Garth G. Conlan	Food Processing	5,178,704	0.19
15.	Dorothy M. Jefferson	Agricultural/Food Processing	4,845,267	0.18
16.	Jay M. Armstrong	Rural land	4,454,097	0.17
17.	Associated Produce	Food Processing	4,325,115	0.16
18.	The M&E Partnership LP	Agricultural	3,975,215	0.15
19.	Castroville Station Shopping Center LLC	Shopping Center	3,930,172	0.15
20.	United Waste Systems of California Inc.	Industrial	3,911,463	0.15
			<u>\$1,220,475,954</u>	<u>45.58%</u>

Source: California Municipal Statistics, Inc.

(1) 2002-03 Local Secured Assessed Valuation: \$2,677,659,657

## Long-Term Debt

A schedule of changes in long-term debt for the year ended June 30, 2002 is shown below:

	<u>June 30, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2002</u>
Capital Leases (1)	\$ 686,163	—	\$184,643	\$ 501,520
Compensated Absences	244,810	\$32,787	—	277,597
Postemployment Benefits	13,922	—	13,922	—
Certificates of Participation (2)	<u>5,595,000</u>	<u>—</u>	<u>125,000</u>	<u>5,470,000</u>
Total	<u>\$6,539,897</u>	<u>\$32,787</u>	<u>\$323,565</u>	<u>\$6,249,117</u>

Source: North Monterey County Unified District

(1) See "Capital Leases" below for discussion of leases.

(2) In February, 2003, the District deposited sufficient funds in escrow to legally defease the 2000 Certificates of Participation.

## Capital Leases

### *Energy Management System*

The District leases certain property valued at \$662,010 for the energy management and retrofit project under a lease agreement, which provides for the title to be passed onto the District on the second scheduled rental payment date. Lease rental payments are payable semi-annually on June 1 and December 1. Future minimum lease payments as follows:

	<u>Year Ending June 30</u>	<u>Annual Lease Payment</u>
2003		<u>\$91,778</u>
Total		91,778
Less amount representing interest		<u>(5,203)</u>
Present Value of net lease payments		<u>\$86,574</u>

Source: North Monterey County Unified School District

### *Computer Software*

The District leases an attendance base software program valued at \$120,000 under an agreement with Bank One Leasing Corporation. The lease agreement provides for the title to be passed onto the District during the duration of the lease. Lease rentals are payable annually on September 13. Future minimum lease payments as follows:

	<u>Year Ending June 30</u>	<u>Annual Lease Payment</u>
2003		<u>\$44,719</u>
Total		44,719
Less amount representing interest		<u>(2,449)</u>
Present Value of net lease payments		<u>\$42,270</u>

Source: North Monterey County Unified School District

### *Gymnasium Construction*

The District financed construction of a gymnasium under a capital lease agreement with Municipal Finance Corporation. The estimated construction costs excluding interest is \$405,000. Lease rental are payable annually on June 19. Each payment includes interest at the rate of 5.73% per annum. Future minimum lease payments are as follows:

	<u>Year Ending June 30</u>	<u>Annual Lease Payment</u>
2003		\$ 87,823
2004		87,823
2005		87,823
2006		87,823
2007		<u>87,823</u>
Total		439,115
Less amount representing interest		<u>(66,439)</u>
Present Value of net lease payments		\$372,676

Source: North Monterey County Unified School District

## Debt Obligations

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. and effective March 1, 2003. The Debt Report is included for

general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District in whole or in part. Such long-term obligations are not payable from revenues of the District (except as indicated) nor are they necessarily obligations secured by land within the District. 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.

The contents of the Debt Report are as follows: (1) the first column indicates the public agencies which have outstanding debt as of the date of the Debt Report and whose territory overlaps the District; (2) the second column shows the respective percentage of the assessed valuation of the overlapping public agencies identified in column 1 which is represented by property located in the District (3) the third column is an apportionment of the dollar amount of each public agency's outstanding debt (which amount is not shown in the table) to property in the District, as determined by multiplying the total outstanding debt of each agency by the percentage of the District's assessed valuation represented in column 2.

**Statement of Direct and Overlapping Bonded Debt**

2002-03 Assessed Valuation: \$2,753,065,946  
 Redevelopment Incremental Valuation: 196,728,807  
 Adjusted Assessed Valuation: \$2,556,337,139

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 3/1/03</u>
Monterey County Flood Control and Water Conservation District, Zone No. 2A	11.466%	\$ 38,984
<b>North Monterey County Unified School District</b>	<b>100.</b>	<b>- (1)</b>
City of Marina	1.319	9,233
1915 Act Bonds	5.784-100.	<u>2,188,798</u>
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$2,237,015</b>
 <u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
Monterey County General Fund Obligations	8.192%	\$14,515,814
Hartnell Community College District Certificates of Participation	17.470	435,877
North Monterey County Unified School District Certificates of Participation	100.	5,340,000
Monterey Bay Unified Air Pollution Authority	4.740	<u>192,681</u>
<b>TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT</b>		<b>\$20,484,372</b>
 <b>COMBINED TOTAL DEBT</b>		 <b>\$22,721,387 (1)</b>

(1) Excludes general obligation 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 2002-03 Assessed Valuation:

**Direct Debt** ..... - %  
 Total Direct and Overlapping Tax and Assessment Debt ..0.08%

Ratios to Adjusted Assessed Valuation:

Combined Total Debt .....0.89%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/02: \$0

Source: California Municipal Statistics, Inc.

## THE ECONOMY OF THE DISTRICT

The District is located within Monterey County (the "County"). The following economic data for the County is resented for information purposes only. The Bonds are not a debt or obligation of the County.

### General Information

The County borders the Pacific Ocean almost at the midpoint of the California coastline, approximately 100 miles south of San Francisco and 240 miles north of Los Angeles. It covers an area of approximately 3,300 square miles, with a population in excess of 399,000. Agriculture, tourism, and government are major contributors to the County's economy. The Salinas Valley, located in the eastern portion of the County, is a rich agricultural center and one of the nation's major vegetable producing areas. The military has been a major employer, with installations located at Ford Ord, Fort Hunter-Liggett, Camp Roberts, the Naval Postgraduate School, and the Defense Language Institute. Except for some support facilities for the Naval Postgraduate School and Defense Language Institute and certain other functions, Ford Ord was essentially vacated by September 30, 1993. The remaining facilities are expected to remain in operation at this time, but may face reductions or closures in the future. The Monterey Peninsula, famed for its scenic beauty, is a year-round tourist attraction. Pebble Beach, Cypress Point, Spyglass Hill, Poppy Hills and The Links at Spanish Bay are well known Monterey Peninsula golf courses. The Monterey Bay Aquarium and the City of Cannel also are attractions that draw tourists to the Monterey Peninsula.

### Governmental Organization

The County was incorporated in 1850 as one of the State's original 27 counties. The City of Monterey was California's first capital. The City of Salinas is the County seat. The County has a general law form of government. Its five-member Board of Supervisors is elected by district for four-year terms of office. Other elected officials include the Assessor-Clerk-Recorder, District Attorney, Sheriff, Auditor-Controller and Treasurer-Tax Collector. The County Administrative Officer is appointed by the County Board and administers the day-to-day business of the County.

### Population

The County's population grew by 9.9% during the period from 1993 to 2002. The following table shows population growth of the County between 1993 and 2002.

<u>Year</u>	<u>Population</u>	<u>Percent Increase</u>
1993	372,500	—
1994	366,400	(1.0)
1995	360,100	(1.0)
1996	360,600	(0.1)
1997	370,000	2.6
1998	382,990	3.5
1999	390,500	1.9
2000	401,762	2.8
2001	405,100	.8
2002	409,600	1.1

Source: 2000: U.S. Department of Commerce, Bureau of the Census for April 1  
1991-1999, 2001-2002: California Department of Finance for January 1.

## Major Employers

Employment information is not available for the District. The following table presents the largest employers on the Monterey Peninsula, their product or service, and the number of employees. The District boundaries are close to, but do not include, the Monterey Peninsula.

### LARGEST EMPLOYERS Monterey Peninsula

<u>Company</u>	<u>Product/Service</u>	<u>Full/Part Time Employment</u>
County of Monterey	County Government	3,649
Pebble Beach Company	Golf; resort, real estate	1,900
Community Hospital of Monterey Peninsula	Healthcare	1,817
Monterey Peninsula Unified School District	Education	1,500
Naval Postgraduate School	Education	1,396
Defense Language Institute	Education	1,260
City of Monterey	Government	692
CEB McMillan McGraw Hill	Printing	639
Monterey Peninsula College	Education	630
California State University	Education	600
Hyatt Regency	Hotel	430
Monterey Bay Aquarium	Public entertainment	430
Monterey Plaza Hotel	Hotel, resort	408
Macys	Retail	335
Carmel Valley Ranch Resort	Hotel, resort	320
DoubleTree Hotel	Hotel	310
Monterey Marriott Hotel	Hotel	275
Quail Lodge	Hotel	253
Costco	Retail	250
Asilomar	Conference Center	246

Source: The Monterey Peninsula Chamber of Commerce

## Industry Description

The following table summarizes wage and salary employment in the County from 1997 to 2001. Annual wage and salary employment in the County has experienced gradual increases over the last five years. Agriculture has been the largest industry in the County for many years, typically followed in size by services and government. In 2001, agriculture employment represented 22.9% of all wage and salary employment in the County. Services employment represented 22.0% and government employment represented 18.1% of total wage and salary employment in 2001.

### EMPLOYMENT BY INDUSTRY Monterey County 1997-2001

<u>Industry</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Agriculture	33,500	33,500	35,600	36,900	38,600
Mining and Construction	4,700	5,600	6,200	6,500	6,700
Manufacturing	9,600	9,400	9,600	10,100	10,500
Transportation & Public Utilities	5,400	5,400	5,200	5,100	4,900
Wholesale Trade	5,300	5,500	5,900	5,800	5,400
Retail Trade	25,800	26,300	27,200	27,800	27,800
Finance, Insurance & Real Estate	5,900	6,100	6,200	6,600	6,700
Services	32,900	33,700	35,500	37,300	37,100
Government	28,100	29,200	29,800	30,400	30,600
Total	151,000	154,700	161,100	166,400	168,300

Source: State of California Employment Development Department, based on March 2001 Benchmark

- (1) Employment is reported by place of work; it does not include persons involved in labor-management dispute. Figures are rounded to the nearest hundred. Columns may not add to totals due to rounding

## Labor Force

The following table summarizes civilian labor force, employment, and unemployment in the County from 1997 to 2001. The County's civilian labor force was 7.0% greater in 2001 than in 1997. The employed labor force in the County was 8.8% greater than in 1997.

The unemployment rate in the County in 2001 was 9.3%. In contrast, the average unemployment rate in California in 2001 was 5.3%. The higher rate in the County reflects the effect of agricultural employment in the County and the seasonal pattern of crop harvesting and food processing.

**CIVILIAN LABOR FORCES, EMPLOYMENT AND UNEMPLOYMENT**  
**Monterey County**  
**Annual Averages, 1997-2001**

<u>Year</u>	<u>Civilian Labor Force</u>	<u>Employed Labor Force</u> <sup>(1)</sup>	<u>Unemployed Labor Force</u> <sup>(2)</sup>	<u>Unemployment Rate</u> <sup>(3)</sup>
1997	182,960	163,240	19,720	10.8
1998	185,180	165,280	19,910	10.7
1999	188,900	170,800	18,100	9.6
2000	196,200	177,500	18,700	9.5
2001	195,800	177,700	18,100	9.3

Source: California Employment Development Department based on March 1999 benchmark

- (1) Includes persons involved in labor-management trade disputes.  
(2) Includes all person without jobs who are actively seeking work  
(3) The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures in this table.

**Personal Income**

The following table summarizes total personal income in the County from 1991 to 2000. Total personal income in the County increased by 59% between 1991 and 2000, representing an average annual compounded growth rate of 5.3%.

**PERSONAL INCOME OF MONTEREY COUNTY**  
**1991-2000**  
**(in thousands)**

<u>Year</u>	<u>Income</u>	<u>Percent Increase</u>
1991	7,524,742	---
1992	8,233,907	9.4
1993	8,279,921	0.6
1994	8,347,392	0.8
1995	8,827,591	5.8
1996	9,035,855	2.4
1997	9,769,237	8.1
1998	10,441,502	8.4
1999	11,127,427	6.6
2000	11,969,747	7.6

Source: U.S. Department of Commerce, Bureau of Economic Analysis



The following table summarizes per capita income in the County from 1991 to 2001. Per capital income grew by 42% between 1991 and 2001, representing an average annual compounded growth rate of 4.1%. Per capital income in the County in 2001 was lower than that in California by 8.2% and in the United States by 2.5%.

**MONTEREY COUNTY  
PER CAPITAL PERSONAL INCOME  
1991-2001**

<u>Year</u>	<u>Monterey County</u>	<u>California</u>	<u>United States</u>
1991	20,812	22,024	19,163
1992	22,479	22,722	20,105
1993	22,815	22,927	20,800
1994	24,346	23,473	22,186
1995	25,730	24,496	23,562
1996	26,018	25,563	24,651
1997	27,221	26,779	25,924
1998	28,185	28,163	27,203
1999	26,919	28,240	26,893
2000	28,081	29,772	27,880
2001	29,695	32,149	29,770

Source: U.S. Department of Commerce, Bureau of Economic Analysis

**Commercial Activity**

The following table shows a five-year history of taxable sales for the County. Taxable sales in 2001 were 40.0% higher than 1997, representing an average annual compounded growth rate of 8.6%. Taxable sales have increased each year from 1997 to 2001.

**TAXABLE SALES  
Monterey County  
1997-2001**

	Taxable Sales (\$000)				
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Apparel Stores	\$130,956	\$138,239	\$141,870	\$155,688	\$163,672
General Merchandise Stores	444,304	488,435	525,450	571,552	573,709
Specialty Stores	319,662	335,098	385,950	427,708	413,700
Food Stores	204,563	209,598	223,870	256,935	265,431
Eating & Drinking Places	381,574	391,437	419,085	450,230	458,615
Household Stores	93,715	104,867	121,859	149,114	146,242
Building Materials	272,123	226,957	259,286	296,538	304,141
Automotive Stores	563,066	606,461	712,981	859,641	930,604
Other Retail Stores	159,010	177,165	177,632	179,109	188,090
Total Retail Stores	\$2,502,596	\$2,678,257	\$2,967,983	\$3,346,515	\$3,464,204
All Other Outlets	1,140,420	1,180,740	1,312,693	1,550,536	1,637,365
Total All Outlets	<u>\$3,643,016</u>	<u>\$3,858,997</u>	<u>\$4,280,676</u>	<u>\$4,897,051</u>	<u>\$5,101,569</u>

Source: California Board of Equalization

## Construction Activity

The following table summarizes building permits issued and building valuation in the County for the past five years.

<b>BUILDING PERMITS AND VALUATIONS</b>					
<b>Monterey County</b>					
<b>1998-2001</b>					
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Valuation (\$000):					
Residential	\$278,823	\$401,050	\$432,500	\$290,639	\$333,809
Non-residential	<u>136,325</u>	<u>113,037</u>	<u>157,006</u>	<u>138,888</u>	<u>133,446</u>
Total	\$415,148	\$514,087	\$589,506	\$459,526	\$467,255
Residential Units:					
Single family	1,167	1,506	1,492	894	1,032
Multiple family	<u>11</u>	<u>575</u>	<u>210</u>	<u>170</u>	<u>175</u>
Total	<u>1,178</u>	<u>2,081</u>	<u>1,702</u>	<u>1,064</u>	<u>1,207</u>

Source: Construction Industry Research Board

## LEGAL MATTERS

### Tax Matters

In the opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes, such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings, and the Bonds are "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986 (the "Code") such that, in the case of certain financial institutions (within the meaning of section 265(b)(5) of the Code), a deduction for federal income tax purposes is allowed for 80 percent of that portion of such financial institution's interest expense allocable to interest payable on the Bonds.

The opinions set forth in the preceding paragraph are subject to the condition that the District comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.

In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Bonds other than as expressly described above.

## **Legality for Investment in California**

Under provisions of the California Financial Code, the Bonds are legal investments for commercial banks in California to the extent that the Bonds, in the informed opinion of the bank, are prudent for the investment of funds of depositors, and, under provisions of the Government Code of the State, are eligible for security for deposits of public moneys in the State.

## **Absence of Litigation**

No litigation is pending or threatened concerning the validity of the Bonds. There is no action, suit or proceeding known by the District to be pending at the present time restraining or enjoining the delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any proceedings of the District taken with respect to the issuance and delivery thereof. Furthermore, the District is not aware of any litigation pending or threatened questioning the existence of the District or the District Board or contesting the ability of the District to be caused to be levied and collected or to receive *ad valorem* taxes for the payment of the Bonds, or to collect or receive other revenues. A no litigation certificate executed by the District will be delivered to the Underwriter simultaneously with the delivery of the Bonds.

## **Legal Opinion**

All proceedings in connection with the issuance and delivery of the Bonds are subject to the approval as to their legality of Quint & Thimmig LLP, San Francisco, California, Bond Counsel. The opinion of Bond Counsel approving the validity of the Bonds will accompany the delivery of each Bond. Bond Counsel's employment is limited to a review of legal procedures required for the approval of the Bonds and to rendering an opinion as to the validity of the Bonds and as to the exemption of interest received on the Bonds from income taxation. A copy of the proposed form of such legal opinion is attached to this Official Statement as Appendix B.

## **MISCELLANEOUS**

### **Continuing Disclosure**

The District has covenanted for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the District by not later than nine months following the end of each fiscal year (the "Annual Report"), commencing with the report for the 2002-2003 Fiscal Year, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by or on behalf of the District with each Nationally Recognized Municipal Securities Information Repository. The notices of material events will be filed by or on behalf of the District with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in APPENDIX C—"FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12b(5). The District has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

### **Ratings**

Moody's Ratings Services ("Moody's") and Standard & Poor's Credit Ratings Services, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's") have assigned the Bonds the

ratings of "Aaa" and "AAA," respectively. Such ratings are conditioned on the issuance of the Municipal Bond Insurance Policy upon delivery of the Bonds. The ratings assigned by Moody's and Standard & Poor's reflect only the views of such agencies, and an explanation of the significance of such ratings may be obtained only from Moody's at 99 Church Street, New York, NY 10007, and from Standard & Poor's at 55 Water Street, 45<sup>th</sup> Floor, New York, New York 10041. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by Moody's and/or Standard & Poor's if in the judgment of Moody's and/or Standard & Poor's, circumstances so warrant. Any such downward revision or withdrawal of the described ratings may have an adverse effect on the market price of the Bonds. Neither the District nor the Underwriter have undertaken to assure maintenance of such ratings or to oppose any such revision, suspension or withdrawal or to bring to the attention of the Registered Owners of the Bonds any proposed revision, suspension or withdrawal of the ratings except to the extent that any revision, suspension or downgrade is required to be reported as a "material event" to the Municipal Securities Rulemaking Board and a recognized State Repository (if then in existence).

### **Underwriting**

The Bonds are being purchased by the Underwriter. The Underwriter will agree to buy the Bonds at a price of \$7,134,395.60 (which is equal to the principal amount of the Bonds of \$7,000,000, less an underwriter's discount of \$90,977.50 (1.299% of the par amount thereof), plus an original issue premium of \$212,202.35, plus accrued interest of \$13,170.75. The Bond Purchase Agreement relating to the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in said Bond Purchase Agreement, approval of certain legal matters by counsel and certain other conditions. After a bona fide initial public offering at the price stated on the cover page hereof, the Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the initial offering price. The offering price may be changed from time to time by the Underwriter.

### **Additional Information**

The purpose of this Official Statement is to supply information to prospective bidders on, and buyers of, the Bonds. Quotations from, references to and summaries and explanations of the Bonds, the Resolutions providing for issuance of the Bonds, and the constitutional provisions, statutes and other documents referenced herein, do not purport to be complete or definitive, and reference is made to said documents, constitutional provisions and statutes 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 County or the District and the purchasers or Owners of any of the Bonds.



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**APPENDIX A**  
**AUDITED FINANCIAL STATEMENTS OF THE DISTRICT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**  
**COUNTY OF MONTEREY**  
**MOSS LANDING, CALIFORNIA**  
**AUDITED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

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 **Patel &**  
**Associates**  
Certified Public Accountant

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**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT  
AUDITED FINANCIAL STATEMENTS  
JUNE 30, 2002**

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**INDEPENDENT AUDITOR'S REPORT**

Board of Education  
North Monterey County Unified School District  
Moss Landing, California

We have audited the accompanying general-purpose financial statements of North Monterey County Unified School District (the District), as of and for the year ended June 30, 2002 as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 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.

As explained in Note 1 to the financial statements, the District does not maintain a complete record of the historical cost of its fixed assets. Accordingly, the financial statements do not include the general fixed assets group of accounts, which should be included in order to conform to accounting principles generally accepted in the United States of America. The amount that should be recorded in general fixed assets account group is not known.

In our opinion, except for the effect of the matter discussed in the preceding paragraph, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund 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 our report dated November 15, 2002 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the District, taken as a whole. The accompanying financial and statistical data listed as supplementary information in the table of contents is presented for purposes of additional analysis. Also, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.



November 15, 2002  
Oakland, California

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT  
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUP  
JUNE 30, 2002**

	<u>Governmental Fund Types</u>				<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Account Group</u>	<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects &amp; Capital Facilities</u>	<u>Internal Service Self Insurance</u>	<u>Agency Fund</u>	<u>General Long-Term Debt</u>	
<b>ASSETS</b>								
Cash in County Treasury (Note 2)	\$ 4,059,065	\$ 2,641,685	\$ 84,272	\$ 621,096	\$ 339,852	\$	\$	\$ 7,745,970
Cash on Hand & in Banks (Note 2)						139,789		139,789
Cash in revolving fund	5,000							5,000
Cash with a fiscal agent/trustee (Notes 3 and 8)	10,471,353							10,471,353
Accounts Receivable (Note 6)	2,282,860	517,327		13,255	52,846			2,866,288
Due from other funds	124,881	408,841						533,722
Stores Inventory	9,007	38,867						47,874
Prepaid Expenditures	238,461							238,461
Amount Available in Debt Service Fund							84,272	84,272
Amount to be Provided for Retirement of Long Term Debt							6,164,845	6,164,845
<b>Total Assets</b>	<u>\$ 17,190,627</u>	<u>\$ 3,606,720</u>	<u>\$ 84,272</u>	<u>\$ 634,351</u>	<u>\$ 392,698</u>	<u>\$ 139,789</u>	<u>\$ 6,249,117</u>	<u>\$ 28,297,574</u>
<b>LIABILITIES AND FUND EQUITY</b>								
<b>Liabilities:</b>								
Accounts payable	\$ 2,565,913	\$ 527,657	\$	\$ 53,103	\$	\$	\$	\$ 3,146,673
Due to other funds	406,563	127,159						533,722
Current loans (Note 3)	5,000,000							5,000,000
Deferred revenue	595,834							595,834
Due to other agencies						139,789		139,789
Compensated absences payable (Note 7)							277,597	277,597
Certificates of participation payable (Note 8)							5,470,000	5,470,000
Capital leases payable (Note 9)							501,520	501,520
<b>Total Liabilities</b>	<u>8,568,310</u>	<u>654,816</u>		<u>53,103</u>		<u>139,789</u>	<u>6,249,117</u>	<u>15,665,135</u>
<b>Fund Equity:</b>								
<b>Reserved Fund Balances:</b>								
Reserved for revolving fund	5,000							5,000
Reserved for stores inventory	9,007	38,867						47,874
Reserved for prepaid items	238,461							238,461
Reserve for legally restricted balance								
Designated for economic uncertainties	16,399	1,509,943						1,526,342
Other Designated Fund Balance	2,128,236	325,289	84,272	581,248	392,698			3,511,743
Undesignated/unappropriated	6,225,214	1,077,805						7,303,019
<b>Total Fund Equity</b>	<u>8,622,317</u>	<u>2,951,904</u>	<u>84,272</u>	<u>581,248</u>	<u>392,698</u>			<u>12,632,439</u>
<b>Total Liabilities and Fund Equity</b>	<u>\$ 17,190,627</u>	<u>\$ 3,606,720</u>	<u>\$ 84,272</u>	<u>\$ 634,351</u>	<u>\$ 392,698</u>	<u>\$ 139,789</u>	<u>\$ 6,249,117</u>	<u>\$ 28,297,574</u>

The accompanying notes are an integral part of the financial statements

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE YEAR ENDED JUNE 30, 2002**

	Governmental Fund Types				Total (Memorandum Only)
	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects & Capital Facilities Fund	
<b>Revenue</b>					
Revenue Limit Sources:					
State Apportionments	\$ 11,418,746	\$ 1,892,810	\$	\$	\$ 13,311,556
Local Sources	14,346,719				14,346,719
Total Revenue Limit	25,765,465	1,892,810			27,658,275
Federal Revenue	4,032,845	811,785			4,844,630
Other State Revenue	8,909,766	1,336,456		7,128	10,253,350
Other Local Revenue	1,503,740	813,462	36,955	306,693	2,660,850
Total Revenues	40,211,816	4,854,513	36,955	313,821	45,417,105
<b>Expenditures</b>					
Certificated Salaries	19,892,422	2,302,984			22,195,406
Classified Salaries	6,289,109	1,222,992			7,512,101
Employee Benefits	7,008,185	846,615			7,854,800
Books & Supplies	2,714,622	1,374,858		49,700	4,139,180
Services and Other					
Operating Expenditures	3,033,876	620,249		142,012	3,796,137
Capital Outlay	102,664	324,325		675,109	1,102,098
Debt Service:					
Principal	309,643				309,643
Interest and fiscal charges	315,208				315,208
Total Expenditures	39,665,729	6,692,023		866,821	47,224,573
Excess (deficiency) of revenues over (under) expenditures	546,087	(1,837,510)	36,955	(553,000)	(1,807,468)
<b>Other Financing Sources/(Uses)</b>					
Operating Transfers In (Note 12)		2,042,281			2,042,281
Operating Transfers Out (Note 12)	(2,042,281)				(2,042,281)
Other Uses	(1,043,735)	(315,993)			(1,359,728)
Total Other Financing Sources /(Uses)	(3,086,016)	1,726,288			(1,359,728)
Excess (deficiency) of revenues and other resources over (under) expenditures and other uses	(2,539,929)	(111,222)	36,955	(553,000)	(3,167,196)
Fund Balance, July 1, 2001	11,162,246	3,063,126	47,317	1,134,248	15,406,937
Fund Balance, June 30, 2002	\$ 8,622,317	\$ 2,951,904	\$ 84,272	\$ 581,248	\$ 12,239,741

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



**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE YEAR ENDED JUNE 30, 2002.**

	General Fund			Special Revenue Fund			Debt Service Fund			Capital Projects Fund			Total		Variance Favorable (Unfavorable)
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	
<b>Revenue</b>															
<b>Revenue Limit Sources:</b>															
State Apportionments	\$ 11,465,588	\$ 11,418,746	\$ (46,842)	\$ 1,909,978	\$ 1,892,810	\$ (17,168)	\$	\$	\$	\$	\$	\$	\$ 13,375,566	\$ 13,311,556	\$ (64,010)
Local Sources	14,333,917	14,346,719	(7,198)										14,353,917	14,346,719	(7,198)
<b>Total Revenue Limit</b>	<b>25,819,505</b>	<b>25,765,465</b>	<b>(54,040)</b>	<b>1,909,978</b>	<b>1,892,810</b>	<b>(17,168)</b>							<b>27,729,483</b>	<b>27,658,275</b>	<b>(71,208)</b>
Federal Revenue	5,115,493	4,032,845	(1,082,648)	803,173	811,785	8,612							5,918,666	4,844,630	(1,074,036)
Other State Revenue	9,229,284	8,909,766	(319,518)	1,554,196	1,336,456	(217,740)					7,128	7,128	10,783,480	10,253,350	(530,130)
Other Local Revenue	1,442,488	1,503,744	61,252	1,019,058	813,462	(205,596)		36,955	36,955	537,557	306,693	(230,864)	2,999,103	2,660,850	(338,253)
<b>Total Revenues</b>	<b>41,606,770</b>	<b>40,211,816</b>	<b>(1,394,954)</b>	<b>5,286,405</b>	<b>4,854,513</b>	<b>(431,892)</b>		<b>36,955</b>	<b>36,955</b>	<b>537,557</b>	<b>313,821</b>	<b>(223,736)</b>	<b>47,430,732</b>	<b>45,417,105</b>	<b>(2,013,627)</b>
<b>Expenditures</b>															
Certificated Salaries	20,535,026	19,892,422	642,604	2,306,336	2,302,984	3,352							22,841,362	22,195,406	645,956
Classified Salaries	6,442,913	6,289,109	153,804	1,240,142	1,222,992	17,150							7,683,055	7,512,101	170,954
Employee Benefits	7,891,129	7,008,185	882,944	853,520	846,615	6,905							8,744,649	7,854,800	889,849
Books & Supplies	4,798,448	2,714,622	2,083,826	1,677,232	1,374,858	302,374				20,000	49,700	(29,700)	6,495,680	4,139,180	2,356,500
Services and other operating Expenditures	3,848,349	3,033,876	814,473	798,785	620,249	178,536				302,000	142,012	159,988	4,919,114	3,796,137	1,122,977
Capital Outlay	223,370	102,664	120,706	307,410	324,325	(16,915)				800,000	675,109	124,891	1,330,780	1,102,098	228,682
Debt Service:															
Principal	309,643	309,643											309,643	309,643	
Interest and fiscal charges	315,208	315,208											315,208	315,208	
<b>Total Expenditures</b>	<b>44,364,086</b>	<b>39,665,729</b>	<b>4,698,357</b>	<b>7,153,405</b>	<b>6,692,023</b>	<b>461,382</b>				<b>1,122,000</b>	<b>866,821</b>	<b>255,179</b>	<b>52,639,491</b>	<b>47,224,573</b>	<b>5,414,918</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(2,757,316)</b>	<b>546,087</b>	<b>3,303,403</b>	<b>(1,867,000)</b>	<b>(1,837,510)</b>	<b>29,490</b>		<b>36,955</b>	<b>36,955</b>	<b>(584,443)</b>	<b>(553,000)</b>	<b>31,443</b>	<b>(5,208,739)</b>	<b>(1,807,468)</b>	<b>3,401,291</b>
<b>Other Financing Sources/(Uses)</b>															
Operating Transfers In				2,029,307	2,042,281	12,974				494,850		(494,850)	2,524,157	2,042,281	(481,876)
Operating Transfers Out	(1,327,302)	(2,042,281)	(714,979)							(494,850)		494,850	(1,822,152)	(2,042,281)	(220,129)
Other uses	(1,300,782)	(1,043,735)	257,047	(319,489)	(315,993)	3,496							(1,620,271)	(1,359,728)	260,543
<b>Total Other Financing Sources/(Uses)</b>	<b>(2,628,084)</b>	<b>(3,086,016)</b>	<b>(457,932)</b>	<b>1,709,818</b>	<b>1,726,288</b>	<b>16,470</b>							<b>(918,266)</b>	<b>(1,359,728)</b>	<b>(441,462)</b>
<b>Excess (deficiency) of revenues over (under) expenditures and other uses</b>	<b>(5,385,400)</b>	<b>(2,539,929)</b>	<b>2,845,471</b>	<b>(157,182)</b>	<b>(111,222)</b>	<b>45,960</b>		<b>36,955</b>	<b>36,955</b>	<b>(584,443)</b>	<b>(553,000)</b>	<b>31,443</b>	<b>(6,127,025)</b>	<b>(3,167,196)</b>	<b>2,959,829</b>
Initial Balance, July 1, 2001	11,162,246	11,162,246		3,063,126	3,063,126		47,317	47,317		1,134,248	1,134,248		15,406,937	15,406,937	
Final Balance, June 30, 2002	\$ 5,776,846	\$ 8,622,317	\$ 2,845,471	\$ 2,905,944	\$ 2,951,904	\$ 45,960	\$ 47,317	\$ 84,272	\$ 36,955	\$ 549,805	\$ 581,248	\$ 31,443	\$ 9,279,912	\$ 12,239,741	\$ 2,959,829

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

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN RETAINED EARNINGS  
PROPRIETARY FUND TYPE - SELF-INSURANCE FUND  
FOR THE YEAR ENDED JUNE 30, 2002.**

Operating revenues:	
Self-insurance premiums	\$ <u>564,791</u>
Operating expenses:	
Employee benefits	<u>560,182</u>
Operating income	4,609
Non-operating revenue:	
Interest income	<u>11,717</u>
Net income	16,326
Retained earnings, July 1, 2001	<u>376,372</u>
Retained earnings, June 30, 2002	\$ <u><u>392,698</u></u>

The accompanying notes are an integral part of the financial statements

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND TYPE - SELF-INSURANCE FUND  
FOR THE YEAR ENDED JUNE 30, 2002**

	<u>Self-Insurance Fund</u>
<b><u>Cash Flows from Operating Activities:</u></b>	
Cash received from other local income - premiums	\$ 564,526
Cash paid for employee benefits claims	<u>(560,182)</u>
Net cash provided by operating activities	\$ 4,344
 <b><u>Cash Flows from Investing Activities:</u></b>	
Interest income	\$ <u>14,308</u>
Net increase in cash	18,652
Cash , July 1, 2001	<u>321,200</u>
Cash, June 30, 2002	<u><u>\$ 339,852</u></u>

**RECONCILIATION OF OPERATING INCOME TO NET CASH  
USED BY OPERATING ACTIVITIES:**

Operating income	\$ 4,609
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase in accounts receivable	<u>(265)</u>
Net cash provided by operating activities	<u><u>\$ 4,344</u></u>

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

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002**

**NOTE 1: SIGNIFICANT ACCOUNTING POLICIES**

- A. Description of Entity** - North Monterey County Unified School District (the District) provides elementary and secondary education in North Monterey County. For financial presentation purposes, the District includes all funds, account groups, agencies and authorities that are controlled by or dependent on the District's executive or legislative branches. Control by or dependence on the District was determined on the basis of budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the District, or receipt of significant subsidies from the District.

As a result, the combined and combining financial statements of the District include the financial activities of the District and the combined totals of the student body funds which represent the various student body clubs and activities of all the schools within the District. Individual totals by school and club are maintained in the District's accounting system.

- B. Accounting Policies** - The District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's California School Accounting Manual. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants.
- C. Fund Accounting** - The Accounts of the District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity (or retained earnings), revenues and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into three broad categories, which in aggregate include six fund types, and one account group as follows:

**Governmental Funds:**

**The General Fund** is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

**Special Revenue Funds** are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains five special revenue funds:

- The Child Development Fund is used to account for resources committed to child development programs maintained by the District.
- The Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.
- The Deferred Maintenance Fund is used for the purpose of major repair or replacement of District property.
- The Special Reserve Fund is used to account for funds reserved for future needs.
- The Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's cafeterias.
- The Charter School Fund is used to account for revenues and expenditures made to operate the District's sponsored Charter School.

Liberty Family Academy (the Charter School) was granted Charter School Status (#160) on July 9, 1998 through the authority established in Education Code Section 47602 (Senate Bill 1448, Statutes of 1992, Chapter 781). The Liberty Family Academy Charter was entirely a collaborative effort of parents, staff and community members. The Charter was granted for a term of five years commencing July 1, 1998 and terminating June 30, 2003. The Charter may be renewed for one or more subsequent five year terms upon the mutual agreement of the parties. The Charter may be revoked by the Governing Board of the North Monterey County Unified School District Board of Education upon a finding that the Charter School committed a material breach of this Charter.

The purpose of the Charter School is to provide an alternative education program to meet the needs of families and their children who desired a home-based, family-centered educational experience. The Charter School will serve students in Kindergarten through eighth grade, and may expand to serve students in grade 9 through 12. The staff and parents of the Charter School will choose the educational experiences that they feel best suit students' individual learning styles, socialization needs and educational levels. Curricula will be based upon the content and performance standards adopted by the California State Board of Education.

In general, the Charter School's program will be characterized by:

- Teaching practices geared to students' individual learning styles.
- Integrated, thematic instruction with an emphasis upon projects.
- Cross-generational learning and tutoring.
- The use of local resources such as the Monterey Bay, the Elkhorn Slough Estuarine Preserve, and community experts.
- The use of technology to access the global community.

**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. The District maintains one debt service fund:

- The Bond Interest and Redemption Fund is used to account for the accumulation of resources for, and the repayment of, district bonds, interest, and related costs.

**Capital Projects Funds** are used to account for the acquisition and/or construction of all major governmental general fixed assets. The District maintains three capital projects funds:

- The Capital Facilities Fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act (CEQA).
- The State School Building Lease-Purchase Fund is used primarily to account for state apportionments provided for the acquisition of portable classrooms and related equipment. (Education Code Sections 17700-17780).
- The Special Reserve Fund is used to account for funds reserved for future needs.

**Proprietary Funds:**

*Internal Service Funds* are used to account for services rendered on a cost-reimbursement basis within the District. The District maintains one internal service fund, the Self-Insurance Fund, which is used to provide medical benefits to its employees.

**Fiduciary Funds:**

**Agency Funds** are used to account for assets of others for which the District acts as an agent. The District maintains three agency funds, one for each school's student body.

**Account Groups:**

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds and expendable trust funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheet. Their reported fund balance is considered a measure of "available spendable resources." Thus, the fixed assets and long-term liabilities associated with governmental funds and expendable trust funds are accounted for in the account groups of the District.

*The General Fixed Assets Account Group* accounts for fixed assets used in governmental fund type operations. Acquisition of fixed assets is recorded at cost as expenditures when incurred. These assets are not recorded in a general fixed asset account group, as required by accounting principles generally accepted in the United States of America.

The district has started to obtain the correct valuation of its previously acquired fixed assets and initiated the accounting of the recent acquisitions. When the valuation is completed, the district will be able to show all the assets that have a life of more than one year and exceeded the capitalization threshold under the *General Fixed Assets Account Group*.

*The General Long-Term Debt Account Group* accounts for long-term liabilities expected to be financed from governmental funds.

#### **D. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

Governmental funds are generally accounted for using the modified accrual basis of accounting. Their revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered) except for unmatured interest on general long-term debt, which is recognized when due.

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The District applies all applicable Financial Accounting Standards Board (FASB) pronouncements in accounting and reporting for its proprietary operations.

Agency fund assets and liabilities are also accounted for on the modified accrual basis.

#### **E. Budgets and Budgetary Accounting**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all government funds. By state law, the District's governing board must adopt a final budget no later than September 15 of each year. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board and district superintendent during the year to give consideration to unanticipated income and expenditures. It is this final revised budget that is presented in the financial statements. All expenditures in excess of originally budgeted amounts have been approved by Board resolution during the year.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

**F. Encumbrances**

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

**G. Assets, Liabilities, and Equity**

**1. Deposits and Investments**

Cash balances held in banks and in revolving funds are insured to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized.

In accordance with Education Code Section 41001, the District maintains substantially all its cash in the Monterey County Treasury. The County pools these funds with those of other districts in the County and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds, except for the Tax Override Funds, in which interest earned is credited to the general fund. Any investment losses are proportionately shared by all funds in the pool.

The County is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The funds maintained by the County are either secured by federal depository insurance or are collateralized.

Information regarding the amount of dollars invested in derivatives with Monterey County Treasury was not available.

**2. Stores Inventories and Prepaid Expenditures**

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time individual inventory items are purchased. Inventories are valued at average cost and consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.



The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure when incurred.

3. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District. The current portion of the liabilities is recognized in the general fund at year-end. The noncurrent portion of the liabilities is recognized in the general long-term debt account group.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

4. Long-Term Obligations

The District reports long-term debt of governmental funds at face value in the general long-term debt account group. Long-Term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

5. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. The reserve for revolving fund and reserve for stores inventory reflect the portions of fund balance represented by revolving fund cash and stores inventory, respectively. These amounts are not available for appropriation and expenditure at the balance sheet date.

Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

6. Property Tax

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County bills and collects the taxes for the District. Tax revenues are recognized by the District when received.

7. Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been

incurred. Deferred revenue is recorded to the extent cash received on specific projects and programs exceed qualified expenditures.

#### **H. Total (Memorandum Only)**

The columns in the financial statements captioned "Total (Memorandum Only)" are presented for purposes of additional analysis and are not a required part of the basic financial statements. This data is not comparable to a consolidation and does not present financial position or results of operations in conformity with generally accepted accounting principles.

#### **I. Joint Powers Agreements**

The District participates in one joint ventures under joint powers agreements (JPAs): the Monterey County Property Liability Self-Insurance Fund. The relationship between the District and the JPAs are such that none is a component unit of the others for financial reporting purposes, although the District is represented on the Board of Directors of each JPA.

Each JPA is governed by a board consisting of a representative from each member District. Each governing board controls the operations of its JPA independent of any influence by the District beyond its representation on the respective boards.

Each JPA is independently accountable for its fiscal matters. Budgets are not subject to any approval other than that of the respective governing boards. Member Districts share surpluses and deficits proportionate to their participation in the JPAs.

### **NOTE 2: CASH AND INVESTMENTS**

#### **Cash in County Treasury**

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the County Treasury as part of the common investment pool (\$7,745,970 as of June 30, 2002). The County is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

#### **Cash on Hand, in Banks, and in Revolving Fund**

Cash balances on hand and in banks (\$139,789 as of June 30, 2002) are insured up to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

**NOTE 3: CASH HELD BY TRUSTEE/TAX REVENUE ANTICIPATION NOTE**

The District is authorized by Sections 53850 to 53858, both inclusive, of the Government Code of the State of California (the "Act") (being Article 7.6, Chapter 4, Part 1, Division 2, Title 5 of the Government Code) to borrow money by the issuance of temporary notes. Proceeds of the note will be used to cover the District's cash flow deficits. On July 3, 2001, the District issued \$5,000,000 of Tax Revenue and Anticipation Notes (TRANS), the proceeds of the notes was held by a trustee. At June 30, 2002, the cash held by the trustee is \$5,000,000. The annual interest yield on notes is 2.65 % and matures on July 3, 2002.

**NOTE 4: FUND EQUITIES**

Fund equities consist of reserved and unreserved amounts. Reserved fund equities represent that portion of the fund which is not appropriable for expenditures or is legally segregated for a specific future use. The District's June 30, 2002 reserved fund equities consist of the following:

	<u>General</u>	<u>Special Revenue</u>	<u>Total</u>
Inventory	\$ 9,007	\$ 38,867	\$ 47,874
Prepaid Expenditures	238,461		238,461
Revolving Cash	5,000		5,000
	<u>\$ 252,468</u>	<u>\$ 38,867</u>	<u>\$ 291,335</u>

Inventories of governmental fund types do not constitute "available spendable resources" even though they are a component of net current assets.

The remainder of the fund balance is unreserved. Portions of unreserved fund balance may be designated to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans or intent are subject to change and may never be legally authorized or result in expenditures.

**NOTE 5: COMPENSATED ABSENCES**

Annual leave accrues to classified employees at between 10 to 20 days per year based on the length of service. Vacation days must be fully used by the end of the second year following the year in which they were earned.

Sick leave for both certificated and classified employees is earned at the rate of one day per month and may accumulate from year to year. Unused sick leave is forfeited upon resignation. Retirement benefits are adjusted for unused sick leave based upon formulas provided under the Public Employees' Retirement System and the State Teachers' Retirement System.

**NOTE 6: ACCOUNTS RECEIVABLE**

Accounts receivable at June 30, 2002 consist of the following:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Proprietary Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
<b>Federal Government</b>					
<b>Federal Programs</b>	\$ 834,226	\$ 191,371	\$ _____	\$ _____	\$ 1,025,597
<b>State Government</b>					
Categorical Aid Programs	336,940	179,584			516,524
Lottery	348,106	42,159			390,265
Other		14,850			14,850
<b>Total - State</b>	<u>685,046</u>	<u>236,593</u>			<u>921,639</u>
<b>Local</b>					
Interest	34,314	16,517		4,973	55,804
Other	625,605	48,830	2,706		677,141
<b>Total - Local</b>	<u>659,919</u>	<u>65,347</u>	<u>2,706</u>	<u>4,973</u>	<u>732,945</u>
<b>Other Local Sources</b>	<u>103,669</u>	<u>24,016</u>	<u>50,140</u>	<u>8,282</u>	<u>186,107</u>
<b>Grand Total</b>	<u>\$ 2,282,860</u>	<u>\$ 517,327</u>	<u>\$ 52,846</u>	<u>\$ 13,255</u>	<u>\$ 2,866,288</u>

**NOTE 7 - GENERAL LONG-TERM DEBT - SCHEDULE OF CHANGES**

A schedule of changes in long-term debt for the year ended June 30, 2002 is shown below:

	<u>June 30, 2001</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2002</u>
Capital Leases	\$ 686,163	\$ _____	\$ 184,643	\$ 501,520
* Compensated Absences	244,810	32,787		277,597
Postemployment Benefits	13,922		13,922	
Certificate of Participation	5,595,000		125,000	5,470,000
	<u>\$ 6,539,897</u>	<u>\$ 32,787</u>	<u>\$ 323,565</u>	<u>\$ 6,249,117</u>

\* Accrued Salaries and benefits: Payments of accrued salaries and related benefits represent the net change in the vacation benefits liability.

**NOTE 8 - CERTIFICATES OF PARTICIPATION**

In November 2000, the District issued certificates of participation (COP) in the amount of \$5,595,000. As of June 30, 2002, the principal balance outstanding was \$5,470,000.

The certificates mature through 2025 as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 130,000	\$ 270,633	\$ 400,633
2004	135,000	265,100	400,100
2005	140,000	259,255	399,255
2006	145,000	253,091	398,091
2007	150,000	246,656	396,656
Thereafter	<u>4,770,000</u>	<u>2,743,289</u>	<u>7,513,289</u>
Totals	\$ <u>5,470,000</u>	\$ <u>4,038,024</u>	\$ <u>9,508,024</u>

**NOTE 9 - CAPITAL LEASES**

Energy Management System

The District leases certain property valued at \$662,010 for the energy management and retrofit project under a lease agreement, which provides for the title to be passed onto the District on the second scheduled rental payment date. Lease rentals are payable semi-annually on June 1 and December 1. Future minimum lease payments are as follows:

	<u>Lease Payment</u>
2003	\$ <u>91,777</u>
	91,777
Less: Amount Representing Interest	<u>5,203</u>
Present Value of Net Minimum Lease Payments	\$ <u><u>86,574</u></u>

The District will receive no sublease revenues nor pay any contingent rentals for this equipment.

Computer Software

The District leases an attendance base software program valued at \$120,000 under an agreement with Bank One Leasing Corporation. The lease agreement provides for the title to be passed onto the District during the duration of the lease. Lease rentals are payable annually on September 13. Future minimum lease payments are as follows:

	<u>Lease Payment</u>
2003	\$ <u>44,719</u>
	44,719
Less: Amount Representing Interest	<u>2,449</u>
Present Value of Net Minimum Lease Payments	\$ <u><u>42,270</u></u>

**Gymnasium Construction**

The District financed construction of a gymnasium under a capital lease agreement with Municipal Finance Corporation. The estimated construction cost excluding interest is \$495,000. Lease rentals are payable annually on June 19. Each payment includes interest at the rate of 5.73% per annum. Future minimum lease payments are as follows:

	<u>Lease Payments</u>
2003	\$ 87,823
2004	87,823
2005	87,823
2006	87,823
2007	87,823
	<hr/>
	439,115
Less: Amounts representing interest	66,439
	<hr/>
Present value of net minimum lease payments	\$ <u>372,676</u>

**NOTE 10: EMPLOYEE RETIREMENT SYSTEMS**

Qualified employees are covered under multiple employer defined benefit pension plans maintained by agencies of the State of California. Certified employees are members of the State Teachers' Retirement System (STRS), and classified employees are members of the Public Employees' Retirement System (PERS).

**STRS**

**Plan Description**

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from the STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

**Funding Policy**

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2001-2002 was 8.25% of annual payroll. The contribution requirements of the plan members are

established by state statute. The District's contributions to STRS for the fiscal year ending June 30, 2002, 2001 and 2000 were \$1,552,187, \$1,468,399 and \$1,258,561 respectively, 100% of the required contributions for each year.

**PERS**

**Plan Description**

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

**Funding Policy**

Active plan members are not required to contribute any of their salary, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal year ending June 30, 2002, 2001 and 2000 were \$0, \$369,166 and \$0 respectively, and equal 100% of the required contributions for each year.

**NOTE 11: CONTINGENCIES**

The District has received specific State and Federal funds that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, management believes that any required reimbursement will not be material.

**NOTE 12: INTERFUND TRANSFER**

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended. Interfund transfers for the 2001-2002 fiscal year were as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Deferred Maintenance	General	\$ 250,000
Charter School	General	1,792,281
		<hr/>
Total		\$ 2,042,281

**NOTE 13: JOINT VENTURES (Joint Powers Agreement)**

The District participates in one joint venture under a joint powers agreement (JPA) with Monterey County Property Liability Self-Insurance Fund. The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

Condensed financial statements for Monterey County Property Liability Self-Insurance Fund for the year ended June 30, 2002 are not available.

**NOTE 14: SUBSEQUENT EVENTS**

The District issued \$5,000,000 of Tax Revenue and Anticipation notes (TRANS) dated July 3, 2002. Sold to supplement the cash flow, the notes will mature on July 3, 2003 with annual interest yield of 1.67%.

**NOTE 15: EXCESS OF EXPENDITURE OVER APPROPRIATION**

As of June 30, 2002, expenditure exceeded appropriation in individual fund as follows:

<u>Appropriation Category</u>	<u>Excess Expenditure</u>
Deferred Maintenance Fund	
Capital Outlay	\$ 17,372
Charter School Fund	
Employee Benefits	3,176
Capital Facilities Fund	
Books and Supplies	29,700
Services and other operating expenditures	10,266
State School Building Lease - Purchase Fund	
Capital Outlay	<u>110,632</u>
	\$ <u>171,146</u>

The District and County office converted to a new financial application system that made timely budget adjustments difficult. This problem is now corrected in the new fiscal year.



**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT  
SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2002**

	Child Development Fund	Adult Education	Deferred Maintenance	Special Reserve Fund	Charter School Fund	Cafeteria Fund	Total
<b>Assets</b>							
Cash In County Treasury	\$ 312,136	\$ 124,098	\$ (83,929)	\$ 1,334,218	\$ 648,427	\$ 306,735	\$ 2,641,685
Accounts receivable	52,296	14,680		11,673	257,435	181,243	517,327
Due from other funds			400,000			8,841	408,841
Stores inventory						38,867	38,867
<b>Total Assets</b>	<b>\$ 364,432</b>	<b>\$ 138,778</b>	<b>\$ 316,071</b>	<b>\$ 1,345,891</b>	<b>\$ 905,862</b>	<b>\$ 535,686</b>	<b>\$ 3,606,720</b>
<b>Liabilities and Fund Balances</b>							
<b>Liabilities</b>							
Accounts payable	\$ 306,997	\$ 26,631	\$ 644	\$	\$ 191,068	\$ 2,317	\$ 527,657
Due to other funds	48,824	12,788				65,547	127,159
<b>Total Liabilities</b>	<b>355,821</b>	<b>39,419</b>	<b>644</b>		<b>191,068</b>	<b>67,864</b>	<b>654,816</b>
<b>Fund Equity:</b>							
<b>Reserved Fund Balances:</b>							
Reserved for stores inventory						38,867	38,867
Designated for economic uncertainties		31,984		1,345,891		132,068	1,509,943
Other designated fund balance	8,611	1,251	315,427				325,289
Undesignated/unappropriated		66,124			714,794	296,887	1,077,805
<b>Total fund equity</b>	<b>8,611</b>	<b>99,359</b>	<b>315,427</b>	<b>1,345,891</b>	<b>714,794</b>	<b>467,822</b>	<b>2,951,904</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$ 364,432</b>	<b>\$ 138,778</b>	<b>\$ 316,071</b>	<b>\$ 1,345,891</b>	<b>\$ 905,862</b>	<b>\$ 535,686</b>	<b>\$ 3,606,720</b>

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

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT  
SPECIAL REVENUE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2002**

	Child Development Fund	Adult Education	Deferred Maintenance	Special Reserve Fund	Cafeteria Fund	Charter School Fund	Total
<b>Revenues</b>							
Revenue Limit Source							
State Apportionments	\$ _____	\$ 288,163	\$ _____	\$ _____	\$ _____	\$ 1,604,647	\$ 1,892,810
Total Revenue Limit		288,163				1,604,647	1,892,810
Federal Revenue	13,611	19,575			777,712	887	811,785
Other State Revenue	632,707	1,436	31,180		56,098	615,035	1,336,456
Other Local Revenue	67,804	35,761	(3,517)	47,941	642,960	22,513	813,462
Total Revenues	<u>714,122</u>	<u>344,935</u>	<u>27,663</u>	<u>47,941</u>	<u>1,476,770</u>	<u>2,243,082</u>	<u>4,854,513</u>
<b>Expenditures</b>							
Certificated Salaries	324,593	221,002				1,757,389	2,302,984
Classified Salaries	273,269	33,349			434,038	482,336	1,222,992
Employee Benefits	129,612	32,686			140,777	543,540	846,615
Books & Supplies	121,105	9,506			689,862	554,385	1,374,858
Services and Other Operating Expenditures	64,265	10,710	12,640		(27,056)	559,690	620,249
Capital Outlay	34,910		272,372		17,043		324,325
Debt Service: Principal							
Total Expenditures	<u>947,754</u>	<u>307,253</u>	<u>285,012</u>		<u>1,254,664</u>	<u>3,897,340</u>	<u>6,692,023</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(233,632)</u>	<u>37,682</u>	<u>(257,349)</u>	<u>47,941</u>	<u>222,106</u>	<u>(1,654,258)</u>	<u>(1,837,510)</u>
<b>Other Financing Sources/(Uses)</b>							
Operating Transfers In			250,000			1,792,281	2,042,281
Operating Transfers Out							
Other Uses	(46,546)	(12,588)			(64,803)	(192,056)	(315,993)
Total Other Financing Sources/(Uses)	<u>(46,546)</u>	<u>(12,588)</u>	<u>250,000</u>		<u>(64,803)</u>	<u>1,600,225</u>	<u>1,726,288</u>
Excess (deficiency) of revenues and other resources (under) expenditures and other uses	<u>(280,178)</u>	<u>25,094</u>	<u>(7,349)</u>	<u>47,941</u>	<u>157,303</u>	<u>(54,033)</u>	<u>(111,222)</u>
Fund Balances, July 1, 2001	<u>288,789</u>	<u>74,265</u>	<u>322,776</u>	<u>1,297,950</u>	<u>310,519</u>	<u>768,827</u>	<u>3,063,126</u>
Fund Balances, June 30, 2002	<u>\$ 8,611</u>	<u>\$ 99,359</u>	<u>\$ 315,427</u>	<u>\$ 1,345,891</u>	<u>\$ 467,822</u>	<u>\$ 714,794</u>	<u>\$ 2,951,904</u>

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

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
**SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2002.**

	Child Development Fund			Adult Education Fund			Deferred Maintenance Fund			Special Reserve Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>												
Revenue Limit Sources:												
State Apportionments	\$	\$	\$	\$ 288,163	\$ 288,163	\$	\$	\$	\$	\$	\$	\$
Total Revenue Limit				288,163	288,163							
Federal Revenue	5,000	13,611	8,611	19,575	19,575							
Other State Revenue	850,676	632,707	(217,969)	1,436	1,436		150,000	31,180	(118,820)			
Other Local Revenue	264,066	67,804	(196,262)	36,406	35,761	(645)	4,000	(3,517)	(7,517)	47,941	47,941	
Total Revenues	<u>1,119,742</u>	<u>714,122</u>	<u>(405,620)</u>	<u>345,580</u>	<u>344,935</u>	<u>(645)</u>	<u>154,000</u>	<u>27,663</u>	<u>(126,337)</u>	<u>47,941</u>	<u>47,941</u>	
<b>Expenditures</b>												
Certificated Salaries	325,991	324,593	1,398	222,956	221,002	1,954						
Classified Salaries	279,153	273,269	5,884	43,932	33,349	10,583						
Employee Benefits	137,618	129,612	8,006	32,903	32,686	217						
Books & Supplies	171,245	121,105	50,140	99,775	9,506	90,269	5,000		5,000			
Services and other operating expenditures	122,374	64,265	58,109	14,256	10,710	3,546	80,000	12,640	67,360			
Capital Outlay	34,910	34,910					255,000	272,372	(17,372)			
Debt Service:												
Principal												
Total Expenditures	<u>1,071,291</u>	<u>947,754</u>	<u>123,537</u>	<u>413,822</u>	<u>307,253</u>	<u>106,569</u>	<u>340,000</u>	<u>285,012</u>	<u>54,988</u>			
Excess (deficiency) of revenues over (under) expenditures	<u>48,451</u>	<u>(233,632)</u>	<u>(282,083)</u>	<u>(68,242)</u>	<u>37,682</u>	<u>105,924</u>	<u>(186,000)</u>	<u>(257,349)</u>	<u>(71,349)</u>	<u>47,941</u>	<u>47,941</u>	
<b>Other Financing Sources/(Uses)</b>												
Operating Transfers In							250,000	250,000				
Other Uses	(48,451)	(46,546)	1,905	(14,123)	(12,588)	1,535						
Total Other Financing Sources/(Uses)	<u>(48,451)</u>	<u>(46,546)</u>	<u>1,905</u>	<u>(14,123)</u>	<u>(12,588)</u>	<u>1,535</u>	<u>250,000</u>	<u>250,000</u>				
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses		(280,178)	(280,178)	(82,365)	25,094	107,459	64,000	(7,349)	(71,349)	47,941	47,941	
fund Balances, July 1, 2001	288,789	288,789		74,265	74,265		322,776	322,776		1,297,950	1,297,950	
fund Balances, June 30, 2002	<u>\$ 288,789</u>	<u>\$ 8,611</u>	<u>\$ (280,178)</u>	<u>\$ (8,100)</u>	<u>\$ 99,359</u>	<u>\$ 107,459</u>	<u>\$ 386,776</u>	<u>\$ 315,427</u>	<u>\$ (71,349)</u>	<u>\$ 1,345,891</u>	<u>\$ 1,345,891</u>	<u>\$</u>

(continued)

The accompanying notes are an integral part of the financial statements

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2002**

	Cafeteria Fund			Charter School Fund			Total		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>									
Revenue Limit Sources:									
State Apportionments	\$	\$	\$	\$ 1,621,815	\$ 1,604,647	\$ (17,168)	\$ 1,909,978	\$ 1,892,810	\$ (17,168)
Total Revenue Limit				1,621,815	1,604,647	(17,168)	1,909,978	1,892,810	(17,168)
Federal Revenue	777,711	777,712	1	887	887		803,173	811,785	8,612
Other State Revenue	56,098	56,098		495,986	615,035	119,049	1,554,196	1,336,456	(217,740)
Other Local Revenue	642,958	642,960	2	23,687	22,513	(1,174)	1,019,058	813,462	(205,596)
Total Revenues	1,476,767	1,476,770	3	2,142,375	2,243,082	100,707	5,286,405	4,854,513	(431,892)
<b>Expenditures</b>									
Certificated Salaries				1,757,389	1,757,389		2,306,336	2,302,984	3,352
Classified Salaries	434,721	434,038	683	482,336	482,336		1,240,142	1,222,992	17,150
Employee Benefits	142,635	140,777	1,858	540,364	543,540	(3,176)	853,520	846,615	6,905
Books & Supplies	833,212	689,862	143,350	568,000	554,385	13,615	1,677,232	1,374,858	302,374
Services and other operating expenditures	(16,160)	(27,056)	10,896	568,295	559,690	8,605	768,765	620,249	148,516
Capital Outlay	17,500	17,043	457				307,410	324,325	(16,915)
Debt Service:									
Principal									
Total Expenditures	1,411,908	1,254,664	157,244	3,916,384	3,897,340	19,044	7,153,405	6,692,023	461,382
Excess (deficiency) of revenues over (under) expenditures	64,859	222,106	157,247	(1,774,009)	(1,654,258)	119,751	(1,867,000)	(1,837,510)	29,490
<b>Other Financing Sources/(Uses)</b>									
Operating Transfers In				1,779,307	1,792,281	12,974	2,029,307	2,042,281	12,974
Other Uses	(64,859)	(64,803)	56	(192,056)	(192,056)		(319,489)	(315,993)	3,496
Total Other Financing Sources/(Uses)	(64,859)	(64,803)	56	1,587,251	1,600,225	12,974	1,709,818	1,726,288	16,470
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses		157,303	157,303	(186,758)	(54,033)	132,725	(157,182)	(111,222)	45,960
Unadjusted Balances, July 1, 2001	310,519	310,519		768,827	768,827		3,063,126	3,063,126	
Adjusted Balances, June 30, 2002	\$ 310,519	\$ 467,822	\$ 157,303	\$ 582,069	\$ 714,794	\$ 132,725	\$ 2,905,944	\$ 2,951,904	\$ 45,960

(concluded)

The accompanying notes are an integral part of the financial statements

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT  
CAPITAL PROJECTS FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2002**

	<u>Capital Facilities Fund</u>	<u>State School Building Lease - Purchase Fund</u>	<u>Special Reserve Fund</u>	<u>Total</u>
<b>ASSETS</b>				
Cash In County Treasury	\$ 207,751	\$ 183,198	\$ 230,147	\$ 621,096
Accounts receivable	<u>8,966</u>	<u>2,278</u>	<u>2,011</u>	<u>13,255</u>
Total Assets	<u>\$ 216,717</u>	<u>\$ 185,476</u>	<u>\$ 232,158</u>	<u>\$ 634,351</u>
<b>LIABILITIES AND FUND EQUITY:</b>				
<b>Liabilities:</b>				
Accounts Payable	\$ <u>9,887</u>	\$ <u>43,216</u>	\$ _____	\$ <u>53,103</u>
Total Liabilities	<u>\$ 9,887</u>	<u>\$ 43,216</u>	<u>\$ _____</u>	<u>\$ 53,103</u>
<b>Fund Equity:</b>				
Other Designated Fund Balance	\$ <u>206,830</u>	\$ <u>142,260</u>	\$ <u>232,158</u>	\$ <u>581,248</u>
Total Fund Equity	<u>206,830</u>	<u>142,260</u>	<u>232,158</u>	<u>581,248</u>
Total Liabilities and Fund Balances	<u>\$ 216,717</u>	<u>\$ 185,476</u>	<u>\$ 232,158</u>	<u>\$ 634,351</u>

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

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT  
CAPITAL PROJECTS FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2002**

	Capital Facilities Fund	State School Building Lease - Purchase Fund	Special Reserve Fund	Total
<b><u>REVENUES</u></b>				
Other State Revenue	\$	\$ 7,128	\$	\$ 7,128
Other Local Revenue	<u>288,475</u>	<u>9,661</u>	<u>8,557</u>	<u>306,693</u>
Total Revenues	<u>288,475</u>	<u>16,789</u>	<u>8,557</u>	<u>313,821</u>
<b><u>EXPENDITURES</u></b>				
Current:				
Books & Supplies	49,700			49,700
Services and other operating expenditures	108,266	33,746		142,012
Capital outlay	<u>564,477</u>	<u>110,632</u>		<u>675,109</u>
Total Expenditures	<u>722,443</u>	<u>144,378</u>		<u>866,821</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(433,968)</u>	<u>(127,589)</u>	<u>8,557</u>	<u>(553,000)</u>
Fund Balances - July 1, 2001	<u>640,798</u>	<u>269,849</u>	<u>223,601</u>	<u>1,134,248</u>
Fund Balances - June 30, 2002	<u>\$ 206,830</u>	<u>\$ 142,260</u>	<u>\$ 232,158</u>	<u>\$ 581,248</u>

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

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
**CAPITAL PROJECTS FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2002.**

	Capital Facilities Fund			State School Building Lease-Purchase Fund			Special Reserve Fund			Total		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>												
Other State Revenue	\$	\$	\$	\$	7,128	7,128	\$	\$	\$	\$	7,128	7,128
Other Local Revenue	<u>325,000</u>	<u>288,475</u>	<u>(36,525)</u>	<u>204,000</u>	<u>9,661</u>	<u>(194,339)</u>	<u>8,557</u>	<u>8,557</u>		<u>537,557</u>	<u>306,693</u>	<u>(230,864)</u>
<b>Total Revenues:</b>	<u>325,000</u>	<u>288,475</u>	<u>(36,525)</u>	<u>204,000</u>	<u>16,789</u>	<u>(187,211)</u>	<u>8,557</u>	<u>8,557</u>		<u>537,557</u>	<u>313,821</u>	<u>(223,736)</u>
<b>Expenditures</b>												
Current:												
Books & Supplies	20,000	49,700	(29,700)							20,000	49,700	(29,700)
Services and other operating expenditures	98,000	108,266	(10,266)	204,000	33,746	170,254				302,000	142,012	159,988
Capital outlay	<u>800,000</u>	<u>564,477</u>	<u>235,523</u>		<u>110,632</u>	<u>(110,632)</u>				<u>800,000</u>	<u>675,109</u>	<u>124,891</u>
<b>Total Expenditures</b>	<u>918,000</u>	<u>722,443</u>	<u>195,557</u>	<u>204,000</u>	<u>144,378</u>	<u>59,622</u>				<u>1,122,000</u>	<u>866,821</u>	<u>255,179</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(593,000)</u>	<u>(433,968)</u>	<u>159,032</u>		<u>(127,589)</u>	<u>(127,589)</u>	<u>8,557</u>	<u>8,557</u>		<u>(584,443)</u>	<u>(553,000)</u>	<u>31,443</u>
<b>Other Financing Sources/(Uses)</b>												
Operating Transfers In	494,850		(494,850)							494,850		(494,850)
Operating Transfers Out				<u>(269,683)</u>		<u>(269,683)</u>	<u>(225,167)</u>		<u>225,167</u>	<u>(494,850)</u>		<u>494,850</u>
<b>Total Other Financing Sources/ (Uses)</b>	<u>494,850</u>		<u>(494,850)</u>	<u>(269,683)</u>		<u>(269,683)</u>	<u>(225,167)</u>		<u>225,167</u>			
Excess (deficiency) of revenues and other resources over (under) expenditures and other uses	<u>(98,150)</u>	<u>(433,968)</u>	<u>(335,818)</u>	<u>(269,683)</u>	<u>(127,589)</u>	<u>142,094</u>	<u>(216,610)</u>	<u>8,557</u>	<u>225,167</u>	<u>(584,443)</u>	<u>(553,000)</u>	<u>31,443</u>
Fund Balances - July 1, 2001	<u>640,798</u>	<u>640,798</u>		<u>269,849</u>	<u>269,849</u>		<u>223,601</u>	<u>223,601</u>		<u>1,134,248</u>	<u>1,134,248</u>	
<b>Fund Balances - June 30, 2002</b>	<u>\$ 542,648</u>	<u>\$ 206,830</u>	<u>\$ (335,818)</u>	<u>\$ 166</u>	<u>\$ 142,260</u>	<u>\$ 142,094</u>	<u>\$ 6,991</u>	<u>\$ 232,158</u>	<u>\$ 225,167</u>	<u>\$ 549,805</u>	<u>\$ 581,248</u>	<u>\$ 31,443</u>

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

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**  
**BALANCE SHEET**  
**STUDENT BODY FUNDS**  
**JUNE 30, 2002**

	<u>Balance</u> <u>June 30, 2001</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2002</u>
<b>ASSETS</b>				
Cash in Hand & in Banks	\$ <u>84,726</u>	\$ <u>722,627</u>	\$ <u>667,564</u>	\$ <u>139,789</u>
Total Assets	\$ <u>84,726</u>	\$ <u>722,627</u>	\$ <u>667,564</u>	\$ <u>139,789</u>
<b>LIABILITIES</b>				
Due to Student Groups	\$ <u>84,726</u>	\$ <u>722,627</u>	\$ <u>667,564</u>	\$ <u>139,789</u>
Total Liabilities	\$ <u>84,726</u>	\$ <u>722,627</u>	\$ <u>667,564</u>	\$ <u>139,789</u>

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



**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
STUDENT BODY FUNDS  
JUNE 30, 2002**

	<u>Balance</u> <u>July 1, 2001.</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2002.</u>
<b>ASSETS</b>				
Cash in Hand & in Banks:				
North Monterey County High School	\$ 51,209	\$ 555,236	\$ 485,153	\$ 121,292
Moss Landing High School	10,275	95,111	101,472	3,914
Gambetta High School	<u>23,242</u>	<u>72,280</u>	<u>80,939</u>	<u>14,583</u>
<b>Total Assets</b>	<b><u>\$ 84,726</u></b>	<b><u>\$ 722,627</u></b>	<b><u>\$ 667,564</u></b>	<b><u>\$ 139,789</u></b>
<b>LIABILITIES</b>				
Due to Student Groups:				
North Monterey County High School	\$ 51,209	\$ 555,236	\$ 485,153	\$ 121,292
Moss Landing High School	10,275	95,111	101,472	3,914
Gambetta High School	<u>23,242</u>	<u>72,280</u>	<u>80,939</u>	<u>14,583</u>
<b>Total Liabilities</b>	<b><u>\$ 84,726</u></b>	<b><u>\$ 722,627</u></b>	<b><u>\$ 667,564</u></b>	<b><u>\$ 139,789</u></b>

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

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**SUPPLEMENTARY INFORMATION**

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT  
ORGANIZATION  
JUNE 30, 2002**

North Monterey County Unified School District (the District) was organized on July 1, 1977, following a unification election in the former North Monterey County Union School District. The District consists of six elementary schools, one high school, and two continuation schools.

**GOVERNING BOARD**

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Ms. Rachele Morgan-Lewis	President	11/30/2003
Ms. Diana Jimenez	Vice President	11/30/2003
Mr. Larry Calhoun	Parliamentarian	11/30/2005
Mr. Samuel Laage	Clerk	11/30/2005
Mr. Robert Taniguchi	Member	11/30/2003

**ADMINISTRATION**

Leo St. John, Ed. D.  
Superintendent and Secretary of Board

Thomas Woodruff, Ed. D.  
Assistant Superintendent of Business Services

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT  
SCHEDULE OF AVERAGE DAILY ATTENDANCE  
FOR THE YEAR ENDED JUNE 30, 2002**

	<u>Second Period Report</u>	<u>Annual Report</u>
<b><u>ELEMENTARY</u></b>		
Kindergarten	309	313
First through Third Grades	1,054	1,057
Fourth through Sixth Grades	1,030	1,030
Seventh and Eighth Grades	692	691
Special Education	65	65
Charter School	662	676
<b><u>HIGH SCHOOL</u></b>		
Regular Classes (9-12)	1,580	1,558
Continuation Education	95	89
Regional Occupational Programs	141	156
Special Education	28	27
Community Day	29	30
Charter School	106	111
<b><u>COUNTY SUPPLEMENT</u></b>		
Special Education	43	47
<b><u>CLASSES FOR ADULTS</u></b>		
Concurrently Enrolled	32	49
Not Concurrently Enrolled	99	104
<b>Total District and Charter School ADA</b>	<b>5,965</b>	<b>6,003</b>

<u>Summer School</u>	<u>Hours of Attendance</u>
Elementary	125,576
High School	37,192

See accompanying notes to supplementary information.

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT  
 SCHEDULE OF INSTRUCTIONAL TIME  
 FOR THE YEAR ENDED JUNE 30, 2002**

<u>Grade Level</u>	<u>1986-87 Minutes Requirement</u>	<u>1982-83 Actual Minutes</u>	<u>2001-2002 Actual Minutes</u>	<u>Status</u>
Kindergarten	36,000	31,500	36,000	Complied
Grades 1 through 3	50,400	42,000	51,624	Complied
Grades 4 through 8	54,000	52,500	54,000	Complied
Grades 9 through 12	64,800	56,875	72,005	Complied

See accompanying notes to supplementary information.

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT  
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2002**

	<u>BUDGET</u>			
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
<b><u>GENERAL FUND</u></b>				
Revenues and Other Financial Sources	\$ 40,082	\$ 40,212	\$ 45,110	\$ 32,717
Expenditures	40,198	39,666	36,636	32,290
Other Uses and Transfers Out	150	3,086	2,693	150
Total Outgo	40,348	42,752	39,329	32,440
Change in Fund Balance	(266)	(2,540)	5,781	277
Ending Fund Balance	<u>\$ 8,356</u>	<u>\$ 8,622</u>	<u>\$ 11,162</u>	<u>\$ 5,381</u>
Available Reserves	<u>\$ 1,700</u>	<u>\$ 8,370</u>	<u>\$ 9,624</u>	<u>\$ 1,724</u>
Available Reserves as a % of Total Outgo	4.20%	19.0%	24.0%	5.3%
Total Long-Term Debt	\$ 502	\$ 6,249	\$ 6,540	\$ 922
* Average Daily Attendance at P-2	5,200	5,197	5,107	5,285

Note: All \$ amounts are rounded to the nearest \$1,000.

\* Charter School ADA is not included.

The general fund balance has increased by \$3,241,000 over the prior two years due to the issuance of a COP for facility improvement. The district plans to liquidate this COP in the budget year due to the passage of a \$20.7 million general obligation bond. The fiscal year 2002-2003 budget projects a decrease of \$266,000 (3.1%). For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The district had operating surpluses in the past two years and operating deficit this year. It anticipates an operating deficit of \$266,000 during the 2002-2003 fiscal year.

A flat ADA in 2003 is expected due to a water moratorium locally.

See accompanying notes to supplementary information

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2002**

Program Name	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>Federal Programs:</b>			
<b>U.S. Department of Education:</b>			
<b>Pass-through California Department of Education (CDE)</b>			
Title I (Chapter I)	84.010	*	\$ 1,151,934
Title VI (Chapter II)	84.151	*	24,163
PL 94-142	84.027A	*	368,917
Vocational Education	84.048	*	73,814
Even Start	84.213C	*	196,319
Title VII Gambetta	84.290U	*	110,459
Title VII Castroville	84.290U	*	172,640
Title VII JH	84.290U	*	63,712
Title VII	84.290U	*	194,895
21st Century	84.287A	*	910,504
EIEP	84.162	*	41,106
Migrant Education	84.011	*	330,554
Migrant Summer School	84.011	*	124,101
Fed Class S	84.340A	*	160,759
Math & Science	84.281	*	34,584
Children Staff Parents Alliance for Success	84.289	*	52,582
Adult Education ESL	84.002A	*	19,575
Title IV (Drug/Free)	84.233	*	21,802
			<hr/>
			4,052,420
<b>U.S. Department of Agriculture:</b>			
<b>Pass-through California Department of Education (CDE)</b>			
National School Lunch	10.555	*	777,711
			<hr/>
<b>Total Federal Programs</b>			<b>\$ 4,830,131</b>

State Programs:	Current Year	Prior Year Carryover	Totals	Cash Received	Accounts Receivable	Deferred Income/ Restricted Ending Balance	Total	Program Disbursements
EIA	\$ 341,181	\$ 57,302	\$ 398,483	\$ 398,483	\$	\$ 106,143	\$ 292,340	\$ 292,340
SIP	456,829	52,264	509,093	509,093		126,348	382,745	382,745
TAP	81,095		81,095	39,095	11,456		50,551	50,551
TUPE K-8	7,913	11,236	19,149	14,401		10,205	4,196	4,196
TUPE 9-12	37,905		37,905	18,957	7,042		25,999	25,999
NBPTS	5,000		5,000	5,000			5,000	5,000
Healthy Start	200,000		200,000	200,000		134,227	65,773	65,773
Dig HS/HS		18,334	18,334	18,334			18,334	18,334
Dig HS/EC	3,050	29,415	32,465	29,415	3,050		32,465	32,465
Dig HS	32,465		32,465		21,835		21,835	21,835
Dig HS/IS	6,120	658	6,778	658	6,120		6,778	6,778
Hs Coaching	1,156		1,156	1,156			1,156	1,156
COMM POL	156,667		156,667	81,329		5,357	75,972	75,972
Fam Partner		5,127	5,127	5,127		1,781	3,346	3,346
SSP Supplement	1,750	3,873	5,623	5,623			5,623	5,623
AP Challenge	22,500	16,347	39,047	39,797		6,510	33,287	33,287
Demo Grant	100,000	6,857	106,857	74,357	32,500		106,857	106,857
Prevent Teen Pregnancy	85,668		85,668	59,968	25,700		85,668	85,668
Education Tech		52,404	52,404	52,404			52,404	52,404
Eng Tutor	47,540	25,127	72,667	72,667		12,501	60,166	60,166
Class Size 9-12	125,470	21,253	146,723	146,723			146,723	146,723
Science Material								

(continued)



**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2002**

	Current Year	Prior Year Carryover	Totals	Cash Received	Accounts Receivable	Deferred Income/ Restricted Ending Balance	Total	Program Disbursements
<b>State Programs:</b>								
Special Ed	1,888,577		1,888,577	1,888,577			1,888,577	1,888,577
Liberty Family Academy Special Ed	192,056	59,123	251,179	251,179		53,208	197,971	197,971
Gate	46,274	20,915	67,189	67,189			67,189	67,189
Miller	78,732	21,991	100,723	100,723			100,723	100,723
10th Grade	10,678	3,227	13,905	13,905			13,905	13,905
API Awards		99,920	99,920	99,920		5,073	94,847	94,847
Eng Lang	38,000	7,398	45,398	45,398		14,567	30,831	30,831
Improv Sch		115,129	115,129	115,129		3,146	111,983	111,983
Library K-12	133,920	89,655	223,575	223,575		140,360	83,215	83,215
Adv Placement		1,008	1,008	1,008		759	249	249
K-4 Library	18,166	22,188	40,354	40,354		23,213	17,141	17,141
Sc Safety	89,814	101,755	191,569	191,569		139,536	52,033	52,033
Beg Teach	30,560		30,560	30,560			30,560	30,560
Cl Safe Chi	60,768	12,146	72,914	51,699	21,215	17,636	55,278	55,278
Cl Safe Stu	36,068	1,659	37,727	18,819	18,908	21,805	15,922	15,922
Dist Blk Grant		111,001	111,001	111,001		111,001		
Transport	1,055,625		1,055,625	1,055,625			1,055,625	1,055,625
ROP	13,155		13,155	13,155		13,155		
ROP/BLK GRT	167	4,000	4,167	4,167		167	4,000	4,000
Rest Lott	84,290	32,358	116,648	116,648		116,648		
K-8 Mat	102,846	64,308	167,354	167,354		70,259	97,095	97,095
9-12 Mat	38,162	46,701	84,863	84,863		40,490	44,373	44,373
CSIS	12,016		12,016	12,016		12,016		
El Puente Safe Schools Plan	5,000		5,000	5,000			5,000	5,000
CALWORKS Adult Edu.	2,081		2,081	2,081			2,081	2,081
GMS-Demo Prgs. In Intensive Instructions	50,000		50,000	37,500	12,500		50,000	50,000
Dig HS - T.S.S.T (NMC HS)	66,735		66,735	66,735			66,735	66,735
Dig HS - T.S.S.T (CENTRAL BAY)	1,845		1,845	1,845		1,845		
Dig HS - T.S.S.T (I.S.)	10,800		10,800	10,800		10,800		
SSP Sup.	15,246		15,246	15,246			15,246	15,246
Schl. Imp. And Pupil Achievement Block Grant		78,159	78,159	78,159		19,080	59,079	59,079
Cert. Staff Performance Incentive Act		418,000	418,000	418,000			418,000	418,000
English Language Acquisition (Teacher Training)		2,500	2,500	2,500		2,500		
ELILP		189,076	189,076	189,076			189,076	189,076
ELILP-PCA-24057	264,000		264,000	132,000	132,000	261,571	2,429	2,429
Categorical Programs	57,628		57,628	57,628			57,628	57,628
Schiff-Bustamante 9-12	76,908	135,285	212,193	212,193		27,792	184,401	184,401
Schiff-Bustamante K-8	136,065	249,936	386,001	386,001		46,409	339,592	339,592
Immediate Intervention - MLMS	133,168	8,143	141,311	141,311			141,311	141,311
Immediate Intervention - Echo Valley	50,000		50,000	50,000			50,000	50,000
Peer Assist	82,800	157,450	240,250	240,250		121,754	118,496	118,496
ROP	440,003		440,003	440,003		19,671	420,332	420,332
Coll Prep	20,878		20,878	20,636			20,636	20,636
<b>Total State Programs</b>	<b>\$ 7,055,340</b>	<b>\$ 2,353,628</b>	<b>\$ 9,408,968</b>	<b>\$ 8,983,984</b>	<b>\$ 292,326</b>	<b>\$ 1,697,533</b>	<b>\$ 7,578,777</b>	<b>\$ 7,578,777</b>

**Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of NMCUSD and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

N/A: Federal CFDA numbers are not available.

\*: Pass-through entity identifying numbers are not available.

(Concluded)

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT  
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET  
REPORT (J-200) WITH AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002**

	<u>General Fund</u>
June 30, 2002, annual financial and budget report (Form J-200) fund balances	\$ <u>3,150,964</u>
Adjustment:	
Increasing (Decreasing) the fund balance:	
Cash with a fiscal agent understatement	10,471,353
Current Loans understatement	<u>(5,000,000)</u>
Net adjustments and reclassifications	<u>5,471,353</u>
June 30, 2002, audited financial statement fund balances	\$ <u>8,622,317</u>
	<u>General Long-Term Debt Account Group</u>
June 30, 2002, annual financial and budget report (Form J-200) total liabilities	\$ <u>6,209,440</u>
Adjustments and reclassifications:	
Increase in total liabilities:	
Capital leases understatement	<u>39,677</u>
Net adjustments and reclassifications	<u>39,677</u>
June 30, 2002, audited financial statement, general long-term debt total liabilities	\$ <u>6,249,117</u>

This schedule provides the information necessary to reconcile the fund balances of all funds and the total liabilities balance of the general long-term debt account group as reported on the Form J-200 to the audited financial statements.

See accompanying notes to supplementary information

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT  
NOTES TO SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2002**

**NOTE 1 - PURPOSE OF SCHEDULES**

**Schedule of Average Daily Attendance**

Average Daily Attendance is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

**Schedule of Instructional Time**

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46201 through 46206. District must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as required by Education Code Section 46201.

**Schedule of Financial Trends and Analysis**

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

**Schedule of Expenditures of Federal and State Awards**

OMB Circular A-133 requires a disclosure of the financial activities of all federally funded programs. This schedule was prepared to comply with OMB Circular A-133 and state requirements.

**Reconciliation of Annual and Budget Report with Audited Financial Statements**

This schedule provides the information necessary to reconcile the fund balances of all funds reported on the Form J-200 to the audited financial statements.

**Early Retirement Incentive Program**

The District has not adopted an early retirement incentive program during the year. Therefore, the schedule is not presented.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

Board of Education  
North Monterey County Unified School District  
Moss Landing, California

We have audited the financial statements of North Monterey County Unified School District (the District) as of and for the year ended June 30, 2002, and have issued our report thereon dated November 15, 2002, that included our qualified opinion regarding the omission of the general fixed assets account group. 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.

Compliance

As part of obtaining reasonable assurance about whether North Monterey County Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Patricia Assoulin*  
Oakland, California  
November 15, 2002

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education  
North Monterey County Unified School District  
Moss Landing, California

**Compliance**

We have audited the compliance of North Monterey County Unified School District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

**Internal Control Over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major

federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Pattin & Associates*  
Oakland, California  
November 15, 2002

**INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE**

Board of Education  
North Monterey County Unified School District  
Moss Landing, California

We have audited the general-purpose financial statements of North Monterey County Unified School District (the District), as of and for the year ended June 30, 2002, and have issued our report thereon dated November 15, 2002. In our report, our opinion was qualified because of the omission of the general fixed assets account group. Except as discussed in the preceding sentence, our audit was made in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. 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 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.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the state laws and regulations applicable to the following items:

<u>Description</u>	<u>Procedures in Controller's Audit Guide</u>	<u>Procedures Performed</u>
Attendance accounting:		
Attendance reporting	4	Yes
Kindergarten continuation	3	Yes
Independent study	13	Yes
Continuation education	11	Yes
Adult education	8	Yes
Regional occupational center/programs	4	Yes
Staff development days	3	Yes
Incentive for longer instructional day:		
School Districts	3	Yes
County Offices of Education	3	Not Applicable



GANN Limit calculation	2	Yes
Early retirement incentive program	5	Not Applicable
Community day schools	8	Yes
Class size reduction program:		
Option one classes	11	Yes
Option two classes	10	Not Applicable
Option one & two classes	16	Not Applicable
Program to Reduce class size in two courses in grade 9	8	Yes
Instructional Materials Fund		
State Instructional Materials		
K-8	10	Yes
9-12	7	Yes
Schiff-Bustamante Standards-Based Instructional Materials	9	Yes
Digital high school education technology grant program	5	Yes
California Public Schools Library Act of 1998	4	Yes
Office of Criminal Justice Planning	-	Not Applicable

Based on our audit, we found that, for items tested, the District complied with State laws and regulations referred to above. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the District had not complied with the State laws and regulations.

This report is intended solely for the information and use of the Board of Education, management, State Controller's Office, Department of Finance, Department of Education and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Pati - Assouls*  
November 15, 2002  
Oakland, California

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2002**

**SECTION 1 - SUMMARY OF AUDITOR'S RESULTS**

***Financial Statements***

Type of auditor's report issued:	<i>Qualified</i>
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Reportable conditions identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

***Federal Awards***

Internal control over major programs:	
• Material weaknesses identified?	No
• Reportable conditions identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	<i>Unqualified</i>
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
84.010	Title I (Chapter I)
10.555	National School Lunch
84.027A	PL 94-142
84.011	Migrant Education, Migrant Summer School

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2002**

***State Awards***

Internal control over state programs:

Material weaknesses identified?

No

Reportable conditions identified not considered to be material weaknesses?

None reported

Type of auditor's report issued on compliance for State programs:

Unqualified

**SECTION II - FINANCIAL STATEMENT FINDINGS**

No matters were reported.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.

**SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT  
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED JUNE 30, 2002**

No matters were reported.

**APPENDIX B**  
**FORM OF BOND COUNSEL OPINION**

[Letterhead of Quint & Thimmig LLP]

[Closing Date]

Board of Trustees of the  
North Monterey County Unified School District  
8142 Moss Landing Road  
Moss Landing, California 95039

OPINION: \$7,000,000 North Monterey County Unified School District (Monterey County, California) General Obligation Bonds, Election of 2002, Series A

---

**Members of the Board of Trustees:**

We have acted as bond counsel to the North Monterey County Unified School District (the "District") in connection with the issuance by the Board of Supervisors of Monterey County (the "Board") of \$7,000,000 principal amount of North Monterey County Unified School District (Monterey County, California) General Obligation Bonds, Election of 2002, Series A (the "Series A Bonds"), pursuant to Title 1, Division 1, Part 10, Chapter 2 (commencing with section 15100) of the California Education Code (the "Act"), a resolution adopted by the Board of Trustees of the District on May 8, 2003 (the "District Resolution"), and a resolution adopted by the Board on May 20, 2003 (the "Board Resolution" and, collectively, the "Resolutions"). We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Board contained in the Board Resolution and of the District in the District Resolution and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify such facts by independent investigation.

Based upon our examination, we are of the opinion, as of the date hereof, that:

1. The District is duly created and validly existing as a school district with the power to cause the Board to issue the Series A Bonds in its name and to perform its obligations under the Resolutions and the Series A Bonds.

2. The District Resolution has been duly adopted by the District. The Board Resolution has been duly adopted by the Board and creates a valid first lien on the funds pledged under the Board Resolution for the security of the Series A Bonds.

3. The Series A Bonds have been duly authorized, executed and delivered by the Board and are valid and binding general obligations of the District. The Board is required under the Act to levy a tax upon all taxable property in the District for the interest and redemption of all outstanding bonds of the District, including the Series A Bonds. The Series A Bonds are payable from an *ad valorem* tax levied without limitation as to rate or amount.

4. The interest on the Series A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The Series A Bonds are "qualified

tax-exempt obligations" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986 (the "Code"), and, in the case of certain financial institutions (within the meaning of section 265(b)(5) of the Code), a deduction is allowed for eighty percent (80%) of that portion of such financial institutions' interest expense allocable to interest payable on the Series A Bonds. The opinions set forth in the preceding sentences are subject to the condition that the District comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series A Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Series A Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Series A Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Series A Bonds.

5. The interest on the Series A Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Series A Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

Respectfully submitted,

## APPENDIX C

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT (the "District") in connection with the issuance by the Board of Supervisors of Monterey County (the "Board") in the name of the District of \$7,000,000 North Monterey County Unified School District (Monterey County, California) General Obligation Bonds, Election of 2002, Series A (the "Series A Bonds"). The Series A Bonds are being issued pursuant to a resolution adopted by the Board of Trustees of the District on May 8, 2003, and a resolution adopted by the Board on May 20, 2003 (collectively, the "Resolution"). The District covenants and agrees as follows:

**Section 1. Purpose of the Disclosure Certificate.** This Disclosure Certificate is being executed and delivered by the District for the benefit of the holders and beneficial owners of the Series A Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

**Section 2. Definitions.** In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

"*Annual Report*" shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"*Dissemination Agent*" shall mean the District, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

"*Listed Events*" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"*National Repository*" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

"*Participating Underwriter*" shall mean any of the original underwriters of the Series A Bonds required to comply with the Rule in connection with offering of the Series A Bonds.

"*Repository*" shall mean each National Repository and each State Repository.

"*Rule*" shall mean 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*" shall mean 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 Certificate, there is no State Repository.

**Section 3. Provision of Annual Reports.**

(a) The District shall, or upon written direction shall cause the Dissemination Agent to, not later than nine months after the end of the District's fiscal year (which date would be March 31), commencing with the report for the 2002-2003 fiscal year, provide to each Repository and the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than fifteen (15) Business Days prior to said date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). 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 4 of this Disclosure Certificate; provided that the audited financial statements of the District 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 District's fiscal year changes, it shall give notice of such change to the Municipal Securities Rulemaking Board and each State

Repository. The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the District hereunder.

(b) If the District is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the District shall send a notice to the Municipal Securities Rulemaking Board and each State Repository in substantially the form attached as Exhibit A.

(c) 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; and

(ii) if the Dissemination Agent is other than the District, file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. Content of Annual Reports. The District's Annual Report shall contain or incorporate by reference the following:

(a) Audited Financial Statements 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 District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or prior to the annual filing deadline for Annual Reports provided for in Section 3 above, financial information and operating data with respect to the District for preceding fiscal year, substantially similar to that provided in the corresponding tables and charts in the official statement for the Series A Bonds:

- (i) The District's approved budget for the then current fiscal year;
- (ii) Assessed value of taxable property in the District as shown on the recent equalized assessment role; and
- (iii) Property tax levies, collections and delinquencies for the District, for the most recent completed fiscal year.

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 District 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 District shall clearly identify each such other document so included by reference.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the District shall provide such further material 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.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series A Bonds, 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) Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall as soon as possible determine if such event would be material under applicable Federal securities law. The Dissemination Agent shall have no role nor any responsibility for such determination.

(c) If the District determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the District shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and each Repository with a copy to the Participating Underwriter. 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 Series A Bond owners pursuant to the Resolution.

*Section 6. Termination of Reporting Obligation.* The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior prepayment or payment in full of all of the Series A Bonds.

*Section 7. Dissemination Agent.* The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the District. Any Dissemination Agent may resign by providing thirty days' written notice to the District.

*Section 8. Amendment; Waiver.* Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a) or 4, 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 Series A 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 Series A 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 either (i) is approved by holders of the Series A Bonds in the manner provided in the Resolution for amendments to the Resolution with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Series A Bonds.

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 filed pursuant hereto 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 information, in order to provide information to investors to enable them to evaluate the ability of the District to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Municipal Securities Rulemaking Board and each Repository.

*Section 9. Additional Information.* Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate 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 Certificate. If the District 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 Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

*Section 9. Default.* In the event of a failure of the District to comply with any provision of this Disclosure Certificate any holder or beneficial owner of the Series A Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

*Section 10. Duties, Immunities and Liabilities of Dissemination Agent.* The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the District 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 Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the District and shall not be deemed to be acting in any fiduciary capacity for the District, the Bond holders or any other party. The obligations of the District under this Section 10 shall survive resignation or removal of the Dissemination Agent and payment of the Series A Bonds.

*Section 11. Beneficiaries.* This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Series A Bonds, and shall create no rights in any other person or entity.

Date: [Closing Date]

NORTH MONTEREY COUNTY UNIFIED  
SCHOOL DISTRICT

By \_\_\_\_\_  
Authorized Officer

**EXHIBIT A**

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD AND EACH STATE REPOSITORY  
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: North Monterey County Unified School District  
Name of Issue: \$7,000,000 North Monterey County Unified School District (Monterey County,  
California) General Obligation Bonds, Election of 2002, Series A  
Date of Issuance: [Closing Date]

NOTICE IS HEREBY GIVEN that the North Monterey County Unified School District (the "District") has not provided an Annual Report with respect to the above-named Series A Bonds as required by Section 6 of the resolution adopted by the Board of Trustees of the District on May 8, 2003. The District anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

**NORTH MONTEREY COUNTY UNIFIED  
SCHOOL DISTRICT**

By \_\_\_\_\_  
Title \_\_\_\_\_

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**APPENDIX D**

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**

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**FINANCIAL  
SECURITY  
ASSURANCE.**

## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS:

Policy No.: -N

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same 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 call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or teletyped notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security, and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud, whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. **THIS POLICY IS NOT COVERED BY THE PROPERTY CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 26 OF THE NEW YORK INSURANCE LAW.**

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By \_\_\_\_\_

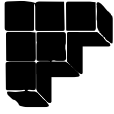
By \_\_\_\_\_  
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.  
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)





**FINANCIAL  
SECURITY  
ASSURANCE®**

**ENDORSEMENT NO. 1 TO  
MUNICIPAL BOND  
INSURANCE POLICY  
(California Insurance  
Guaranty Association)**

ISSUER:

BONDS:

Policy No.:

Effective Date:

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the insurance provided by this Policy is not covered by the California Insurance Guaranty Association established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

Nothing herein shall be construed to waive, alter, reduce or amend coverage in any other section of the Policy. If found contrary to the Policy language, the terms of this Endorsement supersede the Policy language.

In witness whereof FINANCIAL SECURITY ASSURANCE INC. has caused this Endorsement to be executed on its behalf by its Authorized Officer.

FINANCIAL SECURITY ASSURANCE INC.

By: \_\_\_\_\_

Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.  
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 560NY (CA 1/91)

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